

2018 Responsibility Report



The Board of Directors and the President of Systembolaget AB, corporate ID number 556059-9473, hereby present the annual accounts, including the Corporate Governance Report and the Sustainability Report, for the 2018 financial year.

Systembolaget AB has, in accordance with section 6, §11 of the Swedish Companies Act, elected to prepare the statutory sustainability report separately from the annual accounts. The Sustainability Report is presented on pages 3, 5–15, 17–72 and 113–142 of this document.

The legally required annual accounts, comprising the Directors' Report and the financial reports, are accordingly presented on pages 2, 4, 16 and 73–112.

The Sustainability Report, which is presented on pages 3, 5–15, 17–72 and 113–142, has undergone a combined review by the auditors.

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** See Systembolaget's Ansvarsredovisning 2018 for full Notes to the Accounts.

*** Words included in the Glossary are marked * Explanations on the same page are marked ** or ***.

Alcohol is not like other products.

Our purpose is to improve public health by limiting the harmful effects of alcohol.

Our mandate includes providing information on the risks associated with alcohol, offering a high-quality service, and selling responsibly.

The year in brief

- The 2017 measurement of alcohol consumption** in Sweden showed that consumption was on a par with levels in 2016, that is to say 9.0 litres per head of population. Total consumption has fallen over the last ten years by 8 per cent.¹
- Systembolaget published its Alcohol Report² for the second year in succession. The aim of the report is to provide a one-stop shop for alcohol-related statistics, research, interviews, and information on trends and harmful effects in Sweden. This year's theme is mental illness and passive drinking.
- The Nordic alcohol monopolies work in partnership and have approved joint sustainability strategies for the environment and social responsibility for the period from 2018 to 2022. We have agreed a joint Code of Conduct and to collaborate and share experiences on issues relating to risk analyses, our follow-up work, educational measures, and personal learning. These strategies will enhance our ability to influence terms and conditions in our respective supply chains.
- The Drinks Industry Climate Initiative, which is a joint initiative by Systembolaget, the Swedish Spirits & Wine Suppliers' Association (SVL), and the Brewers of Sweden Association, agreed to procure a shared tool enabling us to measure, follow up on, and set goals for participating operators' climate impact. Our goal is, by 2045, to realise our vision of "A drinks industry with zero climate impact, where every drop counts".
- Systembolaget signed up for the Global Deal* which is an initiative aimed at increasing social dialogue between the labour market parties and national governments.
- Trial runs of our "Changed my mind" trolley, which is located at the checkout to make changing your mind easy, have been completed and the trolley will now be a permanent feature in all*** of our stores.
- There is substantial customer demand for local and craft products. 840 items from 347 producers were launched in 2018, which means 66 new producers were added to our range in 2018.
- Awards:
 - Winner of the Medieakademin confidence barometer, which measures public confidence in media companies, institutions, and companies. 71 per cent of respondents expressed great or fairly great confidence in Systembolaget.³
 - Second place in ServiceScore's best service award, which Systembolaget won every year between 2013 and 2017.⁴
 - Declared strongest brand in the Evimetrix Swedish Brand Awards, in the Food Products category.⁵
 - Sweden's biggest PR competition, Spinn, awarded two golds to IQ-initiativet's "Fotboll utan fylla" [Sober Football] campaign – one for the Social Information Campaign of the Year, and one for Integrated Campaign of the Year.
- Barbro Holmberg was elected as a new full Member of the Board at the AGM held on 26 April.
- The Board adopted a new sustainable enterprise strategic goal for Systembolaget. The goal, which relates to inclusiveness and diversity, will be introduced in 2019 and the goal is for Systembolaget's workforce to reflect society's composition of people with different ethnic origins.
- We are very proud to announce that this year's Customer Satisfaction Index reached a new record level of 84.6 (84.3).
- Proof of Age checks were carried out in 95.6 per cent (95.6) of cases.
- The Opinion Index figure for the year was 76.5 (76.9).
- The return on equity was 11.4 per cent (17.2), which exceeds the Owner's return requirement.
- The equity/assets ratio for the year was 25.7 per cent (27.8).
- The sales volumes totalled 505 m (483) litres.
- Net sales increased to SEK 30,907 m (29,355).
- The operating profit decreased to SEK 227 m (270) due to major investments for the future in such areas as the digital customer interaction and alcohol-related risks.
- The net profit for the year decreased to SEK 180 m (282) due to investments and a decrease in net financial items.

** The measurement of alcohol consumption was carried out in 2018 and refers to 2017. Reported one year in arrears.

*** With the exception of two over-the-counter stores in food halls.

A conversation with our President and Chairman of the Board

As part of this year's Responsibility Report, we have interviewed Kenneth Bengtsson, the Chairman of the Board, and Magdalena Gerger, Systembolaget's President, in order to highlight the most important issues for Systembolaget in 2018, as they see them.

What sort of outside world trends affect Systembolaget?

Kenneth: Attitudes to alcohol, climate change, new technology and digitisation – these are just some of the big picture trends that I see as affecting Systembolaget.

Both consumption patterns and society's attitudes to alcohol are changing worldwide and here in Sweden. The WHO report⁶ presented in October shows that Europe has the highest levels of per capita alcohol consumption in the world. There are several reasons for this: one is that there are many countries outside Europe that do not drink alcohol. Another is that, unlike in many other parts of the world, both men and women consume alcohol in Europe. We also have better economic conditions than many other parts of the world and a culture where alcohol is present in a wide variety of contexts. The figures for several countries



are alarmingly high, although more and more countries are moving towards a more restrictive alcohol policy.

We've made substantial progress in many ways in Sweden, and total consumption has fallen by 8 per cent over

the past ten years.¹ Sweden now has one of the lowest alcohol consumption rates of all EU member states.

Magdalena: That having been said, Sweden still faces a number of challenges. The negative consequences

of alcohol primarily affect people other than those who drink, and this is particularly the case for children. Which is why it's worrying to see that the most recent Alcohol Index measurement shows a trend towards a more permissive attitude to alcohol. One of the things it reveals is that fewer and fewer people think that it is totally wrong to get drunk when children are around. Systembolaget has the opportunity to make a difference for everyone in Sweden. Our mandate is to sell responsibly and, at the same time, to offer a high-quality service. We are also tasked with providing information about the harmful effects of alcohol and the risks associated with its consumption.

Every day, our staff shoulder social responsibility by applying our selling rules. These rules mean that they check the ID of people who they suspect may be under 25 years of age to ensure that no one under the age of 20 is able to purchase alcohol. They also mean that our staff will refuse to sell to anyone who is visibly intoxicated or to anyone whom they suspect of buying for resale.

The summer of 2018 was an unusually warm one, which brought climate issues to the fore. In what way is Systembolaget affected by climate change?

Kenneth: Climate change affects both people and the environment: people may have to relocate due to flooding, fires, and so on. But cultivation conditions also change when the climate changes: harvests may be smaller due to drought or other unforeseen events. In 2017, for example, the grape harvest was small almost everywhere in the world and that has affected supplies – particularly of organic grapes.

Magdalena: Just as Kenneth says, we're seeing the impact of climate change, and in November 2017,

the trade associations, suppliers and Systembolaget signed up to a joint climate initiative called The Drinks Industry Climate Initiative. Our goal is to work together to do what we can to reduce the industry's climate footprint. We've agreed on a climate reporting tool and also customised it in line with the industry's operating conditions. What this means is that we, as an industry, now have the ability to measure how close we are getting to our shared goals.

But sustainability is about more than the environment and the climate, isn't it?

Kenneth: Ultimately, it's we – human beings – who can make a difference and if we're going to achieve the UN's 2030 global sustainability goals, everyone has to play a part and work together to bring about positive economic, social, and environmental changes. Confirming and actively working with diversity is important, and I'm delighted to see other companies are now prioritising this too.

Magdalena: We've set our own long-term goals for 2030, based on the global goals where several of the social aspect goals are of particular importance to us, given our social mandate. The social aspects are also important in our long and complex supply chain*, where refugee flows are a factor that affects the risk situation in Italy and elsewhere. The company management spent a few days in Italy in October as part of a field trip and knowledge exchange process, and organised roundtable meetings with 120 representatives from the supply chain.

The partnerships we have forged with other operators are another example of our sustainability work. The aim of these partnerships is to make a difference to children who are being harmed by alcohol and to create greater

societal engagement in second-hand alcohol-related harm. Health and wellbeing are yet another aspect of sustainability, and an area where we have invested in improving conditions in our stores by focusing on the work environment and encouraging sustainable, ergonomic behaviour in our stores.

What does digitisation have to do with Systembolaget?

Kenneth: Being digital is a given for many people, and the retail trade is one area where this trend has an impact. The digital landscape offers new types of marketplace and new means of simplifying companies' administrative processes. It also means new perspectives on everything, from legislation to logistics solutions.

Magdalena: Digitisation means a lot of different things to us. It could be anything from the way in which we interact with our customers on platforms other than in our stores, to the way in which we develop our online customer interaction in line with our mandate and vision. We must, of course, live up to our customers' expectations, and we are keen to do so responsibly and knowledgeably, because alcohol is not just another product and our goal is neither to increase sales nor to maximise our profits.

When we develop our offering, for example in the form of online customer interactions or by offering home deliveries, it should not result in additional sales or in us setting aside our selling rules. And, of course, the same thing applies to the development of our physical stores. This autumn saw us place "Changed my mind" trolleys in all of our stores. They're positioned close to the checkouts to make it easy for customers to return the items they no longer want. Changing your mind should be easy.

What were the most important events in 2018?

Kenneth: The fact that this summer saw our CSI (Customer Satisfaction Index) improve for the first time ever at that time of year is a fantastic indicator of how the company is doing. And this was in spite of an unusually warm summer which, in itself, placed more pressure on operations – not least in our stores. But if we're to continue doing a good job in this respect, we must now look to the future. Over the past year, the Board and the management team have taken the next step forward in our programme of strategic work between now and 2023. Exciting times lie ahead!

Magdalena: The excellent customer satisfaction results weren't just true for the summer – a time when we also had 800 summer staff on the books – but throughout the year too, reaching a new record level of 84.6 per cent. Online customer orders have also increased by 30 per cent over the past five years, with customers opting to pick up their orders in-store or from agents, or to have them delivered to their homes. All of our staff have focused, first and foremost, on the customer interaction and on providing advice in relation to food and drink, as well as on our important selling rules, such as the Proof of Age checks*.

What do you see, looking forward?

Kenneth: Systembolaget must continue to ensure customer satisfaction and to have a high CSI, thanks to a customer interaction that impresses – wherever the customer meets us. As a State-owned company with a monopoly, it's also important that we continue to enjoy high levels of public confidence – which is measured through our OPI Opinion Index*. Satisfied customers and high levels of public confidence are something we have to earn, and we can only do that by working actively towards these goals, day in, day out.

Magdalena: Our ability to offer a considerate and knowledgeable customer interaction that lives up to our customers' increased expectations, is very much about equipping our staff to meet this challenge. One example of the way in which we work with this is a programme we've run during the year where store employees from all over Sweden have trialled combining their in-store positions with chatting to our customers. This is a new way of interacting with our customers and it's quickly proved very successful.

Our operations must be cost-effective, which means we must also invest in our supply chain management, IT, and other tools that make our staff's working days run more smoothly. We have also developed our customer offering during the year, based on the improvements to the range that will be introduced next year, and we're also planning to continue expanding our depot operations to handle the growing order trend.

Kenneth: One worrying trend we are seeing, however, is that the successful Swedish alcohol policy, of which our monopoly is an important component, is currently being challenged by illegal distance sales of alcohol. We are seeing commercial operators who are using free shipping, bulk discounts, and aggressive alcohol marketing to challenge the Swedish model that we have chosen for the trade in alcohol. What is needed here is a big picture decisiveness about how we want alcohol to be handled in Sweden – and it must not be viewed as "just another product".

Magdalena: And given the trends we spoke about earlier – that the world is changing through everything from migrant flows to climate change – increased traceability and transparency throughout the length of our supply chain will be an important challenge in the

future. If we are to resolve our supply chain challenges, we must work together through industry collaborations. We have procured a system support tool that will gather data throughout our lengthy supply chain, in order to ensure traceability and facilitate information exchange, and our goal is to encourage our suppliers to take increased responsibility in these areas.

We will continue to work to promote sustainable development and to focus on public health. One of the bright spots I can see for the future is the way in which young people's drinking habits are trending. More and more young people are choosing not to drink alcohol or to postpone their alcohol debut, and this has contributed to historically low levels of alcohol consumption amongst young people.⁷ More informed alcohol consumption will also, hopefully, lead to better public health in the long-term.

And finally, why should I read Systembolaget's Responsibility Report?

Kenneth: If you want to find out more about Systembolaget, I think you should carry on reading once you've finished this article – you'll definitely know more than you did before you started!

Magdalena: ... and it'll give you a good idea of what we're doing to realise our *vision of a society in which alcohol is enjoyed with due regard to health considerations so that no one is harmed*.

This is Systembolaget

The world around us

Systembolaget exists to limit the harmful effects of alcohol. Our entire operations are structured for optimum success in this respect, but the world around us is changing and this places new demands on how we should act if we are to achieve our vision of a society in which alcohol is enjoyed with due regard to health considerations so that no one is harmed.

See below for some of the external factors that affected Systembolaget in 2018.

ATTITUDES AND CONSUMPTION PATTERNS

We must conduct ourselves, throughout our operations, in accordance with our customers' attitudes towards alcohol and their alcohol-related behaviour – from our information work to our interactions with customers, whether in-store or via our digital channels. The trends that Systembolaget is currently handling include the general reduction in binge drinking in Sweden since the start of the new millennium and the fact that women aged between 65 and 84 are drinking more than before, albeit this is an increase from low levels. Men are continuing to get drunk more often and to drink in larger amounts than women.⁸ We have also seen, in recent years, a postponement of people's alcohol debut and a greater acceptance of the idea of not drinking. Young people are drinking less, and alcohol-related harm seems to be declining in young people.⁷

There are also, in addition to the actual changes in attitudes and behaviours in relation to alcohol, perceptions with regard to its associated risks. The fact of the matter is that 83 per cent of our customers are

of the opinion that they have no problem at all with alcohol, but we know that almost one million Swedes are consuming at hazardous levels (according to "Allmänheten om inställning till alkohol och monopol mm" [Public attitudes to alcohol and monopolies etc.], Novus, 2015). This is a major challenge for us and it's an important one, given that other people – not just drinkers – suffer negative consequences.

ATTITUDES TO THE MONOPOLY

A majority of Swedes – three out of every four – support the monopoly and a clear majority rate Systembolaget's service, range, and personnel as good. The most common reasons cited by those customers who want to abolish the monopoly are convenience and an ideological opposition to monopoly companies.

At the same time, there is a trend in Sweden that risks diluting support for the monopoly. The trend in Europe is towards a more restrictive alcohol policy, but in Sweden, we are seeing worrying trends where alcoholic beverages such as beer and wine are regarded as relatively unproblematic. The marketing of alcohol is increasing in new channels and at events that target young and old alike. This is helping to normalise drinking. A number of operators are also recommending that farm sales* of alcohol be permitted, while others have noted that alcohol legislation in our neighbour, Finland, has become less restrictive. The collective effect of these factors may be a reduction in people's understanding of why Sweden has chosen to implement a restrictive alcohol policy that focuses on public health.

Reduced political engagement in an alcohol policy that focuses on public health also shows the importance of those affected in various ways or who are working to reduce the harmful effects of alcohol in society continuing to make their voices heard. Systembolaget, the supporting legislation, and supervision, must move with the times if our alcohol policy and Systembolaget's role in it are not to be seen as outdated.

A FASTER, MORE DIGITAL WORLD

The rapid pace of digital development is both posing challenges and offering opportunities. Our customers' underlying needs have not changed, but their behaviour and expectations are influenced by new ways of using technology, in both the retail and distribution sectors.

Convenience is a more important factor nowadays for customers than was previously the case. Many of them are seeking time-efficient solutions to everyday tasks, in order to free up time. Thanks to e-commerce platforms, such as Amazon and the Chinese equivalent, Wish, pretty much everything can be delivered to your door nowadays, with a single click. We are seeing this trend mirrored in grocery retail in Sweden. Consumers have become used to being able to buy what they want for home delivery, quickly and easily – and this sometimes clashes with sustainable development, because more home deliveries mean more carbon dioxide emissions. The fact remains, however, that expectations are constantly increasing that we, in common with other retailers, will be able to deliver friction-free interactions – an easy and sustainable way to shop and get your goods.

Systembolaget finds itself, just like every other company, in the midst of this digital development, but unlike many other operators, we do not have an online presence in order to boost our sales. In a world in which customers demand increased accessibility and simple solutions, we must be able to offer this responsibly. We must continue to adhere to our customer guarantee in line with our alcohol policy mandate and must take a sustainable view – and we must never try to make a profit. It's a tricky balancing act.

CLIMATE CHANGE AND INCREASED AWARENESS

Systembolaget's operations affect both the climate and the environment. Our biggest impact is indirect and arises from our producers and suppliers. These operations not only cause air pollution and have a negative impact on the climate, they also impact biological diversity through increased land usage.

And at the same time as our operations contribute to this effect, they are directly harmed by climate change and the more extreme weather in which it results. Warmer temperatures have, for example, resulted in it no longer being possible to grow many types of grape in the areas where they have always been grown. Old, efficient vineyards are becoming difficult to cultivate and producers are being forced to close them down or move to areas where the existing infrastructure, topography or land usage makes it difficult to produce wine. And this doesn't just apply to wine: after the drought and wildfires of the summer gone, beer manufacturers in northern Germany and other parts of Europe – including Sweden – are anticipating a reduction in the grain harvest of up to 40 per cent. South Africa has experienced severe difficulties with droughts over the past three years, culminating in a major water shortage that hit the Western Cape province in the spring

of 2018. Over and above the extensive humanitarian impact of this water shortage, it has also had a directly negative effect on viticulture in the area.⁹

The last few years have, fortunately, also seen significant initiatives aimed at countering this negative trend, not least the Paris Agreement, and the development of a shared international agenda for sustainable development based on the UN's global goals and Agenda 2030. The global goals currently steer Systembolaget's operations in this respect. We are, furthermore, seeing a growing awareness of both environmental and health issues on the part of our customers, with increased demand for traceability and product information, for example. Our customers are also continuing to demand organic products and we are seeing a growing interest in locally produced products and climate-friendly packaging.

SUPPLY CHAIN RISKS

Systembolaget has over 700 suppliers and innumerable producers in over 100 countries. Our supply chain is complex, and it is an area we must constantly review in order to ensure we act responsibly. We want all of our products to be sustainable products, both in terms of quality and from ethical, social and environmental perspectives. And our customers and owners want this too – and they are demanding it more and more loudly for every year that passes.

The conflicts seen in various parts of the world in recent years, and the ensuing migration flows, have created new risks in the supply chain. Many migrant workers work under poor conditions in countries previously classified as safe under Systembolaget's risk classification system. This is a key focal area for Systembolaget, not least as part of our efforts to contribute

to achieving the UN's global sustainability goal no. 8 – Decent Work & Economic Growth.

Extreme weather can also generate additional risks in the supply chain. One consequence of the massive decline in the harvest in South Africa – which was linked to the country's drought – was, for example, that more producers used a higher percentage of temporary workers during the harvest season due to their inability to predict the size of the harvest that year. In a country that already has high unemployment, an increase in the temporary workforce percentage increases the risk of deviations from labour law.

Cooperation between different bodies, such as trade unions, is one of the key factors for success in counteracting and minimising supply chain risks.

THREATS AND VIOLENCE IN THE RETAIL SECTOR

The biggest risks in our supply chain are located outside of Sweden, but we face challenges here at home, too. Threats and violence are a growing problem for retail personnel and are one of the biggest work environment risks for employees in many of our stores. It is vital that we ensure our staff are protected against these threats and violence, which can occur in all types of store and location.

DEMOGRAPHIC CHANGES

Systembolaget is currently experiencing the effect of a number of demographic changes, including population growth, urbanisation, and an older and more multicultural population.

Urbanisation is, for example, expected to result in the number of people entitled to shop at Systembolaget in Sweden's ten biggest municipalities increasing by

around 400,000 by 2024 (according to an in-house analysis based on Statisticon's population forecasts for 2024). This will demand new solutions if we are to meet the needs of big city customers in small retail outlets.

In ten years' time, 30 per cent of the population in Sweden is expected to have a foreign background. An increasingly multicultural population means that we need to find ways of reaching out to and communicating with everyone in Sweden, whatever their background. This is particularly important when it comes to explaining the benefits that Systembolaget offers and ensuring that everyone feels welcome at Systembolaget.

Demographic changes outside Sweden also affect our operations. Many populations, not least in Asia, are experiencing improved economic strength and are acquiring new habits¹⁰. These new markets, with larger populations and increased consumption, are giving rise to increased competition for available grape volumes, posing new challenges for our purchasing processes.

CHANGES IN THE LABOUR MARKET

Working with diversity and inclusiveness is a given for us, as a State-owned company. Not only is it vital that we work with these issues in order to continue to be an attractive employer, if we are not to experience recruitment difficulties in the future, but it is vital in terms of customer satisfaction, too. Recognition is an important factor in whether a customer feels included and receives personal service.

In 2018, only 12 per cent of our workforce had a foreign background, as opposed to 27 per cent in Sweden as

a whole. Sweden's growing foreign-born population has changed the labour market, and we now have the chance to expand and broaden our in-house expertise with new perspectives. We are working actively to attract this section of the labour market.

LEGAL CONDITIONS AND SUPERVISION

There is widespread agreement within the EU that alcohol is not just another product. Sweden has, in order to limit the harmful effects, chosen to implement an alcohol policy based on limited availability, high taxes, and restricted marketing. Two issues that may affect Sweden's alcohol policy were discussed in 2018: the question of distance selling of alcoholic beverages, and the question of farm sales. Both questions affect Systembolaget's operations because the survival of the retail monopoly depends on a consistent and cohesive alcohol policy.

The distance selling of alcoholic beverages issue has arisen due to the increasing digitisation of retail and to Swedish customers' increased interest in shopping via digital channels. The online commercial operators' share of sales is still very small in Sweden, but they are acting in a climate of aggressive marketing and thereby contributing to a normalisation of alcohol as just another product.

In June 2018, the Finnish Supreme Court confirmed the European Court ruling of 2015 in the so-called Alkotaxi case. This ruling clarified that the online commercial operators' operations should be regarded as retail sales in Sweden, and that their operations are, therefore, clearly illegal in that Systembolaget has a monopoly on such retail sales. For further information, see page 76 Events after the closing day.

In the spring of 2018, Parliament issued a notice supporting the introduction of farm sales, provided that they did not threaten Systembolaget's monopoly.

How we create sustainable value

The outside world affects Systembolaget, but we affect the outside world, too. Systembolaget works in a number of ways to help create sustainable social value, whether this entails reinforcing and developing the directly positive social value that our operations entail, or reducing the negative effects on the environment and people throughout the supply chain.

THE HARMFUL EFFECTS OF ALCOHOL

Alcohol is not just another product. Alcohol continues to have negative consequences for individuals and society at large. The downsides of alcohol do not just affect the person who drinks, but those around them too – and children, in particular. Systembolaget's purpose is to limit the harmful effects of alcohol in society and this is a natural focus for our value creation. Alcohol, itself, creates negative value, but Systembolaget's role as an alcohol policy tool creates positive value that can counteract these negative consequences.

In 2017, an international group of researchers presented a report on the effects of Systembolaget's monopoly on alcohol-related injuries, illnesses and deaths. The report showed that the number of alcohol-related deaths would increase by 1,400 per year and the number of hospital admissions by 20,000 per year if Sweden were to abolish Systembolaget's monopoly¹¹, demonstrating the positive value that Systembolaget creates.

There are, however, also customers who believe that Systembolaget limits their freedom of action.

The fact that Systembolaget is not tasked with maximising its profits increases our ability to focus on reducing the negative value of alcohol. We do this by means of, amongst other things, alcohol-related research, via our efforts to provide information on the risks associated with alcohol, and by helping our customers, in a variety of ways, to make informed choices*. We are, however, aware that we have not, as yet, realised our vision of a society in which alcohol is enjoyed with due regard to health considerations so that no one is harmed.

ENVIRONMENTAL IMPACT

Activities that affect the environment occur throughout the value chain. If we look, specifically, at climate impact, it is clear that the biggest impact occurs in conjunction with packaging manufacturing, raw materials cultivation, drinks production, and transportation. The production and cultivation processes use valuable natural resources – not least, water – and inappropriate chemicals are also still used at some points along the chain.

Systembolaget works continuously to reduce both our direct and indirect impact. The fact that Systembolaget does not try to maximise its economic profit improves our opportunities to create positive value for both the environment in general and the climate. It creates, for example, the scope for working towards joint goals in partnership with the drinks industry, e.g. through the Drinks Industry's Climate Initiative. The opportunities to address our environmental and climate impact by making tougher demands have also increased thanks to the clarification of our agreement with the State

such that it now explicitly states that Systembolaget may take specific sustainability considerations into account in conjunction with its drinks procurement.

SOCIAL SUSTAINABILITY

Social sustainability is an important issue in the context of our value creation work, both locally in Sweden, and globally. Working conditions for people working in the supply chain sometimes fail to comply with global conventions on working conditions and human rights. Equally, there is also a risk of corruption and improper influence within the industry, which is a problem that can create massive negative value. Systembolaget works continuously to ensure high ethical standards and good working conditions for the people who make our products and we also endeavour to bring about a general improvement in conditions within the drinks industry by imposing requirements, monitoring compliance, and cooperation, and by helping our customers make informed choices.

Systembolaget also helps create numerous job opportunities, both locally in Sweden and globally amongst our producers. Systembolaget's procurement system is completely brand-neutral and must ensure that the range is both broad and deep. This approach creates opportunities for many of the drinks market's operators, whether large or small, to reach more people with their products. This is good for our customers, who benefit from greater freedom of choice, and for the operators who have the chance to conduct their operations on a competitively neutral basis.

Systembolaget also, in addition to these areas in which our operations both offer opportunities and pose risks, creates a number of positive and sustainable economic and social value.

WE CONTRIBUTE TO ENJOYMENT AND DINING PLEASURE

With over 16,000 products, Systembolaget ensures freedom of choice and accessibility with regard to both alcohol-free and alcoholic drinks. Our expertise and good advice help our customers match their food and drink. Our extensive expertise and high-quality service ensure we can meet our customers' needs, whether in-store or online.

SWEDEN-WIDE FOCUS

Systembolaget's 443 stores and just over 470 agents throughout Sweden also generate positive value for Swedish local communities, through job creation. Systembolaget has a presence and at least three employees in every Swedish municipality, and 66 per cent of our employees work in the 329 stores located outside of Sweden's three biggest conurbations. The customer flow to the stores and agents also has a positive effect on other local businesses.

We also create positive value by being a good employer that works to ensure both a good work environment for our employees and to reflect society. Our ambition to reflect society helps achieve integration and helps people who are outside the labour market to get jobs. At the end of the year, Systembolaget had 5,810 employees.

WE CREATE ECONOMIC VALUE

The most important economic value generated by Systembolaget takes the form of the reduced societal

harm that results from limiting the harmful effects of alcohol – for example, in the healthcare sector and legal system. Systembolaget has a clear social mandate and our owner has consequently stated that our purpose is not to maximise profits. Systembolaget must, however, operate cost-effectively and in a business-minded way. Our owner has set three economic goals for the operations: equity/assets ratio*, return on equity*, and cost-effectiveness*.

Systembolaget in brief

Employees: 5,810 – at least three in every municipality

Stores and agents: 443 stores and just over 470 agents

Active drinks suppliers: over 700

Items: circa 16,000; 2,500 in the fixed range, 11,700 in the available for order range, and 1,800 in the temporary range, 1,400 of which are in the local and small-scale range

Customer visits to the stores: 124.8 million

Visits via digital channels: 51.6 million

(systembolaget.se, the Search & Find app, and the Promillekoll app)

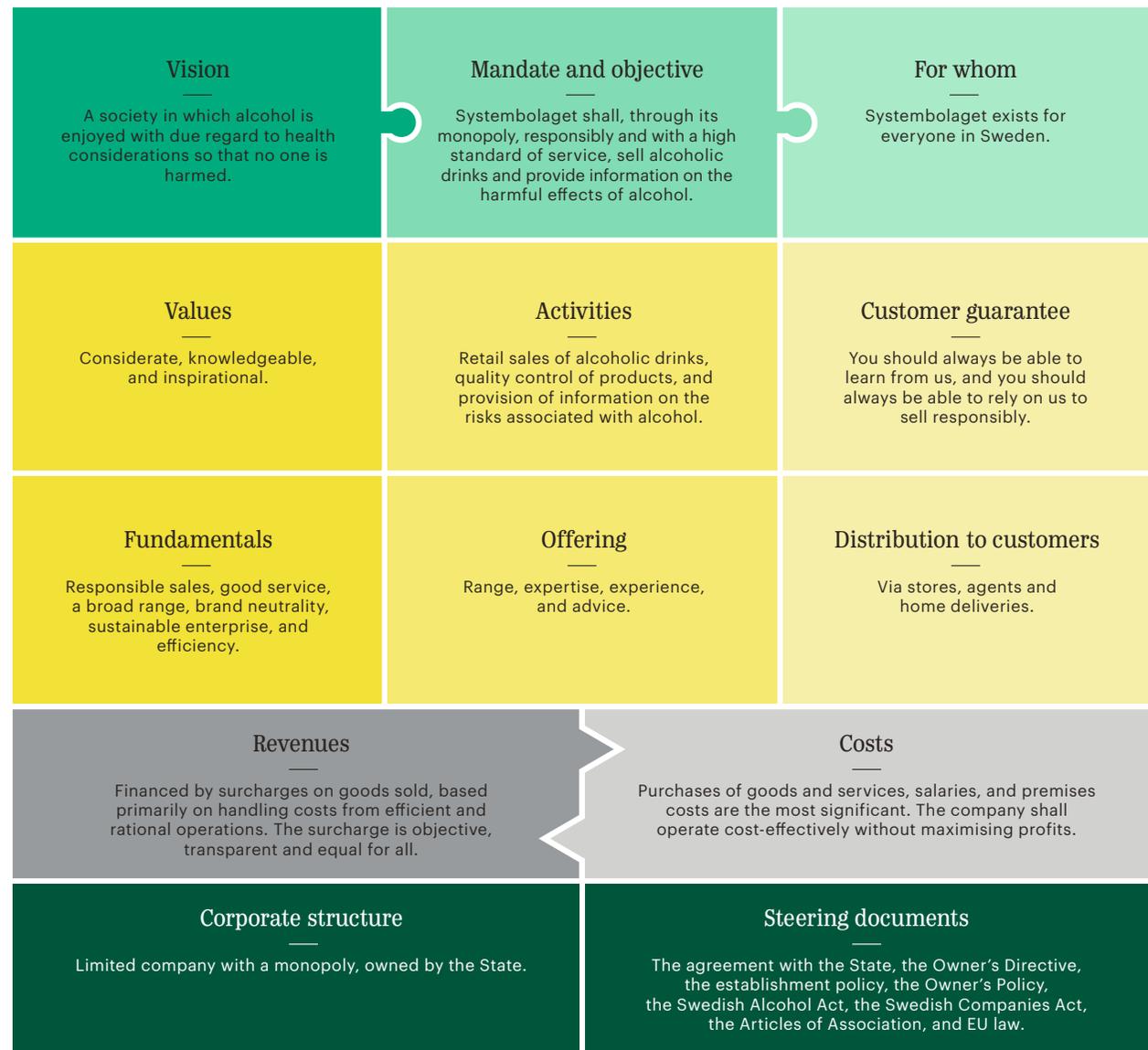
Systembolaget's business model

Several hundred years of Swedish alcohol consumption and alcohol policy resulted in the formation of Systembolaget in 1955. Our business model derives from centuries of lessons learned, adapted in line with our mandate in the modern world. Our business model is, therefore, based on the outside world factors that affect us – and, of course, our effect on the outside world.

Nowadays, we are a State-owned company and we, administratively, come under the Ministry of Health & Social Affairs. As such, our operations are regulated by a number of steering documents, including our agreement with the state, our Owner's Directive, the Swedish Alcohol Act¹², and EU law.

Systembolaget's vision is of a society in which alcohol is enjoyed with due regard to health considerations so that no one is harmed. We will realise this vision through our mandate: we shall, through our monopoly, responsibly and with a high standard of service, sell alcoholic drinks and provide information on the harmful effects of alcohol.

Systembolaget does not exist to maximise our sales – we exist to sell responsibly and to limit the harmful effects of alcohol. Systembolaget benefits everyone in Sweden, but only sells to people aged 20 or above and never sells to anyone who is noticeably intoxicated or who is, we suspect, buying to resell. We provide



information on the harmful effects of alcohol and take our responsibility to enforcing the minimum age limit very seriously.

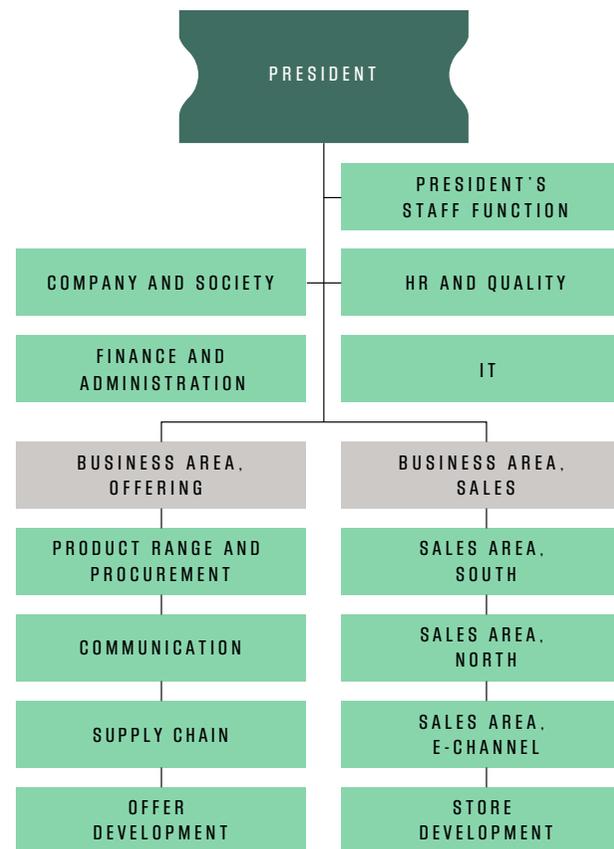
Systembolaget exists for the whole of Sweden, so we have stores in all major communities – 443 stores at present – and online. For those who live in smaller communities, we offer delivery via agents, and we have been trialling home deliveries in a number of areas since 2012.

Systembolaget conducts retail sales of alcoholic beverages from manufacturers worldwide. Our range comprises approximately 16,000 different products. Procurement entails transparent procurement processes that focus on quality and sustainability.

All alcohol is sold with no attempt to maximise profits and in a brand-neutral way. Pricing takes the form of surcharges on procured goods, based on handling costs. The surcharge is objective, transparent, and equal for all.

ORGANISATION

Systembolaget's operations are conducted via 443 stores in Sweden which were visited by a combined total of 124.8 million (122.2) customers during the year. Two new stores opened in 2018, one in southern Sweden and one in the northern part of the country. Systembolaget's Board of Directors also decided to strengthen the store network through the establishment of four new stores, scheduled to open between 2019 and 2022, and a total of 3–4 new stores are now scheduled to open every year over the next few years. The aim of opening more stores, with the majority planned for large and medium-sized conurbations, is to meet the demands made by population increases



and urbanisation. There are also, in addition to the stores, just over 470 agents throughout Sweden from whom customers can order goods for collection. Systembolaget is also offering home delivery on a trial basis in a number of areas across Sweden. The trial was expanded during the year to include additional areas, and by the end of the year, around 60 per cent of Sweden's population had the option of ordering goods for home delivery.

The operations are conducted by Systembolaget AB and the wholly owned subsidiaries, IQ-initiativet AB and AB K14 Näckströmsgatan. IQ-initiativet works with information and communication in order to prevent and limit the harmful effects of alcohol, while K14 Näckströmsgatan manages Systembolaget's operating premises.

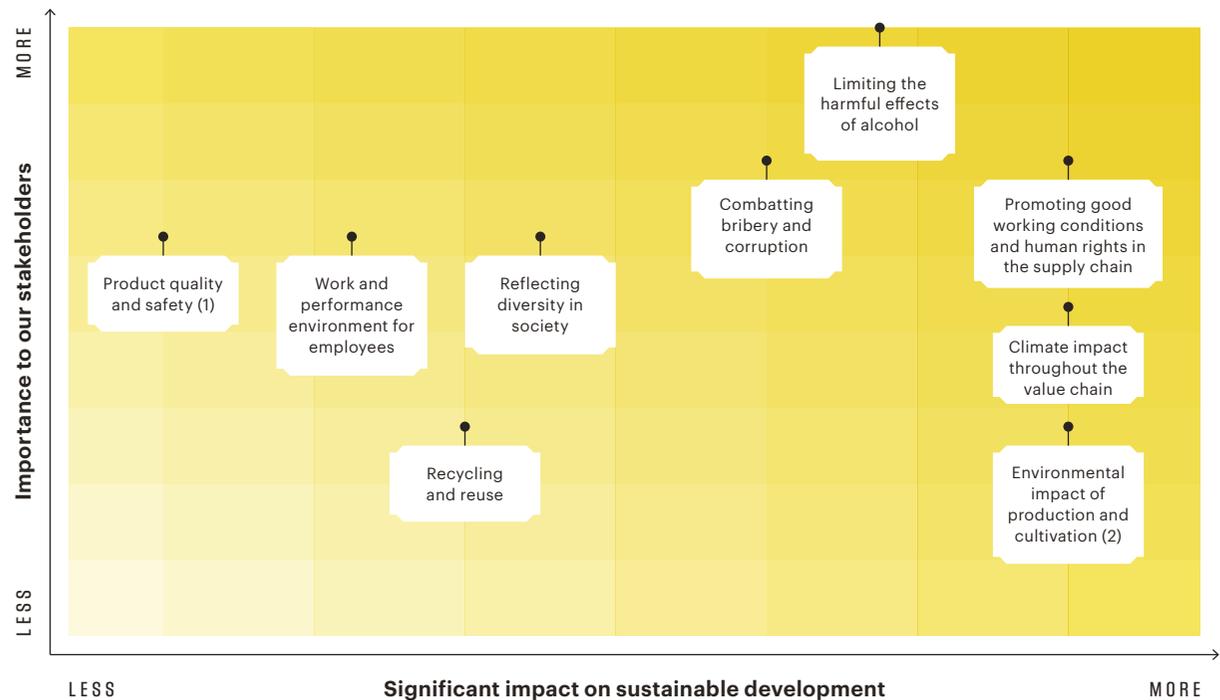
Systembolaget AB is 100 per cent owned by the Swedish State and there are 360,000 shares in the company.

Our business model and organisational structure shall help optimise the conditions for our operations. If we are to succeed, we must constantly be aware of the changing world in which we live and must act in accordance with our mandate. On the next page, we talk about the issues that are, therefore, of the greatest importance to us and to our stakeholders – summarised in the form of a materiality analysis, and about how this will affect us going forward.

Our materiality analysis

Systembolaget's materiality analysis, together with the UN's global goals for sustainable development, forms the basis for much of our sustainability work. The materiality analysis is conducted annually in order to identify both the sustainability issues where Systembolaget can exert the greatest influence, and the issues which are of the greatest importance to the company's external and internal stakeholders, and which it is consequently important that we address strategically and report. The process involves designating individual Factual Area Managers to ensure an operations-based approach. The materiality analysis is adopted by Systembolaget's company management and Board of Directors. The results of the 2018 materiality analysis are shown in the diagram.

The materiality analysis is based on ongoing stakeholder dialogues with our most important stakeholders – customers, employees, owners, suppliers, and other parties. These stakeholder groups were identified at an overall level several years ago, based on our social mandate and our operations. The subgroups of the greatest relevance within these overall level groupings are reviewed on a rolling basis to ensure we can create relevant networks and platforms for our stakeholder dialogues. The dialogues with our stakeholders are conducted on a rolling basis in a variety of forms, and the most significant ones in 2018 are presented in the section on our stakeholder engagement (see page 116).



1. *Health and safety (excluding the health aspects of the actual alcohol)*
2. *Refers to the effect on the surrounding environment and people, over and above the climate impact, e.g. the impact on biological diversity, water and air pollution*

In the spring of 2018, we conducted our annual online stakeholder dialogue with:

- customers (a nationally representative selection of people aged 15+ – just over 1,000 responses).
- Systembolaget's managers (department managers, unit managers, sales managers, area managers and store managers).
- employees (new target group this year).
- suppliers (the 100 biggest).

Evaluations of the importance of the sustainability issues to the stakeholders are based on the combined input from different stakeholder dialogues, primarily the annual online stakeholder dialogue.

Supplier meetings, enquiries submitted to Customer Services, and meetings with our owner also contribute to the evaluation process. We have an ongoing dialogue and reconciliation process with our owners regarding our priorities in the field of sustainable enterprise.

One new feature of the materiality analysis this year is that it has been produced in accordance with the new version of GRI* known as GRI Standards. The GRI Standards have developed and clarified the concept of "impact" to include several dimensions. Impact is about the effect an organisation has on economic, environmental and social issues which, in turn, indicates positive or negative contributions to sustainable development. This impact can be both direct and indirect, conscious or unconscious, and can have different timeframes. It also, in turn, highlights the factors by which the organisation is affected. Taking an holistic approach to impact from a variety of perspective also ties in well with the organisation's impact on and positive contributions to achieving the UN's global goals.

The biggest difference from previous year's materiality analyses is that greater relative importance is now assigned to the sustainability impact in the supply chain for both social and environmental aspects. Climate issues have also been assigned a greater importance in that the drinks industry, too, is affected by climate change. We have also incorporated a completely new aspect this year, namely product quality and safety, in the light of consumers' increased focus on additives and chemicals.

The annual online stakeholder dialogue showed that awareness of Systembolaget's sustainability work continues to be relatively low, nationwide. There are, however, some exceptions in connection with limiting the harmful effects of alcohol and regarding the range of organic products.

We present details of the way in which we are addressing issues raised by the materiality analysis in our section reporting on Systembolaget's three strategic shifts which are, in turn, a result of our strategic plan for 2017-2020. The materiality analysis also indicates on which of the UN's global sustainability goals our operations will primarily focus.

The UN's global sustainability goals



In 2015, the world's leaders signed up to the UN's 17 global sustainability goals and Agenda 2030, in order to achieve the overall goals of abolishing poverty, reducing inequality, solving the climate crisis, and promoting peace. These goals, together with our materiality analysis have, since then, formed important starting points for Systembolaget's sustainability work.

State-owned companies shall, within the framework of their operations, analyse the sustainable development goals set forth in Agenda 2030 in order to identify the most relevant goals to which the company can, through its operations, exert and influence and make a contribution. In 2017, Systembolaget conducted an analysis of the UN's global sustainability goals and the associated 169 subsidiary goals, in order to determine which are most closely related to our operations and where we can do the most good and create value in the long-term. The analysis identified 7 goals that are of particular relevance to us and we then, on the basis thereof, formulated our own long-term goals that describe where we want to be by 2030. These goals are important starting points for our operations.

The UN's global goals

Systembolaget's goals for 2030

3. Good health and well-being



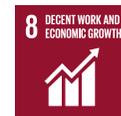
Through responsible selling, cooperation, communication and support for research, we have approached the realisation of our vision: "A society in which alcoholic drinks are enjoyed with due regard for health, so that no one is harmed."

5. Gender equality



We achieved gender equality at all levels in our company and ensured equal rights and opportunities with regard to recruitment, skill development, working conditions, and the opportunity to combine parenthood and work many years ago. Our suppliers have full responsibility for their supply chains and there is no discrimination amongst those working in the supply chain with our products.

8. Decent work and economic growth



Systembolaget is one of Sweden's most attractive employers. Our suppliers have full responsibility for their supply chains and everyone working in the supply chain behind our products has decent working conditions.

10. Reduced inequalities



Proactive work on inclusiveness has ensured we reflect the differences in society well and have generated the preconditions for everyone's equal right to and opportunity for work, irrespective of age, gender, functional variation, ethnicity, origin and religion. Our suppliers have full responsibility for their supply chains and there is no discrimination amongst those working in the supply chain behind our products.

12: Responsible consumption and production

Our suppliers take full responsibility for their supply chains and the products we sell are produced with due regard for sustainable resource usage and otherwise with knowledge of and consideration for the consequences for people's health and the environment. Our customers have good access to information on the products' sustainability impact and on how they can, through their purchases, contribute to increased sustainability.

13: Climate action

Our own operations and all transport bought in are fossil fuel-free. We have managed to radically reduce the climate impact of our entire production chain with the help of our customers and in collaboration with our suppliers, distributors, and other partnerships.

16. Peace, justice and strong institutions

We work proactively to counter all forms of corruption and act as role models, both internally and externally. Systembolaget's value chain is fully transparent, which has helped reduce the risk of corruption.

Goal 17 – Partnerships for the Goals – is, over and above these goals, another important starting point when it comes to working towards the other goals. It is a goal that generates preconditions and we have seen, through various forms of global and local cooperation, how Systembolaget can contribute to sustainability in areas where we have an impact on the world around us.

Efforts to integrate the UN's global goals into our day-to-day operations, and to concretise them, are an ongoing process. We provide details of our progress in 2018 in our presentation of the three strategic shifts upon which the current strategic plan focuses.

Where we want to be – Systembolaget’s strategic plan

Systembolaget’s vision is of a society in which alcohol is enjoyed with due regard to health considerations so that no one is harmed. We aim to realise this vision through our mandate: to engage, through a monopoly, responsibly and with a high standard of service, in the retail sales of alcoholic beverages, and to inform people about the harmful effects of alcohol.

In 2016, Systembolaget decided, in line with our vision and our mandate, and taking into account our value creation and the external factors that affect us, to adopt the strategic plan that will run until 2020. The plan is the first time that our key sustainability aspects have been integrated into the overall strategic plan. Sustainability is an increasingly explicit operational

goal for us, and an integrated sustainability perspective empowers our implementation of this approach.

This Responsibility Report describes how we are working to achieve the plan’s objectives – the measures and initiatives we are taking and the challenges we face and must address. But in order to be clear about why

Strategic goal, 2020

I am proud of the fact that Sweden has Systembolaget!

I, as a customer, feel increasingly like a welcome guest at Systembolaget. The offering is increasingly adapted in line with my requirements, and Systembolaget continues to offer the best service. I like that they take responsibility. Systembolaget ensures quality and its range takes an increasingly clear position on social responsibility and the environment. It allows me, through my choices, to make a difference, too.

As a customer, it’s easy for me to learn more about drinks and about how spirits, wine, beer and other drinks affect me and

those around me. I often think about how often, how much, and what I drink. More and more people are coming forward and saying why they appreciate Systembolaget and its mandate, and it’s easier for me to understand and appreciate the monopoly and the difference Systembolaget makes to public health.

We employees know how we can help ensure more informed alcohol consumption. Thanks to us, people know more about the downsides of alcohol and are aware of the risks that come with alcohol increasingly often being portrayed as just another product. We are very involved in the alcohol debate and Systembolaget, along with other parties, is contributing to the debate by providing knowhow and insights. The rules of the game when it comes to alcohol policy are being

clarified and the monitoring of compliance with these rules is improving all the time.

There are 5,000 Systembolaget employees and we are placing increasing value on each other’s differences. We are thinking along new lines and achieving success by working with others. Developing our operations and each other makes optimum use of our resources in terms of money, employees, and the environment. Our managers are creating good conditions and more people are willing, able, and allowed to take responsibility through a clear mandate. We are well on the way to becoming Sweden’s most attractive employer and are proud of making a difference.

we do what we do, it is important to understand where we are going.

Three strategic shifts

Achieving our strategic goal – where customers, employees and our other stakeholders are proud of Systembolaget – demands hard work and that we take a stand on various issues. People’s expectations of Systembolaget are constantly increasing and we want to be proactive in meeting them, which is why we have identified three strategic shifts as being of particular importance.

WE WANT TO CONTINUE TO IMPRESS OUR CUSTOMERS

Surveys show that our customers are happy with Systembolaget. But our customers’ expectations are constantly increasing, which means that they are demanding more of us if their satisfaction levels are to be maintained. The increase in digitisation is, for example, resulting in consumers generally demanding more in terms of service and accessibility and we are, therefore, keen to anticipate our customers’ changing behaviours and requirements and to be just as good online as we are in our physical stores. We must also live up to our customers’ increased expectations of us when it comes to operating a business that promotes sustainable development throughout our value chain. This involves both doing more ourselves and involving not just our customers, but our suppliers and producers in our sustainability work.

Systembolaget is not like other companies and alcohol is not like other products. We don’t want satisfied customers to make them buy more. We do not run



Our shifts will move us closer to the subsidiary areas of our operations and to several of the UN's global sustainability goals, the most important of which are presented, along with links to the relevant shift, in the graphic.

campaigns and we do not sell three products for the price of two. We do this in our own way, within the parameters that support our mandate. Our goal is for our customers to be proud of Systembolaget – and achieving that means constantly striving for progress.

WE NEED TO INCREASE PEOPLE'S AWARENESS OF THE RISKS OF ALCOHOL AND WHY SYSTEMBOLAGET EXISTS

Systembolaget and the monopoly enjoy high levels of public confidence, and we're proud of that fact. But we also believe that there is a risk of the dialogue we want to promote being afforded less space if not enough people are involved. If we are to fulfil our mandate and limit the harmful effects of alcohol, this dialogue needs to involve more people. Alcohol is increasingly perceived as "just another product", as is clear from its marketing and in social media. We are pretty poor, in Sweden, at reflecting on our own alcohol consumption and only 7 per cent of Swedes believe that they, personally, drink too much, in spite of a survey by Novus having shown that almost one million Swedes are drinking at hazardous levels. Many consumers believe that alcohol problems are "someone else's problem"¹³. Our goal is to involve more people in order to increase awareness and encourage greater mindfulness, dialogue, and cooperation on alcohol-related issues.

WE MUST CREATE BETTER INTERNAL CONDITIONS FOR ACHIEVING OUR GOALS

If we are to succeed in all these endeavours, we need to create even better conditions in which to operate. Developing our operations and each other makes optimum use of our resources in terms of money, employees, and the environment. Our employees are far and away the most important key to success in this respect. The strength inherent in our 5,000 employees is consider-

able, and we must ensure that our employees have both the mandate and the desire to contribute as much as possible. We want to be one of Sweden's best and most attractive employers. We want all of our employees, through a diversity of perspective, a value-governed management, sustainable and rational operations, and by taking environmental and social responsibility, to feel proud of us as an employer.

KEY RATIOS AND GOAL LEVELS

Our owner, the State, has set a number of goals that steer our course, and it is clear that the mandate goals take precedence. The primary goal, according to our owner, is consequently the social benefit. The secondary goal is that we shall deliver a required return on investment that is predetermined by the owner and which is followed up over time through a number of financial key ratios.

We have ensured that all of our strategic key ratios can be directly influenced through our own operations in order to achieve an increased focus and facilitate delegation.

The owners' goals over which we have direct influence are monitored by means of strategic steering key ratios. There are also a number of other key ratios that relate to the broader owner's goals, but which are defined in a way that enables us to measure our own performance. All strategic key ratio goals – whether financial or non-financial – are set by the Board of Directors. Other owner's goals are followed up and analysed continuously in order to pick up on changes. Some of the goals are set by the owners, other are not. This enables us to set goals for and follow up on our strategy in order to ensure a balanced development at the same time as we ensure we are meeting our owner's goals.

The State's ownership policy requires State-owned companies to act as role models when it comes to sustainable enterprise. Sustainable enterprise includes such areas as human rights, working conditions, the environment, anti-corruption, and business ethics, as well as gender equality and diversity. Acting as a role model with regard to sustainable enterprise means, amongst other things, acting transparently on issues relating to material risks and opportunities, engaging in an active dialogue with the company's stakeholders in society, cooperating with other companies and relevant organisations, and complying with international guidelines in the field. State-owned companies, such as Systembolaget, must have well thought out and firmly established strategic goals in the area of sustainable enterprise, and Systembolaget has consequently established policies, strategies and strategic goals in this area. In December 2017, the Board decided to explicitly link five strategic goals to sustainable enterprise, and at the end of 2018, the Board decided that a goal relating to ethnic diversity should be added to those where progress is monitored, starting in 2019.

The sustainable enterprise goals for 2018 are shown in the table on the next page, where we present strategic key ratios and indicators. The table shows that there is at least one key ratio or GRI indicator for every material sustainability area within the three strategic shifts, in order to ensure monitoring and reporting.

The table overleaf also shows how our integrated reporting is structured on the basis of our current strategic plan and within which shift our most material sustainability issues are reported. The overall structure is as follows:

- Continue to impress the customers
Includes material sustainability issues in connection with the customer interaction, and sustainability issues in connection with our range and supply chain, Systembolaget's own environmental and climate work, and our work with ethics and anti-corruption.
- Increase awareness of alcohol's risks and why Systembolaget exists. Includes our social mandate to limit the harmful effects of alcohol.
- Optimise conditions
Includes sustainable performance environments and our efforts to reflect society's diversity, and our financial strategic key ratios. Also includes a presentation of IT as an area that generates preconditions.

In the next chapter, we will talk about what we are doing to achieve the goals laid down in our three strategic shifts, and our plans for the future.



OUR STRATEGIC KEY RATIOS AND INDICATORS

Strategic shift	Area	Strategic key ratio	Result 2018 ¹	Goal 2018	Sustainable enterprise goal ²	Owner's goal	Board's goal
Continue to impress the customers	The customer interaction	Customer Satisfaction Index (CSI)	84.6	84.5 – 85.0	x	x	x
	Sustainable supply chain	Suppliers' sustainability maturity	See page 45	-	x		x
	Sustainable in-house operations	Climate impact of in-house operations* (net CO ₂)	2,591	Annual reduction	x		x
Increase awareness of alcohol's risks and why	Engage our customers and other stakeholders in the benefits of Systembolaget	Opinion Index, OPI (%) The percentage who want to retain Systembolaget's monopoly on retail sales of spirits, wine, and strong beer	76.5	77.5			x
	Tools that increase mindfulness	Proof of age checks	95.6	96.0	x		x
Optimum conditions	Securing the talent pool	Performance culture	81.5	78.4	x		x
		Sick leave (%)	4.5	4.8			x
	Finances	Equity/assets ratio	25.7	20 – 30		x	
		Return on equity	11.4	8.0 – 9.0		x	
		Cost-effectiveness	2.3	≤ 2.3		x	

Strategic indicator ³	Result 2018	Goal 2018	Sustainable enterprise goal	Owner's goal	Board's goal
Alcohol Index ⁴	61.4	-		x	x
Total consumption, litres of pure alcohol per head of population aged 15 or older ⁵	9.0	-		x	
Systembolaget's share of alcohol consumption ⁵	62.8	-		x	

1. As of 2017, Systembolaget reports all key ratios and indicators to one decimal place in order to increase transparency.

The exception to this is the climate impact key ratio, which is reported under carbon dioxide equivalents.

2. In December 2017, the Board resolved to adopt the following five strategic goals for sustainable enterprise.

3. Strategic indicators are also followed up by the owner, but no goals are set.

4. The Alcohol Index goals are set in the Owner's Directive.

5. Reported one year in arrears.

Our three strategic shifts



STRATEGIC SHIFT 1:

We shall continue to impress our customers

Alcohol is not like other products. Systembolaget exists for a reason – to limit the harmful effects of alcohol. Systembolaget does not just exist for people who buy from us: it exists for everyone in Sweden.

It is important for those who choose to shop with us that we offer a high-quality service. But it is also important that we sell responsibly.

The world around us is changing rapidly, and as the world changes, so do our customers' wishes, expectations and behaviour. To ensure that we continue to impress our customers, Systembolaget, works continuously on its development, and we do so within a number of different areas: in the physical and digital customer interaction, by means of a carefully selected range, in our work with ethics and anticorruption – and in our efforts to establish sustainability in both our supply chain and our own operations.



Directive sustainability goals



Systembolaget's sustainability work is based on several of the UN's global goals for sustainable development.

Our strategic and practical work within the framework of this shift focuses on achieving these overriding goals. Goal 17, Partnerships for the Goals, guides us in all our strategic shifts.

Customer interaction

Why this is important

A first-class customer interaction and an impressive product range are two of our most important tools in our efforts to impress our customers. But unlike many other companies, Systembolaget does not want satisfied customers so that it can boost its sales. Rather, satisfied customers are important to us because they ensure our long-term ability to deliver on our social mandate: to engage, through a monopoly, responsibly and with a high standard of service, in the retail sales of alcoholic beverages, and to inform people about the harmful effects of alcohol.

Direction and strategic initiatives

We have seen unusually major upheavals in the way in which general and specialist retailers must operate in recent years as a result of digitisation and changes in consumption patterns and behaviours. Swedish demographics are changing too, as shown in such trends as an aging population, urbanisation, and more and more people with foreign backgrounds. Collectively, responding to these changes will ask a great deal of Systembolaget if we are to continue to live up to our customers' high expectations and, at the same time, to sell responsibly. Therefore we work strategically with a number of areas in order to ensure that we continue to impress our customers in every customer interaction – whether physical or digital.

Our customer promise

Systembolaget's promise to all our customers is as follows:

You should always feel welcome

- You are welcome and respected, whoever you are and whatever the reason for your visit.
- We are here for you and will actively show how happy we are to see you.
- We will do all we can to help you – simply and smoothly.

You should always feel that our knowledge and expertise is at hand

- We share our knowledge generously in a way that suits you.
- You choose and we provide inspiration, so that you can enjoy our drinks with due regard for both your own health and other people's.
- Our advice is brand-neutral and tailor-made for you, to ensure you can make good, informed choices.

You should always be able to rely on us to sell responsibly

- Our selling rules include consideration for everyone's wellbeing, and we adhere to them at all times.
- The products you buy are carefully selected and we are keen to ensure that they are sustainable, both for people and for the environment.
- Our goal is not to make as much money as possible. We are happy to talk about why Systembolaget exists, and the benefits we bring.



Our customer promise applies wherever the customer chooses to interact with us. Systembolaget has just over 5,000 employees who work with our customer promise every day. In 2018, we have taken additional steps to ensure that all our employees are better equipped to deliver on our customer promise, whether in store or online. We have, for example, produced a framework to guide us in our efforts to continue impressing our customers by increasing our “customer-orientated expertise”.

Systembolaget’s extensive range demands expertise if it is to be shown to its full advantage, and that expertise is also what can help our customers make informed choices*. The framework consequently describes how we, with the help of our in-store staff, make Systembolaget’s combined expertise available to our customers. The framework also describes, in addition to the range expertise, how we should pass on our know-how when it comes to Systembolaget’s various services and contact interfaces – in-store, by phone, and online.

We have also developed our digital customer interaction in line with our customer promise. Our Customer Services department is increasingly receiving requests for support in relation to orders, not least when it comes to our online ordering service. We have, therefore, to improve our ability to live up to our customers’ expectations, divided our Customer Services department into two teams: one to provide customer orders support, and one to provide support on food and drink issues.

Systembolaget offers its customer services via a range of channels – by phone, online chat, email, Facebook, and at systembolaget.se. We have extended the opening hours of the customer service chat facility on our website during the year, to live up to our customers’

increased expectations of a high-quality digital interaction.

INCLUSIVENESS FOR CUSTOMERS

All customers must, in accordance with our customer promise, feel welcome – wherever they interact with us and whatever their circumstances. Linguistic and mobility variations are two of the factors upon which our diversity and inclusiveness work focuses. As a basic requirement, for example, our webpages, apps and other digital content should be designed in such a way that they ensure accessibility for people with functional disabilities. We must also comply with fundamental requirements in the physical environment that derive from the Swedish Planning and Building Act (PBL).

In 2018, we made fundamental information about Systembolaget’s mandate and our selling rules available at omsystembolaget.se. The information is provided in easy-to-read Swedish and a further 21 different languages.

In 2017, we launched materials designed to educate people about Systembolaget as part of the SFI (Swedish for Immigrants) courses. The material was one of the most frequently ordered products on the education material website, utbudet.se, last year. This year, we have asked SFI teachers and other educators to evaluate the material and have subsequently revised and updated it. We have also conducted an analysis of how we can reach out to more SFI schools and have started working with the County Administrative Boards of Sweden’s Sveriges Länsstyrelser ANDT* coordinators at the individual county councils. (ANDT is the Government’s Council on alcohol, narcotics, doping and tobacco issues). Compulsory and upper secondary schools have also shown interest in the material to

support discussions of alcohol habits, Systembolaget, and our purpose. These initiatives will enable us to increase people’s awareness of the risks associated with alcohol, and increase familiarity with our operations and our mandate, help improve people’s Swedish language skills, increase integration and, at the same time, help more people in Sweden to feel welcome at Systembolaget.

MAKING A DIFFERENCE TO HEALTH

“You should always feel that our knowledge and expertise is at hand” is part of our customer promise. It is through our 125 million physical customer interactions, 52 million digital customer interactions, and our range offer that we have the greatest opportunity to make a difference to health – both at an individual and a public health level. Our expertise enables us to help customers make informed choices, and to continue impressing our customers. Systembolaget shall, therefore, be characterised by expertise – it is an important component of our operations and fundamental to our strategic plan. It is, in other words, a precondition of our success.

At the same time, we are working to highlight and remind our customers of our position as an expert and considerate specialist retailer. This autumn, for example, we launched a broad campaign focusing on our range and our expertise, to remind people of our offering and of the things for which Systembolaget stands. The first films were shown in October 2018 on TV, in cinemas, and on digital channels. The campaign will continue in 2019.

DEVELOPMENT IN THE PHYSICAL STORE

When we develop our offering in the physical stores, it should not result in additional sales or in us toning



down our selling rules. Customers must be able to rely on us to sell responsibly. All our in-store work is designed to meet our customers' needs and live up to their increased expectations, while simultaneously ensuring that we continue to work in accordance with Systembolaget's mandate. This is the basis for the new store concept that was developed and tested in 2015 and 2016. A total of 38 stores have now been renovated, 22 of them in 2018.

The ability for customers to collect goods they have ordered outside the store is another element of this work, and one that is currently being trialled at the Sergels Torg store. What it means is that customers do not need to actually enter the store, which results in a smoother visit and may reduce the number of spontaneous purchases. The idea behind collection modules adjacent to stores is now being developed and trialled in a number of suitable locations.

The "changed my mind" trolleys which became part of our store concept in the autumn are yet another development in line with our customer promise. The "changed my mind" trolleys are located near the check-outs, making it easy for customers to return items that they no longer want. It should be easy to change your mind.

PROOF OF AGE CHECKS IN THE CUSTOMER INTERACTION

Everyone should feel welcome at Systembolaget, but not everyone is allowed to shop at Systembolaget. We do not sell to anyone under the age of 20, anyone who is visibly intoxicated, or anyone whom we suspect will resell the products. Systembolaget's Proof of Age checks* are, therefore, an important tool that must be used both in-store and in conjunction with home

deliveries, and by our agents, but the checks must not contravene our good customer service principle.

In 2018, therefore, we continued to integrate the proof of age checks into our work on creating an even better customer interaction. This means that every situation must be assessed individually, rather than on the basis of rigid regulations and preconceived ideas. Every customer must be treated with consideration, not suspicion. Bringing about this change in attitude is important and every employee must not only feel personally responsible for this work, but must have a mandate to take the correct decision.

The Swedish Alcohol Act forms the basis for our proof of age checks. The law mandates a minimum age limit of 20 for shopping at Systembolaget, but assessing customers' ages is difficult, which is why Systembolaget has an internal security rule to help in this process. We ask everyone who looks as though they could be under the age of 25 to produce a valid ID document, thereby building a safety margin into our work. Actually carrying out proof of age checks is, ultimately, about personal responsibility on the part of our employees. For results, see page 59.

INCREASED SERVICE ONLINE

Systembolaget's efforts to impress our customers runs through every channel in which we interact with them – in our physical stores or online. The Customer Satisfaction Index (CSI)* value for our physical stores has been high for many years, and we are keen to approach the same level for visitors to our online store. Our online customers are currently satisfied, but we believe that we have the potential to impress them, too.

In 2018, we analysed ways of developing our online of-

fering to succeed in this objective. Our expertise and the way in which we present it online in connection with our range is an important part of our offering. We have also identified scope for improvement in how we display our range and how we share expertise via our employees online. The results of the analysis form part of the insights that lay behind the development of our new online store, which will be launched in 2019. The aim of the new store is to make it easier for the customer to make informed and sustainable choices. We are also aiming, with the aid of additional and new payment options, to make it easier to shop at Systembolaget online.

Some new functions were made available to our online customers in 2018. We improved our search facility, for example, which our customers had been requesting. We also extended the opening hours of our online chat facility, where 10 expert store workers from the north to the south of the country answer customers' questions about everything drinks-related. By the autumn of 2018, just over 1,000 questions a week were being answered via the chat function, which is twice as many as under the old chat function opening hours.

We have also been working in 2018 on improving the way in which the quality of service in our various contact interfaces meets our customers' needs. There are, for example, many people who visit us online nowadays – to check out our range before visiting a physical store to actually buy the products. Measures we have taken in response to this need include making it easier to see online which products are carried by individual stores. We have also made it possible to open an account on our website, which makes lists that customers have created on the website accessible via our app. Introducing the ability to scan a bottle's EAN code via the app, and



immediately receive additional product information, allows our customers to learn more about our range, wherever they may be.

After having won the ServiceScore award for five years in succession, we won a silver in the Best Service Company category⁴ in 2018. The Best Retail Company award, which Systembolaget also won for five years in succession, was abolished in 2018. In Medieakademin's Confidence Barometer for 2018, Systembolaget enjoys higher levels of confidence than any of the other companies and social institutions included in the survey.³

HOME DELIVERY CUSTOMER INTERACTION

Home deliveries are currently being trialled in six counties: Skåne, Stockholm, Uppsala, Västerbotten, Västernorrland and Västra Götaland. Systembolaget can consequently now offer home deliveries for over 60 per cent of the Swedish population who are entitled to buy goods from the company.

Home delivery sales are an adaptation to societal trends, and a prerequisite of our continued ability to impress our customers. The service does, however, also impose demands on us in ensuring that sales continue to be made in line with our mandate. We are, as a result, providing ongoing training for the drivers, all of whom are external, to ensure compliance with Systembolaget's social responsibility and that the customer interaction is based on Systembolaget's values and customer promise. The drivers shall, just as in our stores, ensure that the recipient is at least 20 years old, and that they are not visibly intoxicated. The driver shall also refuse delivery if they suspect illegal resale.

Key ratios, activities and results

CUSTOMER SATISFACTION INDEX – CSI

The way we interact with our customers has a considerable influence on their perceptions of Systembolaget and our mandate. Customer satisfaction is consequently absolutely vital in enabling us to limit the harmful effects of alcohol in the long term. We conduct a CSI survey in partnership with an external, independent company (CFI Group) three times a year in all of our stores in order to measure levels of customer satisfaction. The results reveal what is important to our customers and how well we are living up to their expectations. The stores receive the results at store level in order to enable the entire organisation to continue working on relevant areas for improvement. Two of the key factors in achieving a high index figure are proactivity and customer interaction, and we are working hard to increase accessibility in our stores and ensure that we have the necessary expertise available when our customers need help. The CSI index values range between 10 and 100.

On three occasions in 2018, almost 49,000 customers were surveyed in our stores and a total of 32,513 customers have participated in our CSI survey, yielding a response rate of 66 per cent.

	2018	2017	2016
Customer Satisfaction Index (CSI)	84.6	84.3	84.1
CSI – social component	82.2	81.5	81.0

The results show that the CSI for 2018 has increased by 0.3 points to a new record index level of 84.6, which

means that we are approaching our target figure of being in the interval between 84.5 and 85.0. The new CSI level is due to a positive trend in all quality areas, not least those regarded as most important by our customers. Our customers' perception of the service they receive from our staff in stores has reached a new record high index figure of 91.2 (+0.4). The same is true of their perceptions of our social responsibility, where the index has risen by 0.7 to 82.2 in 2018. Customers' perceptions of our range have also reached a new record high, with an index of 80.6 (+0.2) (see also table on page 35).

The highest ranked quality areas also include, as before, the stores' social responsibility (index: 95.2). We are particularly pleased by this, as it is about the extent to which our customers see us taking responsibility for our selling rules. Last year, 95 per cent of our stores have a CSI rating of above 80, which is our minimum acceptable level, and this year that figure has increased to 97 per cent. We will continue our collective efforts to improve the customer interactions of the 13 stores that are below this level. Our customers' expectations are, however, successively increasing, so we must also continue to develop, even in the stores with a high CSI rating.

Our website is the second most commonly used contact interface after the stores, where the CSI has increased to 76.6 (+1.1). For our ordering service, in that almost 70 per cent of orders are now placed digitally, the CSI rating has increased to 92 (+0.4). Here too, we hope to be able to continue this positive trend in 2019, when we will be launching a new digital store in order both to improve the way in which we meet our customers' needs, and to be able to offer a simple and smooth online customer interaction.



A carefully selected range

Why this is important

The range is the core of Systembolaget’s offering. We must offer every customer in Sweden a range that meets their needs.

We are keen to continue working in partnership with our suppliers to continue developing a range that increases customer satisfaction, enables sustainable choices and informed consumption – and helps ensure an impressive customer interaction. The range is based on brand-neutral, non-discriminatory, and transparent principles.

Direction and strategic initiatives

Our purchasing department tries out several thousand drinks from all over the world every year. Factors such as customer demand, season, festivities, and national and international trends affect the choice of drinks bought in for Systembolaget’s range.

Our customers’ knowledge of and interest in drinks, sustainability and health have increased in recent years, increasing the demands made on our range. Our goal is to

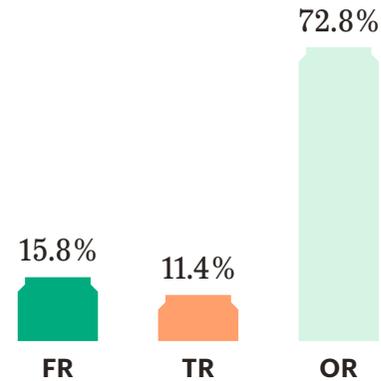
2018	Fixed range	Temporary range	Available for Order range	Total
Number of items ¹	2,500	1,800	11,700	16,000
Million units sold ²	870	24	14	908
Million litres	485	10	10	505
Net sales (SEK m) (value ex. VAT)	28,800	983	888	30,700

1 Active on 31 Dec

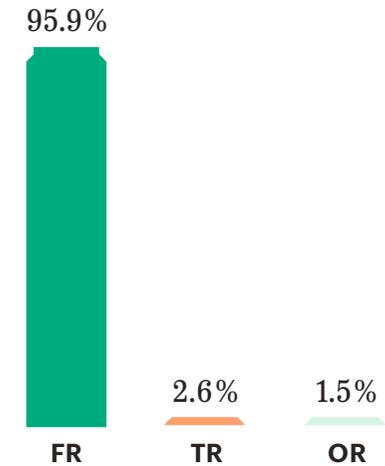
2 Number of bottles, cans, boxes, etc. sold.

The 2018 range

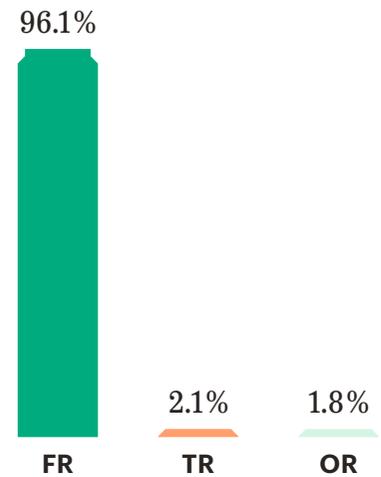
Number of items



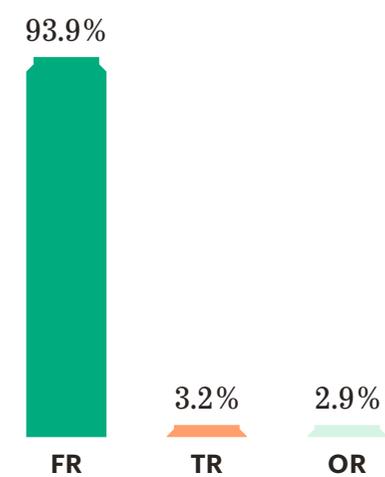
Quantity of units sold*



Sales volume (l)



Sales (SEK)





adjust the products we carry on our shelves in line with customer preferences, quickly and in an optimal way.

OUR RANGE

Customer demand is at the heart of Systembolaget's range-related work. We track both consumer behaviour and drinks trends, and adapt our range continuously. All of Systembolaget's stores shall carry a range that corresponds to demand in that particular store. The size of the range depends on the store's customer base – and if a particular product is not carried in a particular store's range, it can be ordered in, thereby ensuring our customers have access to the entire range throughout Sweden. Orders placed in the stores also form the basis for analyses of future ranges.

We have been working to update our range model since late 2017. The aim of this work is to increase customer satisfaction with the range, to increase the efficiency of our range work in stores, and to generate preconditions for an improved customer interaction. The effects of this work will begin to be seen in 2019.

Systembolaget's range comprises:

- the fixed range (FR), which comprises around 2,500 items,
- the temporary range (TR), which comprises around 1,800 items, and
- the available for order range (OR), which comprises around 11,700 items.

Read on to find out more about our range breakdown: Systembolaget's fixed range accounts for 96 per cent of our sales in litres and is designed to meet demand from the majority of our customers. There is a security, continuity, and long-term approach to the range composition that also ensures its breadth and depth. The

allocation of the range to the individual stores is done in a brand-neutral way and is based on customer demand.

The temporary range accounts for two per cent of our sales in litres. The range is divided into three sub-categories – exclusive, seasonal items, and local and small-scale items.

- Temporary Range – Exclusive (TRE) is our range of exclusive items that are manufactured and procured in small volumes. The products have very limited availability and a relatively high price level. New items are launched several times a month. The quantity is limited, and the range is consequently only carried by a limited number of stores. All of the products are available for order at systembolaget.se. The most exclusive items can only be ordered online.
- Temporary Range – Seasonal comprises products that are available for a limited period of time because they are associated with a particular festival or tradition. Easter beer, October Fest beer, and Christmas items including Christmas beer, mulled wine, and certain spirits, are typical of this range. The products are carried for the duration of the season.
- Temporary Range – Local and Small-scale (TRLS) comprises craft products and those produced in limited volumes. Our local and small-scale range offers a wide variety of different types of beer, spirits and wine. All of the drinks are tested and described by bouquet and taste by Systembolaget's experts. A local and small-scale may be carried in up to ten stores in a radius of 150 km from the producer. Customers can, in addition to the local range carried in our stores, also order around 1,000 local and small-scale products from all over Sweden and collect them

from our stores or an agent, or opt for home delivery. In 2018, for example, 840 items from 347 different producers were launched in 2018, corresponding to an increase of 66 in the number of manufacturers, which is the highest number since the range was introduced.

The Available for Order range accounts for two per cent of our sales in litres. Drinks suppliers can list products that have not been bought in for one of Systembolaget's other ranges for inclusion in the Available for Order range. The items can then be ordered in our stores, from agents, and at systembolaget.se for delivery from the drinks suppliers' stocks. The Available for Order range allows us to offer our customers an even broader range and the items that prove particularly popular may, after evaluation, qualify for inclusion in the fixed range. If the customer is looking for an item that is not included in Systembolaget's range, we offer the option of privately importing the item from another country.

AVAILABILITY AND RESPONSIBILITY

Range availability is a prerequisite of our ability to continue impressing our customers. Systembolaget has a nationwide retail network of 443 stores and 471 agents. We base the ranges carried by individual stores on customer demand, to ensure that the right product reaches the right customer. Every store is allocated a range mix adapted in line with customer demand in that specific store – irrespective of the size of the store or its location.

Systembolaget's physical stores carry between around 500 and 3,000 different items, depending on the size of the store. Our entire range is, furthermore, available for order via systembolaget.se, where our customers can order drinks for collection from one of Systembo-



laget's stores, or, in smaller communities, from a Systembolaget agent. We are also offering home deliveries on a trial basis in certain areas.

Availability also has to do with Systembolaget's personnel sharing our expertise on the products and thereby making it easier for the customer to make informed choices. To this end, we have spotlighted our wide-ranging knowledge of drinks during the year. Methods used have included concretising and expanding the information provided on our shelves. We also communicate new products in store and at systembolaget.se, in order to make it easier for customers to find them.

RANGE SUSTAINABILITY

Sustainability is important to Systembolaget, both in terms of our mandate and in line with our customers' expectations, with increased demands on climate considerations, traceability, and production information, for example. A trend towards lists of contents for the products we sell may be helpful in this respect. Which is why we, here at Systembolaget, are monitoring discussions within the EU in this area and are hoping that they may result in changes to the rules so that, in future, customers receive clear information on contents.

Developing a sustainable offering is a priority, and we are continuing to develop and expand our range of organic and ethically certified products. The same applies to the transition to packaging types that are more climate-friendly. We have been actively working during the year to increase the percentage of lightweight glass bottles and other types of packaging with a reduced climate impact.

1. Our organic products

For a number of years now, as part of our efforts to reduce Systembolaget's environmental footprint in the supply chain, we have invested in meeting the substantial customer demand for organic drinks. Organic products now account for 13 per cent of our sales volume.

Organic products: share of sales	2018	2017	2016
Volume as a % of total sales	13.0	12.6	11.6
Organic range¹	2018	2017	2016
Number of items	448	428	373
Number of segments with organic items	91	77	70

¹ The term, range, refers to items in our fixed range.

Having achieved our goal of organic products accounting for 10 per cent of sales by 2020 well in advance of schedule, we have set a new goal of including organic alternatives in as many product segments as possible. In 2018, we had organic alternatives in 91 of our total of 160 product segments. The development in the number of segments with organic alternatives over the past three years is shown in the table below.

Our efforts to maintain and develop a broad organic range pose a number of challenges. One of these challenges lies in the fact that in certain product groups, the number of organic alternatives available is strictly limited. These crops are, furthermore, often more sensitive, which can impact harvests. The poor harvest in 2017, for example, impacted many organic suppliers and, as a result, they are finding it difficult to deliver the same volumes as before, or the volumes request-

ed. This variable availability, coupled with increasing global demand, has resulted in increased competition for those volumes that are available, and this trend will probably continue.

Switching to organic cultivation is also not something a producer can do overnight: it takes several years to switch from conventional to organic cultivation. We have longer initial contract periods for organically and ethically labelled products than for conventionally produced drinks, in order to ensure greater security for producers during the process and, in the long term, create a good range of organic products. Organically cultivated drinks are guaranteed twelve months on our shelves before any adjustments are made to distribution, in comparison with nine months for conventionally cultivated drinks.

2. Our ethical products

One way of improving working conditions in the supply chain is to increase the range of ethically certified items. Systembolaget currently labels wines from two different ethical certification programmes, namely Fairtrade and Fair for Life. We have chosen these labelling schemes because they are third party-certified, because they contribute to fair trade, and because they guarantee a premium that ensures both financial and increased social security for the people working with cultivation. Fair for Life is currently open to offering certification in more countries than Fairtrade, which only certifies products from developing countries.

In 2017, we had 43 ethically labelled items in our fixed range and our goal for 2018 was to increase this figure to 50 or more. Unfortunately, we did not quite achieve this goal, and, by the end of 2018, we had 45 ethically labelled items in our range.



3. Our climate-friendly packaging

Packaging accounts for the biggest share of Systembolaget's indirect environmental impact.

According to the Sustainable Brand Index (2017)¹⁴, packaging is the most important issue that Systembolaget needs to address, and one that interests all customers groups, including those who are less interested in sustainability.

Systembolaget works on a broad front to promote the development of more eco- and climate-smart packaging solutions. In 2018, for example, we increased the frequency with which we requested lighter weight glass or PET bottles when issuing requests for tender to suppliers, and have also noted that more suppliers are shifting to lighter weight glass or PET bottles for existing products in our fixed range. The reasons for their shift include both commercial ones and a desire to reduce their environmental and climate impact.

We regard collaborations as an important part of our efforts to reduce the climate footprint of our packagings, and thereby help achieve the UN's global goals for combatting climate change. The foundations for the industry-wide initiative, The Drinks Industry Climate Initiative, which will be an important component of Systembolaget's climate work, were laid in 2017. Find out more on page 44.

4. Smaller packagings and lower alcohol content

We are continuing to broaden and deepen our offering when it comes to smaller sized packagings. In our stores, half bottles are displayed alongside full bottles of the same size, guiding our customers who don't need a whole bottle and making it easier for them to make their choice. The number of items with a lower

alcohol content is also increasing, making these alternatives of greater interest to our customers and more available.

5. Our alcohol-free range

Switching from alcoholic drinks to alcohol-free alternatives can, in many respects, be described as the most sustainable health switch that our customers can make. We are also seeing an increase in demand for alcohol-free drinks and are working constantly to develop and improve the quality of our range.

GUIDING CUSTOMERS TOWARDS SUSTAINABLE CHOICES

Social and environmental sustainability are playing an increasingly significant role in our customers' purchase decisions. Systembolaget works, every day and in a variety of ways, to reduce our climate footprint, to save the earth's resources, and to promote social sustainability. We are keen to encourage our customers to make informed choices, and to make these choices easy. Which is why, for example, we offer smaller bottles and drinks with a lower alcohol content. If we are to get to the point where customers are more likely to choose the sustainable range, and where their appreciation of the range increases, we must make information about the range more easily accessible and actively persuade more people to understand why sustainable products are a good choice. This is an ongoing project for us, and one that has been intensified in 2018.

Packaging accounts for one third of Systembolaget's climate footprint and by working in partnership with our customers and suppliers, we have the potential to reduce our climate impact. It is important to our customers that Systembolaget actively works to offer

climate-smart packagings, but an effect survey conducted in the spring of 2018 showed that customers find it hard to actually find these products in store. We need to simplify this process, both by talking about why choosing these products is good, and by making it easier for customers to find them in-store and online.

Key ratios, activities, and results

CSI FOR RANGE AND OFFERING

We monitor how well our range and offering live up to our customers' expectations through our Customer Satisfaction Index surveys, which have shown a steady improvement in recent years, with a new record level of 84.6 achieved in 2018.

The element of the CSI survey that refers specifically to range and offering shows a relatively stable result this year, with a year on year improvement of 0.2 percentage points.

	2018	2017	2016
Customer Satisfaction Index (CSI), Range and offering	80.6	80.4	80.0

We have also seen an improvement of 0.6 percentage points when it comes to the element of the CSI survey that refers to Systembolaget's environment-related sustainability work. This year's level of 73.2 does, however, mean that this parameter is lower than that of the overall sustainability quality area, which also includes human rights. We face an ongoing challenge in that many people are unaware of what Systembolaget is actually doing in the environmental sphere, and this



is reflected in a lower response frequency. And while improving the way in which we conduct environmental work that helps achieve the global goals is vital, we have realised that we also need not only to define our ambitions and goals for reducing our environmental impact more clearly, but to improve the ways in which we communicate what we are doing.

	2018	2017	2016
Customer Satisfaction Index (CSI), Sustainability/Environment	73.2	72.6	71.8

Sustainable supply chain

Why this is important

We have a responsibility, throughout our operations, to minimise our negative impact and maximise our positive impact, whether regarding the environment and climate, or from a social perspective. Systembolaget's sustainability work is based on Agenda 2030 and on the UN's goals for sustainable development. Several of these goals have direct tie-ins with our value chain, including the Climate Action, Decent Work and Economic Growth, and Responsible Consumption and Production. Goal 17, Partnerships for the Goals, relates to the importance of cooperation in achieving

the goals, and is a cornerstone of Systembolaget's sustainability work.

Systembolaget's own materiality analysis, which is conducted annually, is another important basis for our work. The analysis shows the areas in which Systembolaget has the greatest impact, and the issues that are of the greatest importance to the company's external and internal stakeholders.

These two starting points make it clear that both the direct and indirect impact in the supply chain are a key focal area for Systembolaget. We are, accordingly, working systematically to influence and monitor supply chain sustainability in a transparent way. This is not just an important element of our responsibility, it is also a way for us to make an actual difference. This is also an area that is important to our customers.

Systembolaget's operations are global and our supply chain is complex. The majority of our over 700 active drinks suppliers have subcontractors and they, in turn, have subcontractors of their own. A really advanced example of our procurement process can look like this:

1. Systembolaget buys a bottle of wine from a Swedish supplier.
2. The Swedish supplier has imported the wine via a bottling plant in Germany.
3. The bottled wine comes from an Italian company that buys in and blends bulk wines from different producers.
4. The Italian company, in turn, buys wines from two different producers.

5a. One is a corporate group of six wine producers, three of whom produce the wines used in this particular wine.

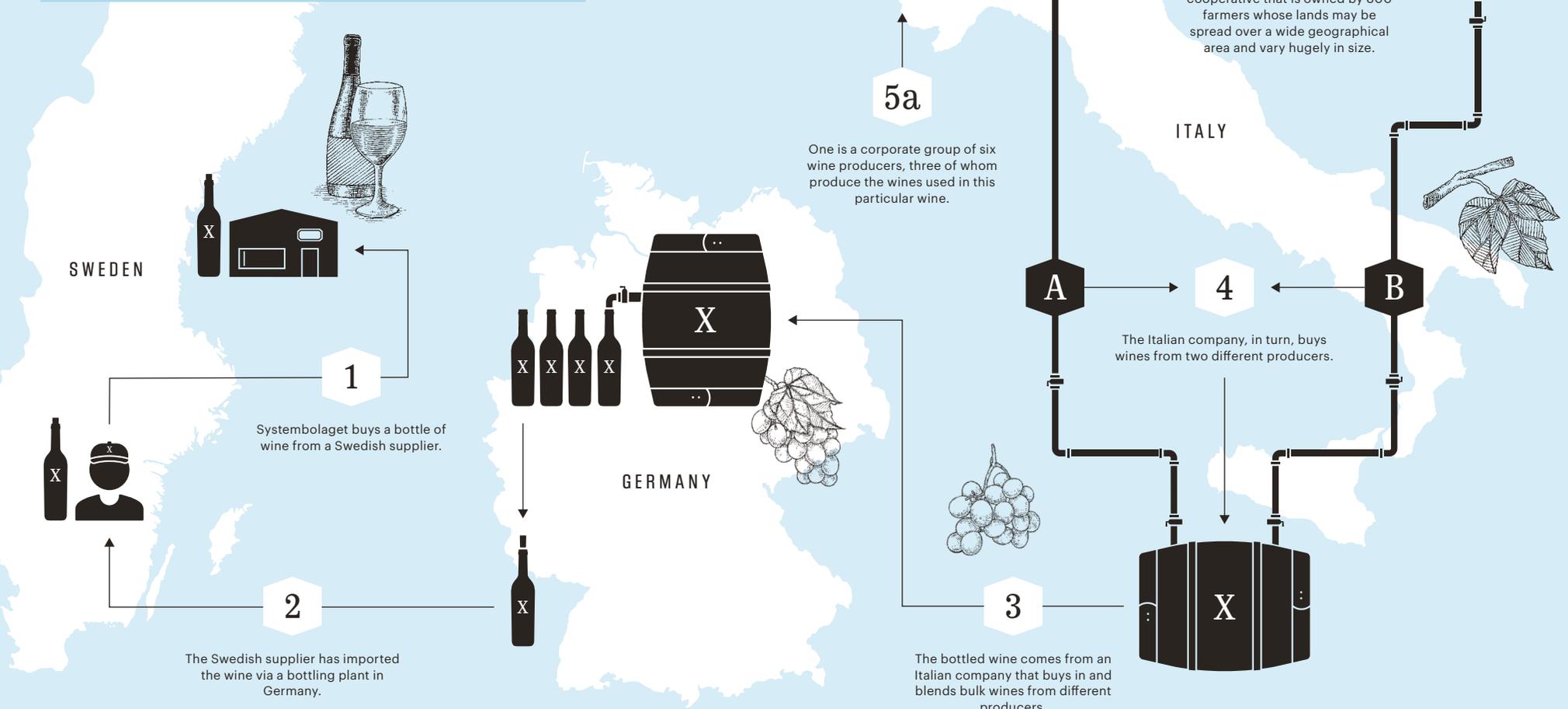
5b. The other is an agricultural cooperative that is owned by 800 farmers whose lands may be spread over a wide geographical area and vary hugely in size.

That takes us all the way from the grape to the glass. The fact that our supply chain is so complex means that we feel an extra responsibility and endeavour to ensure sustainability at every link in the chain. Our goal is to sell high-quality drinks produced under good working conditions by workers with good conditions of employment.



SYSTEMBOLAGET'S SUPPLY CHAIN

Systembolaget's operations are global and our supply chain is complex. The majority of our over 700 active drinks suppliers have subcontractors and they, in turn, have subcontractors of their own. An advanced example of our procurement process can look like this:





Analysis of the risk of human rights breaches

In the autumn of 2018, Systembolaget commissioned Enact to conduct an HRDD (Human Rights Due Diligence) analysis. Enact was tasked with the following:

- To analyse whether and, if so, how Systembolaget contributes within its supply chain, either directly or indirectly, to breaches of human rights.
- To ensure that human rights are handled systematically and proactively in Systembolaget's procurement process and throughout the supply chain.
- To recommend measures that can be taken to ensure that risks in relation to human rights are handled as effectively as possible.

The analysis showed widespread awareness within Systembolaget of issues relating to the ways in which human rights are handled in the supply chain. It also showed that a number of methodologies have already been established and implemented. Policy documents and a long-term strategy are in place, and clear demands are made of suppliers in the general purchasing terms and conditions.

The analysis also showed, however, that several measures should be implemented. The relevant areas with scope for improvement set forth in the report are:

- That Systembolaget's current risk assessment and subsequent follow-up activities are insufficiently comprehensive, which may result in breaches not being identified and/or a failure to action them correctly.

- That human rights requirements should be integrated into the procurement process.
- That additional capacity regarding human rights, both internally and on the part of Systembolaget's suppliers, was recommended.
- That the Code of Conduct drawn up by Systembolaget primarily focuses on working conditions and that it consequently fails to address, with sufficient clarity, operations' effect on human rights and local communities.
- That the Code of Conduct was deemed to be too general to address the specific issues of relevance to raw material production for the drinks industry.

The analysis also resulted in a summary of the breach risks present in Systembolaget's supply chain. The risks are grouped into the following areas: most salient, salient, and less salient. See also the table on page 39.



MOST SALIENT RISKS	SALIENT RISKS	LESS SALIENT RISKS
Modern slavery and exploitation of migrant workers, especially in agricultural production in cross-border areas (such as southern Europe and California)	Excessive overtime	Workers' children – and especially seasonal/migrant workers' children –not attending school
Freedom of association and collective bargaining, overall and especially in relation to informal, seasonal, and migrant work	Precarious employment conditions due to informal, seasonal and migrant work, sometimes through middle men/agents/recruiters and especially in the harvesting of agricultural products	Unemployment due to automation, especially amongst women and African migrant workers in southern Europe
Discrimination based on race, ethnicity, nationality, gender, social origin, political status or any other status, and harassment of low skilled/ precarious workforces	Lack of or substandard housing standards, especially in South Africa	
Use of pesticides/ chemicals and lack of personal protective equipment, especially in the harvesting of agricultural products	Land issues in agricultural production	

MOST CRITICAL RISKS	CRITICAL RISKS	LESS CRITICAL RISKS
Other occupational health and safety risks, such as injuries, physical pain, cancer due to e.g. sun exposure, hearing loss, etc.		
Living wage issues, including bonus payments in wine potentially leading to alcohol abuse		
Use of excessive force by security forces in the protecting of land and/or housing facilities		
Child labour		
Use of water and its impact on local communities, especially in water scarce areas		
Violence and abuse, particularly against women and children in employee families due to alcohol use/abuse		

The analysis will form the basis for the ongoing development of our sustainability work in the supply chain. The summary of the main risks for human rights breaches will, amongst other things, provide support for our work in a range of different forums and networks in which we intend to participate. The summary will also assist us in the structuring of a stronger monitoring and follow-up programme.



Direction and strategic initiatives

Systembolaget's framework for long-term sustainability work is based on the UN's 17 global goals, Agenda 2030. These goals have formed the basis for Systembolaget's adoption of a number of long-term goals for a more sustainable supply chain.

Our goal for 2030, focusing on good working conditions, is to ensure that:

Suppliers take full responsibility for their supply chains, and everyone working in our products' supply chain is working under good conditions.

In the environmental sphere, our goal for 2030 is that: Suppliers take full responsibility for their supply chains and for ensuring that cultivation and production use resources sustainability and are responsible for minimal emissions and discharges to air, soil, and water.

We also have the following overall climate goals that affect different parts of the value chain:

With the help of our customers, and by cooperating with our suppliers and other partners, we have managed to radically reduce the climate impact in our supply chain.

This is an ambitious goal and achieving it will require a great deal of work. Our suppliers' understanding of and responsibility for complying with our purchasing terms' sustainability requirements play a major part in our plan for the future. The suppliers must also be able to demonstrate that they are working systematically on these issues.

FOUR PROCESSES FOR A SUSTAINABLE SUPPLY CHAIN

When drawing up the strategic objective for 2030, we increased the requirements we make of our suppliers and concretised four primary processes for a sustainable supply chain. These processes are structured methodologies that ensure equal treatment, consistency, and traceability. The four processes are: situation analysis, the incident management process, the "at risk" country process, and the "high risk" country process.

Situation analysis – the situation analysis is an assessment of an individual supplier's sustainability maturity. The analysis is also a tool that helps suppliers comply with our purchasing terms and our external Code of Conduct. It also provides feedback on our processes and methodology – painting a clear picture both of areas where we have room to improve and of ways in which we can help our suppliers.

Incident management process – the process describes how we handle incidents at any of our suppliers and their producers, and across all of our ranges. We work in partnership with the IUF (The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations) in order to improve our identification of potential incidents (see page 43 for further information). We also have a search algorithm that uses news monitoring to enable incidents to be identified.

"Risk country" process – the process relates to suppliers and their producers in the Fixed-Fixed Range (FFR*) in Systembolaget's "at risk" countries*. The process includes annual mapping and evaluation of the producers' sustainability maturity, visits to producers,

and systematically targeted audits in areas with the greatest adjudged risk. Audits are conducted by third party auditors who are qualified to carry out audits in accordance with the amfori Business Social Compliance Initiatives (BSCI*) code. The process will, in future, be made comprehensive and include a risk analysis based on human rights. The audit selection process is a sub-process of the primary process.

"High risk country" process – the process relates to suppliers and their producers of all ranges in Systembolaget's "high risk countries". The process includes an annual mapping programme, work with self-assessment forms, and, when necessary BSCI audits.

Our ongoing work places an additional focus on our suppliers, because we believe that we can both extend and deepen our reach by working hand in hand with our suppliers on these issues. Our partnerships with the suppliers include training courses, advisory services, and support. Our goal is for them to be able to carry the work on out to their own producers, farms, and workers, and to thereby support them in taking full responsibility for their link in the supply chain.

In 2018, we also developed our overall risk assessment work by procuring a more comprehensive risk analysis with additional parameters, including ones in the environmental sphere. The orientation of our work going forward will also be based on the HRDD (Human Rights Due Diligence) analysis conducted in 2018 (see also page 38).

We also began work on procuring better system support for increased traceability and simplified administration of the supply chain, and this work will continue in 2019.

**NEW STRATEGIC KEY RATIOS**

The strategic key ratio for suppliers' sustainability maturity that was developed at the end of 2017 was updated in 2018. The update concerned the situation analysis for fixed range suppliers, and now permits suppliers, via questionnaires and meetings, to answer questions about whether they have a designated sustainability manager, whether they conduct an in-house risk assessment of their products, their everyday sustainability work, and the things that they find difficult. The analysis gives us the opportunity to help our suppliers in their ongoing sustainability work by providing advice, training, templates, and tools. The analysis was first conducted in 2017 for suppliers of our Fixed-Fixed Range (FFR) operating in "at risk" countries and suppliers operating in "high risk countries". The survey conducted in 2018 was aimed at all fixed range suppliers. See page 45 for details.

SUPPLY CHAIN REQUIREMENTS

When they accept Systembolaget's purchasing terms, our suppliers undertake to comply with the requirements of our external Code of Conduct and its associated monitoring systems. The Code has formed part of our purchasing terms since 2012 and was developed by the amfori Business Social Compliance Initiative (BSCI), a global, non-profit organisation that works to promote social responsibility in a variety of sectors and which sets requirements for everything from raw materials production to finished products¹⁵. The principle governing compliance with the Code of Conduct means that every supplier is responsible for the working conditions of their respective subcontractors – throughout the supply chain.

The Code of Conduct sets requirements in 11 areas:

1. Freedom of association and collective negotiations

2. Non-discrimination
3. Wages
4. Working hours
5. Health and safety
6. A ban on child labour
7. Protection for young workers
8. Security of employment
9. A ban on forced labour
10. Environmental protection
11. Business ethics

The Code is based on, amongst other things, the following international agreements on working conditions and human rights:

- The UN's Universal Declaration of Human Rights
- The UN's Conventions on the Rights of the Child and on the abolition of all types of discrimination against women
- The ILO's (International Labour Organization) conventions on Fundamental Principles and Rights at Work
- The UN's Global Compact*
- The OECD's guidelines for multinational companies

Systembolaget has a systematic approach to ensuring compliance with the requirements which takes the form of third-party audits, visits to producers by Systembolaget, study trips, and dialogues and collaboration with our suppliers and relevant stakeholders.

RISK ANALYSIS

Systembolaget applies a global "at risk" country analysis from Verisk Maplecroft. The analysis covers all of Systembolaget's purchasing countries – and they are assessed in accordance with a number of parameters which, in turn, reflect the requirements of amfori BSCI's* Code of Conduct. The next stage involves prioritisation. We believe that we can exert the greatest

influence in areas where we are a major purchaser, and we consequently compare the analysis with Systembolaget's sales volumes, where products from our fixed range account for approximately 95 per cent of our total sales volume. We also look at longterm approaches, which was why the Fixed-Fixed Range concept was introduced, and which refers to products that have formed part of our Fixed Range for over 12 months and which are distributed to more than 10 stores. These parameters collectively form the basis for our risk analysis (due diligence) and determine which producers will be systematically audited by Systembolaget.

As things currently stand, therefore, suppliers from countries not classified as "at risk" are never systematically selected for audits as they are eliminated in the first stage of our evaluation model (due diligence). Deviations from Systembolaget's terms naturally primarily occur in "at risk" and "high risk" countries, but deviations do also occur in countries deemed to pose a lower risk. These are picked up in our incident management process (see page 42).

AUDITS

Systembolaget monitors compliance with its Code of Conduct through independent evaluations known as audits. The audits are conducted on site, at the producers or the farms where the raw materials for the drinks are cultivated.

When producers fail to live up to our Code of Conduct requirements

It is relatively common for deviations from the Code of Conduct or purchasing terms to be identified in producers undergoing their first audit. Systembolaget's follow-up process looks like this:



Once the audit report has been published by the third-party auditor, we convene a follow-up meeting with our Swedish supplier at which the deviations identified in the audit report are discussed.

The producer is requested, via our Swedish supplier, to produce an action plan within 60 days. Systembolaget then engages in an ongoing dialogue with our Swedish supplier and provides expert assistance and information to ensure that the action plan is addressed.

A secondary audit is then carried out, no later than one year after the first audit.

If a supplier is in breach of Systembolaget's requirements, we are entitled to terminate the agreement with them, but Systembolaget's goal is to bring about improvement and it is consequently very rare for us to terminate a business relationship as long as we are seeing results from the improvement work and as long as the producer continues to undergo our audits.

The rules governing Systembolaget's audit process include a Zero Tolerance concept. A Zero Tolerance deviation is a deviation that is regarded as unacceptable and classified as a serious breach of contract. A producer who is responsible for this kind of deviation will not be accepted as a producer of any items in Systembolaget's range until the deviation has been permanently rectified.

WORKING WITH INCIDENTS

Systembolaget sometimes receives reports of abuses or shortcomings at producers who are not undergoing an audit process. These reports are known as incidents and trigger Systembolaget's incident management process. This may also happen at producers who are in

the process of being audited, because an audit is just a snapshot.

Systembolaget follows up on reported incidents, wherever they may occur and has an incident management process for reported incidents and which we implement in close consultation with our Swedish suppliers. Our incident management* is global, but the majority of incidents in recent years have occurred in South Africa.

Systembolaget has been working with sustainability issues in South Africa for many years now. In the spring of 2018, we received nine incident reports from there. In August, Systembolaget visited all of the aforementioned producers in South Africa in order to engage in a dialogue on the information we had received. It became clear, during the discussions with the producers, that a good dialogue between employer and employee, and clearer information, are important in making improvements.

Systembolaget must work with all of its suppliers to identify more ways of helping producers to improve conditions for vineyard workers. This summer's workshops organised by Systembolaget, Alko, and Vinmonopolet for trade unions in South Africa, looking at ways they could optimise their contribution to audit processes and the way in which the various codes of conduct are structured, was one such activity.

FOCUS ON ITALY IN 2018

Italian wines account for over 20 per cent of the products in Systembolaget's fixed range. Italy is classed as a country with an elevated risk of breaches of our Code of Conduct, primarily due to the high numbers of migrant workers and high percentages of non-union workers. We have continued to carry out audits and producer

visits during the year, and met with a number of Italian industry and sustainability organisations.

In the spring of 2018, Systembolaget also began a partnership with a local contact person in Italy who has, during the course of the year, coordinated a team with experience of issues relating to social responsibility, working conditions, and the environment in the Italian wine sector. Systembolaget's contact person has been tasked with conducting 96 producer visits in 13 regions and collating information on our behalf. They are also tasked with analysing if there is a need to increase capacity at the producers visited.

In October, we organised a sustainability day in Verona. The aim of the day was to continue the dialogue from 2017 on sustainability in the drinks industry with Italian producers and Swedish suppliers. Systembolaget's corporate management team attended and conducted roundtable discussions with stakeholders in the Italian wine industry. The discussions addressed the challenges involved in tracing grapes' origin, migrant workers' working conditions, and environmental challenges in Italy's wine production.

SUSTAINABILITY PARTNERSHIP

The Nordic alcohol monopolies

Systembolaget cooperates with other Nordic monopolies (within the framework of NAM, The Nordic Alcohol Retail Monopolies) on issues relating to both social and environmental sustainability. We all have the same code of conduct, which is based on amfori BSCI, and we cooperate and share experiences with one another on issues relating to risk analyses, our monitoring work, education activities, and personal learning. Working together on multiple different issues increases our opportunities to influence terms in our various supply chain.



The social responsibility and environmental groups have held regular check-ins and face to face meetings in 2018. The social responsibility group has, amongst other things, held joint meetings with amfori BSCI on education activities for industry operators, and on how the various tools could be better adapted to meet our requirements (see below). The priority area for the environmental group in 2018 was packaging.

In October 2018, we made a joint field trip to Italy to increase our knowledge of specific sustainability challenges there. The monopolies also all took part in Systembolaget's sustainability seminar, which was held in connection with this field trip.

amfori BSCI

Systembolaget has also intensified its involvement with amfori BSCI in the spring of 2018. This intensification has, amongst other things, involved jointly initiating a deeper and more regular dialogue with the other Nordic monopolies, focusing on specific challenges and activities relating to our industry.

This has resulted in a number of measures, such as training in what the Code of Conduct means, and how it should be implemented – in practical terms, for producers in South Africa and Italy in order to achieve better long-term returns on our Code-related work. This training was a contributory factor in the improvement trend apparent in the repeat audits. Efforts to increase the number of accredited auditors in South Africa is another example of the measures taken. Training activities for Nordic importers are now being planned, along with improvements in ongoing communication and knowledge sharing between the monopolies and amfori BSCI.

Over and above this dialogue, representatives from

Systembolaget's sustainable supply chain unit will take part in a number of working groups that will be working to strengthen amfori BSCI's work in the years ahead.

Systembolaget is represented in the following groups:

- Member Advisory Council
- Audit Integrity Programme
- amfori BSCI System Project Group
- Social Issues in the Food Industry Project Group

Ongoing partnership with IUF

In 2017, Systembolaget, in partnership with SPF Unionen (Systembolaget's local union branch) and the Swedish trade union, Unionen, launched a global partnership with the international trade union organisation, IUF (The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations).

The aim of the partnership is to use trade union organisations to improve working conditions in the alcohol industry's supply chain – which includes the people who produce the products and those who cultivate the raw materials for the products that Systembolaget sells. The partnership is keen to promote the opportunity that local trade unions must convey information on abuses directly from employees in the supply chain. In practice, the partnership means that the local trade unions report potential incidents to IUF, who then escalate them to Systembolaget, SPF and Unionen. IUF consequently acts as a link between Systembolaget and a multiplicity of local trade unions, making it easier for the information to reach us. Which improves, in turn, our ability to react to any breaches of our Code of Conduct.

In 2018, the parties involved identified a clear need to provide the local trade unions with information on how

they can use this channel. We also identified challenges in building local confidence in the process and in getting all the parties to communicate within one another within the framework of the partnership. We accordingly visited South Africa in the company of Unionen, SPF and IUF, to meet with trade unions and discuss the partnership. During our stay, we met with representatives of all parties, together with the majority of trade unions and organisations, and presented the process. The partnership was well received for two main reasons. Firstly, the trade unions regarded the reporting channel as a concrete tool that would allow Systembolaget's purchasing power to act as a positive counterweight in challenging situations where the trade unions, themselves, have difficulty in addressing problems with employers. And secondly, the fact that representatives of both employers and employees took part in the meetings generated confidence in the process amongst the trade unions. The presence of Unionen, SPF and IUF enabled a constructive dialogue in which local trade unions and Systembolaget could come together to discuss both problems and solutions.

Global Deal

In 2018, we also signed up for Global Deal*. This is an initiative that aims to improve the dialogue between the labour market's parties and national governments in order to improve employment conditions and productivity. Global Deal was started by Sweden's Prime Minister, Stefan Löfven, and has been structured in cooperation with The Organisation for Economic Cooperation and Development, OECD, and the International Labour Organization, ILO.

Stronger Together

Systembolaget has also, since June 2018, been a member of Stronger Together – an initiative that works to



prevent slavery in supply chains. The initiative is based in the UK, but has a steering group for South Africa, where Systembolaget, Tesco, Waitrose, Vinmonopolet and Alko are amongst the members. Stronger Together offers free training for fruit and wine producers in South Africa, and we encourage all suppliers who have producers there to ask them to take part in the courses offered.

The Drinks Industry Climate Initiative

The UN's Global Goal 17 says that partnerships are a prerequisite of the progress demanded by Agenda 2030. The Drinks Industry Climate Initiative is just such a form of partnership. The initiative was launched in 2016 by Systembolaget, the Swedish Spirits and Wine Suppliers' Association (SVL) and the Swedish Brewers' Association to see how we can work together to benefit the climate. Our ambition, by measuring our carbon dioxide footprints, setting individual and collective goals, and improving and sharing good examples, is for the Initiative's participants to be climate neutral by 2045. Our goal is also to act as a role model for other industries and to realise the Initiative's vision of "A drinks industry with zero climate impact, where every drop counts." Every drinks industry supplier is welcome to join the Initiative.

The Drinks Industry Climate Initiative primarily works with three of the UN's global goals:

- Goal 12 – Responsible consumption and production.
- Goal 13 – Climate action.
- Goal 17 – Partnerships for the goals.

In 2018, the Initiative has collectively procured and developed a tool to enable measurement, monitoring and goal-setting for the participating operators' climate impact.

OTHER MEASURES DURING THE YEAR

Mandatory environmental training for suppliers

In 2016, in partnership with the other Nordic alcohol monopolies, we commissioned an environmental analysis of our drinks' environmental impact, from cultivation to customer, to determine the actual impact of our supply chain on the climate and the environment. The analysis showed that our indirect impact is primarily felt in three areas of the environment: air pollution, climate impact, and biological diversity thanks to increased land usage. The biggest climate impact in our value chain comes from the manufacture of packaging in general and glass in particular. The second largest climate impact comes from cultivation and production.

In 2018, Systembolaget developed a basic online training course based on the environmental analysis. The online training course was launched in September and is mandatory for all suppliers. It is the first step in increasing our understanding of how our specific industry affects the environment and climate. The course is also provided in English to enable the know-how it contains to be more widely dispersed, and thereby influence more people. The aim is for our suppliers to be able to use the course in discussions with their producers.

Sustainability certification review

In late 2018, we began preparing a review of 40 or so different sustainability certifications, in order to exploit and reinforce the sustainability work being carried out at regional and local level by wine, spirits and beer producers in different countries. The aim of the mapping process, which will be launched during the first quarter of 2019, is to achieve a qualitative assessment of different labelling and certification systems, and to evaluate ways of optimising the information usage in future, to reinforce Systembolaget's sustainability-related work

and communication when it comes to our range. The information could, for example, contribute to an overall assessment of sustainability risks and could also be used in conjunction with targeted regional requests for tender and as product information for customers.

Code of Conduct environmental requirements expanded

Systembolaget's Code of Conduct in accordance with amfori BSCI requires producers to, amongst other things, comply with fundamental environmental requirements. We noted, in conjunction with the evaluation of the 2016-2017 audit results, that the existing environmental requirements are, by and large, already being met by producers. We realised that this offered the opportunity to increase our ambition level, so in the autumn of 2018, we began work on expanding the Code of Conduct's environmental requirements in such areas as climate, energy, resources, waste management, and chemicals. The plan is to successively apply and implement this part of the Code of Conduct in partnership with the suppliers and thereby take further, important steps towards the establishment of sustainable supply chains and a sustainable range. Some elements of this work, which will begin in 2019, involve training courses, surveys, and communication and dialogues with producers and cultivators.

Search algorithm picks up incidents

In 2017, Systembolaget launched a search algorithm that will help us identify incidents, even in countries deemed to have a lower risk level. In simple terms, the algorithm picks up online content that would be of interest to us, here at Systembolaget. The idea is that Systembolaget will, for example, be able to find out when a local newspaper in Mexico reports on an incident at a brewery.

**Purchasing policy and terms that increase sustainability**

Systembolaget updated its purchasing policy and purchasing terms in 2017, strengthening and clarifying the sustainability requirements for both Systembolaget and our partners. Our goal was for sustainability work to be fully integrated in the ongoing range and procurement work. We have continued this work in 2018, by holding internal workshops on purchasing and sustainability, and by forging close links between buyers who are working with purchases from “at risk” countries and the Sustainability Manager for the country in question. In 2018, we imposed requirements for 25.3 per cent of the launched volume, and have also introduced expanded checks in conjunction with launches.

Support and training for suppliers

One of the insights gained from last year’s situation analysis was that suppliers wanted support for following up on the requirements to which they were subject. They were, amongst other things, looking to learn about how a risk analysis is conducted and were keen to see more experience sharing with other suppliers.

This past spring, therefore, we held a supplier meeting that included a workshop on supply chain risk analyses. Our suppliers had also expressed a desire for us to enable experience sharing, so we invited suppliers to the meeting to share their experience of how they work, in concrete terms, with risk analyses in their respective links in the supply chain.

Our spirit suppliers have also expressed a desire for a dialogue on the specific sustainability challenges present in the supply chains for their products. Last autumn, therefore, we organised a roundtable discussion for our spirits suppliers. The focus of the discussion was

on jointly creating a more in-depth understanding of these supply chains, enabling improved cooperation on social and environmental sustainability challenges, and thereby enabling compliance with our Code of Conduct requirements. Follow-up work in the form of additional meetings is planned.

The theme of the supplier meetings in October was the climate and environment, with particular emphasis on packaging.

The mandatory online course on climate and environmental issues for suppliers is also part of our efforts to continuously increase our suppliers’ know-how in these areas.

Key ratios, results, and activities

MONITORING SUPPLIERS’ SUSTAINABILITY MATURITY

In 2017, Systembolaget introduced a new strategic key ratio regarding the monitoring of suppliers’ sustainability maturity, and as of 2018, suppliers’ sustainability maturity forms one of the five strategic goals our Board has adopted for sustainable enterprise. A situation analysis that exclusively targeted fixed range suppliers with products from identified “at risk” countries and “high risk countries” was launched in 2017 as part of our monitoring of suppliers’ sustainability maturity.

The situation analysis conducted in 2018 was more comprehensive, and was aimed at all fixed range suppliers, corresponding to a total of 112 drinks suppliers.

All of these suppliers submitted completed surveys in the designated timescale, which is in line with the target figure of 100 in the following table. The suppliers who responded account for 99.6 per cent of our total sales volumes. The table below shows the subsidiary goals between now and 2020. Our overall goal is, by 2020, for all suppliers of the fixed range products to demonstrate a clear understanding of their responsibility in the supply chain and to be working proactively and systematically with their respective producers.

KPIs	Target figure 2018	Target figure 2019	Target figure 2020
“Understanding and responsibility”:			
Percentage (%) of suppliers responding to the situation analysis questionnaire within the designated timeframe	100	100	100
Percentage (%) of suppliers who have completed Systembolaget’s online sustainability course	100	100	100
“Proactive and systematic approach”: Proaktivitet och systematik”:			
Percentage (%) of suppliers who have conducted a risk analysis of their supply chain	50	75	100
Percentage (%) of suppliers who have guidelines or a process in place for regular evaluations of social responsibility in the supply chain	50	75	100



A number of training activities aimed at suppliers were conducted in 2018 in order to support them in their improvement work. The results for 2018 were in line with our “Understanding and responsibility” area’s subsidiary goals, with the target figure of 100 per cent for responses to the questionnaire, together with a 96.5 per cent figure for online training completion. An online training course focusing on the environment was launched in 2018 and was, as with the 2017 course, mandatory for all of our active suppliers, who were required to complete the course by 10 December 2018. By the end of the year, not only had 96.5 per cent of our active drinks suppliers completed the course, but a further 150 new suppliers, too. Measures taken with regard to the just under 10 suppliers who did not complete the course include final request mailshots, and the start of the process of halting purchases of their products.

The responses to the questionnaire show that the target figure of 50 per cent of suppliers who have conducted a risk analysis and who have guidelines or a process in place for regular evaluation of social responsibility was, in principle, achieved for both elements – 56.5 and 47.9 per cent, respectively. Targeted training measures with annual follow-ups will be carried out in order to continue improving the maturity level.

RESULT OF ACTIVITIES LINKED TO A SUSTAINABLE SUPPLY CHAIN

61 producer visits to Italy, Argentina, Austria, Germany, and France were carried out in 2018. The aim of these producer visits is to strengthen Systembolaget’s risk assessment, as a complement to the annual mapping of FFR products from identified “at risk” countries, and are carried out by personnel from the Sustainable Supply Chain unit. A further 30 or so visits were also conducted,

but reports were not filed within the designated time-frame from the end of the year and have consequently been excluded from the year’s statistics.

In 2018, as a complement to the shortage of qualified auditors identified, particularly in South Africa, a clearer focus on training for producers in countries identified as “at risk” was implemented. A total of 37 of Systembolaget’s suppliers’ producers completed a total 126 training courses (modules) in South Africa, Italy, and Argentina in 2018. 15 per cent of our identified “at risk” producers have now completed at least one producer training course (module). The most extensive engagement took place in South Africa.

The sustainability check prior to launch introduced in 2017 has been refined in 2018. A total of 158 items from identified “at risk” countries have been requested for the fixed range by Systembolaget, and have hence undergone the check. All of these identified “at risk” countries have submitted the material requested.

Four of the 158 items from “at risk” countries that qualified for promotion from the available for order range to the fixed range during the year failed to meet the applicable requirements and were consequently not accepted into the fixed range.

AUDIT RESULTS

This key ratio is used to measure the outcome of the audits and to compare the results of original audits with follow-up audits, one year later. This enables us to see whether the producers have improved their working conditions and whether they are working continuously to secure human rights in their supply chain. In 2018, we conducted 85 third party audits in accordance with BSCI 2.0, which is a lower figure than that originally

thought necessary and planned. The shortfall was partly due to the limited availability of auditors, and partly due to Systembolaget having focused on training producers on the import of the Code of Conduct and prioritising developing a clear overview of both the current situation and the requirements in Italy by means of a large number of producer visits (see also page 42).

55 per cent of the producers undergoing an audit programme of more than two audit cycles have demonstrated an improvement, with 19 per cent achieving the highest level (level A) in accordance with amfori’s rating scale. This is the case for the 66 producers and farms that Systembolaget currently has in its range and who have undergone at least two audits.

Unlike last year, no specific incident investigations in the form of so-called targeted audits carried out by a third-party auditor proved necessary. This was due to the fact that the incidents reported during the year related to producers who are already involved in our normal audit programme, or to the fact that the incidents could be handled without the need for external third-party verification. 15 incident reports have been drawn up and handled during the year, in South Africa, Trinidad, Spain, New Zealand, and Mexico, with the vast majority stemming from South Africa. 12 of the incidents could be closed this year. Three of the incidents reported during the year require ongoing follow-up work in 2019. In two of the other incidents reported and closed, the only action needed was to inform the suppliers of the decision to close the incident. In several cases, it became clear that the producer was not, to the best of our knowledge, part of our supply chain and the incidents could be closed directly after internal investigation. This applied to the incident which had primarily been picked up via the search algorithm.



We have, as far as the other incidents are concerned, followed up the respective cases in accordance with the incident management programme.

The summary of the results of completed audits differentiates between significant and less critical deviations. The line between them is drawn on the basis of amfori's regulations.

Based on the amfori BSCI 2.0 Code of Conduct	2018	2017	2016
Number of suppliers participating in an evaluation of social conditions	85	186	55
Number of suppliers with a significantly negative impact on social conditions	42	136	49
Number of suppliers with a less critical negative impact on social conditions	78	182	52
Number of identified significant deviations with regard to social conditions in the supply chain	67.0	317.5	216.0
Number of identified less critical negative deviations with regard to social conditions in the supply chain	472.0	1,827.5	649.5

When we speak of suppliers evaluated, we refer to producers and subcontractors. These may be farmers who cultivate grapes for juice suppliers, etc.

A comparison of the result of normal deviations in the audit programme in 2018 with that in 2015 shows that

a decline to around one third of the original figure in the number of deviations. This shows a considerable, across the board, improvement and that our producers are continuing to work actively with the issues. It is worth noting that the percentage of new audits has declined since 2017 and the number of repeat audits increased. The result indicates that our audit programme is working, because those producers who are the subject of audits are continuously improving and the total number of "negatives" has declined.

Positive improvement areas that stand out from the figures are the improvements in occupational health and safety and the reduction in the number of "negatives" due to child labour. Previous "negatives" were due to producers not having policies and procedures in place, as required in accordance with amfori BSCI's audit programme, but do not mean that child labour was actually occurring. The improvement means that more producers have adopted better policies and procedures that include efforts to counter child labour.

The number of critical deviations noted in an audit has gone from 3.9 in 2015 to an average of 0.8. The trend over the past three years has been sharply downwards, and despite the number of audits in 2018 being lower than in the previous year, this is indicative of a clearly positive trend, with the re-audits showing the improvements being made by the producers. Only one Zero Tolerance (ZT) case was noted in the 2018 audits, and those cases noted in 2017 could be written off. The ZT flag has consequently been removed as a result of an approved action plan that was followed up within the normal re-audit window. Positive improvements have been noted in the areas of verbal abuse and compulsory labour. The largest number of "negatives" we are seeing are still in the areas of working hours, and occu-

pational health and safety. The "negatives" in working hours are largely due to the challenge posed by the limited harvest season.

Sustainable inhouse operations

Why this is important

Awareness of the massive environmental and climate challenges that threaten our future is growing rapidly. And at the same time, expectations that companies and other operators will take greater responsibility and act systematically and purposefully in the context of their own environmental work is also growing. It is, therefore, of the utmost importance that we do what we can to minimise our own environmental and climate footprint, i.e. the impact that comes from the operation of our 443 stores, depots, offices, and other operations. Systembolaget has set ambitious goals in line with, amongst other things, the global goals, the Drinks Industry Climate Initiative, the Government's "Fossil Free Sweden" initiative, and the EU's goal for reducing plastic bag usage.



Direction and strategic initiatives

Systembolaget's strategic climate goal for its own operations is to reduce our carbon dioxide emissions to zero by 2023. To this end, we are implementing a number of energy-saving measures, always procure or demand green electricity for our stores, warehouses, and offices, and are successively shifting entirely to fossil fuel-free vehicles.

Our long-term goal for 2030 also includes drinks transports to and from our stores and warehouses throughout Sweden. These transports currently comprise two main flows: the larger flow involves direct restocking of stores and is handled by our drinks suppliers via a number of distributors. The other, considerably smaller flow is the one we procure in-house in order to distribute goods from the available for order range to agents – and this goes via our own depots. The majority of the drinks transports are currently made by truck. Electrically powered trains are, however, by far the type of land-based transportation that results in the smallest amount of greenhouse gas emissions. Train-based solutions require a different type of logistics system, however, and the longer the routes are, the better they work. We are, therefore, pleased to see that long-distance transports from distributors to the terminals in Sundsvall and points north are increasingly handled by train. Measured in terms of the number of long-distance transports per distributor, approximately 30 per cent are now transported this way, which is twice what the figure was in 2017. We are also aware that our distributors, when it comes to choosing to transport by rail, are experiencing lead-time problems in some cases, and this is something we will be reviewing.

We are, of course, reliant on technological development and on it becoming available sufficiently quickly, when it comes to achieving totally fossil fuel-free drinks transportation. But at the same time, as a major operator, Systembolaget has an important part to play in acting as a driving force and encouraging more fossil fuel-free transport solutions. We also have a responsibility to reduce the total number of transports through efficient logistics solutions.

REDUCING PLASTIC BAG USAGE

We have continued to work to reduce the amount of plastic consumed by Systembolaget in line with the new legislative requirement introduced in 2017 and the action plan we drew up in response. Every year, our customers fill over 120 million baskets in our stores, which translates to a lot of plastic bags. Systembolaget's goal is, by 2020, to reduce our plastic bag sales by 50 per cent from levels prevailing in 2016.

In 2018, we sold 3.5 million fewer plastic bags than in the previous year, and since 2016, our plastic bag sales have reduced by a combined total of 8.3 per cent.

The following measures were amongst those we implemented in 2018 in order to accelerate the rate of change and achieve our goal by 2020:

- We have developed three different repeat use bags in order to be able to offer alternatives to plastic.
- A report showing the reduction in sales of plastic bags in an individual store is available to the store employees in order to increase their sense of engagement.
- We have strengthened our communication about plastic bags in all channels in order to bring about a behavioural change amongst our customers.
- On 1 September 2018, we raised the price of plastic

carrier bags by SEK 0.50 in order to reduce their use and thereby reduce their environmental impact.

We also stopped offering plastic bottle protectors during the year, reducing Systembolaget's plastic consumption by over nine tonnes per year.

Key ratios, results and activities

CARBON DIOXIDE EMISSIONS FROM OUR OWN OPERATIONS

We have reformulated the climate impact key ratio that measures carbon dioxide emissions from our own operations since 2017. The new key ratio includes both direct CO₂ emissions from the company's leased vehicles and estimated indirect CO₂ emissions from the operations' electricity and heating use.

CO₂ emissions from our own operations, total no. tonnes	2018	2017	2016
Electricity consumption	2 196	3 236	3 513
Coolants ¹	0	0	0
Internal trips using leased vehicles	395	347	342
Total CO ₂ emissions	2 591	3 583	3 855
Reduction/increase in tonnes of CO ₂ e in comparison with the previous year	-992		

The base year for our new climate goal is 2016

¹ Reported one year in arrears



The above climate impact is also reported as part of our follow-up work based on the GHG protocol, which we present in greater detail on page 120.

Emissions from our own operations fell by 28 per cent in 2018, and emissions from our electricity consumption also decreased as a result of the efficiency enhancing measures we have initiated. The lower energy consumption figure is also due to the fact that we have been able to verify more stores that use green electricity, which enables us to report more accurately than in previous years. In 2019, we will continue to chart the energy sources used in our facilities and work to introduce climate-friendly alternatives in more stores, in order to cut energy consumption in all of our operating premises. We will continue with both these and other new activities until we reach our goal of zero emissions from our own operations by 2023.

Our reporting cycle for coolant means that we report these figures one year in arrears. Under the provisions of the legislative change that came into force on 1 January 2017, we have seven facilities for which we are obliged to submit reports; two at the head office, our learning centre on Skarpö, and four stores. There was no coolant leakage in 2017, nor have there been any emissions from these facilities.

Emissions from travel in vehicles leased by the company increased by 48 tonnes of CO₂ equivalents between 2017 and 2018. We have identified substantial potential for improvement in this area with regard to choice of fuel and will, therefore, be tightening up our policies and internal rules for vehicles in 2019. Our goal is to have switched to exclusively fossil fuel-free leased vehicles by 2023. This ambition presupposes innovations in the development of fossil fuel-free vehicle fleets. This is an

important trend and one in which we are keen to participate and thereby contribute to a reduction in climate impact.

Ethics and anti-corruption

Why this is important

Systembolaget is obliged to act in a way that is compatible with EU law regulations governing State-owned retail monopolies, and we are keen to be transparent in our dealings with our customers, owners, and suppliers. In brief, this means that in conjunction both with the purchase and sale of alcoholic drinks, we shall act impartially and in a brand-neutral way in accordance with applicable legislation. Acting transparently and in a brand-neutral way is something that is required of us due to our special role and our monopoly. Acting ethically and working to counteract corruption is, furthermore, vital if we are to continue to impress our customers.

Directives and strategic initiatives

Systembolaget works in a committed and structured way to maintain high ethical standards and to counter corruption throughout the value chain. We work to

prevent regulatory breaches by means of established risk assessment processes and with zero tolerance for bribery and other forms of corruption.

We reject any form of direct or indirect attempt to exert improper influence on our employees, either by suppliers or partners. Our ambition, if a regulatory breach nonetheless occurs, is to make reporting it as simple and secure as possible, and to conduct a programme of incident management work that focuses on consequences and change.

Systembolaget has a number of tools for working preventatively with corruption. These tools are presented in brief below.

OUR INTERNAL CODE OF CONDUCT

We have an internal code of conduct for all our employees. The Code of Conduct brings together several of the internal rules and policies that we apply in a single document. It includes, amongst other things, rules governing corruption and impropriety, external contacts, inclusiveness, and conduct in social media.

Our internal Code of Conduct is provided in the form of an e-training course and is mandatory for all new employees. Systembolaget's Board of Directors has also completed the course. The e-learning course will be completed by all managers every other year in order to ensure that the Code of Conduct remains fresh in their memory.

OUR EXTERNAL CODE OF CONDUCT

Systembolaget has an external Code of Conduct drawn up by the BSCI organisation (Business Social Compliance Initiative). The Code imposes requirements in 11 different areas, such as anti-corruption, the work



environment, occupational health and safety, forced labour, working hours, wages and freedom of association, non-discrimination, special protection for young workers, and a ban on child labour.¹⁵

The Code of Conduct is included in Systembolaget's purchasing agreement with all of our suppliers. Every supplier is, furthermore, required to ensure that the Code of Conduct is also applied throughout the supplier's supply chain.

OUR PURCHASING AND EVALUATION PROCESS

Systembolaget has a centralised and transparent purchasing and evaluation process which, in accordance with Systembolaget's Owner's Directive, shall be conducted in an impartial and brand-neutral way. We apply the same terms and negotiate in the same way with all drinks suppliers.

The process is based on:

- **Transparency** – Systembolaget's general purchasing terms for the purchase of alcoholic drinks are the same for all suppliers, are a matter of public record, and are amended in line with previously determined norms.
- **Objectivity** – In Systembolaget's range model, the primary determinant of the items that make up Systembolaget's range is customer demand.
- **Brand neutrality** – the tender tasting procedures carried out by Systembolaget in conjunction with the purchase of alcoholic drinks are conducted completely blind. The people carrying out the testing have no idea which product is contained in which glass.

All of our stores follow our centrally approved display and placement rules.

OUR POLICIES

All of Systembolaget's policies are a matter of public record, and can be viewed at omsystembolaget.se, as part of our efforts to be more transparent.

GDPR

The new personal data legislation, GDPR*, came into force in May 2018. Our focus, during the first part of 2018, was on systemising processes and methodologies to ensure they comply with the legislative requirements. We also conducted classroom-based training courses during this period, and established a network for monitoring issues.

MONITORING ROUTES

Systembolaget gathers reports on suspected improprieties through a number of channels, such as our whistleblowing system and our ethics advisors. All reports on suspected improprieties are collated by our Head of Compliance and Ethics. This gives us a good overview of the incidents and enables potential "patterns" to be detected at an early stage.

Ethics dialogues

The Ethics dialogues offer the opportunity to talk openly about ethical issues that may arise during the course of day-to-day operations, both in interactions with customers and in our work environment. All managers are tasked with holding an Ethics dialogue with their immediate colleagues once a year. The aim is to bolster our ability to act in accordance with Systembolaget's values and to think about issues that seldom have an unambiguous answer.

In the spring of 2018, we began reporting on the implementation of our Ethics dialogues digitally, in order to improve reporting, quantifiability, and monitoring.

In the spring of 2018, over 95 per cent of managers reported that they had conducted an Ethics dialogue with their colleagues.

The Whistleblowing system

Systembolaget has an external whistleblowing system. This channel gives both employees and external parties, such as suppliers, the chance to report Systembolaget employees in senior or key positions who the informant suspects of serious improprieties. Unsatisfactory state of affairs can also be reported here.

Applicable routines state that all whistleblowing reports received shall be categorised and those remaining as whistleblowing shall be reported to the President by the Department Director. The cases are then processed by the Directors, and the Head of Compliance and Ethics is kept updated on a rolling basis.

Around twenty reports were received during the year, but were, it turned out, matters for the HR Department and which were not classified as whistleblowing cases.

Annual reporting

Our Head of Compliance and Ethics compiles and presents an annual report to the Board of Directors, via its ethics and sustainability committee. The aim is to ensure that the Board is familiarised with any incidents and with the compliance work carried out.



Key ratios, results and activities

CONFIRMED INCIDENTS OF CORRUPTION

This key ratio measures incidents where we have discovered breaches by employees of the preventative routines that we have put in place to counter corruption.

Reported incidents of corruption ¹	2018	2017	2016
Total number of confirmed incidents of corruption ¹	5	9	5
Total number of confirmed incidents where employees were subjected to occupational law-related disciplinary measures due to corruption	5	9	5
Number of legal proceedings resolved in a public court of law or administrative court due to incidents of corruption	0	0	0

¹ The key ratio measures incidents where we have discovered breaches by employees of the preventative routines that we have put in place to counter corruption. No incident was sufficiently serious that bribery was suspected. No reports were made to the police and the sanction comprised, instead, disciplinary measures by Systembolaget in its role as an employer – a written reminder.

We have endeavoured, for a number of years now, to create a transparent culture in which improprieties are highlighted and incidents reported. We saw, in 2018 that this work has resulted in a decrease in the number of incidents, and we are now once again at the same level as in 2016. Of the five incidents confirmed in 2018, three involved publication of pictures on Face-

book or Instagram, while the other two related to the application of our internal rules governing sideline occupations and/or product placement. We are aware of the risk of some incidents not being reported, and the fact that incidents do occur shows the importance of ongoing training in and information on our rules and the ethical dilemma if we are to maintain a focus on these issues throughout the organisation.

MEASURES TO STRENGTHEN OUR ANTI-CORRUPTION WORK

In 2017, we carried out an anti-corruption survey of Systembolaget’s 100 biggest suppliers and all TRLS suppliers (Temporary Range Local and Small scale). The survey showed that we are not getting our message across to our smaller suppliers in the same way as to our larger ones. The smaller suppliers are generally less familiar with our purchasing policy and our external code of conduct.

We carried out a number of activities targeting smaller suppliers in 2018 in order to address this issue. We have held several information meetings with smaller suppliers across Sweden, both in groups and as individual producer meetings, and made more study visits to our smaller suppliers.

We have also clarified the rules governing procurement and supplier contacts in other channels, such as the Supplier Portal and our intranet, and spotlighted the whistleblowing function. We have also – in order to facilitate monitoring – encouraged our stores to report incidents via our internal incident management system, when necessary.



STRATEGIC SHIFT 2:

Increase awareness of alcohol's risks and why Systembolaget exists

Alcohol is not like other products. It can cause harm, not just to individual drinkers, but also to their nearest and dearest, and to society at large.

The goal of the Swedish alcohol policy, which is set by Parliament, is to reduce the total consumption of alcohol. Which is also why Systembolaget exists – if sales of alcohol are made without any attempt at profit maximisation*, alcohol-related problems are reduced.

Our information mandate is important in giving people a realistic picture of the risks potentially entailed in alcohol consumption. Many people currently regard alcohol consumption – and beer and wine consumption, in particular – as non-problematic. 83 per cent of our customers do not think they have any problems at all with alcohol. This despite the fact that, according to “Allmänheten om inställning till alkohol och monopol mm”, Novus, 2015” (Public attitudes to alcohol and the monopoly, et cetera), almost one million Swedes are consuming alcohol at hazardous levels.



Guideline sustainability goals



It is our hope that by increasing awareness of the risks associated with alcohol, we can help achieve the UN's Global goal 3, Good Health and Well-Being, which includes limiting harmful alcohol use and second-hand harm.

The benefits of Systembolaget

Why this is important

The more alcohol people drink in a society, the greater the problems in the form of accidents, violence and disease.¹¹

The social problems in society affect not just those who drink but those around them as well – such as all of the children who grow up in families where one or both parents drink to excess.

According to the World Health Organization (WHO), the three most effective tools for limiting alcohol consumption* are regulating availability, pricing, and marketing.¹⁶ Without these types of regulation, we would drink more, and the harm caused would increase dramatically. A study has calculated that if alcohol were sold in ordinary stores, there would be 29,000 more cases of violence per year in Sweden and up to 1,400 more alcohol-related deaths.¹¹

This is the background to Systembolaget's clear social mandate: to engage responsibly, and with a high standard of service, in the retail sales of spirits, wines and strong beers, and to inform people about the harmful effects of alcohol. The latter task requires research, a clear programme of information work, and an ongoing dialogue with different parts of society.

Four out of every five Swedes currently support the retention of Systembolaget's monopoly. Our customers believe that Systembolaget makes a difference and that our monopoly results in fewer people being harmed by alcohol. At the same time, however, our monopoly is being challenged by e-commerce, for example, and the debate on whether so-called farm sales* should be allowed. Which is why we need to continue developing and improving our offering, wherever the customer chooses to interact with us. It is also important that we have consistent and cohesive legislation adapted to contemporary society and which enables close supervision.

Direction and strategic initiatives

We are working in a number of ways to generate greater social benefit from the monopoly, including targeted communication campaigns, tools to enable people to take informed decisions, and a range of different collaborative efforts.

WORKING TO PREVENT ILLICIT RESUPPLY

A young, growing body is more affected by alcohol than an adult one. Young people are, furthermore, more likely to expose themselves to risk and hazardous situations, in addition to which it has been scientifically proven that people who started drinking at a young age are more likely to develop problems with alcohol later in life.¹⁷ This is why our countering illicit resupply work is so important.

Walpurgis Night, Midsummer, and the final day of the school year are all examples of the sort of high days



and holidays when many young people make their alcohol debut.¹⁸ Which is why Systembolaget runs specific campaigns at these times, countering illicit resupply, in order to increase awareness of the risks of buying alcohol for others.

We continued our communication work on the theme of countering illicit resupply in 2018 in the form of, amongst other things, native advertising* and partnerships with influencers*. We have, for example, run a campaign with YouTube profiles who have made personal films. The message of the films was not to buy alcohol for anyone who is under 20 years of age.

We have also tried new methods of reaching our target group of young adults, such as launching the “Bad News filter”, which is an image filter on the Snapchat social media platform. The filter helps people who refuse to buy be perceived in a positive light and as considerate by their younger siblings/friends. It was launched to coincide with the end of the school year and was spread via advertisements on platforms where young adults are found, such as Facebook, Instagram, Snapchat and YouTube – and in partnership with influencers.

ENGAGEMENT IN THE CUSTOMER INTERACTION

Every interaction with a customer here at Systembolaget gives us the opportunity to inspire people to consume more mindfully. We use our range, the customer interaction, and communication to increase people’s knowledge of the choices available to them. Last year, for example, we launched the Drinks Planner at systembolaget.se. Its primary purpose is to make it easier for the customer to calculate the amount of drink provided at larger dinners and events, so that the customer does not need to buy extra “for safety’s sake”. The service is

now used regularly by our customers.

Our “changed my mind” trolleys at checkouts were rolled out in all of our stores in 2018, with the aim of making it easy for customers to return goods that they no longer wish to buy. Changing your mind should be easy. The “changed my mind” trolley is a concrete example of how Systembolaget does not attempt to maximise either its sales or its profits.

NEW COMMUNICATION STRATEGY

In a world in which it is becoming increasingly difficult to cut through the information overload, we identified the need to create a new communication strategy – not just to reach out to people, but to reach in to them, too. In concrete terms, it’s about our desire to generate greater engagement with the alcohol issue.

We endeavour to be perceived as “The world’s most considerate specialist retailer” in everything we do. The starting gun for our efforts was fired in the form of a new film, “Things we do out of consideration”, which was launched in the spring of 2018 on TV, in cinemas, and in digital channels. The aim of the film was to remind people that we all do things out of consideration for one another. And that one way of showing consideration was to support the idea behind Systembolaget, because research shows that our monopoly helps ensure fewer people are harmed by alcohol.

ONE WEBSITE BECOMES TWO

We have two different websites – one that is store-orientated and focuses on our products, and one that is about Systembolaget’s mandate and operations – in order to make life easier for our customers and other stakeholders. Our omsystembolaget.se website was launched in February 2018 and offers no means what-

soever to order or buy alcohol. We use this website to communicate with all of our target groups and to provide a one-stop shop for information on our mandate, the harmful effects of alcohol, sustainability, the employer brand, alcohol research, and anti-illegal resupply communication.

NEW PARTNERSHIPS

In 2018, Sweden’s Parliament decided to incorporate the UN Convention on the Rights of the Child into Swedish law. The principles stating that children’s rights and what is best for the child should be expressed will play a central role in decision-making processes that relate to children. It will, in particular, make a difference for vulnerable children.

Systembolaget is keen to generate greater engagement in the alcohol issue in general, and, in particular, on behalf of children who suffer as a result of adults’ drinking.

Systembolaget, in line with our vision of a society in which no one is harmed by alcohol, has been working with IQ during the year to build a partnership with BRIS (Children’s Rights in Society), Trygga Barnen (the Safe Kids Foundation), Maskrosbarn (the Dandelion Kids organisation) and the World Childhood Foundation. These are all children’s rights organisations whose work focuses on children in a variety of ways, and on situations where alcohol often poses a problem in the children’s daily lives.

The aim of Systembolaget’s new partnership is, by means of increased engagement with society, to improve conditions for children suffering as a result of someone else’s alcohol consumption. We also want to work proactively to persuade more parents and adults



to think about alcohol and children, and about their own habits. This past year has seen Systembolaget and our partner organisations focusing on identifying ways in which we can work together.

Increased social dialogue

Why this is important

If Systembolaget is to increase awareness of the harmful effects of alcohol and why Systembolaget exists, an effective social dialogue is a must. Systembolaget has an information provision mandate that we take very seriously indeed. We are, at the same time, keen to learn how politicians, influencers, and the Swedish public view topical alcohol issues, and Systembolaget consequently conducts an active programme of dialogue, both inside and outside Sweden.

Direction and strategic initiatives

Our efforts to enhance social dialogue are more about creating a dialogue than about simply providing information. As part of our work and implementation of our mandate, we organise seminars and discussions, and work in a variety of ways to inform and listen to decision-makers and people who mould public opinion.

POLITICAL DIALOGUE

Systembolaget attended several national political parties' major events in the capacity of an exhibitor in 2018. We addressed issues such as Systembolaget's range, with the focus on our local and small-scale producer range. Other issues discussed were our plans for new store openings, our opening hours, our selling rules, our social responsibility, and our efforts to counter illegal resale.

During the Almedalen Week, Systembolaget, the Swedish Brewers' Association, and the Swedish Spirits and Wine Suppliers' Association (SVL) held a seminar on "going to Systemet" in 2030. The panellists discussed how Systembolaget should develop to ensure it continues to live up to our customers' substantial expectations with regard to social responsibility, service, and range. Other subjects discussed included our impending store opening plans, our opening hours, our selling rules, our social responsibility, and our efforts to counter illegal resupply.

Parliament took a decision on farm sales in the spring. A majority of MPs supported an acknowledgement that Systembolaget's monopoly should be protected, but that combining it with farm sales, if possible, would be desirable.

Systembolaget also held a roundtable discussion on mental illness. The discussions took as their starting point the Alcohol Report*, whose theme for 2018 was passive drinking and mental illness.² We also, together with the Swedish Spirits and Wine Suppliers' Association (SVL) and the Swedish Brewers' Association, organised a seminar entitled "From jamming on the brakes to cooperation" – a seminar that focused on climate partnerships in the grocery retail sector.

Systembolaget offers politicians with an interest in public health policy and related issues in-store work experience. Over the past year, both local politicians and MPs have done work experience in our stores throughout Sweden. Giving them practical experience of different aspects of work in a Systembolaget store gives them a reality-based and concrete means of seeing what our employees experience on a day-to-day basis, and thereby enables a more informed dialogue about our operations and the benefits of Systembolaget.

INTERNATIONAL COLLABORATION

Systembolaget has an ongoing dialogue with other Nordic alcohol monopolies, and monopolies in the USA and Canada, on issues of common interest, such as sustainability in the supply chain and quality assuring our drinks. We have established several working groups to address a range of issues, and meet regularly.

The most recent meeting between the Nordic monopolies was held on Skarpö in September 2018 in conjunction with Systembolaget's annual alcohol research conference.

Systembolaget also conducts an ongoing dialogue with stakeholders and operators at EU level. One issue that we are monitoring with considerable interest is the European Commission's demand for lists of contents on beer, wine, and spirits.

ALCOHOL RESEARCH SEMINARS

Systembolaget organises open, free of charge seminars on a variety of themes throughout Sweden every year. The aim is to disseminate knowledge amongst everyone with an interest, whether personal or professional, in alcohol research and the role of alcohol in society.



In early 2018, we held seminars in Örebro and Luleå on the theme of the 2017 Alcohol Report – Alcohol, parents, and children¹⁹. A seminar entitled “Alcohol at work – who’s responsible?” was also held in cooperation with the Center for Education and Research on Addiction (CERA) at Gothenburg University. We have also held seminars on alcohol, mental illness, and passive drinking in Östersund during the year.

Tools that help increase mindfulness

Why this is important

Drinking alcohol can be harmful, both for the individual drinker and for the people around them. If the risks are to be reduced, our customers need both information and opportunities for mindfulness. Which is why developing tools that can inform and help increase mindfulness is an important part of Systembolaget’s mandate.

Direction and strategic initiatives

Systembolaget and our independent subsidiary company, IQ, work in a number of ways to increase our customers’ mindfulness. IQ’s mandate is to promote a smarter approach to alcohol, and they work, via know-how and communication, to create awareness, mindful-

ness and engagement in alcohol consumption – both one’s own and other people’s.

The best chance of getting this type of message across is in settings in which people come into contact with alcohol in one way or another. Which is why IQ is developing digital and analogue tools that can reach people in specific situations. IQ has worked with a number of initiatives during the year – see below for a few examples.

THE TEENAGE PHRASEBOOK

The Teenage Phrasebook handbook offers facts and tips for parents of teenagers²⁰. The aim of the handbook is to make conversations about alcohol between parents and teenagers easier and, hopefully, help postpone their alcohol debuts. The book is sent to all legal guardians of children who have their 14th birthdays during the year, in time for Walpurgis Night and the end of the school year. The 2018 evaluation showed that 6 out every 10 parents who received The Teenage Phrasebook had discussed its contents with their teenager, and that 85 per cent had saved the book.

The Teenage Phrasebook is also published online, in both Swedish and English, and is available as an audiobook at tonårsparlören.se. 75,000 copies of the booklets were also handed out at Systembolaget’s stores during the year.

Inspiration meetings have been held in cooperation with Sweden’s county councils, who coordinate alcohol-prevention measures in the country’s municipalities, in order to inspire further activities based on The Teenage Phrasebook. IQ has also organised workshops during the course of four meetings that brought together municipalities from across Sweden in 2018.

IQ also produces information material based on The Teenage Phrasebook in order to support people working with local, alcohol-prevention measures. A brochure entitled “Alcohol and Teenagers” is one example of this and is aimed at parents who have recently arrived in Sweden, providing information and tips in a range of languages. An evaluation of people working with alcohol prevention and integration in 2018 showed that there is a real need for this type of material, and 8 out of 10 had already spread or were planning to spread the brochure within their county or municipality.

“FOTBOLL UTAN FYLLA” [SOBER FOOTBALL]

IQ has continued to work on its collaborative project, “Fotboll utan Fylla” [Sober Football] in 2018, working in partnership with, amongst others, STAD (Stockholm prevents alcohol and drug problems), Swedish premier league football clubs, the police, and sports arenas. The focus of this year’s projects has been on drawing up a methodology manual and starting to disseminate the method amongst more of Sweden’s football clubs.

Sweden’s biggest PR competition, Spinn, awarded two golds to the campaign work, one for Social Information Campaign of the Year, and one for Integrated Campaign of the Year.

IQ INSPIRERS

IQ inspirers works to increase local engagement in alcohol issues, and to spread good examples of alcohol-prevention measures. The IQ inspirers are Systembolaget employees who, over and above their in-store roles, have taken on the role of IQ inspirer.

IQ’S NETWORK MEETINGS

In the autumn of 2018, IQ organised inspiration meetings on the theme of alcohol and sport in six



towns across Sweden (Gothenburg, Luleå, Malmö, Norrköping, Stockholm and Sundsvall). The aim of the meetings was to build a local network of people engaged in preventing the harmful effects of alcohol. The meetings discussed attitudes towards alcohol in sport and ways of helping bring about a change at both local and national level. In the run up to the meetings, IQ produced a new version of the “Leader Check” brochure, which is designed to support sports leaders on alcohol-related issues.

IQ’S DIGITAL STRATEGY AND NEW WEBSITE

IQ developed a new digital strategy in 2017, based on the changing media landscape. The aim of the new strategy is for communication to be increasingly driven by engagement and behavioural change by making more individualised use of digital solutions, for example.

IQ’s new website, which was launched in 2018 is target group- and mobile-friendly, and focuses on providing tips and support for the visitor. People who are thinking about their own or someone else’s alcohol consumption, and parents of teenage children, will receive clear advice. The tips and support will address such issues as how to drink smarter, or how to talk to someone you’re worried about.

IQ BOTTLER

The Bottler chat bot was initially launched in the autumn of 2017 and then relaunched in 2018 with new functionality and tonality. The aim of Bottler is to help bring about a smarter way to party for students and to inspire them to think about their own and other people’s alcohol consumption. Bottler offers support, advice, and reminders before, during and after the party. It helps users set their own drinking goals and gives them tips

on where to turn if they are worried about themselves or a friend. To date, just over 18,000 students have used the chat bot, with 60 per cent of users male and 40 per cent female. 70 per cent of users are aged between 18 and 24, and almost 8 out of every 10 estimate that they drink four standard glasses or more during the course of an evening’s partying.

IQ’S SOCIAL MEDIA CHANNEL WORK TO COUNTER ILLEGAL RESUPPLY

In 2018, IQ launched a programme that aims to put a stop to the widespread illegal resupply to young people that occurs with the help of social media channels. IQ reported a number of the major illegal resupply accounts on Instagram to the police in the spring. IQ also launched a media campaign, aimed at parents, drawing their attention to the phenomenon, and started a dialogue with Facebook on how these accounts can be restricted on an ongoing basis. IQ was also a co-organiser of an event on Facebook where influencers were given tips and advice on their behaviour on social media – both to ensure they comply with legal requirements and to act as a role models, particularly when it comes to alcohol.

ALCOHOL INDEX

Swedes’ attitudes to alcohol are an important issue for Systembolaget and IQ. The Alcohol Index* is a strategically important key ratio and gives a combined measurement of people’s attitudes to alcohol in different situations. The Alcohol Index is generated from responses to nine questions asking what people see as right or wrong when it comes to alcohol. The lower the index value, the more permissive the attitude to alcohol.

The data gathering is carried out by Novus and com-

missioned by IQ, and the questions are put once a year to people aged 16 and above. The number of Alcohol Index subjects doubled in 2018 to 4,000, and the results for the year show a continuing trend towards a more permissive attitude to alcohol.

	2018	2017	2016
Alcohol Index	61.4	62.0	62.6

With an alcohol index of 61.4, this year’s value is the lowest since measurements began in 2010. The trend towards a more permissive attitude is driven primarily by women aged between 45 and 59, whose attitudes have shown the biggest change since 2017.

Workday Index

The Workday Index shows the public’s attitude towards so-called workday drinking. The 2018 index shows a gentle decline towards a more permissive attitude towards drinking wine or beer on weekdays.

	2018	2017	2016
Weekday Index	55.0	56.4	55.4

THE MONITORING SURVEY – ALCOHOL CONSUMPTION IN SWEDEN

Systembolaget is tasked by the Government with conducting annual measurements of the total volume of alcohol consumed in Sweden. The Monitoring Survey¹ is conducted by the Swedish Council for Information on Alcohol and Other Drugs (CAN) and entails complemented registered sales of alcohol in Sweden with other, unregistered acquisition sources. The survey is conducted on a rolling basis throughout the year by means of interviews with just over 18,000 people, and



is reported one year in arrears in the Responsibility Report.

The results of the 2017 Monitoring Survey were published in September 2018¹. The survey showed that alcohol consumption in Sweden in 2017 is almost identical to the previous year, at 9.0 litres per head of population aged 15 and above. Imports by travellers did, however, increase, while purchases of smuggled alcohol decreased in comparison with 2016. Systembolaget accounted for 62.8 per cent of sales of the alcohol consumed in 2017, with restaurants accounting for 10.2 per cent and cans of medium-strength beer from grocery stores accounting for 5.3 per cent. The remaining sales comprised unregistered sales, with imports by travellers accounting for 13.5 per cent of the total, smuggled alcohol for 4.6 per cent, home-produced alcohol for 2.3 per cent, and online purchases for 1.3 per cent.

41.7 per cent of the alcohol consumed was wine. Strong beer accounted for 30.9 per cent, spirits for 20.5 per cent, medium-strength beer for 5.3 per cent, and cider for 1.6 per cent.

Total alcohol consumption in Sweden has declined by 8 per cent between 2008 and 2017.

Young people aged between 17 and 19 were also interviewed within the framework of the Monitor Survey, asking them whether they had personally bought alcohol at Systembolaget. Since the question was introduced in 2014, virtually no one (0.1%) under the age of 20 has admitted buying alcohol at Systembolaget during the previous 30 days.

Preliminary figures from CAN for 2018 indicate that

total alcohol consumption in Sweden fell by approximately 2 per cent, imports by travellers declined, and Systembolaget's share of sales increased by just under 3 per cent, year on year. The 2018 report will be published in March 2019.

Research and facts

Why this is important

Alcohol research is of great importance to the entire range of Systembolaget's operations. It results in a greater insight into one of our biggest public health problems and of the ways in which this problem can be reduced and supporting alcohol research is consequently an important part of Systembolaget's mandate.

Direction and strategic initiatives

Systembolaget has reinforced and intensified its work with alcohol research in 2018.

The independent Alcohol Research Council is an important player in Systembolaget's research work. Systembolaget subsidises research work, but it is the Council that decides which research projects that will receive the funding. The Council finances or partially finances a number of scientific studies every year in the areas of medicine, and social and public health. Special priority is given to preventative work in relation to

alcohol-induced harm. In 2018, the Council comprised 15 members – nine researchers and 6 societal representatives.

The total research subsidy for 2018 was SEK 10 million. SEK 3 million of this was earmarked for research into two focus areas, namely hazardous consumption by parents of small children, and young people's alcohol consumption. SEK 6 million was freely allocated to alcohol-related research, and SEK 1 million was earmarked for applications from recent doctoral graduates.

In the 2017 round of applications, 47 of the 73 applications received were approved. In 2018, a project catalogue containing brief descriptions of all of the projects granting funding in the most recent round was produced.

ANNUAL ALCOHOL RESEARCH CONFERENCE

Systembolaget organises an annual, two-day conference on alcohol research. The conference's target groups are researchers, civil servants, and civil society, and this year's conference brought together just over 80 delegates.

A special focus on junior researchers in the Nordic region was announced at the conference. The aim is to stimulate interest in the field of alcohol research amongst younger people working in the field.

TARGETED RESEARCH PROGRAMMES

In 2017, alcohol researchers from the Swedish Council for Information on Alcohol and Other Drugs (CAN) completed a study of Systembolaget's home deliveries. The researchers spent the spring tracking home delivery customers' alcohol consumption in order to investigate whether Systembolaget's home deliveries resulted in



any increase in consumption, or in an increase in hazardous consumption levels. The study established that there was no increase on either front.

In 2018, Senior Lecturer Peter Larm at Mälardalen University, produced a summary of scientific studies published from 2010 onwards that illustrated the societal costs of alcohol abuse. The summary is the first stage in a larger study of the societal costs of alcohol that Systembolaget intends to carry out.

PRIZES AND GRANTS

Systembolaget awards an Achievement Prize every year to reward leading researchers who have contributed new know-how in the field of alcohol research. The 2018 prize was awarded to Sven Andréasson, a Professor of Social Medicine at the Karolinska Institute. Prof. Andréasson received the prize for his systematic and expert socio-scientific research into alcohol and for the importance of the research findings to a restrictive alcohol policy in Sweden.

Systembolaget's research stipend for junior researchers was awarded to social scientist, Jonas Raninen, who works at the Swedish Council for Information on Alcohol and Other Drugs (CAN). He received the prize for his research into factors affecting changes in drinking habits.

Systembolaget also awards the annual Bertil Göransson travel grant to junior researchers. The 2018 grant was awarded to Karin Boson, a psychologist and Ph.D. student at Gothenburg University who is conducting research into the ways in which mental health in young people can be affected by personality in conjunction with an early alcohol debut.

Key ratios, results and activities

Systembolaget sets goals for and follows up on several key ratios linked to our purpose of limiting the harmful effects of alcohol. We are, however, aware that we are only one of the many factors that affect the results. The Opinion Index* and Proof of Age Checks key ratios are two strategic key ratios that indicate how well we are fulfilling our mandate: to engage, through a monopoly, responsibly and with a high standard of service, in the retail sales of alcoholic beverages, and to inform people about the harmful effects of alcohol.

OPINION INDEX – OPI

A positive attitude towards Systembolaget on the part of the population of Sweden is important in terms of our ability to carry out our mandate in the long term, which is why we measure the percentage of Swedes who wish to retain Systembolaget and the monopoly on sales of strong beer, wines and spirits on a rolling basis through our Opinion Index. Every month, a nationally representative selection of 750 people aged 15 and above are asked, via Kantar SIFO, "Do you think that Systembolaget and the monopoly on the sale of strong beer, wine and spirits should be retained, or would you prefer strong beer, wine and spirits to be sold in other stores". A total of 9,000 interviews are conducted every year (no interviews conducted during the holiday month of July, 1,500 interviews conducted in August). The OPI is reported quarterly.

Opinion Index (OPI)	2018	2017	2016
%	76.5	76.9	76.2

The 2018 figure for those wishing to retain Systembolaget's monopoly is 76.5 per cent, which is on a par with the figure for the previous year (76.9%), and corresponds to a qualified majority in favour of Systembolaget's monopoly. The 2018 result did not, however, quite achieve the record high listing reported in 2017, but is close to our goal for 2018 of 77 per cent. The percentage of people who do want strong beer, wine, and spirits to be sold in other stores has decreased to 18.4 per cent (-0.3%), while the percentage who did not express an opinion increased to 5.0 per cent (+0.6%).

The results show that, as was previously the case, support for the monopoly is stronger amongst women than men, in those aged 65+, and in those with tertiary education. The downturn during the year is not significant, but does show the importance of continuing to remind people that limiting the availability of alcohol helps improve public health.

PROOF OF AGE CHECKS

Systembolaget does not sell to anyone under the age of 20, to anyone who is visibly intoxicated, or to anyone we suspect of illicit resupply. Control purchases are carried out every year by "mystery shoppers" aged between 20 and 24 to ensure that we are complying with these selling rules. 5,884 control purchases were carried out in stores in 2018, and proof of age was requested in 95.6 per cent of the control purchases carried out, which is in line with the results last year.



Proof of age checks	2018	2017	2016
%	95.6	95.6	95.7

The results show that the percentage of approved test purchases continues to be high and just under the target figure of 96 per cent. The results for proof of age checks in stores has remained stable at this level for the past five years. Higher proof of age check figures were reported during the warm summer of 2018 than for the same periods in 2017 and 2016, despite the stores being very busy. The number of proof of age checks for the 20–21 age group also continued to increase, and we achieved our target figure for 21 year olds of 98 per cent. The number of approved proof of age checks in the 20-year old age group was 97 per cent, however, which is below the target figure of 99 per cent. We will continue to work systematically with day-to-day learning, informal training by colleagues, and formal training courses, to develop our proof of age checks and get closer to our target figure. Our success in this area is monitored continuously through our proof of age check surveys.



STRATEGIC SHIFT 3:

Creating optimum conditions for achieving our goals

Achieving Systembolaget's ambitious goals in the areas of service, sharing our expertise, and sustainability means we must create optimum conditions for all of our employees. A good working environment, a corporate culture of which we can all be proud, and processes and structures that help develop and support our operations, are all key to our success in achieving our purpose – reducing the harmful effects of alcohol.

Securing the talent pool at Systembolaget is a natural part of our efforts to achieve our goals. The ability to interpret future skill requirements and tomorrow's labour market is key to our ability to create these optimum conditions. The definition of skills – and the ways in which people will work in future – are changing quickly nowadays, and we must keep pace with developments in this area if we are to continue to be an attractive employer.

Systembolaget is not a company that attempts to maximise its profits. Running Systembolaget in a resource-smart way – both cost-effectively and sustainably, in other words – is, however, an important part of what we do. Because doing this gives us the scope to invest more in creating the conditions under which we can achieve our goals. We must be a role model when it comes to sustainable enterprise. This means that we shall conduct our operations in a sustainable, transparent, and ethical manner, and that we shall make the most of opportunities to create sustainable value and new, innovative business models. This new approach is vital if we, as a society, are to meet the substantial sustainability challenges that the world now faces.



Guideline sustainability goals



Systembolaget shall, in line with the UN's global goals of promoting gender equality and reducing inequality, be an employer that offers good performance environments, in which all of our employees can truly come into their own, make a difference, and feel good. We are also keen to help create a sustainable and equal society by creating job opportunities for people who are currently excluded from the labour market.

Securing the talent pool

Why this is important

Impressed customers are vital if we are to retain our monopoly and be able to fulfil our mandate. And one of the keys to continuing to impress our customers is the expertise of Systembolaget's employees.

Securing the talent pool primarily means two things for us: finding the right people for us, as a company, in conjunction with new recruitments, and ensuring that our existing personnel are happy in their jobs. Being a good employer lies at the heart of our ability to attract, develop, and retain the expertise we need to impress our customers.

Direction and strategic initiatives

We believe that ensuring engaged employees is difficult without good management, so Systembolaget has been working for many years now to develop a management structure tasked with creating optimum conditions that allow all of our 5,000 employees to do their jobs well and achieve their goals.

LEADERSHIP AT SYSTEMBOLAGET

Leadership within Systembolaget is based on the core belief that every individual shall be encouraged to max-

imise their potential to enable them, in turn, to help others maximise their potential. Managers are responsible for creating conditions for learning and development by their colleagues.

We have implemented a number of activities during the year with the aim of strengthening and developing our managers:

- We have improved our introductory operational training for newly appointed store managers in the form of an introduction course lasting approximately six weeks.
- One of this year's management meetings focused on developing Area Managers' and Unit Managers' familiarity with both the new range framework and personal development in a management context.
- We have also implemented a talent-spotting programme for potential Area Managers.
- The majority of the head office personnel have completed a course in personal leadership. The course will be further developed and extended in 2019.
- We brought all of our 550 or so managers together for a management meeting over the course of two days in April. The aim was to create the preconditions for realising our strategic plan. A number of subjects were discussed, including inclusiveness and diversity, Agenda 2030, our climate and environmental impact, digitisation, food and drink know-how, as well as personal leadership.

"KRAFTEN I 5 000" EMPLOYEES

The "Kraften i 5 000" [The strength of 5,000] employees are Systembolaget's engine and direction in the current strategic period. This is a strategic approach that addresses how we want to bring about improvement in both Systembolaget and everyone who works here. Our aim, through the strength of 5,000 employees, is to achieve an increased engagement and sense



of participation, an increased group efficiency, and stronger personal leadership.

We follow up on these goals by means of, amongst other things, our Agerus employee satisfaction survey every autumn. See page 65 for this year's results.

BETTER TOGETHER

The ability to work across borders is becoming increasingly important in meeting our customers' needs in a world that is changing faster and faster. To this end, 2018 saw us working to develop our ability to work together, as part of our Better Together initiative, in order to achieve the desired effect of the "Kraften i 5 000" programme. We believe that, together, people with different perspectives and skills – customers, suppliers, and people from different parts of Systembolaget's operations – are better at interpreting tomorrow's needs and at developing the solutions we need.

We use talks, workshops, training courses, and support, within the framework of the initiative, to focus on how we can take decisions more rapidly and how we can involve additional perspectives and skills. Another of the initiative's goals is to investigate ways of creating active and inclusive meetings and ways in which we – whatever our organisational base and skills – can develop our operations together.

A CULTURE THAT PROMOTES INNOVATION

In the autumn of 2017, Systembolaget began working to build a culture that promotes innovation. We want to create conditions under which any employee can contribute good ideas and dare to try out new methodologies that take advantage, for example, of new technical opportunities. Our concrete innovation work is conducted within "greenhouses", offering the

opportunity for numerous employees to get involved and try out new things. We have implemented eight "greenhouses" to date and are planning more. A variety of teams from Systembolaget have, for example, tried out and developed operational processes using robot technology, artificial intelligence, and virtual reality, amongst others, as part of the "greenhouses" – and we have also tried out ideas for our stores, including fronting tools and top-up trolleys. The fronting tool, which is a tool that is designed to make it easier to handle bottles on store shelves, has been developed during the year with the help of store staff and a model has now been developed that is available for order by all stores. Work on building a culture that promotes innovation is continuing and is a strategic initiative that is monitored by Systembolaget's management.

CREATING CONDITIONS THROUGH IT

IT is a business-critical component of all modern companies, and Systembolaget is no different in this respect. For Systembolaget, IT – in the broadest sense of the word – both develops operations and creates conditions. It is an important facilitator and a source of inspiration that enables us to fulfil our mandate. It is about not only delivering on our customer promise, but on supporting internal processes, helping to create a good work environment, and helping us work towards sustainable operations.

IT should help bring about proactive development throughout our operations, enhance customer benefit, result in a more rapid realisation of effects, and function as an innovative support tool. Working successfully with IT demands more than just smart systems and technical solutions. Systembolaget's operations are constantly developing, as are new structures related to strategies, methodologies, security, information

processing, platforms, and infrastructure. We work to understand and integrate Systembolaget's processes and to create a unified IT architecture that supports our operations, today and tomorrow.

The IT and Information Security policy adopted by the Board of Directors forms the cornerstone of Systembolaget's IT and information security work. The goal is to ensure long-term secure IT and information management for Systembolaget.

IMPROVED QUANTIFIABILITY

We have increasingly begun to make use of statistics and in-depth analyses to quantify and analyse our successes and challenges as employers. In 2017, we began using a digital tool that creates visualisations of several of our key ratios. We continued to develop this tool in 2018, and as a result, the visualisation tool will, in 2019, give our managers access to rolling statistics on staff diversity in terms of gender, age, and ethnicity. The tool will also provide in-depth information on the working climate from an inclusiveness perspective and we have, in addition, used the tool to compile all of the work environment incidents across the organisation. The visualisation is primarily used as part of the Work Environment Committee's analysis work, offering high quality supporting data for decisions on improvement work and any measures needed.

The interlinking of multiple data sources has, amongst other things, enabled us to see that there is a clear link between an employee's perception of validation, inclusiveness, and group efficiency. The analysis gives us valuable insights into the areas we need to focus on in helping achieve our goals. We have also decided to compile an in-depth report twice a year to provide an overview of our diversity and inclusiveness work.



TARGETED ACTIVITY SEGMENTATION

In 2017 and 2018, we have developed a segmentation model for our stores that enables us to target our store activities more effectively and thereby improve the smoothness of our operations. The model groups the stores into segments, based on their operational conditions, and will make it easier for us to analyse and target measures where they are needed and, where appropriate, avoid applying a “one size fits all” approach.

We rolled out the model on a large scale at the management meeting in April 2018, and it has already helped us structure our training so that it reaches those stores with a specific need for training in handling threats and violence, for example. Our goal, in 2019, is to use it, as appropriate, for all such developmental work.

TRAINING TO BOOST SECURITY

Threats and violence are increasing in the grocery retail sector, and are one of the biggest work environment risks for our employees in several of our stores. In 2016, we created a Security Unit at Systembolaget to address this problem, which has enabled us to work with these issues in a more focused manner.

The In-store safety/Threats and violence course is held every year and involves both theoretical and practical training. The training is provided for particularly vulnerable stores, which are often high footfall stores in urban locations. The problems can, however, arise in all types of store and in all locations, and the course was held a total of 14 times in 2018. We also implement more targeted measures, such as a course on threats and violence issues for supervisors.

In 2019, our Work Environment Days will focus on the issue of threats and violence. The aim is twofold, namely to map the stores’ threat scenarios and to gather knowledge that will enable us to make relevant decisions on the activities and measures needed to action and address the problem.

Key ratios, results and activities

FOCUS/PERFORMANCE REVIEWS

We use this key ratio to follow up on the percentage of employees who receive regular evaluation and following up of their performance and career development.

The FOCUS/performance reviews are an important part of creating sustainable performance environments, not least as the manager’s most important channel to his or her colleagues is the personal encounter.

FOCUS reviews in 2018**	Yes (number)	%	No (number)	%	Total no. responses¹
Head office personnel	424	86	69	14	493
Store personnel ²	3,184	78	881	22	4,065
Total	3,608	79	950	21	4,558

¹ A total of 4,558 employees responded.

² Also includes Store Managers and Area Managers.

FOCUS reviews in 2017**	Yes (number)	%	No (number)	%	Total no. responses¹
Head office personnel	391	91	38	9	429
Store personnel ²	3,107	79	841	21	3,948
Total	3,498	80	879	20	4,377

¹ A total of 4,377 employees responded.

² Also includes Store Managers and Area Managers.

FOCUS reviews in 2016**	Yes (number)	%	No (number)	%	Total no. responses¹
Head office personnel	368	91	37	9	405
Store personnel ²	2,946	76	907	24	3,853
Total	3,314	78	944	22	4,258

¹ A total of 4,258 employees responded.

² Also includes Store Managers and Area Managers.

** *Boundary*: it is not, as yet, possible to break the figures down by gender within each category that has completed a FOCUS review.

The figure for the number of FOCUS/performance reviews is based on Systembolaget’s Agerus survey. The employees personally answered a question about whether they had completed a FOCUS/performance review with their manager during the year.



Performance reviews are an important part of creating sustainable performance environments. All Systembolaget employees shall have annual performance reviews in which we follow up on and assess our shared skills and individual goals. We follow up on goals, goal fulfilment, and skills, and draw up individual development plans for all employees on the basis of the reviews' findings.

The templates for performance reviews were further simplified to make it easier to conduct them, ahead of this year's round of reviews. We structured the templates to place greater emphasis on the current year and to clarify our expectations of every employee.

79 per cent of employees stated that they had completed a FOCUS review during the past year, which is on a par with levels during the immediately preceding two years.

In 2018, we procured a new system support tool, the Skill Portal, for our performance reviews. The new Skill Portal, which will be implemented in 2019, will improve our ability to work with development, including skill development, throughout the organisation.

STABLE PERFORMANCE CULTURE

The performance culture* key ratio measures the extent to which employees believe that the preconditions exist in their workplace for them to perform well (want to, know how to, capable of, allowed to, should), and the individual's perceptions of how their basic needs are being met (to contribute, to belong, to develop, to feel confirmed). These factors are basic requirements and preconditions for our ability to establish and maintain sustainable performance environments.

Performance culture	2018	2017	2016
%	81.5	81.5	77.9

The results of this year's employee survey show generally high values, which means that our performance culture continues to be sustainable. We know that this is an important prerequisite of Systembolaget's ongoing ability to deliver impressive customer interactions. The 2018 result of 81.5 per cent is on a par with the previous year. We have also noted that there are clear links between a sustainable performance culture and lower levels of sick leave and staff turnover. The number of units within the organisation failing to achieve a sustainable performance culture has fallen by just under half during the period from 2013 to 2018.

The 2018 result of 8.1 per cent is on a par with the 2017 level, and is high in comparison with our benchmark figure of 72 per cent (the benchmark comprises approximately 110,000 responses from the survey supplier's total customer database). All of the values have, at aggregate level, remained stable since the previous survey and we have noted a significant increase since 2013. The spread has, however, increased in some parts of the organisation, but decreased in others.

The preconditions for employees to be able to perform well (want to, know how to, capable of, allowed to, should) remained at a high level and the spread within different preconditions is low at an overall level. The "allowed to" area, which is the lowest ranked, is no longer seen as a problem area. The basic requirements level (to contribute, to belong, to develop, to feel confirmed) continues to be high and consistent.

We have actively worked on the development of our

performance culture during the year as part of the "Strength of 5,000" programme. The results of the employee survey show, we believe, that we are on the right track. The conclusion is that the organisation is well equipped and has good preconditions for performance and health.

It is incredibly important that our employees feel that they have the necessary preconditions to perform well at work and that they feel that their basic requirements as employees are being met. The percentage of Systembolaget employees who are satisfied with their ability to perform is high and continuing to increase. There are, however, still employees who responded with low values for this key ratio, and we are keen to improve their situation. All of our managers must, therefore, actively work with results dialogues within their working groups. During these dialogues, the participants analyse strengths and areas where improvement is needed, talk about risks, and draw up proposed action plans that will be actively implemented in the year ahead.

In the first half of 2017, we conducted an Organisational Dialogue, in order to build up a picture of the current situation in Systembolaget's Operating Area, Sales (OAS). The aim of the Organisational Dialogue was to obtain an honest picture of the current situation within the operating area and of any gaps between theoretical ambitions and actual conditions.

The interviews revolved around OAS' strategy and operating plan and the conditions needed to achieve the goals. The sales management team then drew up both a long-term and a short-term action plan, based on the insights gained. Initiation of these measures began in 2017 and work on implementing the plan continued in 2018.



A follow-up of the Organisational Dialogue was conducted in 2018, in order to gain an overview of the effect of the measures implemented. The results showed that many people are experiencing improvements in several areas, and other areas with scope for improvement were also highlighted. Store Managers, for example, feel that there has been a marked improvement in their situation and that direction and follow-up work has improved substantially. One area where we do, however, need to come together and address is the growing number of customer orders, where there is a real need to establish better preconditions that will improve the stores' ability to handle the work involved.

A revised action plan has been drawn up, based on the 2018 dialogue, in order to support the ongoing improvement work.

SICK LEAVE PERCENTAGE

The sick leave percentage is an important metric for determining the sustainability of our work environments. We want our employees to be able to continue working for us until they retire, and to want to do so. The total sick leave rate* is measured using the Swedish National Financial Management Authority (ESV) definition, which measures hours of sick leave relative to the total number of available hours during the same period.

Sick leave as a percentage	2018	2017	2016
%	4.5	4.8	5.0

In 2018, we have continued our focus on sick leave and increased health amongst our managers and employees, and sick leave rates have fallen sharply during the year. Long-term sick leave is declining at the same rate

as last year, but we are seeing some increase in short-term sick leave, and the overall rate is consequently not quite as high as in 2017. The most pronounced reduction occurred amongst Store Managers, and long-term sick leave amongst sales personnel is steadily declining. Our staff turnover and sick leave rates amongst Store Managers were previously too high, but have fallen this year, thanks to the targeted measures implemented in the form of, amongst other things, training courses. We are actively working with the Store Manager's organisational and social work environment, and have completed the ergonomics improvement work begun in 2017. This programme was implemented both in stores and at the head office.

All of the activities approved in the action plan drawn up in 2017 with a view to reducing sick leave rates amongst store managers have now been implemented. One major activity, which initially targeted Store Managers but was subsequently expanded to include all store-based personnel, was the Sustainable In-Store Ergonomics plan. The aim of the project was to increase the extent to which ergonomic tools were used and thereby reduce stress and strain issues. We adopted a new approach here, working with behavioural change in accordance with Organizational Behaviour Management (OBM).

The primary focus of future measures needs to be on short-term sick leave, particularly amongst employees under the age of 30. The new health key ratio created in 2017 is being tested in one area in 2018. The subsequent evaluation will guide us in taking the next steps towards implementation.

In the autumn of 2018, we tested two new digital health tools, which are variations on health apps for mobile

phones and tablets and which support our employees in making lifestyle changes. The aim of the tool was to test the degree to which they were able to help bring about behavioural changes in employees' health. The test evaluations carried out at the end of the year will form the basis for decisions on the next step.

We have also improved our ability to integrate a work environment perspective into an increasing number of development projects conducted within the organisation.

We have secured our ongoing ergonomics work at the head office by adopting a new methodology. We identified the need, based on an increased focus on interdepartmental cooperation, to enhance our ability to identify and action cooperation difficulties at an early stage. To this end, we provided a training course for all managers at head office on the theme of conflict resolution during the year.

STAFF TURNOVER

A healthy rate of staff turnover is an indicator that we have sustainable performance environments. This key ratio was introduced in 2016 and the measurements have been made possible by our new analysis methods. We are able to measure both total staff turnover and the turnover for different groups of employees.

Staff turnover	2018	2017	2016
%	17.3	18.0	16.6

Staff turnover rates continued to be relatively high in 2018, with an overall rate of 17.3 per cent and a turnover rate for employees aged between 20 and 29 that continues to be just over 30 per cent. Staff turnover



rates have declined slightly, year on year, for sales personnel, but have increased for Store Managers and head office employees.

In 2018, 387 permanent employees who gave notice have responded to our exit survey, corresponding to a response frequency of 50 per cent and a response group that is representative, in terms of gender, age and role, of the combined group of people who have left the company during the year.

When asked what the primary reason for them deciding to leave was, by far the most common reason given is "Other" (33 per cent of respondents). It is also clear from the written comments that this group was, by and large, very satisfied with their time at Systembolaget, but that they had chosen to leave in order to pursue new challenges or, perhaps, to take up a position that was more in line with a training or education course they had now completed.

The second most common reason given was dissatisfaction with their level of employment (12 per cent of respondents), followed by dissatisfaction with salary/benefits, working hours, and management (10 per cent of respondents for each of these reasons).

We have continued, in 2018, to work on a project that is designed to simplify and improve staff planning for our Store Managers, to increase timetable predictability for our employees, and to review the conditions for better employment contracts. We believe that we will, in the long-term, be able to reduce our staff turnover as we see the effects of this project, which is one of our organisation's highest priority projects.

Diversity and Inclusiveness

Why this is important

Sweden is constantly changing and is now a multi-cultural society. We need to reflect this and to keep up with societal development. Systembolaget exists for everyone in Sweden and reflecting society is business critical. It is important, not least, in enabling us to meet our customers' varying requirements and on ensuring that all of our customers feel welcome and included. Our goal is to have employees with different proficiencies, skills, experiences, and abilities. Our working climate shall be characterised by respect and understanding. It shall be a climate that welcomes and includes people with different backgrounds and experiences.

Direction and strategic initiatives

In 2018, we conducted an in-depth mapping of the requirements of discrimination legislation²¹. The analysis has enabled us to enhance our HR department's expertise in relation to the Swedish Discrimination Act, to create new routines, and to draw up an activity plan for our legislative compliance work.

Work on the following areas continued during the year:

- Integration of Swedish Discrimination Act require-

ments into our systematic work environment activities.

- Clarification of managers' responsibility to action and prevent discrimination, harassment, and repression.
- Securing equal treatment of existing employees and in conjunction with recruitment by drawing up a check list for risk assessment in conjunction with a reduced fitness for work.

We have also:

- Conducted a detailed analysis of our personnel statistics in order to increase our own understanding of the bases for discrimination in relation to gender and age. The analysis shows, amongst other things, that although Systembolaget enjoys relative gender equality at an overall level, there are substantial variations across the country and by store type. We need to do more if we are to comply with legislative requirements and achieve our internal goals in this area.
- Complemented our employee satisfaction survey with questions that improved our ability to monitor the incidence of discrimination, harassment, bullying, and negative/exclusive phraseology.

We will conduct an in-depth mapping process in 2019 and identify measures linked to discrimination based on religion/fait, sexual orientation, and gender identity.

DIVERSITY AND INCLUSIVENESS PLAN

We have continued to work in accordance with the diversity and inclusiveness plan adopted for the period from 2015 to 2018, but have also adopted a new plan for the period from 2019 to 2020. The current plan has four focus areas:



- increasing diversity amongst our employees so that we reflect society;
- creating an inclusive climate;
- integrating the inclusiveness perspective into our collective methodologies and routines;
- ensuring that everything we do for our customers is inclusive.

One of the most important goals of our current diversity and inclusiveness plan is to improve skill levels throughout the organisation, and to make diversity and inclusiveness a matter for everyone. Our work has yielded a number of good results in line with our goals: our managers' and leaders' familiarity with our orientation and activities in the area of diversity and inclusiveness has gone from moderate to very good. Our managers' assessment of Systembolaget's performance in this area has, at the same time, increased from moderate to good, and we have also seen a positive shift in relation to increased gender equality.

The focus of the 2019–2020 plan is on integrating the diversity and inclusiveness perspective into everything we do, on creating clear ownership of these issues throughout the organisation, and on ensuring that we comply with the provisions of the Swedish Discrimination Act.

We have reviewed our diversity and inclusiveness policy during the year and clarified our belief that everyone is of equal value. We have, furthermore, clarified the responsibility of managers and employees for living up to our policy and, in connection therewith, reviewed our internal regulations for handling and preventing discrimination, harassment, repression, and bullying. In

late 2018, the Board adopted a new strategic key ratio in relation to the diversity and inclusiveness area. The key ratio, which is called "Percentage of employees with foreign backgrounds", will be introduced in 2019.

We have also worked on developing a number of operational metrics that will be used to follow up on the performance of every manager.

MEASURES TO INCREASE DIVERSITY

We have continued to develop our efforts to expand our talent pool in order to reach out to new groups and thereby support achievement of our increased diversity goals. Activities during the year have included:

- We have tested a selection/screening test as part of our summer recruitment of sales personnel, based on research showing that a manual selection of applications often results in unconscious criteria biasing the results. An initial selection test increases the likelihood that objective criteria will determine the choices made.
- We have communicated our employer brand by highlighting role models and good examples of diversity and inclusiveness in social media.
- We have, within the framework of the Swedish Public Employment Service's "Sverige Tillsammans" [Sweden Together] project and the "100-klubben" [The 100 Club] initiative, taken on 114 people newly arrived in Sweden since the project started in 2015. Our goal was to take 100 people during a three-year period ending in 2018. The Swedish Public Employment Service will be winding up this project this year – a project in which a total of 31 companies have helped 3,728 new arrivals gain work experience or be offered subsidised employment.

- Our partnership with the Swedish Public Employment Service in 2018 resulted in us taking on a total of 133 people during the year in work experience places or as subsidised employees – people who, for a variety of reasons, had found it difficult to enter the labour market.

- We have continued to work within the framework of the above-mentioned partnership with the Swedish Public Employment Service to give more people with disabilities the chance to gain a foothold in the labour market. We do this by offering work experience places and subsidised employment, primarily in partnership with the Swedish Public Employment Service as part of their "Gör plats!" [Make space!] project, but also in cooperation with other local operators. In 2018, Systembolaget had an average of 5 work experience employees and 79 employees with disabilities per month via various forms of subsidised employment. This is a substantial and positive increase since 2015, and we are seeing a trend whereby more of the people in these positions are becoming permanent employees.

- We have enabled internal experience swaps and skill enhancement via membership of Diversity Charter, a non-profit organisation that focuses on diversity and inclusiveness.

- We have collaborated with the DUA Delegation (Delegation for the Employment of Young People and Newly Arrived Migrants) on the development of labour market measures for new arrivals.

- Systembolaget's product depot in Sundsvall has also been nominated for Samhall's "Visa Vägen" [Show the Way] prize, which is awarded to companies and activists who have done most to open the labour market up for people with disabilities.



In 2017, we collaborated with three other State-owned companies to offer work experience places for graduates. We had high ambitions, but it has proved difficult to find good matches with the work experience places we were able to offer. We evaluated the preliminary work carried out and have learned lessons for similar future projects.

Key ratios, results and activities

DIVERSITY STATISTICS

In 2018, 12 per cent of our employees had a foreign background, in comparison with the population of Sweden as a whole, for which the corresponding figure was 27 per cent. One of Systembolaget's goals is to increase the number of employees with foreign backgrounds so that they approach the same percentage as workforce as they do the population makeup of Sweden. We reviewed the new requirements for ensuring correct data processing in conjunction with the GDPR* coming into force, and no diversity statistics were consequently reported for 2016 and 2017. We did, however, manage to carry out a mapping in 2018, and have followed up on the percentage of employees with foreign backgrounds in order to see how far we have come in our efforts to reflect diversity in society.

Percentage with a foreign background ¹ (%)	2018		2015 ²		2014 ²	
	Swedish	Foreign	Swedish	Foreign	Swedish	Foreign
Managers	91.8	8.2	91.8	8.2	92.3	7.7
Employees	87.4	12.6	-	-	-	-
Total	87.8	12.2	90.2	9.8	89.8	10.2

1. A Swedish background is defined as a person born in Sweden or with one parent born in another country. A foreign background is defined as a person born in another country or with both parents born abroad.

2. Data for separate reporting unavailable.

PERCENTAGE OF EMPLOYEES (GENDER AND AGE GROUP)

Systembolaget endeavours to ensure an even gender distribution and to have employees of all ages. We have identified a distortion amongst smaller stores and in smaller communities with a higher percentage of elderly people, and there are few head office employees under the age of 30.

In 2018, we saw an increase in the percentage of male employees and the total gender breakdown consequently continued its progression towards a more equal breakdown (60/40). The percentage of younger employees (under the age of 30) has increased relatively sharply, year on year.

In-depth analyses of the information have, however, revealed that even if things are reasonably equal at company level, there are substantial variations across Sweden. We face challenges, particularly in smaller stores and smaller communities, where the workforce is overwhelmingly female, and only 20 per cent of the stores are achieving the 60/40 distribution requirement. We will investigate this further in 2019 and identify and implement measures to increase gender equality.

We refined the breakdown of our survey, starting in 2017, by dividing head office (HQ) personnel into two categories: employees and managers. At managerial level, we have also elected to divide the managers into HQ managers and Area Managers.

The refined breakdown makes it easier to see whether the gender breakdown at managerial level reflects the gender breakdown within the respective sections of the organisation, in the same way as is already possible for our store personnel. The results show that although we are approaching the definition of equal, the gender breakdown at managerial level does not really reflect the gender breakdown of the workforce. Our ambition in 2018 was to take a closer look at why these differences exist, but this issue will be spotlighted more strongly in 2019 when we take an holistic approach to the Swedish Discrimination Act.



2018	Number of employees	Women (%)	Men (%)	Aged <30 (%)	Aged 30-50 (%)	Aged >50 (%)
Sales personnel	4,776	64	36	38	44	18
Store Managers	461	58	42	6	70	25
Janitors	12	83	17	8	8	83
Store personnel, total	5,249	64	36	35	46	19
HQ employees	458	56	44	7	70	23
HQ Managers	74	61	39	3	55	42
Area Managers	29	48	52	0	52	48
HQ personnel, total	561	56	44	6	67	27
Systembolaget, total	5,810	63	37	33	48	19

2017	Number of employees	Women (%)	Men (%)	Aged <30 (%)	Aged 30-50 (%)	Aged >50 (%)
Sales personnel	4,725	65	35	38	44	18
Store Managers	476	59	41	7	71	22
Janitors	13	85	15	0	8	92
Store personnel, total	5,214	64	36	35	46	18
HQ employees	412	57	43	7	68	24
HQ Managers	58	60	40	0	47	53
Area Managers	30	43	57	0	63	37
HQ personnel, total	500	57	43	6	66	28
Systembolaget, total	5,714	64	36	33	48	19

2016	Number of employees	Women (%)	Men (%)	Aged <30 (%)	Aged 30-50 (%)	Aged >50 (%)
Sales personnel	4,512	64	36	37	45	18
Store Managers	456	58	42	6	73	20
Janitors	19	89	11	5	11	84
Store personnel, total	4,987	64	36	34	47	18
HQ employees	386	59	41	7	68	25
HQ Managers	57	63	37	0	47	53
Area Managers	31	52	48	0	71	29
HQ personnel, total	474	59	41	6	66	28
Systembolaget, total	5,461	63	37	32	49	19

The Board of Directors, including the four employee representatives, and the company management (included in the HQ employees category) comprised 12 women and 8 men in 2018. None of the Members of the Board or of the company management are in the aged <30 age group, while five people are aged between 30 and 50, and 15 are in the aged >50 group.

Finance

Why this is important

Systembolaget is not driven by selling targets or profit maximisation. The most important financial value generated by Systembolaget is, rather, in the form of reduced social costs achieved by limiting the harmful effects of alcohol. Our information mandate is, in this context, an important part of painting a realistic picture for people of the risks that may be entailed by alcohol consumption. Our primary goal, as mandated by our owner – the State – is, instead, to be of benefit to society.



Systembolaget shall, at the same time, operate in a cost-effective and business-like way, and our secondary goal is, therefore, to deliver a yield requirement over time that is predetermined by our owner. The revenues generated by the operations shall, therefore, both cover costs and generate a return for the State. Achieving this means it is important that we act in a resource-smart way.

Direction and strategic initiatives

Our long-term ambition is to be an effective going concern with a reasonable rate of cost development, maintaining a high standard of quality while simultaneously achieving the yield requirement. The system support tool that has been developed to enhance the efficiency of draft orders, freeing up time in the stores for customer interactions and handling the increase in orders placed, should be seen as part of this work.

Systembolaget is financed by means of surcharges on goods sold. These surcharges are based on the handling costs of the goods, assuming efficient and rational operations. The surcharge calculated is objective, transparent, and equal for all, and is non-negotiable. The surcharge comprises a general surcharge of 17.5 per cent, based on the procurement price, and a variable surcharge per packaging. The revenues generated by Systembolaget's retail sales include alcohol tax*, which is a State-imposed excise duty. Changes to alcohol tax rates affect Systembolaget's revenues, as do the cost of the goods sold, and a change in alcohol tax must not, therefore, have any impact on the gross profit. The alcohol tax accrues to the State.

Systembolaget has three financial key ratios: equity/assets ratio*, return on equity*, and cost-effectiveness*.

The equity/assets ratio is calculated as adjusted equity as a percentage of the Balance Sheet total. The owner's goal is for an equity/assets ratio of 20–30 per cent. The equity/assets ratio is affected by changes in equity relative to other Balance Sheet items, such as financial assets and inventories. Projects and initiatives that result in increased efficiency for Balance Sheet items, such as stock management, may, therefore, result in an increase in the equity/assets ratio. The aim of the equity/assets metric is to show what percentage of the assets are financed with the company's equity: to show, in other words, how sensitive the company is to interest rate changes. The company currently has no loan financing and its liquidity is good, and the interest rate sensitivity is, therefore low.

The return on equity is calculated as the operating profit/loss for the period (rolling, 12 months) as a percentage of the average adjusted equity. The term, average adjusted equity, refers to the average of the opening and closing equity for the year, plus the capital share of untaxed reserves. The return on equity should, in the long-term correspond to the ten-year bond yield (average calculated for the financial year) plus 7 percentage points. The owner's yield requirement, together with other financial key ratios, forms the basis for the principles used when preparing the budget. Systembolaget does not attempt to increase sales and its budget work consequently focuses on ensuring optimum cost utilisation, based on an anticipated gross profit, in order to achieve the yield requirement.

The Owner's Instructions also state that the dividend should, if permitted by the dividend provisions of the

Swedish Companies Act, total the equivalent of 80–100 per cent of the profit/loss for the year after tax. If the return exceeds the yield target figure, consideration is given to whether the surplus should be reversed to the operations in order to generate the maximum possible social benefit in line with the mandate and mandate goals. See page 112 for the suggested appropriation of profits for the year.

The company's operations shall be conducted in a manner that enables us to ensure the high-quality execution of the company's mandate. The operations shall, therefore, be conducted in a cost-effective manner. By this, we mean that the company's costs shall be covered and the State shall receive a reasonable return in accordance with the specified yield requirement. Cost-effectiveness is calculated as the ratio between total overheads and quantities sold. The goal is for this key ratio to be equivalent to or less than 2.3 over time. Systembolaget may not conduct its operations in a way that maximises profits, nor may it actively promote sales, and the effectiveness metric is, therefore, intended solely to ensure cost-effectiveness.

Key ratios, results and activities

EQUITY/ASSETS RATIO

On 31 December 2018, the equity/assets ratio was 25.7 per cent (27.8). The Owner's Instructions state that the equity/assets ratio shall be 20–30 per cent for the full year. The equity/assets ratio normally varies over the course of the year.

**RETURN ON EQUITY**

The return on equity shall, according to the Owner's Instructions, correspond over time to the average 10-year government bond yield, plus 7 percentage points, which, on 31 December 2018, corresponded to 7.7 per cent (rolling, 12 months). Systembolaget's return on equity on 31 December 2018 was 11.4 per cent (17.2). The return decreased, year on year, despite increased sales. Costs were higher due to investments in development projects to meet future requirements, investments in the digital customer interaction, and the creation of conditions for future efficiency enhancing work and improvements in stores. Systembolaget has also invested in expanding its operations in relation to Systembolaget's mandate and the risks associated with alcohol, and this has resulted in an increase in both personnel and information costs. Personnel costs also increased due to the increase in the volume of sales, the annual pay review, and the increase in the number of stores. Personnel costs were, furthermore, affected by an increase in the number of customer orders placed.

COST EFFECTIVENESS

This key ratio refers to a new owner's goal and is presented once yearly. The aim of the effectiveness metric is to adapt overheads in different periods to changes in quantities sold. The 2017 Annual General Meeting approved a new calculation basis for the key ratio and a target level of less than or equal to 2.3. The cost effectiveness on 31 December 2018 was 2.3 (2.2), which is in line with the agreed target figure. The increase was primarily due to higher costs than in the preceding year, but was also affected by a change in the product group mix.

	2018	2017	2016
Equity/assets ratio, %	25.7	27.8	28.2
Return on equity, %	11.4	17.2	17.5
Cost-effectiveness (factor)	2.3	2.2	2.3

Financial reporting

Economic performance

Systembolaget shall be run in a commercial manner without attempting to maximise profits. In practical terms, this means that, unlike other companies, we do not advertise in an attempt to boost sales and we do not attempt to persuade people to buy more products or to buy products other than those they had intended to buy.

Systembolaget has a monopoly on the retail sales of spiritous drinks, wine, and strong beer. This monopoly has a socio-political purpose and limits the harmful effects of alcohol, partly by eliminating private profit motives in conjunction with retail sales, and partly by limiting availability. Our owner, the State, has set a number of goals that are based on this purpose and which make it clear that the mandate goals are the primary goals. The primary goal is, therefore, according to our owner, the good of society. The secondary goal is to deliver a return over time that is predetermined by the owner and which is monitored through a number of economic goals.

SALES

Systembolaget's revenues in 2018 totalled SEK 30,907 m (29,355), corresponding to a year-on-year increase of 5.3 per cent. Sales of wine totalled SEK 16,150 m (15,409), corresponding to an increase of 4.8 per cent, while sales of strong beer increased by 6.9 per cent to

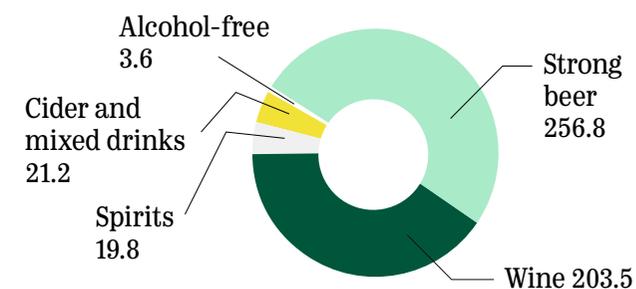
SEK 7,511 m (7,028). Sales of spiritous drinks increased by 3.4 per cent and totalled SEK 6,005 m (5,810), while sales of cider and mixed drinks increased by 14.1 per cent to SEK 867 m (760). The biggest increase in revenues is volume-related, but was also due to some customers choosing products from the more expensive segments.

Systembolaget's sales volume increased by 4.5 per cent, year-on-year, and totalled 504.9 million (483.0) litres. Preliminary figures from CAN indicate, at the same time, that total alcohol consumption in Sweden fell by approximately two per cent between 2017 and 2018, and that Systembolaget's share of sales increased by just under three percentage points. Our theory is that the increase in Systembolaget's sales is primarily due to the fine, hot summer and autumn and that this, coupled with the weak Swedish krona, may have resulted in more Swedes opting for a staycation. According to the most recently published Monitor Survey¹ for 2017, total alcohol consumption has fallen by eight per cent over the past ten years (2008-2017). Systembolaget's share, meanwhile, has increased by almost eight per cent during the same period. The same survey shows that the total consumption of pure alcohol per head of population aged 15 or above was 9.0 litres, which is on a par with levels in 2016.¹

Sales of organic products increased by 9 per cent to SEK 4,520 m and comprised 14.7 per cent of total sales in SEK million. There were a total of 448 (428) organic items in the fixed range at the end of the year.

The number of ethically labelled products in Systembolaget's fixed range increased to 45 (43). Sales totalled SEK 703 m (615), corresponding to an increase of 14.2 per cent.

Interest in the alcohol-free range continues to increase, with sales of alcohol-free products increasing by 9.3 per cent and totalling SEK 199 m (182). This is a trend that Systembolaget is keen to promote, and we are now able to offer a total of 71 (66) alcohol-free items in our fixed range.



Drinks sales in 2018, million litres.

FUTURE SALES DEVELOPMENT

While total alcohol consumption has declined by eight per cent between 2008 and 2017, the sales development in recent years has been relatively stable, with an annual increase in revenues of between 2 and 4 per cent. Alcohol tax increases in 2015 and 2017 account for approximately 1–2 per cent of this increase. The underlying development is expected to continue over the next few years, resulting in a continued increase in sales volumes in all product groups. The volume development in 2018 showed an unusually steep increase, however, due to a warm summer, so is likely to be less steep between 2018 and 2019 than in 2018. Some differences are, however, apparent between the product groups, with the changes primarily influenced by changes in alcohol tax*, prices, and trends.

- The cider and mixed drinks product group has reported the strongest growth in recent years. This trend is expected to continue, and volumes are, in future, expected to increase at the same rate as in recent years.
- The trend in sales of spiritous drinks was declining until 2014, since when a moderate increase in volumes has occurred. Sales volumes are, in future, expected to continue to increase at the same rate as in recent years.
- Sales of beer and wine are expected to increase in tandem with population growth and on a par with the increases seen in recent years.
- Sales of alcohol-free drinks are expected to increase, but not at the same rate as that seen in recent years. This is primarily attributable to the fact that the retail sector as a whole has expanded its range to meet customer demand.

- The trend towards more expensive products in all product groups is expected to increase in the next few years, albeit not quite as rapidly.

- Organic products have experienced strong growth in recent years and this growth is expected to continue in the years ahead.

OPERATING PROFIT

Systembolaget shall operate under business-like principles, without promoting sales, and shall focus on cost-effectiveness*. Systembolaget posted an operating profit* of SEK 227 m (270) and a gross profit of SEK 3,903 m (3,700), with the increase primarily attributable to the increase in sales volumes. Selling expenses increased to SEK 2,942 m (2,767) and administration expenses totalled SEK 738 m (669). The selling expenses sub-category, personnel costs, reported an increase that was due to the increase in sales volumes and number of stores. Store premises rental costs have also increased due, in part, to the increase in the number of stores.

Systembolaget is investing, long-term, in development projects that focus on tomorrow's digital customer interaction and future efficiency-enhancing measures, which has an impact on selling expenses.

Administration expenses have increased due to activities in the sustainability sphere, information campaigns about the risks associated with alcohol and why Systembolaget exists, and to increased IT operations costs, which are largely associated with the above-mentioned development projects. The increase in personnel costs is attributable to, amongst other things, new recruitments in the above-mentioned areas. Selling expenses and administration expenses

were also affected by the yearly pay review. The operating margin was 0.7 per cent (0.9).

NET FINANCIAL ITEMS AND PRE-TAX PROFIT

The pre-tax profit was SEK 232 m (353). Net financial items totalled SEK -2 m (58), SEK 24 m (30) of which comprised interest income from financial investments, and SEK -43 m (-14) of which comprised changes in the value of financial investments. Interest expenses totalled SEK 0 m (0). A dividend of SEK 17 m (43) was received from Systembolaget's subsidiary company, AB K14 Näckströmsgatan, during the year. The year-on-year decrease in the dividend of SEK 25 m was due to the sale of a property in 2017. The market valuation of Systembolaget's investments has performed negatively during the year due to prevailing market conditions at the end of the year.

CASH FLOW

The cash flow from operating activities totalled SEK 624 m (529). The cash flow from investment activities totalled SEK -57 m (-918) and comprised net investments in financial assets totalling SEK 74 m (-739) and net investments in tangible fixed assets of SEK -131 m (-179). The investment in tangible fixed assets primarily comprised the construction of new stores and renovation of existing ones. The year-on-year change in financial investments is largely due to the fact that, as of 2018, Systembolaget's suppliers have the option of invoicing more frequently, and this has affected the liquidity flow. The cash flow from financial activities totalled SEK -265 m (-246) and comprised a dividend of SEK 17 m (43) from AB K14 Näckströmsgatan, corresponding to the company's net profit, and Systembolaget's payment of a dividend of SEK -282 m (-289) to the owner.

FINANCIAL POSITION

Shareholders' equity on 31 December 2018 totalled SEK 1,503 m, corresponding to a year-on-year decrease of SEK 102 m. The change comprised the net profit for the year less the dividend paid to the owner, which totalled SEK 282 m.

SUMMARY OF THE SUBSIDIARY COMPANIES

IQ-initiativet AB (IQ) works to help promote a smarter approach to alcohol by using know-how and communication to create awareness, mindfulness, and engagement in people's own drinking and that of others, and thereby help reduce the harmful effects of alcohol in society. IQ is financed by Systembolaget with an annual budget of SEK 35 m (35). The pre-tax profit for the period was SEK 1.7 m (-0.2).

AB K14 Näckströmsgatan manages Systembolaget's operating properties. The pre-tax profit was SEK 21.8 m (22.0). The net profit is attributable to intra-Group rental revenue.

LEGAL ISSUES

There is a broad consensus within the EU that alcohol is not just another product. Alcohol consumption causes societal harm, both socially and economically, and Sweden has consequently chosen to implement an alcohol policy based on restricted availability, high taxes and limited marketing. Private profitmaking interests should be restricted with regard to retail sales of alcohol in that having profit as an incentive results in increased availability and, consequently, an increase in consumption that is bad for public health.

The question of farm sales was discussed in the Swedish political sphere in 2018, as was the question of distance sales of alcoholic drinks. Both of these issues have a le-

gal bearing on Systembolaget AB's operations, in that a consistent and cohesive alcohol policy is a prerequisite for the survival of the retail monopoly.

The farm sales issue has already been investigated, most recently in SOU 2010:9822, which clearly showed the impossibility of combining the retail monopoly with a parallel system in which privately-owned for profit companies are allowed to sell alcoholic drinks covered by the retail monopoly. In the spring of 2018, Parliament took a decision supporting farm sales in the spring, provided that it did not threaten Systembolaget's monopoly. See also under Events after the closing day.

The subject of distance sales of alcoholic drinks has become topical due to the growth in digitisation and Swedish customers' increased interest in shopping via digital channels. The commercial online operators' share of sales is still very low in Sweden, but they are using aggressive marketing in this context and thereby contributing to the normalisation of alcohol as just another product. The Finnish Supreme Court's confirmation on 28 June 2018 of the European Court ruling from 2015 in the so-called Alkotaxi case further clarified that these operators' activities should be classified as retail trade in Sweden. The operations are, therefore, clearly illegal in that Systembolaget has a monopoly on such retail sales. See also under Events after the closing day.

As noted in previous government reviews (see the "Private imports of alcoholic drinks", and DS 2016:33 "Regulation of distance selling of alcoholic drinks²³"), the legislator has identified a need to clarify existing legislation and modernise supervisory work, in that this form of retail trade poses challenges to the long-term retention of Sweden's restrictive alcohol policy. Systembolaget shares the legislator's opinion and sees

considerable value in a continuation of efforts to clarify the legislation.

The report entitled "The regulation of alcoholic ice cream and other products²⁴" presented in the summer of 2017 continues to be processed by the Swedish Government Offices. The report proposes that alcoholic preparations that resemble alcoholic drinks may only be sold by Systembolaget. Systembolaget has supported the report's proposal in its position paper. The proposal was processed by the Council in 2018 and is now being prepared by the Swedish Government Offices.

Systembolaget also worked, in 2018, on protecting its information and functionality, its brand, and its intellectual property in order – give the socio-political mandate and the requirement for brand neutrality – to avoid being associated with or being perceived as the originator of alcohol advertising or provider of commercial services. Systembolaget is simultaneously – in a way that focuses on the customer and which is based on our purpose and mandate as well as the changes in external factors – developing our digital offering and range.

EVENTS AFTER THE CLOSING DAY

In February 2019, Systembolaget brought suit against the online wine retailers, Winefinder AB and Winefinder ApS, in the Patent and Market Court in response to Winefinder's statement that they do not intend to stop engaging in retail sales of alcoholic drinks to Swedish consumers – which is illegal and infringes upon Systembolaget's monopoly.

In January 2019, Systembolaget and IQ launched "Barn-
dom utan baksmälla" (Hangover-free childhood), which is a partnership with the BRIS (Children's Rights in Society), Trygga Barnen (the Safe Kids Foundation), World

Childhood Foundation, and Maskrosbarn (the Dandelion Kids organisation) children's rights organisations.

Vice President Marie Nygren has decided to leave Systembolaget in 2019. Recruitment of her successor is now underway.

A General Election was held in Sweden on 9 September 2018. Forming a government took time, and a new government was not in place until January 2019. One point in the agreement between the four parliamentary parties, states that the government will set up a commission to investigate farm sales of alcoholic drinks in 2020. The agreement also states that securing Systembolaget's monopoly is a prerequisite of the Commission's work.

Risk and sensitivity analysis

Systembolaget's objective for its risk management is an operation in which the risks to which the company are exposed to are identified at an early stage and managed in line with the degree of impact that they can have on the company and its mandate. Systembolaget's risk management work shall, furthermore, be an integral part of its operational governance and shall help ensure that the owner feels secure in the way in which Systembolaget fulfils its mandate and manages its risks.

RESPONSIBILITY

Responsibility for risk management within Systembolaget complies with the lines of defence described by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Line Managers and process owners consequently have primary responsibility for managing their risks and are, therefore, by definition, risk owners. Risk controllers support the risk owners and control and review compliance with Systembolaget's risk management framework. The internal audit, which is audited by an external company, is tasked by the Board of Directors with reviewing the efficiency and fitness for purpose of the risk management framework and the operations' risk management work.

PROCESS

The risk management methodology within Systembolaget harmonises with COSO Enterprise Risk Management and ISO 31000. Processes, categorisation, and organisational breakdown of risk management within Systembolaget are clarified in the framework ultimately approved by the Board on a yearly basis.

Systembolaget carries out a company-wide risk analysis every year. The risk analysis aggregates the risks from the operating areas and departments for evaluation by managers and key individuals within the operations and by the company management team with regard to the way in which the risks affect the company at an overall strategic and operational level.

Operational risks are reported and followed up on a six-monthly basis by the company management and Board of Directors through the Audit Committee. The principle that underlies the risk evaluation work is that Systembolaget's risk acceptance and tolerance levels are generally low, particularly with regard to threats to the safety and health of employees and the general public, or risks to the company's existence, mandate or brand.

INSURANCE

Systembolaget chooses to take out various insurance

policies as part of its efforts to reduce the company's risk exposure. Systembolaget's insurance programme includes property and consequential loss insurance, liability insurance for general liability, and product liability insurance. These policies are managed by Systembolaget's security unit with the assistance of an insurance broker. Systembolaget also takes out collective agreement insurance against occupational injuries. These policies are managed by Systembolaget's HR department.

Several of these types of insurance cover are a statutory requirement for businesses and Systembolaget has also elected to take out additional insurance cover, over and above the statutory requirement, in order to guarantee the well-being, safety and security of our employees and the company.

CRISIS AND CONTINUITY MANAGEMENT

The crisis and continuity management methodologies are spread across risk control and the security unit, with the security unit responsible for crisis management. Established fora exist in which incident, risk, crisis, and continuity management are discussed and developed in order to strengthen the work in this area. Crisis management and continuity plans are tested and updated every year as far as is practically possible.

RISKS

The areas in which Systembolaget's risk exposure is greatest, including risks from a sustainability perspective, are presented below.

RISK AREA	DESCRIPTION	COMMENTS
Reputation	Existing legislation and the structure of alcohol advertising may open the door to uncertainty about the identity of the advertiser. This poses a challenge to the brand, which may generate a lack of trust in Systembolaget's objective and the way in which the company handles its mandate.	Systembolaget is working to bring about a change in the way in which the brand is used in the media.
External factors	Social development in Sweden is helping to give rise to uncertainty about Systembolaget's ability to manage our customers' increasingly elevated expectations of the ways in which Systembolaget makes its products available.	Systembolaget is working continuously to achieving ongoing improvements in its customer interactions in order to proactively address the changing demand picture.
Legislation	One of the preconditions for Systembolaget's monopoly is that Swedish legislation in this area is cohesive and consistent, and that it is strictly supervised. There is currently a lack of clarity in both the legislative and supervisory respect, which creates uncertainty in the context in which Systembolaget operates.	Systembolaget's legal department continuously examines and reviews the legal context in which Systembolaget operates.

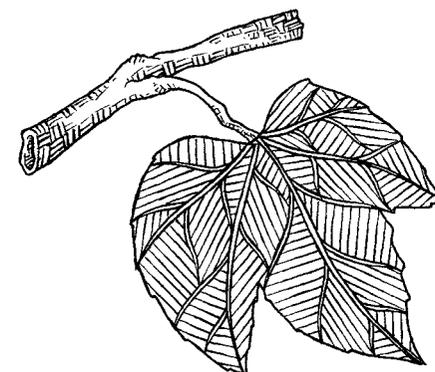
RISK AREA	DESCRIPTION	COMMENTS
Working conditions	The type of retail operations that Systembolaget conducts are exposed to the risk of robbery. Threats and incidents of violence against employees are also, unfortunately, not unknown within the company. Uncertainty consequently always exists with regard to whether the security-enhancing measures in place within the company are sufficient to address this issue.	Systembolaget addresses the risk scenario continuously through its security unit, and reviews its personnel's levels of awareness of and exposure to threats and violence.
Independence	Systembolaget's monopoly means that there is always a risk that stakeholders will, in a variety of ways, attempt to influence the company's purchasing processes and, hence, the product range.	Systembolaget works continuously to raise levels of awareness amongst our employees and to inform our stakeholders and ensure clarity with regard to our purchasing routines and terms and conditions. Systembolaget also continuously reviews the fitness for purpose of its purchasing process.

RISK AREA	DESCRIPTION	COMMENTS
Transparency in the supply chain	Systembolaget operates in an industry in which traceability and transparency in the supply chain have not, historically speaking, been regarded as necessary. In some cases, the lack thereof may also, due to the nature of the products, constitute a competitive advantage for certain subcontractors. This may make it difficult for Systembolaget and, to some extent, Systembolaget's suppliers, to ensure transparency at every link in the supply chain.	Systembolaget conducts annual mapping processes to identify risk areas. Systembolaget implements system support in order to ensure more effective follow-up work.
Complex supply chains	Systembolaget operates in an environment with complex supply chains and a complex business model with an extensive spread of purchases from numerous regions and countries. This means that the volumes per business are not great, reducing Systembolaget's degree of influence and offering less potential for monitoring compliance with sustainability requirements.	Systembolaget is increasing its annual supplier and producer audits in order to gain increased control over the products sold. Systembolaget also complements its audits with training activities at the producer stage of the chain. Systembolaget implements system support in order to ensure more effective follow-up work.
Compliance with the Code of Conduct	The large number of suppliers and subcontractors results in a diversified supplier basis, which creates problems of scale in the follow-up work. The company's equal treatment policy also means that all suppliers, irrespective of size, must comply with the same requirements. These areas create uncertainty regarding the compliance with our external Code of Conduct.	Systembolaget is working to increase skill levels, to clarify the requirements imposed, to improve its follow-up work, remedial actions and consequence activities, in order to increase compliance with our Code of Conduct and reduce the risk of corruption.

	DESCRIPTION	COMMENTS
Increased alcohol-related harm	Challenges to Systembolaget's monopoly can impair our ability to fulfil our mandate to reduce the harmful effects of alcohol at both an individual and a societal level. Increased alcohol consumption would result in increased societal costs for policing and medical care due to increases in violence, the number of traffic accidents, and sick leave.	Systembolaget's monopoly on the sale of alcoholic drinks without a profit interest is, in itself, a means of addressing the risks entailed by increased alcohol consumption. Availability is limited through the number of retail outlets, and opening hours, and through selling rules that mandate selling responsibly at all times.
Second-hand harm	Alcohol doesn't just harm the person who drinks – it harms those around them, and children are particularly vulnerable in this context. 4–5 per cent of all children under the age of 18 in Sweden live with a parent who abuses or is addicted to alcohol ²⁵ . 14 per cent of ninth graders state that their parents' alcohol consumption has resulted in them having several negative experiences during childhood ⁷ , and seven out of every 10 schoolteachers have, at some point, suspected that their pupils' parents are drinking to excess ¹⁹ .	Systembolaget works to limit the harmful effects of alcohol by selling responsibly and providing information on the risks associated with alcohol. Systembolaget provides information on the omsystembolaget.se website, publishes the Alcohol Report, and holds seminars, and finances research and research conferences. Systembolaget has also, within the framework of the research projects financed in 2017 and 2018, focused on research into parents of young children and hazardous alcohol consumption. This research is expected to generate valuable new findings over the new five years.

Financial risks, such as interest rate, credit, and liquidity risks are limited at Systembolaget. Systembolaget is self-financing thanks to, amongst other things, a high rate of stock turnover* that matches the purchasing and payment terms.

Systembolaget has no interest-bearing liabilities. All sales are paid for in cash or by credit card and Systembolaget consequently has no significant accounts receivable. The drinks suppliers are responsible for the importation of alcoholic drinks and for reporting alcohol tax. Systembolaget's purchases are primarily made in Swedish kronor and the company's exposure to exchange rate and currency risks is consequently very low.



Corporate Governance Report

Systembolaget AB is 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.

The owner

The owner's expectations of Systembolaget are specified in the agreement between Systembolaget and the state, in the Owner's Directive, in the State's ownership policy, and in the guidelines for State-owned companies. The agreement and the Owner's Directive specify the bases for the company's operations with regard to the social mandate, the requirement for financial efficiency, and any other requirements with regard to the company's operations, including the provision that Systembolaget is not driven by sales goals or profit maximisation*. The owner determines the objectives of the company's operations through the Articles of Association, while the ownership policy establishes the owner's expectations of the company as one of the State-owned companies, and the owner issues instructions to the Board of Directors of Systembolaget through the Owner's Directive. The owner has set

three mandate goals for Systembolaget, together with a number of financial goals, in the Owners Directive. The mandate goals take precedence, with the financial goals defined as secondary to the mandate ones.

Fulfilment of the mandate goals is measured using the Customer Satisfaction Index*, the Alcohol Index, and Alcohol Consumption* in Sweden. The financial goals comprise the equity/assets ratio*, the return requirement, the dividend requirement, and a cost-effectiveness metric.

The agreement between Systembolaget and the State was clarified in 2017 such that it now explicitly states that Systembolaget shall take specific sustainability considerations into account in conjunction with its drinks purchasing. The clarification manifests the importance of sustainable development and that it is something upon which Systembolaget must focus.

Systembolaget's mandate is to engage responsibly and with a high standard of service, in the retail sales of alcoholic beverages, and to inform people about the harmful effects of alcohol. The aim is to help improve public health by limiting the harmful effects of alcohol. The monopoly means that Systembolaget is the only company permitted to engage in retail sales of strong beer, wines and spiritous drinks in Sweden.

Meetings are held on a rolling basis, approximately four to five times a year, between representatives of the owner and Systembolaget's Chairman of the Board and President. Representatives of Systembolaget's company management, over and above the Presi-

Corporate governance principles

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, which also includes guidelines for external reporting and guidelines for remuneration and other conditions of employment for senior executives
- the agreement between Systembolaget and the State
- the State's ownership directive for Systembolaget (the Owner's Directive)
- the State's ownership goals
- the Articles of Association
- the formal workplans for the Board of Directors and the Board-appointed committees
- the instructions for the President
- internal steering documents

dent, attend these meetings as required. Areas discussed at these meetings during the year include the work of the Board of Directors, operational monitoring, including follow ups of key performance indicators, the mandate goals, the financial goals, and the strategic goals for sustainable enterprise. Sustainability issues, the farm sales issue, the distance sales issue, pension issues, and other issues of relevance for the company have also been discussed. The owner exercises its rights as a shareholder at the Annual General Meeting.

The Annual General Meeting

The Annual General Meeting shall, under the terms of the State's ownership policy, be held no later than 30 April every year. 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 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.

The 2018 Annual General Meeting

Systembolaget's 2018 Annual General Meeting was held on 26 April in Stockholm and was open to the public. The owner was represented by Permanent Secretary, Agneta Karlsson, from the Ministry of Health and Social Affairs.

The resolutions approved by the shareholder at the Annual General Meeting included the following:

- Re-election of Kenneth Bengtsson as the Chairman of the Board.
- Re-election of the following Members of the Board: Crister Fritzson, Kerstin Wigzell, Håkan Leifman, Viveca Bergstedt Sten, Frida Johansson Metso, Robert Damberg and Cecilia Halle, and the new election as a Member of the Board of Barbro Holmberg.
- Directors' fees payable to Members of the Board elected by the Annual General Meeting, members of the company's Board-appointed committees, and Auditors.
- Approval of the "Guidelines for remuneration and other terms of employment for senior executives of Systembolaget AB" proposed by the Board of Directors".
- Adoption of the Income Statement and the Balance Sheet.
- Allocation of the company's profits.
- Granting of discharge from liability for the Board of Directors and the President.

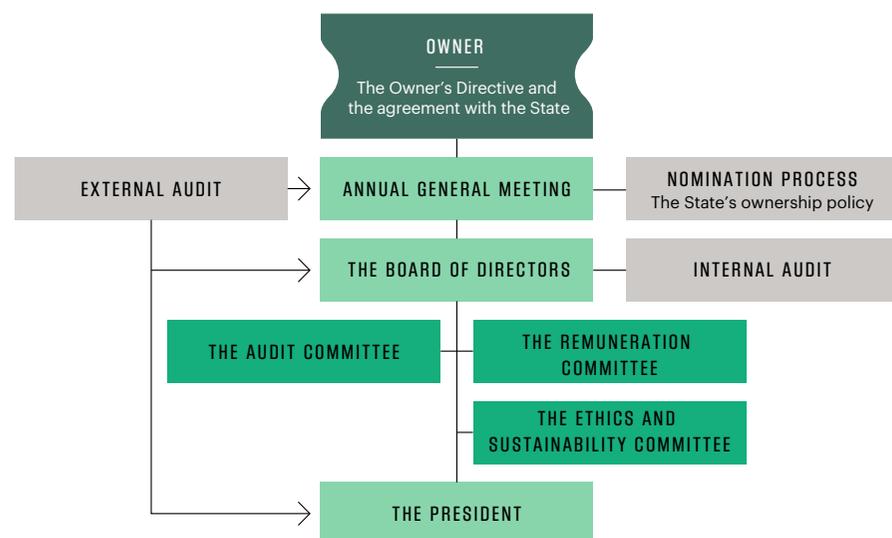
The minutes of the Annual General Meeting are available on the omsystembolaget.se website.

The 2019 Annual General Meeting

The 2019 Annual General Meeting will be held on 11 April 2019 in Stockholm. Notices convening the Annual General Meeting will be sent out in March 2019.

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 company's Articles of Association, the owner's instructions and the State's ownership policy. Some of the work involved in ensuring public confidence in Systembolaget's operations entails the drawing up of relevant policy documents and conducting annual evaluations of existing policies, which are published on Systembolaget's website.



The nomination process for the Board of Directors

The appointment of the Board complies with the nomination process described in the State's ownership policy. The nomination process is coordinated by the Ministry of Finance. The skills requirement is analysed on the basis of the company's operations, situation and future challenges, and the existing composition of the Board and Board Member evaluations carried out. The owner has applied the diversity principles set forth in the ownership policy in their work with the nomination process.

Composition of the Board

The Articles of Association prescribe that the Board of Directors shall comprise a minimum of six and a maximum of nine Members appointed by the General Meeting. The employee organisations are also entitled to appoint Members of the Board. The

Code and the State's ownership policy directs that the composition of the Board shall, with due regard for the company's operations, developmental stage, and conditions in general, be fit for purpose and characterised by diversity and breadth with regard to areas of expertise, experience and background. Diversity aspects such as ethnic and cultural background shall also be taken into account and an even gender distribution shall be sought. The ownership policy states that the gender makeup of the Board shall comprise at least 40 per cent of either sex.

The starting point when nominating a Member shall be the Board's expertise requirements and Board Members shall always possess industry know-how or other expertise of direct relevance to the company. The Board must also be able to work strategically with issues relating to sustainable enterprise.

To be considered for a seat on the Board, individuals must possess high-level competence in the company's ongoing commercial operations, and expertise in commercial development, industry know-how, financial issues, and sustainable enterprise, or other relevant areas. The Members of the Board must also be able to dedicate the amount of time and display the level of commitment required for the role, and must, in addition, display a strong sense of integrity, good judgement, and the ability to work in the best interests of Systembolaget. The selection is made from a broad recruitment base in order to take advantage of the skills possessed by both men and women, and those possessed by people with different backgrounds and experiences.

Systembolaget's Board of Directors comprises nine Members appointed by the Annual General Meeting. Five of these Members are women and four, men. The Board also includes two employee representatives and two Deputy Members appointed by the employees' organisations. Two of the employee representatives are women and two, men. None of the Members of the Board are part of the company management. All Board Members shall be regarded as independent in relation to the company and the company management.

The owner's representative submitted a rationale for the composition of the Board and the proposed change at the 2018 Annual General Meeting. The proposed Members of the Board were deemed to possess the competence, experience and background required for the operation of the company. The composition of the Board was also, with regard to the company's operations, developmental phase,

and conditions in general, deemed to be fit for purpose, to be characterised by diversity and breadth with reference to the Members' competence, experience and background, and to achieve the Government's goal of an even gender breakdown as mandated in the ownership policy.

Systembolaget's President and Chief Financial Officer attend the Board Meetings. Systembolaget's Director Corporate, Public and Legal Affairs is the Secretary to the Board. Other members of the company management attend as required.

The Chairman of the Board

The Chairman shall, pursuant to the provisions of the Swedish Companies Act, lead the work of the Board and ensure that the Board carries out its duties. The Code states that the Chairman of the Board shall also be responsible for:

- ensuring that the work of the Board is conducted efficiently and is well-organised;
- ensuring that the Board receives sufficient information and source data on which to base its decision-making work;

- working in consultation with the President to set the agenda for Board Meetings;
- checking that the Board's decisions are implemented;
- ensuring that the work of the Board is evaluated annually.

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

Deviations from the Code

Systembolaget applies the Swedish Corporate Governance Code with the following deviations:

Code regulation	Deviation	Explanation/comments
1.1 Publication of information on the shareholders' right of initiation.	Not published.	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.
2. The company shall establish a Nomination Committee to represent the company's shareholders in conjunction with the election and determination of remuneration of the Board of Directors and Auditors of the company.	No Nomination Committee has been established.	The preparation of nomination committee issues in State-owned companies is carried out by the Government in the manner detailed in the State's ownership policy.

The work of the Board

The Board has adopted a formal work plan which specifies how the work is to be divided between Systembolaget's Board, the owner, the committees and the President. The work plan is reviewed annually and was adjusted and adopted in 2018 at the Meeting held by the newly formed Board in April of that year. 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 is responsible for the optimal administration of the company and for ensuring that the company's mandate is executed efficiently and that the operations are conducted in a manner conducive to sustainable development – economically, socially and environmentally. The Board is responsible for ensuring that Systembolaget is run in an exemplary manner in accordance with applicable regulations, and that the operations enjoy public confidence.

PRESENCE AT BOARD MEETINGS, 2018

Name	Function	Presence	Note
Kenneth Bengtsson	Chairman	7/7	
Thord Andersson	Member	2/2	Resigned seat at the Annual General Meeting on 26 April 2018
Viveca Bergstedt Sten	Member	6/7	
Robert Damberg	Member	6/7	
Crister Fritzson	Member	7/7	
Cecilia Halle	Member	7/7	
Barbro Holmberg	Member	4/5	Appointed at the Annual General Meeting on 26 April 2018 (elected at the Board Meeting following election on 26 April 2018)
Frida Johansson Metso	Member	7/7	
Håkan Leifman	Member	5/7	
Kerstin Wigzell	Member	7/7	
Robert Adrell	Employee representative (Member)	6/6	Appointed at the SPF (Systembolaget's Personnel Association) meeting on 23-24 February 2018
Karin Larsson	Employee representative (Deputy Member)	6/7	
Berit Morén	Employee representative (Member)	0/1	Resigned seat in February 2018
Maria Nilsson	Employee representative (Member)	7/7	
Nils Undall-Behrend	Employee representative (Deputy Member)	7/7	

PRESENCE AT AUDIT COMMITTEE MEETINGS, 2018

Name	Function	Presence	Note
Viveca Bergstedt Sten	Chairman	5/5	
Thord Andersson	Member	3/3	Resigned on 26 April 2018
Crister Fritzson	Member	5/5	
Cecilia Halle	Member	5/5	

PRESENCE AT REMUNERATION COMMITTEE MEETINGS, 2018

Name	Function	Presence
Kenneth Bengtsson	Chairman	4/4
Robert Damberg	Member	4/4

PRESENCE AT ETHICS AND SUSTAINABILITY COMMITTEE MEETINGS, 2018

Name	Function	Presence
Kerstin Wigzell	Chairman	2/2
Frida Johansson Metso	Member	2/2
Håkan Leifman	Member	2/2

The Board is also responsible for the organisation of the company and the administration of its affairs in the best interests of the company and the owner. The Board shall, if Systembolaget is faced with particularly important decisions, such as major strategic changes to the company's operations, coordinate its position, through the Chairman, with representatives of the owner. The coordination shall occur well in advance of any decision.

The Board is responsible for setting goals for Systembolaget's sustainability work, for ensuring that the goals are integrated into the company's business strategy, and for ensuring that the sustainability work is reported in accordance with the Global Reporting Initiative (GRI*) international reporting standard, and otherwise in accordance with the owner's policy. Five of Systembolaget's eleven strategic goals adopted by the Board have been classified as strategic goals for sustainable enterprise over the next few years. These are:

- the Customer Satisfaction Index shall not fall below an index value of 84.5-85.
- the Proof of Age Checks* shall not fall below an index value of 96.
- the Performance Culture*, where the goal for 2019 is that the aggregate result of the employee survey shall not fall below an index value of 82.
- the Suppliers' sustainability maturity, where the goal for 2020 is that all of the suppliers behind the products sold in the fixed range shall demonstrate a clear understanding of their responsibility in the supply chain and are working proactively and systematically with their respective producers.

- Systembolaget's direct climate impact (from purchased energy, operating and company vehicles, and coolants) shall be zero by 2023, which is in line with the Fossil-free Sweden initiative.

The Board also decided, in December 2018, to introduce a new strategic goal for sustainable enterprise with regard to inclusiveness and ethnic diversity. A new strategic key performance indicator will, therefore, be implemented for follow-up purposes with the goal of ensuring that Systembolaget's employees reflect society's composition of people with different ethnic origins.

The Board is also responsible for ensuring that Systembolaget complies with relevant guidelines on environmental considerations, human rights, working conditions, anti-corruption, and business ethics.

All Board Members are responsible to an equal degree for the work of the Board unless otherwise approved at a Board Meeting or in the Board's formal work plan.

A collection of documents ("Laws, steering documents etcetera for Systembolaget AB") has been prepared to support the Board in its work. The collection includes certain legislative texts pertaining to the operations, documents issued by the EU, company-related documentation, owner-related documentation and agreements, investment regulations, Systembolaget's current strategic plan, Systembolaget's Code of Conduct, policies, internal guidelines and regulations, and information on Systembolaget's subsidiaries.

The avoidance of conflicts of interest within the Board is regulated by the Board's formal work plan and in accordance with the provisions of the Swedish Com-

panies Act (ABL 8:23). 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 issues referred to it for consideration. The Board meets annually with the company's auditors.

The structure of the Board's work is laid down in the Board's work plan, which is adopted annually. The work plan forms the basis for the planning of the Board's work and stipulates the point during the financial year when special areas of responsibility shall be addressed by the Board.

STRATEGIC PLAN

The Board of Directors draws up the strategic plan which establishes the way in which Systembolaget prioritises its investments, resources and activities during the strategic period. The strategic plan extends four years forward in time and is revised every third year. The strategic plan in force in 2018 was adopted at the Board Meeting in June 2016 and refers to the years from 2017 to 2020. See page 21 for additional information on the strategic plan.

THE WORK OF THE BOARD IN 2018

The Board held a total of seven Board Meetings in 2018. 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 ongoing basis by the Board. This follow-up work took the form of the presentation of strategic key performance indicators, the equity/assets ratio, and the return on shareholders' equity*, cost-effectiveness*, following up on the strategic goals for sustainable enterprise and the owner's mandate goals, as well as Board memoranda on topical issues. In March, the Board met with the company's

auditors, 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 ongoing basis, including with regard to sustainable enterprise. Aside from the ongoing monitoring of strategic key performance indicators, the issues addressed by the Board included:

- the Responsibility Report;
- real estate issues;
- the digitisation agenda and other strategic issues;
- tomorrow's online store;
- tomorrow's depot solution;
- issues relating to distance sales/the home delivery trial;
- farm sales;
- issues relating to sustainable enterprise;
- the business plan for 2019;
- the next strategic plan for the period ending 2023;
- issues relating to the Alcohol Research Council;
- the management talent pool and succession planning; and
- skill development for managers and employees.

Directors' fees and fees for committee members

Directors' fees and fees for work in committees specially established by the Board are approved by the Annual General Meeting. 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

The Code, the State's ownership policy and the formal work instructions for the Board of Directors all mandate that the Board shall, by means of a systematic and structured process, carry out an annual evaluation of the work of the Board. It shall be incumbent upon the Chairman of the Board to ensure that such evaluation work is carried out. The evaluation addresses both the processes employed in the Board's work and the performance of the Board itself, including the way in which the Board handles relevant economic, environmental, and social issues.

This year's evaluation of the work of the Board was conducted by means of a questionnaire answered by the Members of the Board, and the work was led by the Chairman of the Board. The questionnaire included questions about the working climate and cooperation, skills, the work of the Board, and the role of the Chairman. The results of the evaluation of the work of the Board have been presented to the Board in the form of a Board memorandum and been discussed at a Board meeting.

In February 2019, the Chairman of the Board notified the Government Offices of Sweden of the results of the evaluation, in accordance with the State's ownership policy. The Government Offices of Sweden's ongoing work with the nomination process also includes ongoing evaluations of the Boards of State-owned companies.

The Audit Committee

COMPOSITION

Systembolaget's Audit Committee in 2018 comprised Members of the Board Viveca Bergstedt Sten (Chairman of the Committee), Crister Fritzson, and Cecilia Halle. Thord Andersson was a member of the committee until the Board Meeting following election in April 2018, when he resigned. None of the members of the Audit Committee are part of the company's management. Systembolaget's CFO and its Director Corporate, Public and Legal Affairs, who is also the Secretary to the Committee, and the auditors participate in the Audit Committee meetings, as, when necessary, does Systembolaget's President and other members of the company management.

RESPONSIBILITIES

The Board has delegated to the Audit Committee the right to address certain issues, and to take decisions on the same, and has, furthermore, tasked the Committee with otherwise preparing and monitoring issues relating to Systembolaget's financial reporting and the efficiency of the company's internal controls, internal and external audits, and risk management. The Board has delegated the following issues to the Audit Committee and authorised the Committee to make decisions on the same: the annual determination of the orientation of internal audit work, the taking of decisions on material sustainability areas to be addressed in the Responsibility Report, together with the associated GRI indicators and key performance indicators, the determination of transparency reporting, and the evaluation and adoption of Systembolaget's investment regulations.

The Audit Committee is also tasked with familiarising itself with the auditing of the annual accounts, and with reviewing and monitoring the impartiality and independence of the Auditors and with paying particular attention, in this context, to whether the Auditors perform any other services for the company, over and above auditing engagements.

THE WORK OF THE COMMITTEE IN 2018

The Audit Committee has held five meetings during the year. The committee carries out ongoing follow-up work on the company's financial performance and a number of strategic key performance indicators of its operations. Systembolaget's auditors have, in addition, presented significant accounting and audit issues, as well as internal control and process issues. The Committee also addressed such issues as internal and external audits, the Responsibility Report, risk analysis, investment regulations, non-audit engagements performed by the Auditor, the final report for the new ERP system, the pension fund, and the annual evaluation of certain policies. The Chairman of the Committee provided the Board of Directors with regular information on the Committee's work.

The Remuneration Committee

COMPOSITION

Systembolaget's Remuneration Committee comprised two members in 2018: the Chairman of the Board, Kenneth Bengtsson, who is also the Chairman of the Remuneration Committee, and Committee member, Robert Damberg. None of the members of the Remuneration Committee are part of the company's management. Systembolaget's President attends the Committee's

meetings and the HR Director attends, as necessary.

RESPONSIBILITIES

The Remuneration Committee is tasked with preparing issues relating to remuneration and other terms of employment for senior executives. The Committee may, within the framework of the guidelines adopted by the Annual General Meeting, independently negotiate with the President and the Vice President with regard to remuneration and other conditions of employment. Decisions on remuneration and other terms of employment for the President and the Vice President are, however, the preserve of the Board of Directors.

The Remuneration Committee is also entitled, in cooperation with the President, to independently recruit and negotiate remuneration and other terms of employment for senior executives other than the President and the Vice President. Decisions on contracts of employment for senior executives (with the exception of the President and the Vice President) shall ultimately be taken by the Remuneration Committee.

THE WORK OF THE COMMITTEE IN 2018

The Remuneration Committee has held four meetings during the year. The Committee has, in customary fashion, drawn up proposed guidelines for terms of employment for senior executives of Systembolaget. The Committee has, furthermore, addressed issues relating to pay reviews, pensions, the company management's salary trend, evaluation of the work of the President of the company, the management talent pool and succession planning, and the annual evaluation and updating of certain policies. The Chairman of the Committee provided the Board of Directors with regular information on the Committee's work.

The Ethics and Sustainability Committee

COMPOSITION

The Ethics and Sustainability Committee comprised three members in 2018: Kerstin Wigzell (Chairman), Håkan Leifman, and Frida Johansson Metso. None of the members of the Ethics and Sustainability Committee are part of the company's management. Systembolaget's Director Corporate, Public and Legal Affairs, who is also the Secretary to the Committee, attend the Committee's meetings. Other members of the company management attend, as necessary.

RESPONSIBILITIES

The Ethics and Sustainability Committee is tasked with preparing and monitoring issues in relation to Systembolaget's sustainability work. The Committee's primary task is to act as a preparatory body and the Committee has no decision-making powers.

THE WORK OF THE COMMITTEE IN 2018

The Ethics and Sustainability Committee held two meetings during the year. The Committee has, amongst other things, addressed issues relating to the company's strategic goals for sustainable enterprise, the annual report from IQ, inclusiveness, sustainable enterprise, the work environment, including occupational health and safety work in connection with #metoo, the annual report from Compliance and Ethical Directors, and the annual evaluation of certain policies.

The President and senior executives

The President is responsible for the ongoing administration of the company's operations and leads the operations pursuant to the provisions of the Swedish Companies Act, other legislation and regulations, 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 the instructions for the President, etcetera. The President, in consultation with the Chairman, 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.

Systembolaget's management and steering structure

Systembolaget's company management comprises, in addition to the President, six persons. The company management meets every other week 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, amongst other things, source data for the various managers within

Systembolaget. These source data delimit the scope of the operating activities and take the form of internal steering documents, such as internal regulations and process, operational, steering, and information models.

Guidelines for remuneration and other terms of employment for senior executives

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

Assessment of the President

The Board shall, under the provisions of the Code, carry out a continual assessment of the President's performance and shall specifically address this issue, at least once a year. An assessment was carried out in the autumn under the leadership of the Chairman of the Board and examined the following elements of the President's performance: goal fulfilment, media analysis, and a verbal assessment that took place in February 2019 in the form of a discussion by the Board, led by the Chairman of the Board, of the President's performance and developmental potential. The results

PRESIDENT



Magdalena Gerger

Magdalena Gerger took over as President of Systembolaget in May 2009. Her previous positions include those of Vice President of Arla Foods, Divisional Manager within Nestlé Ltd in the UK. She is also a former Member of the Board of IKEA.

Born: 1964

Other directorships: Member of the Boards of Investor AB, Ahlsell AB and the Swedish Trade Federation.

Principal 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 or ownership of companies with which Systembolaget has significant commercial links.

of the assessment were very good across the board and revealed that the President is strongly supported by both the Board and the company management.

External audit

An external 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.

Deloitte AB was appointed as the auditors of Systembolaget at the Annual General Meeting, with Authorised Public Accountant, Didrik Roos, as the auditor in charge for the period up to and including the 2019 Annual General Meeting. The Annual General Meeting also approved the payment of auditors' fees to Deloitte AB, in accordance with approved invoices.

It was also announced at the Annual General Meeting that the Riksdag Board has, in accordance with a resolution dated 11 April 2018, appointed three Lay Auditors, namely Maria Plass, Jörgen Hellman and Lennart Axelsson, together with three Deputy Lay Auditors, namely Niklas Karlsson, Andrea Völkler and Amir Adan, for the period up to and including the 2019 Annual General Meeting.

Internal control

The Board of Directors is responsible, pursuant to the provisions of the Swedish Companies Act and the Swedish Code of Corporate Governance, for ensuring that the company has good internal controls and formalised routines that ensure compliance with

established principles for financial reporting and internal control. The responsibility also includes ensuring that the company's financial reporting is prepared in accordance with statutory requirements, applicable accounting standards, and other external requirements. The most important features of the company's systems for internal control and risk management in conjunction with the financial reporting are described below.

Systembolaget has established formalised processes for internal and external reporting. The external financial reporting of Systembolaget comprises interim reports, financial statements and the annual Responsibility Report.

CONTROL ENVIRONMENT

The basis for Systembolaget's internal control comprises the control environment, together with the organisation, decision-making paths, authority and responsibility. The control environment is documented and communicated in steering documents, such as policies, internal regulations, work routines and manuals, and the fundamental values communicated and operated upon by the Board and the company management. Systembolaget has internal functions for risk control, security and compliance. Internal audits are carried out by an external company.

Steering documents include the formal work plans for the Board, including the Board-appointed committees, the Instructions for the President, and the Financial authorisations for the company's employees.

The strict application of the duality principle, whereby no one person alone shall administer the entire processing chain and two mutually independent institu-

tions shall be used in conjunction with the valuation of financial assets, is one example of an important factor in the control environment.

RISK ASSESSMENT

Systembolaget conducts an annual, company-wide risk analysis. The stages of the risk analysis are as follows: Identify, evaluate, prioritise, manage and monitor risks. The risks are identified and evaluated by managers and key persons within the organisation, and by the company management. The risk analysis is prepared and approved by the company management and the Audit Committee. The Board adopts follow-up proposals and management of the highest priority risks is then assigned to operations managers. Progress is monitored by the company's management and the Audit Committee.

A financial risk analysis is carried out every other year and assesses every item in the Balance Sheet and Income Statement on the basis of specific criteria, namely materiality, the complexity of the valuation, previous errors, and the potential for fraud.

The assessment of the risk of errors in the financial reporting is also carried out on an ongoing basis as part of the day-to-day operations through the various control activities carried out.

CONTROL ACTIVITIES

The control activities are structured to prevent, identify and rectify errors in the financial reporting. Systembolaget's substantial liquid transactions and those that could potentially impact the results are, for example analysed daily. Business Control works in partnership with operations managers to monitor the way in which Systembolaget's operations are developing in relation

to the business plan, budget and set goals. Other members of the Accounts & Administration Department monitor 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.

The Board receives the results of the financial results and key performance indicator monitoring on a rolling basis throughout the year. Some areas are also presented to the Board in greater depth, such as indicators, key performance indicators, and projects. A dialogue is held with the Owner four times a year on Systembolaget's fulfilment of its mandate.

The prioritised, company-wide risks form the basis for the internal audit plan. The internal audit is independent and is conducted by an external company. Systembolaget's external auditors not only audit the annual report, but conduct ongoing reviews.

INFORMATION AND COMMUNICATION

Systembolaget's internal communication process ensures that information is disseminated in a structured way throughout the organisation. Steering documents, such as policies, internal regulations, work routines and manuals are, for example, available via Systembolaget's intranet. Work routines are also communicated via employee training programmes.

Our external reporting – interim reports, financial statements, and the annual Responsibility Report – is published on the omsystembolaget.se website.

MONITORING

The company management and the Board of Directors receive ongoing financial reports in order to monitor the

operations' development in relation to the business plan, budget, and established goals. The Audit Committee also receives regular reports on the results of external and internal audits, and on the operations' risk management activities. The Chairman of the Audit Committee reports back to the Board on material issues.

The Board of Directors



Kenneth Bengtsson, Chairman

Born: 1961

Principal education: Upper secondary school economics course graduate and internal training courses within the ICA system.

Other positions held: Chairman of the Boards of Ahlsell AB, Clas Ohlson, the Ersta Diakoni charitable organisation, Eurocommerce and the World Childhood Foundation. Member of the Boards of Herenco and Synsam.

Elected: 2014

Positions previously held: President & CEO of ICA AB, 2001–2012, Chairman of the Board of the Confederation of Swedish Enterprise, 2010–2013, and Chairman of the Board of the Swedish Trade Federation, 2005–2010.



Viveca Bergstedt Sten

Born: 1959

Principal education: LL.B. Stockholm University, B.Sc. (Economics and Business Administration), Stockholm School of Economics.

Other positions: Author and lecturer. Member of the Boards of the Swedish Red Cross Center for Tortured Refugees, and Eknö Hemman.

Elected: 2014

Positions previously held: Senior Legal Counsel & Corporate Secretary of PostNord AB, Senior Legal Counsel of LetsBuyit.com, Senior Legal Counsel of Amadeus Scandinavia. Member of the Boards of Svensk Kassaservice AB and Strålfors AB. Member of the Confederation of Swedish Enterprise Corporate Legal Reference Group.



Robert Damberg

Born: 1982

Principal education: International studies in sociology and political science at the Linnaeus University and Uppsala University.

Other positions: Member of the Board of Visit Linköping, District Chairman of the Östergötland branch of the Swedish Green Party, Political Secretary to Linköping municipality.

Elected: 2016

Positions previously held: County Council Commissioner, Uppsala County Council, 2014–2016, Political Secretary, 2011–2014 to Uppsala County Council, Green Party spokesman, 2010, Chairman of the Swedish Youth Temperance Organisation, UNF, 2005–2009.



Crister Fritzson

Born: 1961

Principal education: B.Sc. (Market Economics) from MIS in Stockholm, Insead.

Other positions held: President and CEO of SJ AB, Member of the Boards of Net Insight AB, Samtrafiken i Sverige AB, Almega Tjänsteförbunden, Svensk Turism AB, the Confederation of Swedish Enterprise, and the Railway Industry's Collaboration Forum. Chairman of the Association of Swedish Train Operating Companies and CER – the Community of European Railway.

Elected: 2012

Positions previously held: CEO of Boxer, President & CEO of Teracom Group. Chairman of the Boards of PlusTV Finland and Boxer Danmark.

The Board of Directors



Cecilia Halle

Born: 1969

Principal education: B.Sc in Local Government Administration, specialising in international organisations, at Uppsala University.

Other positions held: Senior Advisor and Group Manager for the Public Health & Medical Care Unit of the Ministry of Health & Social Affairs. Chairman of the National Expert Group for improving accessibility in cancer care. Sweden's representative in the EU's High-Level Expert Group on health.

Elected: 2017

Positions previously held: Under-Secretary the Public Health & Medical Care Unit of the Ministry of Health & Social Affairs. Special Advisor to the Global Cooperation Unit, Ministry for Foreign Affairs.



Barbro Holmberg

Born: 1952

Principal education: B.Sc. in Social Work, specialising in local government administration.

Other positions held: Chairman of the National Government Service Centre. Member of the Boards of the University of Gävle and Lantmäteriet (the Swedish National Land Survey), the Riksdag Remunerations Board, the Swedish Bar Association's Disciplinary Committee, Orbaden Spa & Resort, and Orsjö AB.

Elected: 2018

Positions previously held: Chairman of the Municipal and County Boundaries Committee, Gävleborg County Governor, private consultancy company focusing on alcohol and narcotics issues.



Frida Johansson Metso

Born: 1984

Principal education: Registered Psychologist, Uppsala University.

Other positions held: Psychologist at the Transcultural Centre, Stockholm County Council, Member of the Board of the Mind Foundation.

Elected: 2016

Positions previously held: Assistant Operations Manager at the Red Cross Centre for Tortured Refugees, Chairman of the Swedish Liberal Party Youth Association, LUF, 2007-2010.



Håkan Leifman

Born: 1963

Principal education: Ph.D. (Sociology) from Stockholm University.

Other positions held: Regional Director for Planet Youth (Nordic countries), private business specialising and researching alcohol, tobacco, and narcotics issues, doctor and researcher at the Karolinska Institute and member of the Swedish Standards Institute's supervisory council.

Elected: 2014

Positions previously held: Director of the Swedish Council for Information on Alcohol and Other Drugs (CAN), Member of the Board of SAD (the Swedish Association for Alcohol & Drug Research), and Member of Svenska Spel's Science Council.

The Board of Directors



Kerstin Wigzell

Born: 1945

Principal education: Behavioural and Social Sciences at Stockholm University.

Other positions held: Vice Chairman of Swedish Pensions Agency. Member of the Boards of the University of Linköping and the National Swedish Police Board's Ethics Council. Member of the Board of the Swedish Agency for Health and Care Services Analysis.

Elected: 2009

Positions previously held: 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. Chairman of the Boards of Stockholm Academy of Dramatic Arts, and the Swedish Research Council for Health, Working Life and Welfare.

The Board of Directors – employee representatives



Robert Adrell, Member

Born: 1964

Principal education: Studied chemistry, political science, history, and economic history at the University of Gothenburg.

Other positions held: Employed as a salesperson and drinks tasting supervisor since 1987, member of the Board of Systembolaget's Personnel Association (SPF)/ Unionen, Section Chairman of western branch of SPF/Unionen, Sales Personnel.

Appointed: 2018



Maria Nilsson, Member

Born: 1965

Principal education: Social Sciences courses at upper secondary school, and the College of Printmaking Arts in Stockholm.

Other positions held: Employed since 1988. Chairman of Systembolaget's Personnel Association, SPF Unionen, Chairman of the Stockholm branch of the Unionen trade union.

Appointed: 2015



Karin Larsson, Deputy

Born: 1958

Principal education: Upper secondary school courses in health care.

Other positions held: Employed as a member of the sales team since 1989. Member of the Board of Systembolaget's Staff Association, Member of the Board of the Pension Foundation, Coordinating Work Environment Representative (SAMO) for Systembolaget. Association Auditor, Unionen.

Appointed: 2012



Nils Undall-Behrend, Deputy

Born: 1954

Principal education: Upper secondary school science courses, and mechanical engineering.

Other positions held: Employed since 1982, Store Manager since 1991.

Appointed: 2015

Company management



Magdalena Gerger, President

Born: 1964

Employed: 2009

Education and previous positions: B.Sc. (Economics and Business Administration) and MBA, Stockholm School of Economics.

Ms Gerger's previous positions include those of Marketing Director at Arla Foods and Divisional Manager at Nestlé Ltd in the UK.

See page 90 of the Corporate Governance Report for further information about the President.



Marie Nygren, Vice President, Communication, and Purchasing Director

Born: 1965

Employed: 2007

Education and previous experience: B.Sc. (Economics and Business Administration), Stockholm University.

Ms. Nygren's previous positions include those of CEO of Adara (subsidiary of Apoteket AB), Purchasing & Supply Chain Director at Coop Sweden and CEO at Stor&Liten AB.



Tobias Frohm, Human Resources Director

Born: 1965

Employed: 2011

Education and previous positions: Human Resources Specialist degree from Linköping University.

Mr Frohm's previous positions include those of HR Director at Lernia AB, HR Lead Sweden at Accenture and a Manager at Consultus Leadership Partner AB.



Charlotte Hansson, Chief Financial Officer

Born: 1969

Employed: 2015

Education and previous positions: M.Sc. from the University of Gothenburg School of Business, Economics and Law.

Ms Hansson has previously worked as the CFO of Cision AB and of the service company, Addici AB. She has also worked in a variety of positions within the Modern Times Group (MTG).

Company management



Hans Jungland, Sales Director

Born: 1965

Employed: 2003

Education and previous positions: Internal training at executive level.

Mr Jungland has previously worked as a Departmental Manager/Category Manager at Coop, and as a Sales Director at Stor & Liten.



Eva Listi, IT Director

Born: 1962

Employed: 2016

Education and previous positions: Studied chemistry, biology, law and economics at Stockholm University, and internal and external training at executive level.

Ms Listi has previously worked as Deputy CIO at PostNord AB, and as CIP at Ericsson and in a variety of senior IT positions at AstraZeneca, Pfizer and Pharmacia.



Malin Sandquist, Director Corporate, Public and Legal Affairs

Born: 1972

Employed: 2012

Education and previous positions: LL.B. at Uppsala University and internal and external training at executive level.

Ms Sandquist was formerly the Senior Legal Counsel at Systembolaget and has previously worked as a lawyer, most recently as a joint owner of Advokatfirman Hammarskiöld & Co.

Ten-year overview

	2018	2017 ¹	2016	2015	2014	2013	2012	2011	2010	2009
Profit/loss (SEK m)										
Net sales (including alcohol tax)	30,907	29,355	28,469	27,645	26,431	25,709	25,099	24,416	24,111	23,360
Net sales (excluding alcohol tax)	18,692	17,511	17,034	16,379	15,901	15,589	15,003	14,368	14,004	13,337
Gross profit/loss	3,903	3,700	3,591	3,488	3,382	3,303	3,201	3,115	3,051	2,961
Operating profit/loss	227	270	217	179	370	168	270	159	339	424
Net financial items	-2	58	47	-3	56	208	58	119	-24	109
Profit before tax	232	353	368	256	324	317	248	278	315	533
Net profit/loss for the year	180	282	289	198	251	287	180	223	223	406
Financial position (SEK m)										
Fixed assets	3,665	3,439	2,797	2,300	2,520	2,258	1,921	1,697	1,916	2,296
Current assets	2,266	2,424	3,075	3,517	3,236	3,205	3,222	3,339	3,257	2,823
Shareholders' equity	1,503	1,605	1,612	1,521	1,574	1,610	1,411	1,390	1,469	1,591
Liabilities	4,319	4,258	4,260	4,297	4,182	3,853	3,732	3,646	3,704	3,528
Balance Sheet total	5,931	5,863	5,872	5,817	5,756	5,463	5,143	5,036	5,173	5,119
Cash flow (SEK m)										
Cash flow from operating activities	624	529	306	480	632	456	574	343	537	762
Cash flow from investment activities	-57	-918	-638	-117	-416	-530	-318	138	-204	34
Cash flow from financing activities	-265	-246	-182	-251	-287	-90	-159	-332	-345	-201
Cash flow for the year	302	-635	-514	112	-71	-164	97	149	-12	595
Strategic key performance indicators										
Customer Satisfaction Index (CSI)	84.6	84.3	84	84	83	82	81	79	78	78
Proof of age checks, %	95.6	95.6	96	96	97	96	95	94	94	93
Opinion Index (OPI), %	76.5	76.9	76	77	74	72	71	68	66	66
Total sick leave, %	4.5	4.8	5.2	5.3	4.9	-	-	-	-	-
Climate impact of own operations, CO ₂ e	2,591	3,583	3,855	-	-	-	-	-	-	-
Return on shareholders' equity, %	11.4	17.2	18	12	14	18	13	16	15	27
Equity/assets ratio, %	25.7	27.8	28	28	31	31	29	28	28	31
Cost-effectiveness	2.3	2.2	2.3	-	-	-	-	-	-	-
Alcohol Index	61.4	62.0	63	65	62	66	-	-	-	-
Total consumption, litres of pure alcohol per head of population aged 15+	9.0	9.0	9.2	-	-	-	-	-	-	-
Systembolaget's share of consumption, % ²	62.8	63.2	62	-	-	-	-	-	-	-
Other key performance indicators										
Trading margin, %	12.6	12.6	12.6	12.6	12.8	12.8	12.8	12.8	12.7	12.7
Operating margin, %	0.7	0.9	0.8	0.6	1.4	0.7	1.1	0.7	1.4	1.8
Stock turnover rate, multiple	22.4	21.8	22.7	22.9	23.5	23.9	24.7	24.5	25.7	25.4
Yearly employees ³	3,496	3,359	3,258	3,159	3,101	3,038	2,994	3,113	3,080	3,037

¹ All key performance indicators are reported to one decimal place, as of 2017. ² Reported one year in arrears. ³ The "yearly employees" metric has replaced the former "average number of employees" metric", as of 2017. The comparison figures are adjusted in line with the new calculation.

Income Statement

SEK M	2018	2017
Net sales	30,907	29,355
Cost of goods sold	-27,004	-25,655
Gross profit/loss	3,903	3,700
Selling expenses	-2,942	-2,767
Administrative expenses	-738	-669
Other operating income	6	7
Other operating expenses	-2	-1
Operating profit/loss	227	270
Income from participations in Group companies	17	43
Income from other securities and receivables classified as fixed assets	-19	15
Interest income	0	0
Interest expenses and similar P/L items	0	0
Profit/loss after financial items	225	328
Appropriations	7	25
Profit/loss before tax	232	353
Tax	-52	-71
Net profit/loss for the year	180	282

Statement of comprehensive income

SEK M	2018	2017
Net profit/loss for the year	180	282
Other comprehensive income	-	-
Total comprehensive income for the year	180	282

Balance Sheet

ASSETS

SEK M	31-12-2018	31-12-2017
Fixed assets		
Tangible fixed assets		
Buildings and land	28	30
Equipment, fixtures and fittings	426	412
Construction work in progress	30	71
Total tangible fixed assets	484	513
Financial fixed assets		
Participations in Group companies	0	0
Deferred tax receivables	34	30
Other long-term securities holdings	3,140	2,886
Other long-term receivables	7	10
Total financial fixed assets	3,181	2,926
Total fixed assets	3,665	3,439
Current assets		
Inventory	1,076	1,169
Receivables		
Accounts receivable	8	8
Receivables from Group companies	0	0
Other receivables	7	5
Prepaid costs and accrued income, Group companies	7	7
Prepaid costs and accrued income	142	135
Total receivables	164	155
Short-term investments	0	376
Cash and bank balances	1,026	724
Total current assets	2,266	2,424
TOTAL ASSETS	5,931	5,863

SHAREHOLDERS' EQUITY AND LIABILITIES

SEK M	31-12-2018	31-12-2017
Shareholder's equity		
Restricted equity		
Share capital (360,000 shares)	360	360
Statutory reserve	72	72
Total restricted equity	432	432
Non-restricted equity		
Profit/loss brought forward	891	891
Net profit/loss for the year	180	282
Total non-restricted equity	1,071	1,173
Total shareholders' equity	1,503	1,605
Untaxed reserves		
Tax allocation reserve	25	32
Total untaxed reserves	25	32
Provisions		
Long-term provisions	84	85
Total provisions	84	85
Long-term liabilities		
Long-term liabilities to Group companies	85	84
Other liabilities	23	23
Deferred tax liabilities	0	-
Total long-term liabilities	108	107
Current liabilities		
Accounts payable	3,761	3,657
Current liabilities to Group companies	3	1
Current tax liability	5	12
Other liabilities	239	165
Accrued costs and prepaid income	203	199
Total current liabilities	4,211	4,034
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	5,931	5,863

Change in shareholders' equity

SEK M	Restricted equity		Non-restricted equity		Total shareholders' equity for the year
	Share capital	Statutory reserve	Profit/loss brought forward	Net profit/loss for the year	
Opening balance, 1 January 2017	360	72	891	289	1,612
Transfer to non-restricted reserves			289	-289	-
Net profit/loss for the year				282	282
Dividend paid to the owner			-289		-289
Closing balance, 31 December 2017	360	72	891	282	1,605
Opening balance, 1 January 2018	360	72	891	282	1,605
Transfer to non-restricted reserves			282	-282	-
Net profit/loss for the year				180	180
Dividend paid to the owner			-282		-282
Closing balance, 31 December 2018	360	72	891	180	1,503

Cash Flow Statement

SEK M	2018	2017
Operating activities		
Profit/loss before tax	232	353
Adjustment for items not included in the cash flow		
Depreciation and write-downs	157	162
Capital gain/loss	11	6
Other	56	-33
Cash flow from changes in working capital		
Change in inventory	93	103
Change in receivables	-8	21
Change in liabilities	183	-2
Change in financial receivables/liabilities from/to subsidiaries	4	10
Cash flow from operating activities after changes in working capital	728	620
Tax paid	-104	-91
Cash flow from operating activities	624	529
Investment activities		
Acquisition of tangible fixed assets	-131	-179
Acquisition/sale of financial fixed assets	74	-739
Cash flow from investment activities	-57	-918
Financing activities		
Dividend paid to the owner	-282	-289
Dividend received from AB K14 Näckströmsgatan	17	43
Cash flow from financing activities	-265	-246
Cash flow for the year	302	-635
Cash and cash equivalents at the beginning of the year	724	1,359
Cash and cash equivalents at the end of the year	1,026	724

Note 1 – Accounting principles

The following is a presentation of the significant accounting principles applied during the preparation of the annual accounts.

General

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 and the postal address is SE-103 84 Stockholm, Sweden. Systembolaget holds a monopoly on retail sales of strong beer, wine, and spiritous drinks in Sweden. Systembolaget conducts operations that are related to the retail sector operations, but which are not captive, via two separate, wholly-owned subsidiaries – IQ-initiativet AB and AB K14 Näckströmsgatan.

The annual accounts for the 2018 financial year were approved for publication by the Board of Directors and the President on 19 March 2019 and will be submitted to the Annual General Meeting on 11 April 2019.

Bases for preparation

AMOUNTS AND FOREIGN CURRENCIES

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. 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.

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 day. Exchange rate differences arising in conjunction with conversion are reported in the Income Statement.

DATES

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

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.

Systembolaget does not, as of 1 January 2012, prepare any consolidated accounts in accordance with chapt. 7, §3a of the Swedish Companies Act. All of the

subsidiary companies are deemed both individually and collectively to have no material importance and Systembolaget AB's annual accounts for the legal entity provide a true and fair view of the company's position and results.

EXEMPTIONS FROM IFRS

Operating segments

IFRS 8 Operating segments is not applicable to Systembolaget as the operations are conducted within one business segment and one geographic market.

Pensions

The company's defined benefit pension undertakings have, in accordance with the simplification rule in RFR2, been calculated and reported on the basis of the Swedish Pension Obligations Vesting Act, which deviate from the provisions of IAS 19.

Development costs

All development costs in respect of, for example, business systems, are carried as expenses in accordance with the exemption in respect of IAS 38.57 in RFR 2.

Untaxed reserves

The amounts allocated to untaxed reserves comprise taxable temporary differences. The deferred tax liability attributable to the untaxed reserves in the company is not reported separately due to the link between accounting and taxation.

Leasing

All leasing costs are reported, in accordance with the

exemption in respect of IAS 17:20-32 and 36-48 of RFR 2, as operational leasing.

New and amended standards

New or amended IFRS standards and new interpretations that have come into force on 1 January 2018 have had no material effect on Systembolaget's financial reports and no specific transition method has, therefore, been applied.

IFRS 9 FINANCIAL INSTRUMENTS

The standard replaced IAS 39 Financial Instruments: Recognition and Measurement. It includes regulations governing the classification and valuation of financial assets and liabilities, the impairment of financial instruments, and hedge accounting.

Systembolaget's financial instruments primarily comprise investments in the form of securities holdings, cash and cash equivalents, and accounts payable. Systembolaget currently has no loans, accounts receivable or other receivables that total significant amounts. There is also, at present, no hedge accounting. Systembolaget is of the opinion that the reporting of the current types of financial instrument is not materially affected by the new standard.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The standard addresses the reporting of revenues from contracts and from sales of certain non-financial assets. It has replaced IAS 11 Accounting for Construction Contracts and IAS 18 Revenues, and associated interpretations and has been applied from 1 January 2018.

Systembolaget's revenues are generated, in every significant respect, by the sale of drinks to consumers. Sales are recognised as revenue in conjunction with the sale of the product to customers. Sales are paid for in cash or by credit card. Systembolaget is of the opinion that the recognition of these revenues is not affected by the new standard. Systembolaget may, in future, acquire new types of revenues, but as is apparent from the annual accounts, the scale of other types of revenue is currently negligible.

Future standards

The future standards, amendments and interpretations that will or may affect the accounts in 2019 or thereafter are presented below.

IFRS 16 LEASES

IFRS 16 Leases will replace IAS 17 Leases. IFRS 16 introduces a "right of use model" and requires the lessee to report virtually all leasing agreements in the Balance Sheet. Classification as operational and financial leasing agreements shall, therefore, not occur. Leasing agreements that are non-material or which have a leasing period of 12 months or less are exempted from this requirement. Depreciation of the asset and interest costs on the liability are reported in the Income Statement. The new standard includes more comprehensive disclosure requirements than the current standard.

IFRS 16 is applicable to financial years commencing on 1 January 2019 and early application is permitted. The standard has been adopted by the EU. The Swedish Financial Reporting Board has agreed the incorporation of an equivalent of the current exemption for financial

leasing agreements into RFR 2, which is the exemption rule currently applied by Systembolaget.

Important estimates and assessments

Systembolaget 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.

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 risks that Systembolaget has deemed to exist for the company are described under Risks and sensitivity analysis on page 78.

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 true and fair view of Systembolaget's primary activity. Revenues from Systembolaget's retail sales include alcohol tax, which is a State excise duty. Changes to the rate of alcohol tax affect both Systembolaget's revenues and the cost of goods sold, and changes to the rate of alcohol tax consequently have no effect on the gross profit.

Income is generated, in every significant respect, by the direct sale of drinks, via Systembolaget's stores, to consumers. Sales of gift items and fees paid in conjunction with drinks auctions, amongst other things, are also included in the net sales. The percentage of revenues that derive from other sales channels, such as agent sales and home delivery orders, is not significant.

Systembolaget offers gift cards which are recognised as revenue in conjunction with their redemption. The gift cards are valid for a period of 5 years. Systembolaget also takes payment in advance for home delivery orders. These comprise such a small percentage of revenues, however, that they are not material.

Sales are reported as income, in every significant respect, in conjunction with the sale of the goods to the customer. Sales are paid for in cash or by debit/credit card. Systembolaget offers a 14 day right of withdrawal period. The percentage of returns is insignificant and has no material effect on revenues.

Revenues are valued at the fair value of goods and services sold, excluding Value Added Tax.

Interest income is recognised as revenue over a rel-

evant 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 functions at the head office.

Leasing

All leasing costs are reported in accordance with the exemption in accordance with IAS 17:20–32, and with 36–48 of RFR 2, as operational leasing. The company

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, and is calculated for the taxable result for a period, including adjustments to current tax for previous periods. Current tax is calculated and valued on the basis of the tax rules and tax rates applicable on the closing day, which was 22 per cent as of 31 December 2018.

Deferred tax is calculated using the Balance Sheet method whereby temporary differences, that is 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 for tax receivables expected to be realised in 2019 and 2020 is 21.4 per cent. The tax rate for tax receivables expected to be realised in or after 2021 is 20.6 per cent.

Current tax and deferred tax are reported in the Income Statement.

Information on related parties

Systembolaget defines related parties as Group companies, pension funds, State-owned companies in which the State has a controlling influence, and senior executives, Members of the Board and close family members of the same. Systembolaget applies IAS 24, Related Party Disclosures, and disclosures regarding transactions with State-owned companies in which the State has a controlling influence hence only need to be made if the value of the transactions is 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 an arm's length basis.

Tangible fixed assets

A tangible fixed asset is reported as an asset in the Balance Sheet when the historical cost 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 historical cost 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.

Intangible assets

Additional development costs, for example for business systems, have been carried as expenses since 2012 in accordance with the exemption in respect of IAS 38.57 in RFR 2. Development costs reported before 2012 have been reported as intangible assets when the following criteria are met:

- the intangible asset is identifiable;
- Systembolaget has control of the assets;
- the asset generates future economic benefits; and
- the asset's historic cost 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 historical cost, less any accumulated depreciation and any accumulated write-downs.

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	33 years
Machinery, fixtures and fittings	3–5 years
In-store renovations	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 impairment test 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. 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, that is 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 capitalised immediately in the Income Statement.

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

reported, after depreciation, if no write-down had ever occurred.

Remuneration to employees

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

PENSIONS

The company has both defined benefit and defined contribution pension plans, primarily within the collective agreement-based ITP occupational pension plan, but also has in-house pension plans. The defined contribution plans are financed by the payment of premiums to insurance companies or administration companies. The defined benefit pension plans are primarily secured via Systembolaget's Pension Fund and through provisions made in the Balance Sheet. The provisions reported in the Parent Company's Balance Sheet refer primarily 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. Systembolaget has elected not to report them in the Balance Sheet under the Pension Provisions heading; rather, they are reported under the "Long-term provisions" heading.

A defined benefit pension plan is a pension plan that specifies the pension benefit amount an employee

will receive after retirement, based on age, duration of service, and pensionable salary. The company has an obligation to disburse the agreed remuneration to current or former employees Systembolaget and the company, in every significant respect, carries the actuarial risk and the investment risk. The calculation of the pension undertaking is based on the salary and pension level obtaining on the closing day.

The PRI bases for valuation are those used to calculate the pension liability that relates to defined benefit ITP occupational pension plan pensions. The Swedish Securing Pension Commitments Act's bases for valuation and the Swedish Financial Security Authority's instructions for calculating pension liabilities, FFS 2007:24, in accordance with the 2018 bases, are used as bases for valuation for other defined benefit pension liabilities.

The company also has defined contribution pension plans, primarily within the ITP occupational pension plan. In defined contribution pension plans, the company's undertaking is limited to the amount that the company 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 works for the company.

SEVERANCE PAYMENTS

Severance payments are reported when Systembolaget is 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 cash and cash equivalents, accounts receivable, accounts payable and financial investments.

RECOGNITION IN AND ELIMINATION FROM THE BALANCE SHEET

A financial asset or financial liability is reported in the Balance Sheet when the company becomes a party to the instrument's contractual terms and conditions. A receivable is reported when the company has fulfilled its commitment and a contractual obligation exists for the counterparty to pay, even if an invoice has not yet been raised. Accounts receivable are reported in the Balance Sheet when an invoice has been raised. A liability is reported when the counterparty has fulfilled its commitment and a contractual obligation to pay exists, even if an invoice has not yet been received. Accounts payable are reported when an invoice is received.

A financial asset is eliminated from the Balance Sheet when the contractual rights are realised, when risks and benefits are transferred to another party, when rights to the cash flow cease, or when the company loses control over the asset. This applies equally to parts of a financial asset. A financial liability is eliminated from the Balance Sheet when the contractual commitment is fulfilled or otherwise ceases. This applies equally to parts of a financial liability. Acquisitions and divestments of financial assets are reported on the trade date. The trade date constitutes the date when the company undertakes to acquire or divest the asset.

CLASSIFICATION AND VALUATION

Financial assets are classified using the business model in which the asset is managed and the nature of its cashflow.

If the financial asset is held within the framework of a business model whose objective is to collect contractual cash flows, and the contractual terms and conditions of the financial asset give rise, at set points in time, to cash flows that exclusively comprise payments of principals and interest on the outstanding principal, the asset is reported at the amortised cost. This business model is categorised as “hold to collect”.

If the financial asset is held in a business model whose objective can be achieved both by collecting contractual cash flows and by selling financial assets, and the contractual terms and conditions of the financial asset give rise, at set points in time, to cash flows that exclusively comprise payments of principals and interest on the outstanding principal, the asset is reported at fair value via Other comprehensive income. This business model is categorised as “hold to collect and sell”.

All other business models where the purpose is speculation, held for trading, or where the nature of the cash flow excludes other business models, entail reporting at fair value via the Income Statement. This business model is categorised as “other”.

Systembolaget applies the “hold to collect” business model for loan receivables, accounts receivable, and other current receivables, and the assets are accordingly reported at amortised cost. Loan receivables and accounts receivable are financial assets that have fixed or fixable payments and which are not quoted on an active market.

Financial instruments

31-12-2018	Amortised cost	Fair value via the Income Statement	Reported value
Financial assets, SEK m			
Other long-term securities holdings		3,140	3,140
Other long-term receivables	7		7
Accounts receivable	8		8
Accrued income	2		2
Short-term investments		-	0
Cash and cash equivalents		1,026	1,026
Total financial assets	17	4,166	4,183
Financial liabilities, SEK m			
Accounts payable	3,761		3,761
Accrued costs	203		203
Total financial liabilities	3,964	-	3,964

Systembolaget applies the “other” business model with regard to other long-term securities holdings, short-term investments, and cash and cash equivalents, which means that they are valued at fair value via the Income Statement. Cash and cash equivalents comprise cash and bank balances and short-term liquid investments with a maximum term of 90 days, which can easily be converted to a known sum and which are only exposed to an insignificant risk of fluctuations in value.

Accounts payable are primarily in Swedish kronor and are valued at amortised cost. The expected term of accounts payable is, however, short, and the liability is, therefore, reported in a nominal amount without discounting. Current account overdrafts are valued at amortised cost using the effective interest method. Other financial liabilities are classified at amortised cost.

FAIR VALUE

The fair value of financial assets and liabilities traded in an active market is determined with reference to the listed market price. The fair value of other financial assets and liabilities is determined in accordance with generally accepted valuation models, such as the discounting of future cash flows and by means of information gathered from current market transactions.

The reported value of all financial assets and liabilities is deemed to constitute a good approximation of their fair value, unless otherwise specified.

AMORTISED COST AND THE EFFECTIVE INTEREST METHOD

The amortised cost of a financial asset is the amount at which the financial asset is valued in conjunction with it first being reported, minus the principal, plus the accumulated write-down using the effective interest method of any difference between the principal and the outstanding principal, adjusted for any write-downs. The reported gross value of a financial asset comprises the amortised value of a financial asset before adjustments for any loan-loss reserve. Financial liabilities are reported at the amortised value using the effective interest method or at fair value via the Income Statement.

The effective interest rate is the interest rate which, in conjunction with a discounting of all future estimated cash flows over the anticipated term, results in the initially reported value of the financial asset or financial liability.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and reported

with a net sum in the Balance Sheet when a legal right to offset exists and when the intention exists to regulate the items in a net sum or to simultaneously realise the asset and regulate the liability.

Inventory

The inventory has been valued at whichever is the lower of the historical cost and the net sales value. The historical cost 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 inventory 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.

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 settle 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 settle 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.

Contingent liabilities

A 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 financing 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 financing activities.

Events after the Balance

Sheet date

Events after the balance sheet date are defined as events that occur during the period from the balance sheet date 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 its omission could affect the financial decisions that users take on the basis of the financial reports is, however, provided.

Proposed appropriation of profits and signatures

The Board of Directors proposes that the profits available for allocation, comprising SEK 1,070,548,183, be appropriated as follows:

Dividend (SEK 499.3 per share)	179,735,498
Carried forward	890,812,685
Total	1,070,548,183

It is proposed that the dividend be disbursed on 25 April 2019.

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 company. The dividend is also deemed justifiable from the point of view of Systembolaget'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 results. The undersigned also affirm that the accounts have been prepared on the basis of the Annual Accounts Act and the Swedish Financial Supervisory Authority recommendation, RFR2 Reporting for legal entities, and that they provide a true and fair view of the company's position and results. It is further affirmed that the Directors' Report provides a true and fair view of the performance of the company operations, their position and their result, and that it describes significant risks and uncertainty factors faced by the company.

Stockholm, 7 March 2019

Kenneth Bengtsson
Chairman

Viveca Bergstedt Sten
Member

Robert Damberg
Member

Crister Fritzon
Member

Cecilia Halle
Member

Barbro Holmberg
Member

Frida Johansson Metso
Member

Håkan Leifman
Member

Kerstin Wigzell
Member

Robert Adrell
Employee representative

Maria Nilsson
Employee representative

Magdalena Gerger
President

Our audit report was submitted on 7 March 2019
Deloitte AB

Didrik Roos

Sustainability notes

About our Responsibility Report

The Responsibility Report integrates our annual accounts and our Corporate Governance Report with our Sustainability Report. Systembolaget began producing a more integrated report in 2017, in order to describe our work with sustainability issues in line with the 2017-2020 strategic plan, where sustainability formed an integral part. This strategic plan is still in force, so the fundamental structure of the 2018 sustainability report is the same as in the preceding year. The reporting is, therefore, structured in line with the three strategic shifts of our current strategic plan:

- Continue to impress our customers
 - Comprises significant sustainability issues in relation to the customer interaction and sustainability issues in relation to our range and supply chain. This section of the 2018 report also includes details of Systembolaget's own environmental and climate work, and our ethics and anti-corruption work.
- Increase awareness of alcohol's risks and why Systembolaget exists
 - Comprises, as before, our work to limit the harmful effects of alcohol.
- Creating optimum conditions
 - Comprises sustainable performance environments and our efforts to reflect society's diversity. This section also addresses our work with IT in order to clarify how important this is in creating optimum conditions. This strategic shift also includes our strategic key performance indicators in the financial area.

Climate and environmental issues are integrated with social aspects in our work on establishing a sustainable supply chain.

The subsidiary area, environment and climate, is now included in the presentation of the first strategic shift to be able to provide a comprehensive overview of our sustainable supply chain management work from both perspectives. Contacts with stakeholders also revealed that environmental and climate issues as well as ethics and anti-corruption affect customers' perceptions of Systembolaget. We have, therefore, decided to report on the ethics and anti-corruption area within the same strategic shift rather than, as was previously the case, including it in the third "creating optimum conditions" shift.

Systembolaget's 2018 Responsibility Report continues to draw inspiration from the Integrated Reporting (IR) regulations issued by the International Integrated Reporting Council (IIRC), with regard to the presentation of our operations' value creation and business model. IR is, however, a principles-based framework without specific reporting criteria, and Systembolaget has consequently elected to continue preparing its sustainability reporting in accordance with GRI* and has, therefore, shifted to reporting in accordance with currently applicable GRI Standards.

GRI, the Global Reporting Initiative, is a global network that issues regulations containing guidelines for sustainability reporting, and this is the eleventh successive year that we have reported in accordance

with these guidelines. In 2018, we have applied the GRI Standards for the first time, and this report has been prepared in accordance with the GRI Standards Core option. The most recent report was published on 21 March 2018. This year's report has, as in previous years, been subject to review by Systembolaget's external auditors, and a full-scale audit has, in addition, been conducted of the key performance indicator sick leave percentage as part of our ambition to transition towards an audit-level review of our entire integrated report. See the Auditor's review report in respect of the Sustainability Report on page 136.

The financial reports for 2018 comprise Systembolaget AB only, while the Sustainability Report for the 2018 financial year comprises the operations of Systembolaget AB and the wholly owned subsidiary company, IQ-initiativet AB, which are material from a sustainability perspective. Sustainability data that falls outside of the information mandate of IQ-initiativet, or which refers to Systembolaget's other subsidiary companies is not, however, included as these data have no material significance in relation to Systembolaget as a whole.

Systembolaget currently conducts its measurement and monitoring of work in relation to sustainability issues at company level. In cases where the GRI guidelines encourage reporting per region, therefore, the region corresponds to Sweden as a whole. We continue, as far as possible, to report non-financial key performance indicators that reflect the monitoring and follow-up work carried out within the organisation and to apply only those GRI disclosures that provide added

value for our sustainability management. Systembolaget has reported 8 GRI disclosures and 14 company-specific key performance indicators for 2018.

There is at least one key performance indicator or GRI disclosure for every material sustainability area within the three strategic shifts, in order to ensure monitoring and reporting. The materiality analysis shows that the most material sustainability issues are the same as in the preceding year, and the majority of company-specific key performance indicators and GRI disclosures included in the GRI index at that time are, therefore, still relevant.

The only change made relates to the key performance indicator for range monitoring. We propose, in order to reflect that many sustainability labelling schemes are of relevance to our stakeholders' decisions and our contribution to sustainable development, over and above the organic ones, to replace the organic products' share of sales key performance indicator with two broader ones: CSI* – range and offering, and CSI – Sustainability/environment.

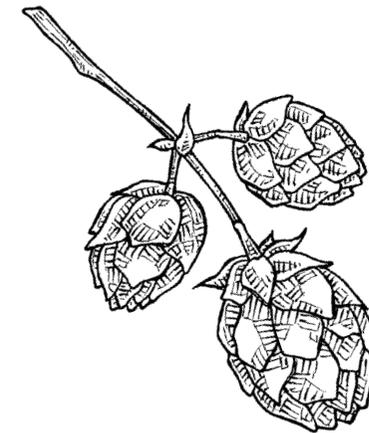
We propose, instead, to report the organic products' share of sales key performance indicator as part of our sustainability management, but outside of the scope of the GRI index. The same applies to a number of strategic indicators, such as the Alcohol Index* and average alcohol consumption* which, as in previous years, will be addressed within our integrated reporting but outside of the scope of the GRI index.

Measurement and calculation methods are, where necessary, described in conjunction with the respective indicator. The compilation and quality assurance of the

sustainability reporting's company-specific key performance indicators and GRI disclosures is conducted by Systembolaget's GRI Controller. Target figures and comparative figures are reported, where relevant. All monitoring data for our carbon dioxide emissions is, as has been the case since 2015, calculated in line with the Green House Gas Protocol. Any amendments to comparison figures from previous years' reports are noted under the disclosure in question.

Systembolaget's annual internal audit reviews a number of operational areas, including our anti-corruption work, which is based on a risk analysis that assesses relevance based on a jointly weighted risk value. This is described in greater detail in the Corporate Governance Report on page 82.

Contact person at Systembolaget
Press Manager, Lennart Agén
Tel. (switchboard): 08-503 300 00



Stakeholder engagement

We are engaged in ongoing dialogues with the following stakeholder groups: owners, customers, employees, suppliers, producers and stakeholder organisations, and with society as a whole. We conduct questionnaire-based surveys at least once a year and also hold roundtable discussions and carry out surveys based on need and specific subject areas. The results of our questionnaire-based surveys and dialogues are used in, amongst other things, Systembolaget's strategic work, and form the basis for our strategic key ratios. We usually conduct some form of stakeholder mapping work to ensure we target the right stakeholders within the stakeholder groups, in line with the occasion and the dialogue objective, in order to determine which stakeholders are likely to be able to make a contribution. The dialogues conducted in 2018, together with a brief description of what these dialogues led to, are presented below.

Stakeholder group	Important key issues	Examples of dialogues and what we have done to address these key issues
Society	Systembolaget and society	<p>Systembolaget meets regularly with politicians and those active in party politics to engage in dialogues about Systembolaget's operations and social mandate. We pick up on and respond to topical issues by offering in-store work experience, through roundtable discussions, and through exhibitions at political parties' major events, etc. The most commonly raised issues in 2018 concerned the breadth and depth of the range, store establishments, and the local and small-scale range.</p> <p>A growing interest in issues relating to Systembolaget's opening hours and our digital offering was also noted during the year.</p>
	Opinion surveys	<p>Every month, a nationally representative selection of people aged 15+ are asked "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" by the Kantar Sifo survey organisation. The aim is to find out what our customers think about our monopoly. A total of 9,000 interviews are conducted every year.</p>

Information on the harmful effects of alcohol

The Alcohol Report is produced in order to provide an overall picture of alcohol in Sweden. The theme of this year's report was passive drinking and mental illness. The Alcohol Report was sent out to around 1,000 interested politicians, opinion formers, and interested parties. Media activities and seminars were also used to tell people about the report and its content.

Alcohol research is an important component of Systembolaget's mandate and we contribute to scientific work in this area by financing research and disseminating research findings. Contacts and dialogues with representatives of the research community are an important part of this work. In 2018, roundtable discussions were held with junior alcohol researchers from the Nordic countries with the aim of identifying shared challenges and opportunities.

Attitudes to alcohol

The Alcohol Index is based on an attitude survey conducted by IQ every year since 2010. 2,000 people are surveyed every year and the results are representative of the Swedish population.

The Teenage Phrasebook is a recurring annual dialogue and is published in a number of languages to ensure it reaches as many parents and young people as possible. Examples of other dialogues during the year include dialogues about our "Fotboll utan Fylla" [Sober Football] project, and the student campaign, "Bästa festen" [The Best Party].

Diversity and inclusiveness

Launch of SFI (Swedish for Immigrants) material in SFI schools in various locations nationwide in order to reach new arrivals with information on Systembolaget's purpose and role, and on the risks of alcohol.

Dialogue with county councils' ANDT-Coordination on how we can reach out to new arrivals with information about Systembolaget. (ANDT is the Government's Council on alcohol, narcotics, doping and tobacco issues.)

Dialogue with stakeholder organisations in areas of relevance to our work with diversity and inclusiveness, including Funka, which works with accessibility for people with disabilities.

		Partnership with the Swedish Public Employment Service via a national cooperation agreement designed to help identify ways of helping reduce unemployment, with a primary focus on people who are new arrivals in Sweden or born overseas and on people with disabilities.
		Collaboration with the DUA Delegation (Delegation for young people and new arrivals in the labour market) in order to develop labour market measures for new arrivals.
		Dialogue with the European Social Fund regarding participation in the "Universally Designed Workplaces" project.
		Survey targeting people with a foreign background who have Arabic, Somali, or Farsi as their native languages, in order to understand their views of Systembolaget as a company and employer, and their alcohol habits and attitudes to alcohol.
	Supervision	We conduct regular dialogues with supervisory authorities in areas of relevance to our operations, such as the Public Health Agency of Sweden, the Swedish Consumer Agency, the Swedish Competition Authority, the National Food Administration, the Alcoholic Beverages Product Range Board, and Swedish Customs.
Customers	Good service	We conduct a Customer Satisfaction survey (CSI) three times a year, recruiting customers in virtually all of our stores, to enable us to continue developing our offering and the just over 120 million customer interactions that take place in our stores. A total of around 33,000 interviews are conducted annually in cooperation with an external, independent company (CFI Group). The survey reveals what is important to our customers and how well we are living up to their expectations.
	Customer interaction	We conduct ongoing quantitative studies where we monitor our customers' experiences of their interaction with us, wherever they choose to interact with us – via our digital contact interfaces (the website, app), via our digital store, via our Customer Services, via our agents, when they receive their home deliveries, and at our drinks auctions. This aim is to obtain a more in-depth picture of their experiences, to identify gaps between their expectations and our perceived performance, and to enable us to identify new developmental areas.

		We want to ensure that we live up to our customers' expectations of good service and a responsible interaction. We do so by conducting annual measurements of the customer experience in physical stores (CSI), the digital store (ordering service), from our agents, at systembolaget.se, in our Search & Find app, at our drinks auctions, and from our Customer Services (via phone, email, Facebook or online chat services).
	Developing with the customer	We are continuously testing new solutions in the physical and/or digital environment where we can rapidly obtain customers' reactions. These reactions then form the basis for our further development work. Examples from 2018 include the new checkout counter for ordered goods at the Sergels Torg store, the "pre-store" for ordered goods at our Bromma Blocks store, the ability in several parts of Sweden to order from our entire range for in-store collection or for home delivery, and the new functionality currently being beta-tested on our website.
	Our sustainability work	We conduct a sustainability dialogue with the public (just over 1,000 randomly selected people aged 18 and above) every year, during which we examine how they view different elements of our sustainability work based on know-how, performance, and how important they think it is. The results form the basis for both our materiality analysis and our strategy and communication work.
Owners	The social mandate	Owner dialogue and Annual General Meeting. We have an ongoing dialogue with our owners to ensure that we live up to their expectations and requirements. Areas discussed during the year include the work of the Board, operational monitoring and follow-up work, the Annual General Meeting, and monitoring of key performance indicators, mandate goals, financial goals, and the strategic goals for sustainable enterprise. Systembolaget's digitisation agenda, the home delivery trial, and other issues of relevance to the company have also been discussed.
	Strategic goal	Owner dialogue and Annual General Meeting (AGM). The goal level for the cost-effectiveness metric was adopted by the 2017 AGM and is now reported on an ongoing basis. The cost-effectiveness metric is designed to ensure rationalised operations within our company.

Owner	Sustainable enterprise	Owner dialogues, meetings with representatives of the Ministry of Health & Social Affairs and the Ministry of Enterprise & Innovation, Annual General Meeting. Dialogues during the year have specifically concerned Systembolaget's strategic goals for sustainable enterprise, and Systembolaget's efforts to ensure respect for human rights, our work in South Africa, and our partnerships with trade union organisations. A Human Rights Due Diligence procedure was carried out in 2018 with the help of external experts, resulting in a deeper understanding of the risks present in our value chain in connection with human rights, together with recommendations on how we can ensure that our work takes these risks into account in an optimal way.	Discrimination, harassment, and bullying	An addition was made to the annual employee survey in the autumn of 2018 with regard to the Swedish Discrimination Act and the Swedish Work Environment Act. The aim is to map incidences of discrimination, harassment and bullying, and employees' perceptions of the psychosocial climate in the workplace. The results are reported and analysed at an overall level and any deficiencies detected will result in targeted measures being planned.
Employees	Skills and development	Ongoing "Focus" discussions with employees. These are the managers' and employees' most important tool for jointly setting goals, talking about expectations, and developing both employees and the operations. The goals are followed up on and revised continuously in the day-to-day operations. If we are to impress our customers, it is vital that we continuously develop both ourselves and our skills.	Ethics and sustainability	Ethics dialogues designed to keep ethical issues front of mind and to create a dialogue on the ethical dilemma throughout the organisation. We have an ongoing dialogue regarding our Code of Conduct, for which there is also a mandatory online training course. We also conduct an annual sustainability dialogue with all of our managers and with a random selection of employees, during which we investigate perceptions of different components of our sustainability work, based on know-how, performance, and how important they think it is, along with questions relating to how well integrated our sustainability work is. The results form the basis for both our materiality analysis and our strategy and communication work.
	Performance terms	Work with Good Leadership and Agerus employee surveys. Systembolaget's annual Agerus dialogue is carried out every autumn in working groups. The dialogue is based on the results of the survey carried out within the group, where everyone is asked to answer a number of questions posed in an online questionnaire. The dialogue helps us identify measures that we can use to generate optimum conditions for achieving our goal of "An impressive customer interaction".	Work environment issues	Work Environment Committee and collaboration agreements. Systembolaget has a Work Environment Committee that meets four times a year at which time employer and personnel representatives (from different trade unions) get together to address strategic work environment issues. Both parties are responsible for highlighting important issues. Systembolaget is careful to keep the trade unions informed of ongoing developments in the work environment sphere and the contribution of the unions is, in turn, important in terms of the end results. It is equally important that the unions provide information and sound the alarm if something is not working, in order to enable the company to act.
	Organisational dialogue	The first "Organisational Dialogue" was carried out in 2017 in response to an initiative from the Sales Management, with the aim of Identifying the gaps between the ways in which Systembolaget works in principle and in practice. A wide range of improvement measures have been implemented in response to the information obtained. In the spring of 2018, the Sales Management began the Organisational Dialogue's follow-up work with the goal of determining employees' perceptions of the measures implemented and the effect of the measures, and of learning more about the challenges that lie ahead.		

Suppliers	Environment and climate	Climate footprint is one of the biggest shared challenges faced by the drinks industry. To this end we have, amongst other things, formed a working group comprising representatives of Swedish Spirits and Wine Suppliers' Association (SVL) and the Swedish Brewers' Association, together with 11 member companies. Over the course of the year, we continued to work with the procurement and implementation of a tool to counter our climate impact and with setting shared goal figures for our work. An Environmental Strategy Day was held on 23 November.	Working conditions and health in the supply chain	The work being conducted within the framework of the Global Deal, and specifically our collaboration with the IUF (International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers Associations), has been clarified during the year and resulted in a jointly produced process description for incident management. The Swedish trade union, Unionen, in the form both of Systembolaget's own union branch and Unionen's international department, is also involved in this work.
	Ongoing collaboration, incl. working conditions and health	<p>Over the course of the year, we invited suppliers to attend three specific supplier meetings focusing on sustainability.</p> <p>A newsletter has been sent out to our suppliers on a rolling basis in the latter half of 2018.</p> <p>The Supplier Barometer survey is conducted once yearly in October. We ask our 100 biggest suppliers for feedback on our ongoing work and their perceptions of the partnership with Systembolaget. The results deliver insights for our ongoing improvement work.</p>		<p>In 2018, Systembolaget was elected to four project groups within the amfori organisation, where personnel from the sustainable supply chain unit are helping with amfori's development in a variety of ways.</p> <p>In 2018, Systembolaget signed up to Stronger Together, enabling a greater number of capacity-boosting measures in the South African producer stage of the supply chain.</p>
	Following up on suppliers' sustainability maturity	We carry out situation analyses of our suppliers to establish their degree of sustainability maturity. As of 2018, the analyses include all suppliers with products in our fixed range. The response frequency was 100% and the information was used during the year to provide input for the supplier meetings held.		Collaborative partnerships focusing on children and second-hand harm
Producers	Sustainability work, incl. working conditions and health	We have conducted around 100 third party audits and a further 100 or so producer visits focusing on sustainability during the year. In October, we held a seminar in Italy attended by Swedish suppliers and their producers, together with local industry organisations.		
Stakeholder organisations	Ongoing collaboration on social and environmental sustainability	Collaboration and ongoing dialogue with other Nordic monopolies within NAM (The Nordic Alcohol Retail Monopolies). A joint field trip to Italy was carried out in 2018 in order to increase our knowledge of the challenges faced there.		

Carbon dioxide emissions reported in accordance with the GHG protocol

In 2015, Systembolaget initiated a more explicit monitoring of its emissions, based on the Green House Gas Protocol (GHG protocol). We have included relevant GRI disclosures for this (referred to in the GRI Standards as 305-1 and 305-2) in our sustainability reporting ever since, in order to report our climate impact* in accordance with the GHG protocol.

The 305-1 disclosure applies to the area referred to within the GHG protocol as Scope 1, while 305-2 refers to the area known as Scope 2. Scope 1 shows estimated direct carbon dioxide emissions from the operations, for example from cars leased by the company. In Systembolaget's case, Scope 2 calculates indirect carbon dioxide emissions from the operations' electricity and heat consumption.

The GHG protocol also include a Scope 3, which comprises other indirect emissions. We are successively analysing an ever-larger component of the climate impact from our supply chains and know, amongst other things, that our single biggest Scope 3 climate impact comes from packaging. As in previous years, however, we do not report Scope 3.

Our ambitions and governance when it comes to reducing our negative climate impact are presented in the section on page 36 entitled Sustainable Supply Chain, and in the section Sustainable Operations at Systembolaget (page 47). These sections describe our strategic key performance indicator for carbon dioxide

emissions. The key performance indicator was most recently revised in 2017 and now only includes our own operations. The revision occurred in conjunction with the adoption of a new climate goal with the ambition of reducing our emissions from purchased energy, coolants and leased vehicles to zero by 2023.

We apply the calculation methodology referred to within the GHG protocol as "operational control". The calculations use the global warming potential (GWP) of the Kyoto gases, based on the Intergovernmental Panel on Climate Change, IPCC's Fourth Assessment Report, 2007.

Calculation of CO ₂ e emissions, based on the GHG Protocol	2018	2017	2016
Scope 1			
Systembolaget's own vehicles and heating of the Learning Centre	322	283	285
Scope 2			
Energy consumption, own operations (electricity and heating)	4,173 ¹	5,501	6,655
Total, CO₂e (tonnes)	4,496	5,783	6,940

¹ If our electricity consumption for 2018 were to be calculated in accordance with the method referred to in the GHG protocol as "location based", which is based on IEA (2017), our carbon dioxide emissions from energy consumption would, instead, total 3,247 tonnes of carbon dioxide equivalents.

The year-on-year reduction in Scope 2 is primarily due to our ongoing programme of increasing energy efficiency and the mapping of the type of energy sources used for to generate the electricity we consume. See also page 48.

Greenhouse gas emissions in 2018	GWP	Greenhouse gases/year (tonnes)	CO ₂ e/year (tonnes)
Carbon dioxide, CO ₂	1	2,065	2,065
Methane, CH ₄	25	0.01	0.22
Nitrous oxide, N ₂ O	298	0.01	3.78
Carbon dioxide equivalents, CO ₂ e	1	2,427	2,427
Total, CO₂e tonnes			4,496

Greenhouse gas emissions in 2017	GWP	Greenhouse gases/year (tonnes)	CO ₂ e/year (tonnes)
Carbon dioxide, CO ₂	1	3,204	3,204
Methane, CH ₄	25	0.01	0.13
Nitrous oxide, N ₂ O	298	0.01	2.09
Carbon dioxide equivalents, CO ₂ e	1	2,577	2,577
Total, CO₂e tonnes			5,783

Greenhouse gas emissions in 2016	GWP	Greenhouse gases/year (tonnes)	CO₂e/year (tonnes)
Carbon dioxide, CO ₂	1	3,419	3,419
Methane, CH ₄	25	0.00	0.12
Nitrous oxide, N ₂ O	298	0.01	2.11
Carbon dioxide equivalents, CO ₂ e	1	3,518	3,518
Total, CO₂e tonnes			6,940

GRI Boundary table

Systembolaget has identified 14 company-specific key performance indicators for 2018, along with 8 GRI disclosures for monitoring the material sustainability areas, which we have grouped within our three strategic shifts. Boundaries and results for these disclosures and indicators are shown in the table below.

COMPANY-SPECIFIC KEY PERFORMANCE INDICATORS AND GRI INDICATORS IN OUR SUSTAINABILITY REPORTING

Strategic shift	Area	Boundary – the point in our value chain where the area is important – and the impact in brief	GRI disclosure	Company-specific key performance indicator **=Strategic key performance indicator	Result, 2018	Goal, 2018
Continue to impress the customers	The customer interaction	The entire local community (everyone in Sweden) is affected directly and/or indirectly by our responsible selling and by information about our products and our social mandate.	102-43 (section concerning customer satisfaction)	Customer Satisfaction Index** CSI – social component	84.6 82.2	84.5–85.0 –
	Carefully selected range	The entire local community (everyone in Sweden) is affected directly and/or indirectly by our responsible selling and by information about our products.		CSI – Range and offering CSI – Sustainability/environment	80.6 73.2	– –
	Sustainable supply chain	Material at both producer and cultivation level, but also in evaluating whether the suppliers take responsibility for these issues. We can exert influence through cooperation and education, and by requiring compliance with our Code of Conduct. The climate footprint of our supply chain has a considerable influence on sustainable development, and we use the same means of exerting influence here, with the emphasis on cooperation.	414-2 (Social responsibility in the supply chain)	Suppliers' sustainability maturity** - situation analysis - online training - risk analysis - guidelines/process for evaluating social responsibility	100 96.5 56.5 47.9	100 100 50 50
Sustainable in-house operations	Within the area of direct climate impact from our own operations we have the greatest potential for exerting influence and this has an important signaling value, even if the scale is not material.	305-1 (direct sources) 305-2 (indirect sources)	Climate footprint of Systembolaget's own operations (net CO ₂)**	2,591	Annual reduction	
Ethics and anti-corruption	The area is material, both within the organisation and in the supply chain. We exert influence by reducing the risk of corruption, which is done by monitoring compliance with our Code of Conduct.	205-3 (Confirmed incidents of corruption where action has been taken)		5	–	

Strategic shift	Area	Boundary – the point in our value chain where the area is important – and the impact in brief	GRI disclosure	Company-specific key performance indicator **=Strategic key performance indicator	Result, 2018	Goal, 2018
Increase awareness of the risks associated with alcohol and why Systembolaget exists	The benefits of Systembolaget	The entire local community (everyone in Sweden) is affected, directly and/or indirectly, by how well Systembolaget succeeds with its aim of limiting the harmful effects of alcohol. We are, at the same time, aware that we are one of many factors that influence the outcome.	413-1 (Our influence on society)	Opinion Index (OPI)** (The percentage who want to retain Systembolaget's monopoly on retail sales of spirits, wine and strong beer.)	76.5	77.5
	Increased social dialogue			Proof of age checks** (%)	95.6	96.0
	Tools that help increase mindfulness					
	Research and facts					
Optimise conditions	Securing the talent pool	Throughout Systembolaget's operations, where we have a direct influence on our employees through measures designed to create optimum conditions.	404-3 (Focus – performance reviews)	Performance culture**	81.5	78.4
				Sick leave**(%)	4.5	4.8
	Staff turnover (%)			17.3	-	
	Diversity and inclusiveness	We view diversity from an outside-in perspective – we are there for everyone in Sweden. The area is also material with regard to securing our own talent pool, which is an area where we have a direct influence through our recruitment processes.	405-1 (Diversity and inclusiveness)			
	Finance	Throughout Systembolaget's operations, where we have a direct influence by conducting cost-effective operations such that we cover our costs and meet our owner's yield requirements, which are set in line with the fact that our primary goal is societal benefit.		Equity/assets ratio**	25.7	20–30
Return on shareholders' equity**				11.4	8.0–9.0	
Cost-effectiveness**				2.3	≤ 2.3	

GRI index

This sustainability report complies with the Global Reporting Initiatives (GRI) guidelines, version Standards, and has undergone a combined review by Deloitte AB. Systembolaget, in accordance with the Core option, reports at least one disclosure or company-specific key performance indicator per material sustainability

area. For the 2018 financial year, Systembolaget has grouped its material sustainability topics around seven sustainability issues within the GRI index.

This index includes all disclosures or company-specific key performance indicators that Systembolaget has

adjudged relevant to its operations on the basis of the company's most important sustainability issues, which are integrated into the strategic plan. Information on boundaries and other matters can be found in the index or via a reference to the location of the information in question.

Disclosure no.	Name	Reference	Page
GRI STANDARD: GRI 102 – GENERAL DISCLOSURES 2016			
Organisational profile			
102-1	Name of the organisation	Note 1 - Accounting principles	104
102-2	Activities, brands, products, and services	Systembolaget's business model	15
102-3	Location of headquarters	Note 1 - Accounting principles	104
102-4	Number of countries where the organisation operates	Note 1 - Accounting principles	104
102-5	Ownership and legal form	Corporate Governance Report	82
102-6	Markets served (Incl. geographic locations, sectors served, types of customers)	Systembolaget's business model	15
102-7	Scale of the organisation, including: – total number of employees – total number of operations – net sales – quantity of products and services provided – total assets – beneficial ownership – net sales or net revenues by countries and regions that make up 5% or more of total revenues – costs by countries and regions that make up 5% or more of total costs	Systembolaget's business model Income Statement Balance Sheet Note 2 - net sales Number of employees	15 100 101 ** 129

Disclosure no.	Name	Reference	Page
102-8	Information on employees and other workers a) Total number of employees by employment contract (permanent and temporary), by gender b) Total number of employees by employment contract (permanent and temporary), by region c) Total number of employees by employment type (permanent and temporary), by gender d) Whether a significant portion of the organisation's activities are performed by workers who are not employees e) Any significant variations in the numbers reported in Disclosures 102-8-a, 102-8-b, and 102-8-c (such as seasonal variations) f) An explanation of how the data have been compiled, including any assumptions made. Deviation: it is not possible to obtain figures for contract personnel from our system in that we use our payroll system, Heroma, which only shows Systembolaget employees, in our calculations. We currently have no means of reporting contract personnel in a corresponding manner, and contract personnel are consequently excluded in order to eliminate the risk of misleading reporting.	Number/percentage of employees	129
102-9	A description of the organisation's supply chain, including its main elements as they relate to the organisation's activities, primary brands, products, and services	Sustainable supply chain	36

Disclosure no.	Name	Reference	Page
102-10	Report significant changes during the reporting period to the size, structure, ownership, or supply chain, including: – Changes in the location of, or changes in, operations, including facility openings, closings, and expansions – Changes in the share capital structure and other capital formation – Changes in the location of suppliers, the structure of the supply chain, or relationships with suppliers, including selection and termination	Systembolaget’s business model Sustainable supply chain	15 36
102-11	Report whether and how the organisation applies the Precautionary Principle or approach Comment: Systembolaget does not use the precautionary approach as a control concept per se, but we operate in accordance therewith in many cases, e.g. the risk analyses and their follow-ups conducted in order to identify, evaluate, compile and report risks, including sustainability-related risks. Risk management is followed up annually.		
102-12	A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes, or which it endorses Comment: Systembolaget has been a member of the amfori BSCI (Business Social Compliance Initiative) organisation since 2011 and of Global Compact since 2013. In August 2017, an agreement was signed with the IUF, International Union of Food, Agricultural, Restaurant, Catering, Tobacco and Allied Workers Associations, and, in the same year, a decision was taken to become a member of the Global Deal. Systembolaget has also been a member of Stronger Together, an initiative that works to prevent slavery in the supply chain, since June 2018.		
102-13	A list of the main memberships of industry or other associations, and national or international advocacy organisations where the organisation: – holds a position on the governance body – participates in projects or committees – provides substantive funding beyond routine membership dues – views its membership as strategic Comment: Systembolaget is, for strategic reasons, a member of the amfori Business Social Compliance Initiative (BSCI), the Swedish Trade Federation, the Confederation of Swedish Enterprise, the SNS Centre for		

Disclosure no.	Name	Reference	Page
	Business and Policy Studies, the Swedish Communication Association, the Royal Swedish Academy of Engineering Sciences (IVA, the Center for Retailing (the Stockholm School of Economics) and of the SIDA (Swedish International Development Cooperation Agency) Swedish Leadership for Sustainable Development (SLSD) network.		
Strategy			
102-14	A statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy for addressing sustainability	A conversation with our President and Chairman of the Board	5
Ethics and Integrity			
102-16	A description of the organisation’s values, principles, standards and norms of behavior Comment: an internal Code of Conduct was adopted in 2015. There is also an external Code of Conduct, Employee Policy, and a Commercial Ethics Responsibility Policy.	Ethics and anti-corruption	49
Governance			
102-18	Describe the governance structure of the organisation, including committees of the highest governance body – identify committees responsible for decision-making on economic, environmental and social topics	Corporate Governance Report	82
Stakeholder engagement			
102-40	Provide a list of stakeholder groups engaged by organisation	Stakeholder engagement	116
102-41	Describe the percentage of total employees covered by collective bargaining agreements Comment: 100% of the employees are covered by collective bargaining agreements.		
102-42	Describe the basis for identifying and selecting stakeholders with whom to engage	Materiality analysis	17
102-43	• Describe the organisation’s approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, including customer satisfaction surveys • Describe also whether any of the engagement was undertaken specifically as part of the report preparation process	Stakeholder engagement The Customer Interaction	116 31

Disclosure no.	Name	Reference	Page
102-44	<ul style="list-style-type: none"> Report key topics and concerns that have been raised through stakeholder engagement, including how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns 	Stakeholder engagement	116
Reporting practice			
102-45	<ul style="list-style-type: none"> List all entities included in the organisation’s consolidated financial statements or equivalent documents Report whether any entity included in the organisation’s consolidated financial statements or equivalent documents is not covered by the report 	About our Responsibility Report	114
102-46	<ul style="list-style-type: none"> Explain the process for defining the report content and the topic Boundaries Explain how the organisation has implemented the Reporting Principles for defining report content 	Materiality analysis	17
102-47	List all of the material topics identified in the process for defining report content	Materiality analysis	17
102-48	<p>Explanation of the effect of any restatements of information given in previous reports, and the reasons for such restatements.</p> <p>Restatements can result from:</p> <ul style="list-style-type: none"> – mergers or acquisitions – change of base years or periods – nature of business – measurement methods 	About our Responsibility Report	114
102-49	Report significant changes from previous reporting periods in the list of material topics and topic Boundaries	Materiality analysis	17
102-50	Reporting period	About our Responsibility Report	114
102-51	Date of most recent report	About our Responsibility Report	114
102-52	Reporting cycle	About our Responsibility Report	114
102-53	Contact point for questions regarding the report	About our Responsibility Report	114
102-54	Report claim made by the organisation, if it has prepared a report in accordance with either the GRI Standards “Core option” or “Comprehensive option”	About our Responsibility Report	114
102-55	Report the GRI content index for the chosen method of reporting, as per the above	GRI index	124

Disclosure no.	Name	Reference	Page
102-56	<p>Describe the organisation’s policy and current practice with regard to seeking external assurance for the report. If the report has been externally assured:</p> <ul style="list-style-type: none"> – Provide a reference to the external assurance report, statements or opinions – Describe the relationship between the organisation and the assurance provider – Describe whether or how the highest governance body or senior executives are involved in seeking external assurance for the organisation’s sustainability report 	<p>Audit Report and Review Report In respect of the Annual Accounts</p> <p>Combined assurance engagement of the sustainability reporting</p> <p>Corporate Governance Report</p>	<p>131</p> <p>136</p> <p>82</p>

GRI STANDARD: GRI 103 – MANAGEMENT APPROACH 2016

Management approach

103-1	<p>For each material topic, the reporting organisation shall report the following information:</p> <ol style="list-style-type: none"> An explanation of why the topic is material The Boundary for the material topic, which includes a description of: <ul style="list-style-type: none"> – where the impact occurs – the organisation’s involvement with the impacts Any specific limitation regarding the topic Boundary 	<p>See GRI Boundary Table and respective referral texts in the GRI Index (page 124)</p>	122
103-2	<p>For each material topic, the reporting organisation shall report the following information:</p> <ol style="list-style-type: none"> An explanation of how the organisation manages the topic A statement of the purpose of the management approach A description of the following, if the management approach includes that component: policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and specific actions such as processes, projects, programs and initiatives 	<p>See respective referral texts in the GRI Index (page 124)</p>	
103-3	<p>For each material topic, the reporting organisation shall report the following information:</p> <ol style="list-style-type: none"> An explanation of how the organisation evaluates the management approach, including: <ol style="list-style-type: none"> the mechanisms for evaluating the effectiveness of the management approach the results of the evaluation of the management approach any related adjustments to the management approach 	<p>See respective referral texts in the GRI Index (page 124)</p>	

DISCLOSURES AND COMPANY-SPECIFIC KEY PERFORMANCE INDICATORS PER SUSTAINABILITY AREA

Disclosure no.	Name	Reference	Page
ECONOMIC IMPACT			
GRI 103 Management Approach 2016			
103-1/2/3 (page 126)	Management approach disclosures for financial key performance indicators	Finance	70
Company-specific key performance indicator	Equity/assets ratio	Finance	71
Company-specific key performance indicator	Return on equity	Finance	72
Company-specific key performance indicator	Cost-effectiveness	Finance	72

SUSTAINABILITY AREA: OUR CUSTOMER INTERACTION AND RANGE**GRI 103 Management Approach 2016**

103-1/2/3 (page 126)	Management approach disclosures of customer satisfaction routines, including results of customer surveys	The Customer Interaction	28
Company-specific key performance indicator	Customer Satisfaction Index (monitoring customer satisfaction)	The Customer Interaction	31
Company-specific key performance Indicator	Customer Satisfaction Index - Social component (monitoring customer satisfaction with regard to the provision of information on the harmful effects of alcohol)	The Customer Interaction	31
Company-specific key performance indicator	Customer Satisfaction Index - Range and offering (monitoring customer satisfaction with regard to offering a broad and sustainable range)	A Carefully Selected Range	35
Company-specific key performance indicator	Customer Satisfaction Index - Sustainability/environment (monitoring customer satisfaction with regard to a sustainable range)	A Carefully Selected Range	36

SUSTAINABILITY AREA: ETHICS AND ANTI-CORRUPTION**GRI 205 - Anti-corruption 2016**

103-1/2/3 (page 126)	Approach to GRI 205 - Management approach disclosures of risk assessment procedures in ethics and anti-corruption	Ethics and anti-corruption	49
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Disclosure no.	Name	Reference	Page
205-3	Confirmed incidents of corruption and actions taken Deviation: this key performance indicator measures incidents when we have discovered that employees are in breach of our preventative routines to counter corruption, and this document contains no presentation of any termination of commercial agreements due to breaches of commercial terms by suppliers.	Ethics and anti-corruption	51

SUSTAINABILITY AREA:**CLIMATE AND ENVIRONMENTAL IMPACT OF OWN OPERATIONS****GRI 305 - Emissions 2016**

103-1/2/3 (page 126)	Approach to GRI 305 - Management approach disclosures for reducing the operations' CO ₂ emissions	Systembolaget's sustainable operations	47
Company-specific key performance Indicator	The climate impact of own operations (net CO ₂)	Systembolaget's sustainable operations	48
305-1	CO ₂ emissions from direct sources, calculated using Scope 1 of the Green House Gas Protocol (GHG protocol) Own vehicles and heating the Learning Centre	The GHG protocol	120
305-2	CO ₂ emissions from indirect sources, calculated using Scope 2 of the Green House Gas Protocol (GHG protocol). Energy consumption, own operations	The GHG protocol	120

SUSTAINABILITY AREA: SECURING THE TALENT POOL**GRI 404 - Training and Education 2016**

103-1/2/3 (page 126)	Management approach disclosures for GRI 404 - how we develop ourselves and our skills	Securing the talent pool	62
404-3	Percentage of employees receiving regular performance and career development reviews Deviation: A breakdown by gender within every category of those employees who have received performance reviews is not currently possible in our system. We are reviewing whether this is of value from an inclusiveness perspective and, if it proves to be so, examining the system engineering opportunities for reporting by roll with a gender breakdown.	Securing the talent pool	64

Disclosure no.	Name	Reference	Page
Company-specific key performance Indicator	Performance culture	Securing the talent pool	65
Company-specific key performance Indicator	Total sick leave, %	Securing the talent pool	66
Company-specific key performance Indicator	Staff turnover, %	Securing the talent pool	66

SUSTAINABILITY AREA: DIVERSITY AND INCLUSIVENESS

GRI 405 – Diversity and Equal Opportunity 2016

Disclosure no.	Name	Reference	Page
103-1/2/3 (page 126)	Approach to GRI 405 – Management approach disclosures for diversity and inclusiveness	Diversity and inclusiveness	67
405-1	Diversity of governance bodies and employees by gender and age groups, and, where relevant, other indicators of diversity (such as minority or vulnerable groups) Deviation: In light of the minor changes from previous years' monitoring of nationality, we focused in 2016 and 2017 on investigating what the new requirements entailed by the introduction of GDPR (General Data Protection regulation) would mean and consequently did not chart this area in these years.	Diversity and inclusiveness	69

SUSTAINABILITY AREA: INCREASING KNOWLEDGE OF ALCOHOL'S RISKS AND WHY SYSTEMBOLAGET EXISTS IN ORDER TO REDUCE THE HARMFUL EFFECTS OF ALCOHOL

GRI 413 – Local Communities 2016

Disclosure no.	Name	Reference	Page
103-1/2/3 (page 126)	Approach to GRI 413 – Management approach disclosures with regard to the operations' social impact	Increase awareness of alcohol's risks and why Systembolaget exists	53
413-1	Operations with implemented local community engagement, impact assessments, and development programs Comment: The goal of the Swedish alcohol policy is to limit total alcohol consumption in society so that alcohol-related harm, whether medical or social, is reduced as much as possible. Systembolaget consequently has a clear social mandate: to engage responsibly and with a high standard of	Increase awareness of alcohol's risks and why Systembolaget exists	53

Disclosure no.	Name	Reference	Page
Company-specific key performance Indicator	service, in the retail sales of spirits, wines and strong beers, and to inform people about the harmful effects of alcohol. Achieving the latter objective requires clear information provision and an ongoing dialogue with different elements of society.		
Company-specific key performance indicator	Opinion Index (measures Swedes' attitudes to Systembolaget)	Increase awareness of alcohol's risks and why Systembolaget exists	59
Company-specific key performance Indicator	Proof of age checks, % (ensure that alcohol is not sold to minors)	Increase awareness of alcohol's risks and why Systembolaget exists	60

SUSTAINABILITY AREA: A SUSTAINBLE SUPPLY CHAIN

GRI 414 – Supplier Social Assessment 2016

Disclosure no.	Name	Reference	Page
103-1/2/3 (page 126)	Approach to a sustainable supply chain – Management approach disclosures with regard to both social and environmental impact in the supply chain	A Sustainable Supply Chain	36
Company-specific key performance Indicator	Suppliers' sustainability maturity	A Sustainable Supply Chain	45
103-1/2/3 (page 126)	Approach to GRI 414 – Management approach disclosures with regard to negative social impacts in the supply chain and actions taken	A Sustainable Supply Chain	36
414-2	Evaluation of social conditions in the supply chain with regard to significant and potentially negative impacts, and actions taken	A Sustainable Supply Chain	47

Number of employees, 2018

	All employees			Permanent employees			Fixed term employees			Full-time employees			Part-time employees		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Sales personnel	1,714	3,062	4,776	1,441	2,611	4,052	273	451	724	301	324	625	1,413	2,738	4,151
SA North**	977	1,515	2,492	835	1,282	2,117	142	233	375	164	133	297	813	1,382	2,195
SA South**	737	1,547	2,284	606	1,329	1,935	131	218	349	137	191	328	600	1,356	1,956
Store Managers	193	268	461	193	268	461	0	0	0	193	265	458	0	3	3
SA North**	101	115	216	101	115	216	0	0	0	101	112	213	0	3	3
SA South**	92	153	245	92	153	245	0	0	0	92	153	245	0	0	0
Janitors	2	10	12	2	9	11	0	1	1	0	0	0	2	10	12
SA North**	1	4	5	1	4	5	0	0	0	0	0	0	1	4	5
SA South**	1	6	7	1	5	6	0	1	1	0	0	0	1	6	7
HQ personnel, Managers	44	59	103	44	59	103	0	0	0	44	59	103	0	0	0
of whom, Unit Managers	14	20	34	14	20	34	0	0	0	14	20	34	0	0	0
of whom, Area Managers	15	14	29	15	14	29	0	0	0	15	14	29	0	0	0
HQ personnel, employees	201	257	458	195	252	447	6	5	11	196	245	441	5	12	17
Contract personnel															
Systembolaget, total	2,154	3,656	5,810	1,875	3,199	5,074	279	457	736	734	893	1,627	1,420	2,763	4,183
IQ	1	7	8	1	7	8	0	0	0	1	7	8	0	0	0
Total	2,155	3,663	5,818	1,876	3,206	5,082	279	457	736	735	900	1,635	1,420	2,763	4,183

** Sales Area

Comment: The number of employees (refers to the number employed on 31 December, as per the Heroma payroll system). The fact that we have many fixed term and part-time employees is due to the fact that we have sales peaks at the end of the week and cannot occupy weekend personnel levels throughout the week. These conditions are common within the retail sector.

Percentage of employees, 2018

	All employees (%)			Permanent employees (%)			Fixed term employees (%)			Full-time employees (%)			Part-time employees (%)		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Sales personnel	36	64		36	64	85	38	62	15	48	52	13	34	66	87
SA North**	39	61		39	61	85	38	62	15	55	45	12	37	63	88
SA South**	32	68		31	69	85	38	62	15	42	58	14	31	69	86
Store Managers	42	58		42	58	100			0	42	58	99	0	100	1
SA North**	47	53		47	53	100			0	47	53	99	0	100	1
SA South**	38	62		38	62	100			0	38	62	100			0
Janitors	17	83		18	82	92	0	100	8			0	17	83	100
SA North**	20	80		20	80	100			0			0	20	80	100
SA South**	14	86		17	83	86	0	100	14			0	14	86	100
HQ personnel, Managers	43	57		43	57	100			0	43	57	100			0
of whom, Unit Managers	41	59		41	59	100			0	41	59	100			0
of whom, Area Managers	52	48		52	48	100			0	52	48	100			0
HQ personnel, employees	44	56		44	56	98	55	45	2	44	56	96	29	71	4
Contract personnel															
Systembolaget, total	37	63		37	63	87	38	62	13	45	55	28	34	66	72
IQ	13	88		13	88	100			0	13	88	100			0
Total	37	63		37	63	87	38	62	13	45	55	28	34	66	72

** Sales Area

Boundary: We do not report consultants/contract personnel, or personnel within outsourced IT operations. We have not broken down the percentage of men and women by region because we do not break down our figures in this way. Our operations are located solely in Sweden and we therefore regard Sweden as our sole region.

Audit Report

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

Report on the Annual Accounts

OPINION

We have audited the annual accounts of Systembolaget AB for 2018, with the exception of the Corporate Governance Report on pages 82–98. The company's annual accounts are presented on pages 2, 4, 16 and 73–112 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of Systembolaget AB as of 31 December 2018 and its financial performance and cash flows for the year in accordance with the Swedish Annual Accounts Act.

The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the Annual General Meeting adopt the Income Statement and the Balance Sheet for Systembolaget AB.

BASES FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our

responsibilities in accordance with these standards are described in greater detail in the section entitled "Auditor's responsibility". We are, in accordance with generally accepted auditing standards in Sweden, independent in relation to Systembolaget AB, and have otherwise complied with professional ethical requirements in accordance with these standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INFORMATION OTHER THAN THAT CONTAINED IN THE ANNUAL ACCOUNTS

The Board of Directors and the President are responsible for the other information. The other information is presented on pages 3, 5–15, 17–72 and 113–142.

Our opinion on the annual accounts does not cover this information and we do not express any form of assurance regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained during the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstate-

ment of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT

The Board of Directors and the President are responsible for the preparation and fair presentation of annual accounts in accordance with the Swedish Annual Accounts Act. The Board of Directors and the President are also responsible for the internal controls that they deem necessary for preparing annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's and the Group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President;
- conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual

accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

OPINIONS

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the President of Systembolaget AB for 2018 and the proposed appropriation of the company's

profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. In connection with the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the parent company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and

ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- has in any other way acted in contravention of the Companies Act, the Annual Accounts Act, or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the

proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss are based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with the starting point of risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

AUDITOR'S REVIEW OF THE CORPORATE GOVERNANCE REPORT

The Board of Directors is responsible for the Corporate Governance Report on pages 82–98 and for ensuring that it is prepared in accordance with the Annual Accounts Act.

Our review has been conducted in accordance with FAR's auditing standard, RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate gover-

nance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 7 March 2019

Deloitte AB

Didrik Roos
Authorised Public Accountant

The auditor's opinion regarding the statutory sustainability report

To the Annual General Meeting of the shareholders of
Systembolaget AB, corporate ID no. 556059-9473

ENGAGEMENT AND DIVISION OF RESPONSIBILITY

The Board of Directors is responsible for the statutory sustainability report for 2018 on pages 3, 5–15, 17–72 and 113–142, and for its preparation in accordance with the Annual Accounts Act.

FOCUS AND SCOPE OF THE REVIEW

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

OPINION

A statutory sustainability report has been prepared.

Stockholm, 7 March 2019
Deloitte AB

Didrik Roos
Authorised Public Account

Review Report in respect of the Annual Accounts

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

In our role as lay auditors and on behalf of the Swedish Parliament's Board of Administration, we have examined the administration and internal controls of Systembolaget AB in the 2018 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 to State-owned enterprises in general. This examination also failed to reveal any circumstances giving cause for objection.

Stockholm, 7 March 2019

Lennart Axelsson
(Lay Auditor)

Jörgen Hellman
(Lay Auditor)

Maria Plass
(Lay Auditor)

Auditor's combined assurance engagement on Systembolaget's Sustainability Report

To Systembolaget AB

We have been engaged by the Board of Directors of Systembolaget AB to perform a combined assurance engagement on Systembolaget AB's Sustainability Report for 2018. The company has defined the scope of the sustainability report alongside the list of contents for Systembolaget's 2018 Responsibility Report.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE EXECUTIVE COMPANY MANAGEMENT FOR THE SUSTAINABILITY REPORT

The Board of Directors and the executive company management are responsible for the preparation and presentation of the Sustainability Report in accordance with applicable criteria, which are specified alongside the list of contents for Systembolaget's 2018 Responsibility Report, and which comprise those sections of the Sustainability Reporting Guidelines (issued by the Global Reporting Initiative (GRI)) applicable to the Sustainability Report, and the specific reporting and measurement principles developed and issued by the company. This responsibility also includes the internal controls deemed necessary for the preparation of a Sustainability Report that contains no material

misstatements, whether due to error or to fraud.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the Sustainability Report, based on our review.

We have performed our engagement in accordance with ISAE 3000 Engagements Other than Audits or Reviews of Historical Financial Information. The review includes a limited assurance engagement comprising a review of the sustainability report as a whole and an audit of certain information which is specified below. The objective of an audit engagement is to obtain reasonable assurance about whether the information is free from material misstatement and entails reviewing a selection of supporting documentation for quantitative and qualitative information in the Sustainability Report. A limited assurance engagement consists of making enquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other review procedures. The orientation and scope of a limited assurance engagement differs from and is considerably less than the orientation and scope of an audit engagement conducted in accordance with the IAASB standards for auditing and quality control and with generally accepted auditing practices.

The conclusion based on our limited assurance engagement consequently does not provide the same

level of assurance as a conclusion based on an audit. This is a combined engagement and we consequently express our opinions with regard to the audit engagement and limited assurance engagement in separate sections.

The audit company applies ISQC 1 (International Standard on Quality Control) and hence has a multifaceted system of quality control that includes documented guidelines and routines in respect of compliance with business ethics requirements, professional conduct standards, and applicable legislative and other regulatory requirements. We are, in accordance with generally accepted auditing standards in Sweden, independent in relation to Systembolaget AB, and have otherwise complied with professional ethical requirements in accordance with these standards.

Our audit engagement has included sustainability-related information presented in Systembolaget AB's 2018 Responsibility Report regarding the "Sick leave" key performance indicator on page 66.

Our review is based on the criteria chosen by the Board of Directors and executive company management, which are defined above. We consider these criteria to be suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained during

our combined assurance engagement is sufficient and appropriate to enable us to provide a basis for the opinion expressed below.

OPINION

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Sustainability Report has not, in all material respects, been prepared in accordance with the criteria presented above by the Board of Directors and the executive company management.

Based on our audit, we believe that the information presented in the Sustainability Report and comprised by our engagement has, in all material respects, been prepared in accordance with the criteria presented above by the Board of Directors and the executive company management.

Stockholm, 7 March 2019
Deloitte AB

Didrik Roos
Authorised Public Accountant

Glossary

ALCOHOL CONSUMPTION

Consumption of alcoholic beverages, recalculated as litres of 100 per cent alcohol, per person aged 15 and above. The term, alcoholic beverage, refers to a beverage with an alcohol content in excess of 2.25 per cent by volume (the Swedish Alcohol Act, 2010:1622).

ALCOHOL INDEX

The Alcohol Index is a combined measurement of people's attitudes to alcohol in different situations. The higher the index on a scale of 0-100, the more moderate the attitude to alcohol. The Alcohol Index is generated using the responses to nine questions on what people think is right and wrong when it comes to alcohol. The survey also asks additional questions, including five questions about "everyday drinking" and which for the basis for the Everyday Index. The questions are put to 2,000 people aged 16 and above once a year. Data collection is carried out by Novus.

ALCOHOL REPORT

Systembolaget publishes an annual Alcohol Report. The aim of the Alcohol Report is to provide a cohesive overview of alcohol and its risks in Sweden.

ALCOHOL TAX

Alcohol tax is an excise duty levied by the Government. Changes to the alcohol tax rate affect both Systembolaget's income and its cost of goods sold, and changes to the alcohol tax rate consequently have no effect on the trading margin.

AMFORI BSCI

The sustainability initiative that Systembolaget has signed up to - the Business Social Compliance Initiative (BSCI) - is, as of 2018, restructured as amfori BSCI. This has occurred as part of the integration process approved by the FTA, Foreign Trade Association (commercial focus), BEPI, Business Environmental Performance Initiative (environmental focus) and BSCI (social focus). BSCI will continue as the product name Glossary for a further one year, as is the case for BEPI, after which it will be known simply as "amfori".

The initiative, which is based in Brussels, is a European, commercially run cooperation initiative for companies keen to improve working conditions in the global supply chain.

ANDT: THE ANDT COUNCIL

The Government's Council on alcohol, narcotics, doping and tobacco issues acts in an advisory role to the Government and provides information on research and survey results among others, of relevance for the implementation, monitoring and evaluation of the strategy.

"AT RISK COUNTRIES"

Systembolaget applies a global "at risk country" analysis from Verisk Maplecroft. The analysis covers 99 countries whose products are included in Systembolaget's range. The analysis weights and summarises the following three primary indicators to produce an overall risk assessment ranking of between 0 and 10 (where 0 is the highest risk and 10 is the lowest risk):

- Country Risk, which comprises seven indicators
- Industry Risk
- Commodity Risk

"At risk countries" meet at least one of the following parameters:

- the country's combined risk indicator value is lower than 50;
- the country's risk indicator value for at least one of the seven indicators included in Country Risk is lower than 2.5;
- the country's risk indicator value for at least one of the primary indicators (Country Risk, Industry Risk och Commodity Risk) is lower than 2.5.

The global "at risk country" analysis is updated every three years. The World Bank's "at risk country" list is used to analyse countries added to the producer list during the intervening period. This "at risk country" list also forms the basis for identification of high-risk countries in accordance with the following definition: a high-risk country is a country with a rating that is less than 20% in accordance with the World Bank's "at risk country" list.

CFI

Claes Fornell International CFI AB, which carries out our Customer Satisfaction Index surveys.

CLIMATE IMPACT FROM SYSTEMBOLAGET'S OWN OPERATIONS

We have reformulated our climate impact key performance indicator, as of 2017, to measure carbon dioxide emissions from our own operations. The goal is for emissions from purchased energy, coolants, and leased vehicles to be zero by 2023.

The climate impact of our own operations is followed up annually.

COMPLEX SUPPLY CHAIN

Systembolaget buys products from around 100 different countries. We always buy via Swedish suppliers – currently around 700 in number. Our suppliers often have subcontractors/producers who may, in turn, have subcontractors of their own.

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 three following 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 CFI to conduct the survey. The survey base comprises a total of around 48,000 randomly selected customers, spread over all of the stores. The CSI is measured and reported three times a year.

FARM SALES

Entails a local wine, spirits or beer producer engaging in the sale of in-house produced drinks to visitors or local customers, directly at the farm or factory, but also entails everyone who manufactures alcohol being entitled to sell directly to consumers. This is true of both foreign and Swedish operators in both urban and rural areas.

FFR

The abbreviation, FFR, stands for the Fast Fast Range and entails a listing period of 12 months and distribution in at least 10 stores.

GDPR – GENERAL DATA PROTECTION REGULATION

GDPR (General Data Protection Regulation) is a data protection regulation that replaces the Swedish Data Protection Act (PUL). GDPR is the law in all EU member states, while PUL only applied in Sweden. One of the main innovations is that the Swedish Data Protection Authority can impose high punitive fines and the fact that personal data breaches must be reported within 72 hours.

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.

GLOBAL DEAL

In November 2017, Systembolaget elected to sign up for the Global Deal, an initiative that aims to improve the dialogue between labour market parties and countries' governments in order to improve labour conditions and productivity. Global Deal was initiated by Sweden's Prime Minister, Stefan Löfven, and has

been structured in cooperation with the OECD and ILO. Agenda 2030 includes a specific goal relating to decent labour conditions and inclusive growth. Global Deal is a step towards achieving that goal.

GRI – GLOBAL REPORTING INITIATIVE

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

INCIDENT MANAGEMENT

The term, incident management, refers to a systematic approach to working with suspected breaches of our Code of Conduct on the part of producers. We may be made aware of incidents via a number of different channels, both internal and external, and they are not limited to any identified "at risk country" or product range from which the product in question derives.

INFLUENCERS

An influencer works to sell products, using influence as a market force. They create close digital relationships with their followers by presenting themselves in social media and these relationships act as a marketing tool.

INFORMED CHOICE

For us, working to promote informed choice means offering products with a lower alcohol content and in smaller packs, and products that take into account environmental considerations and working conditions in the supply chain.

MYSTERY SHOPPERS

People aged between 20 and 24 who make control purchases in our stores to check whether we are complying with a proof of age check selling rules.

NATIVE ADVERTISING

Marketing that takes the form of advertisements that look like and are perceived as editorial article content where they are presented.

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 Kantar Sifo to conduct the survey. A total of 750 randomly selected individuals aged 15 and above are interviewed every month with the exception of July (no interviews) and August (1,500 interviews). The Opinion Index is reported quarterly.

OWNER'S GOAL

The owner's goal comprises the mandate-related and economic goals specified in the Owner's Directive, which was adopted at the Annual General Meeting held on 24 April 2017.

PERFORMANCE CULTURE

Performance culture measures the extent to which employees feel that their job provides the conditions that enable them to perform (want, know, can, may and should) and the individual's perception of the way in which their basic requirements are met. Measured once a year by means of a company-wide employee survey.

PROFIT MAXIMISATION

When the primary purpose of an organisation's operations is to generate the maximum possible profit for the owner.

PROOF OF AGE CHECKS

The proof of age checks measure how often proof of age was requested as a percentage of the total number of control purchases. The control purchases are carried out by people aged between 20 and 24. Systembolaget commissions Better Business to carry out these checks. A total of around 5,800 control purchases are made every year in stores. Proof of age checks are carried out daily and are reported every month.

TOTAL SICK LEAVE

The total sick leave is measured using the Swedish National Financial Management Authority's definition and measures hours lost to sick leave in relation to the total number of available working hours during the same period.

YEARLY EMPLOYEES

The term, yearly employees, corresponds to the time worked, including holidays, divided by the number of hours for a full-time position during the relevant period. The "yearly employees" parameter was introduced in 2018 and replaces the previous concept, "average number of employees".

Definition of alternative key performance indicators

Alternative key performance indicators are financial metrics that are not defined in IFRS. Systembolaget believes that these metrics provide valuable complementary information for our owner, Board of Directors, and executive company management in that they enable the evaluation of Systembolaget's operating profit/loss and financial performance. Three alternative key performance indicators are included as objectives in Systembolaget's Owner's Directive. See Finance, pages 70–72, for further information.

The alternative key performance indicators are not always comparable with metrics used by other companies as they may be calculated in different ways. These financial metrics should, therefore, be regarded as a complement to metrics defined in accordance with IFRS. See calculations below for reconciliation of the alternative key performance indicators that cannot be directly derived from the financial reports.

RETURN ON SHAREHOLDERS' EQUITY

The operating profit/loss for the period (rolling, 12 months) of SEK 179.7 m, as a percentage of the average adjusted shareholders' equity of SEK 1,576.1 m = 11.4 per cent. Shareholders' equity is adjusted for the standard tax rate, 21.4 per cent, on untaxed reserves. The average is calculated on the basis of the adjusted shareholders' equity on 31 December 2017 of SEK 1,630.1 m, and on 31 December 2018 of SEK 1,522.1 m. This key performance indicator is an objective set in the Owner's Directive for Systembolaget.

COST EFFECTIVENESS

Cost-effectiveness is calculated from the ratio between total overheads (adjusted for non-recurrent items), SEK 3,690 m, relative to quantities sold (number of packagings sold weighted for the respective product groups' estimated processing time), 1,603 million pcs = 2.3. This key performance indicator is an objective set in the Owner's Directive for Systembolaget.

STOCK TURNOVER RATE

Purchase value of drinks, SEK 26,761 m, divided by the average stock value of drinks, SEK 1,193 m, = a multiple of 22.4.

OPERATING MARGIN

The operating margin is calculated from the operating profit/loss, SEK 227 m, as a percentage of net sales, SEK 30,907 m, = 0.7 per cent.

OPERATING PROFIT

The operating profit is calculated from the gross profit, SEK 3,903 m, plus other operating income, SEK 6 m, less other operating expenses, -SEK 2 m, and less operating expenses, -SEK 3,680 m, = SEK 227 m.

EQUITY/ASSETS RATIO

Adjusted equity, SEK 1,522.1 m, as a percentage of the Balance Sheet total, SEK 5,931.3 m = 25.7 per cent. The equity is adjusted for the standard tax rate, 21.4 per cent, on untaxed reserves. This key performance indicator is an objective set in the Owner's Directive for Systembolaget.

List of references

No. Reference name

- 1 *Alkoholkonsumtionen i Sverige 2017/Alcohol consumption in Sweden, CAN (Monitormätningen/Monitor Survey)*
- 2 *Alkoholrapporten 2018/2018 Alcohol Report, Systembolaget AB*
- 3 *Förtroendebaremtern/Confidence Barometer, Medieakademin*
- 4 *ServiceScore*
- 5 *Evimetrix Swedish Brand Award*
- 6 *Global status report on alcohol and health 2018, World Health Organisation*
- 7 *Skolelevers drogvanor 2017/School students' drug habits in 2017, CAN*
- 8 *Trender i dryckesmönster – befolkningens självrapporterade alkoholvanor under 2000-talet/Trends in drinking patterns – the population's self-reported alcohol habits in the 21st century, CAN*
- 9 *<https://www.theguardian.com/business/2018/aug/12/heatwave-brings-early-harvest-german-french-winemakers>*
- 10 *OIV Statistical Report on World Vitiviculture, 2018 World Vitiviculture Situation, International Organisation of Vine and Wine (<http://www.oiv.int/public/medias/6371/oiv-statistical-report-on-world-vitiviculture-2018.pdf>)*
- 11 *What are the public health and safety benefits of the Swedish government alcohol monopoly? T Stockwell et al*
- 12 *The Swedish Alcohol Act*
- 13 *Alkoholen som samhällsproblem/Alcohol as a social problem, SOM Institute, 2015*
- 14 *Sustainable Brand Index 2017*
- 15 *amfori BSCI Code of Conduct*
- 16 *Global status report on noncommunicable diseases, World Health Organisation*
- 17 *Age at Drinking Onset and Alcohol Dependence, R. W. Hingson et al*
- 18 *Article on alcohol debuts <https://polisen.se/Arkiv/Nyhetsarkiv/Gavleborg/Du-traffar-mig-pa-Valborg/>*
- 19 *Alkoholrapporten 2017/2017 Alcohol Report, Systembolaget AB*
- 20 *Tonårsparlören/The Teenage Phrasebook, IQ-initiativet AB*
- 21 *Discrimination legislation*
- 22 *Swedish Government Inquiry, SOU 2010:98 Gårdsförsäljning/Farm Sales*
- 23 *Ministry of Health and Social Affairs, DS 2016:33 Reglering av distanshandel med alkoholdrycker/Regulation of distance selling of alcoholic drinks*
- 24 *Swedish Government Inquiry, SOU 2017:59 Reglering av alkoglass m.fl. produkter/Regulation of alcoholic ice cream and other products*
- 25 *Föräldrar i missbruks- och beroendevård och deras barn/Parents in abuse and addiction treatment and their children, 2014, CAN*

Financial calendar

11 April 2019	2018 Annual General Meeting
18 April 2019	Interim Report, January–March 2019
15 July 2019	Interim Report, January–June 2019
28 October 2019	Interim Report, January–September 2019

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