



# YEAR-END REPORT

January – December 2006

This is a translation. The Swedish version is the official

## Q4

- Group net sales for 2006 increased by 8 per cent to SEK 10,345 (9,578) million.
- Operating profit increased by 10 per cent to SEK 2,275 (2,069) million.
- Profit after tax totalled SEK 1,577 (1,505) million, an increase of 5 per cent.
- Sales volumes increased by 3 per cent to 25.7 million 9-litre cases (24.9).
- All business areas have strengthened their profitability.
- The Group's most important brand, ABSOLUT VODKA, continued to increase both its volumes and sales in the United States, and on most other prioritized markets.
- During the fourth quarter, V&S and Foster's Wine Estates signed a business agreement for the entire Nordic market. The agreement covers Foster's entire wine portfolio including Lindemans and Penfolds.
- The remaining 37 per cent of shares in Cruzan International, Inc., with Cruzan Rum, were acquired in 2006.
- An investment of USD 153 million in Beam Global Spirits & Wine, Inc., ensures that V&S maintains its strategic 10 per cent shareholding.

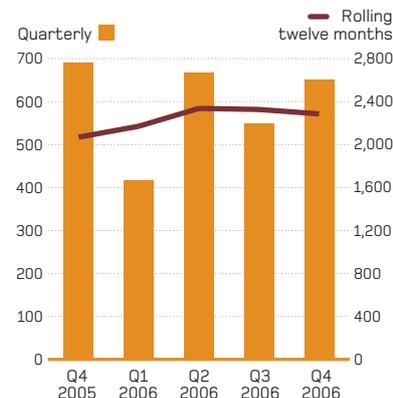
### NET SALES

SEK bn



### OPERATING PROFIT

SEK mn



### SALES VOLUME

Million 9-l cases



## KEY RATIOS FOR THE GROUP

	Q4 2006	Q4 2005	Full year 2006	Full year 2005
Net sales, SEK mn	2,974	3,058	10,345	9,578
Operating profit, SEK mn	641	691	2,275	2,069
Profit after tax, SEK mn	622	486	1,577	1,505
Operating margin <sup>1</sup> , %	21.6	22.6	22.0	21.6
Cash flow before financing activities, SEK mn	283	187	-74	68
Return on shareholders' equity <sup>2</sup> , %	-	-	22.3	25.1
Interest-bearing net liability <sup>3</sup> , SEK mn	-	-	5,267	5,153
Debt/equity ratio <sup>4</sup> , times	-	-	0.7	0.7
Equity/assets ratio <sup>5</sup> , %	-	-	40.6	40.2
Sales volume, thousand 9-litre cases	7,433	7,093	25,732	24,885

<sup>1</sup> Operating profit as a percentage of net sales.

<sup>2</sup> Net profit as a percentage of average equity.

<sup>3</sup> Interest-bearing liabilities less interest-bearing assets, calculated at end of period.

<sup>4</sup> Interest-bearing net liability divided by equity, calculated at end of period.

<sup>5</sup> Equity as a percentage of total assets.

## THE GROUP

## Market and Sales

The Group's invoiced sales excluding tax on alcohol increased by 8 per cent to SEK 10,345 (9,578) million. The increase is primarily due to the increase in sales within V&S Absolut Spirits, and refers both to organic growth and the acquisition of Cruzan Rum. The rise in Group sales also includes Florida Distillers which is in the process of being sold and is reported in the other operations segment. Other business areas report slight decreases in sales, partly explained by divestments. The slightly lower US dollar exchange rate for the period has affected sales by SEK -52 million.

The Group's total sales volumes during 2006 amounted to 25.7 million 9-litre cases (24.9), an increase of 3 per cent compared with last year.

Net sales for the fourth quarter of 2006 amounted to SEK 2,974 (3,058) million, a decrease of 3 per cent compared with the fourth quarter of 2005. Volumes amounted to 7,433 (7,093) million 9-litre cases, an increase of 5 per cent. The increase in volume is a result of organic growth and the acquisition of Cruzan Rum. The decrease in net sales is primarily an effect of a lower US dollar exchange rate compared to

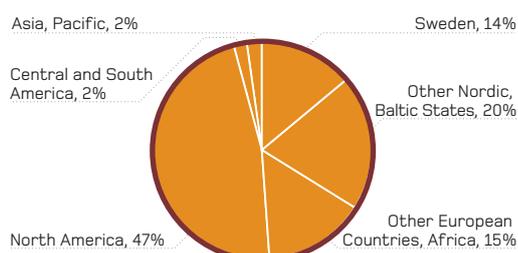
the same quarter last year, as well as a slight shift in product and market mix.

## Profit

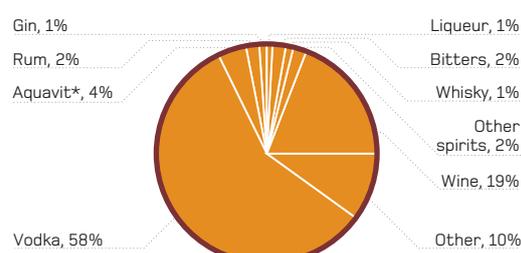
Group operating profit for 2006 as a whole increased by 10 per cent to SEK 2,275 (2,069) million. The improvement in operating profit refers primarily to increased sales volumes, shift towards products with better margins and improved cost efficiency. The change in the US dollar exchange rate had a negative impact on the profit with SEK -13 (positive 49) million. Operating profit includes profit amounting to SEK 48 million from operations in the process of being sold.

Profit after tax increased by 5 per cent to SEK 1,577 (1,505) million. Financial income and expenses increased to SEK -281 (-134) million, mainly due to higher interest rates and increased net borrowings as a result of investments over the year. Tax expense for the year amounted to SEK -417 (-430) million. V&S's strategy is for the Parent Company to own the Group's trademarks. During the fourth quarter, the Parent Company therefore acquired Plymouth Gin and Cruzan Rum from subsidiaries. This has had a positive tax effect in the fourth quarter.

## NET SALES BY GEOGRAPHICAL MARKET



## NET SALES BY PRODUCT CATEGORY



\* including other spiced spirits.

Exchange rate effects on loans to finance the shareholding in Beam Global Spirits & Wine have incurred an increased tax expense as a result of the decline in the US dollar. Under Swedish tax law, a change in the value of foreign shares resulting from a change in exchange rates is not taxable. However, a change in the value of loans in foreign currencies due to a change in exchange rates is taxable. A decline in the US dollar against the Swedish krona increases the tax expense, while a rise in the US dollar decreases the tax expense.

Operating profit for the fourth quarter was SEK 641 (691) million, a decrease of 7 per cent compared with the same quarter last year. Operating profit has been charged by SEK 74 million for the planned closure of the Sundsvall factory.

Profit after tax for the fourth quarter totalled SEK 622 (486) million, an increase of 28 per cent.

## DEVELOPMENT BY BUSINESS AREA

### V&S Absolut Spirits

V&S Absolut Spirits' operations include the production, marketing and distribution of global premium spirits brands. The product portfolio includes ABSOLUT VODKA, Level Vodka, Cruzan Rum, Plymouth Gin and Fris Vodka.

Sales increased by 9 per cent to SEK 5,882 (5,402) million. Sales volumes increased by 13 per cent to 11.2 million 9-litre cases (9.9). This increase refers primarily to both organic growth for ABSOLUT VODKA and the acquisition of Cruzan Rum.

The sales volume for ABSOLUT VODKA increased by approximately 7 per cent in 2006. As a result of increased investments in marketing and a strengthening of both the own organization and the part-owned sales organization Future Brands, not only sales volumes but also the market share for ABSOLUT VODKA have increased slightly in the United States. In 2006 ABSOLUT VODKA also increased on most of the prioritized markets outside of the US. Markets outside of the US now account for just over 50 per cent and have collectively exceeded the sales volume on the American market. This growth can be explained by market investments in previous years as well as a strengthened organization with a greater focus on prioritized markets. The markets that have increased the most, besides the American market, are the UK, Canada, Germany and Brazil. Two new flavours have been developed during the year for the ABSOLUT VODKA range: ABSOLUT RUBY RED flavoured with ruby grapefruit, which was launched in spring 2006, and ABSOLUT PEARS, which is being launched in early 2007. The flavoured vodka segment has continued to grow primarily in the United States.

Cruzan Rum has been a fully integrated part of V&S Absolut Spirits since 1 July 2006. Cruzan's sales volume increased by approximately 5 per cent. Sales of other brands have developed well during the year. The sales volume for super premium brand Level Vodka increased by just under

30 per cent and it is the third largest super premium vodka on the American market. The sales volume for Plymouth Gin increased almost 20 per cent and Fris Vodka just over 20 per cent. As V&S already has several successful vodka brands, Danzka Vodka was sold during the second quarter.

Operating profit improved by 9 per cent to SEK 1,914 (1,757) million. Operating profit has increased as much as sales even though profitability in the acquired operation is lower and one-off expenses for restructuring the sales organization arose during the period. The improved profit can be explained by the slight increase in margins for comparable units during the period.

Sales for the fourth quarter of 2006 amounted to SEK 1,599 (1,627) million, a decrease by 2 per cent. Volumes amounted to 3,123 (2,787) million 9-litre cases, an increase of 12 per cent. Operating profit for the fourth quarter was SEK 593 (519) million, an increase of 14 per cent.

### V&S Distillers

V&S Distillers' operations include the sale, production and development of traditional spirits categories on markets in Northern Europe. The main categories are aquavit, bitters, vodka and other classic local brands.

Sales decreased by 4 per cent to SEK 1,948 (2,033) million. This is because sales volumes for the period decreased by 3 per cent to 5.6 million 9-litre cases (5.8). The decline in sales is due to the divestment of local Czech brands, lower sales primarily in Sweden and Germany, and the discontinuation of certain sales to countries outside the market area. At the same time sales increased in Finland, Denmark and Poland. Sales for the aquavit and bitters categories and other classic local brands decreased while vodka sales increased.

Operating profit for 2006 increased by 8 per cent to SEK 284 (264) million, and the operating margin also improved. The improvement is a result of the focus on products with higher margins, a focus on costs and the implementation of streamlining measures in the operation. During 2006, V&S Distillers has continued its integration work from a country-based to a function-based organization. Similarly, work on efficiency and cost reduction has continued. The business area has also enhanced profitability by prioritizing the strongest brands, whereby the number of products has been reduced.

Sales for the fourth quarter amounted to SEK 625 (649) million, a decrease of 4 per cent compared with the fourth quarter last year. Volume amounted to 1,753 (1,718) million 9-litre cases, an increase of 2 per cent. Operating profit for the fourth quarter was SEK 130 (100) million, an increase of 30 per cent.

In December, V&S Group announced that it is considering closing the factory in Sundsvall in 2008. Production that currently takes place in Sundsvall would, in that case, be trans-

ferred to other factories. A closure would affect 80 employees and would be expected to create savings of SEK 35 million a year as of 2009. The cost of the planned closure is estimated at SEK 74 million and has been charged to the Group's operating profit during the fourth quarter. The cost mainly refers to the write-down of assets.

#### V&S Wine

V&S Wine sells wines on the Northern European market from both internationally well-known producers as well as bulk-imported wines bottled and marketed under V&S's own brands. Sales volumes are distributed evenly between V&S brands and international partners' brands.

Sales income was down 2 per cent to SEK 2,159 (2,212) million. Sales volumes amounted to 9.5 million 9-litre cases (9.7), also a decrease of 2 per cent. The decline is attributable to the divestment of Østjysk Vinforsyning, reduced sub-contracted bottling in Denmark, the loss of a wine agency in Sweden and lower agency sales volumes of brewery products in Estonia. Sales increased in Finland and Norway.

The business area's operating profit for 2006 improved considerably to SEK 112 (72) million, as did the operating margin. Profit has been strengthened, partly through cost control and streamlining, and partly through a focus on products with higher margins. V&S Wine's range has been simplified by reducing the number of own brands and suppliers. Similarly, the focus on controlling and reducing costs has continued.

Sales for the fourth quarter of 2006 amounted to SEK 685 (692) million, a decrease of 1 per cent compared with the fourth quarter of 2005. Volume amounted to 2.8 million 9-litre cases (2.7), an increase of 1 per cent. Operating profit for the fourth quarter was SEK 61 (46) million, an increase of 33 per cent.

In December, V&S and Foster's Wine Estates signed an important business agreement for the entire Nordic market. The agreement strengthens V&S's offering to wine customers in the Nordic region with Foster's wine portfolio which includes brands as Lindemans, Penfolds, Rosemount, Wolf Blass and Beringer. In addition V&S will handle the bottling of bag-in-box wines for the European market.

#### INVESTMENT

During the year, the Group's investment amounted to SEK 2,097 (1,227) million, which mainly relates to the acquisition of shares in Beam Global Spirits & Wine, Inc. and Cruzan International, Inc., but also to capacity and environmental investments in Åhus. After the period's depreciations fixed assets increased by SEK 511 million to SEK 12,845 (12,334) million.

The acquisition of Cruzan International, Inc., with Cruzan Rum, which began in 2005, was completed in March when V&S acquired the remaining 37 per cent. In July, the Group acquired newly issued preference shares in Beam Global

Spirits & Wine Inc., at a cost of USD 153 million. The investment enabled V&S Group to retain its 10 per cent strategic holding in Beam, which was acquired when the agreement on a co-owned distribution organization was entered into in 2001. During the year, the brands Danzka Vodka and Cherry Heering Liqueur as well as the Domaine Rabiega vineyard and conference facility in France were divested.

#### CASH FLOW

Cash flow from operating activities during the year amounted to SEK 1,607 (951) million.

Net interest-bearing loans for the Group have increased by SEK 114 million to SEK 5,267 (5,153) million. Cash and cash equivalents on 31 December amounted to SEK 400 (626) million. Together with confirmed loan promises, the Group has a liquidity reserve of SEK 4,260 (5,862) million.

#### PARENT COMPANY

Net sales for the year amounted to SEK 5,654 (5,647) million. Profit after financial income and expenses amounted to SEK 1,699 (1,228) million. The average number of employees for 2006 was 752 (788). Cash and cash equivalents and short-term investments totalled SEK 191 (152) million on 31 December.

#### SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

Systembolaget, the Swedish Alcohol Retailing Monopoly, has decided to change distributor for approximately 15 of V&S's wine products. They hold that V&S has contravened the terms of its supplier contract during the years 2001-2003 with reference to the prosecution of some personnel at V&S for bribery. The change of distributor equates to annual sales of SEK 32 million. V&S is taking the matter to arbitration to clarify if Systembolaget is entitled to carry out such action.

#### OUTLOOK

V&S Absolut Spirits is expected to enjoy continued growth on the prioritized markets. At the same time, the cost rationalization and focus on the most profitable products continue to improve profitability on the Northern European markets. This should increase V&S's profitability.

#### GENERAL ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Financial Accounting Standards Council's Recommendation RR 31 Interim reporting for groups. The general accounting principles and calculation methods correspond to those used in preparing the 2005 Annual Report, except the reporting of joint venture.

The Parent Company applies the same accounting principles as the Group except for the exclusions specified in RR 32 Financial reporting for legal entities.

**Change in reporting of joint venture**

During the fourth quarter, the Group started to apply the equity method instead of the proportional method when reporting the Group's joint venture Future Brands. The method has been applied retroactive as of the acquisition date. Consequently, the quarterly figures for 2006 and the comparison figures for 2005 in this report deviate from previously reported.

**Change in Parent Company accounting principle**

In accordance with the rules of RR 32, IAS 39 is applied in the Parent Company as of 1 January 2006. The change of principle has increased the Parent Company's shareholders' equity by SEK 192 million.

**AGM AND FINANCIAL REPORTS**

The Annual General Meeting has been brought forward and will be held on Tuesday 20 March 2007 in Stockholm. Further information will be available at [vsgrupp.com](http://vsgrupp.com).

The Annual Report is expected to be available on the V&S website [vsgrupp.com](http://vsgrupp.com) in the beginning of March.

The interim report for the first quarter of 2007 will be published on 27 April 2007.

**OTHER**

V&S Vin & Sprit AB (publ) is a corporation wholly owned by the Kingdom of Sweden. In December 2006 the Swedish government announced its intention to reduce its shareholding in V&S Vin & Sprit AB (publ).

The Group, V&S Group, consists of the Parent Company and operating activities in Sweden, Denmark, Finland, Norway, Estonia, Germany, Poland, the USA including the US Virgin Islands, Great Britain and Hong Kong.

## CONSOLIDATED INCOME STATEMENT

SEK mn	Q4 2006	Q3 2006	Q4 2005	Full year 2006	Full year 2005
Net sales	2,974	2,529	3,058	10,345	9,578
Shares in associated companies' and joint venture's profit	132	48	105	238	214
Other operating revenues	48	71	75	313	156
	<b>3,154</b>	<b>2,648</b>	<b>3,238</b>	<b>10,896</b>	<b>9,948</b>
Operating expenses	-2,394	-2,051	-2,494	-8,357	-7,689
Value adjustments of tangible and intangible assets	-119	-48	-53	-264	-190
<b>Operating profit</b>	<b>641</b>	<b>549</b>	<b>691</b>	<b>2,275</b>	<b>2,069</b>
Financial income and expenses	-72	-84	-69	-281	-134
<b>Profit before taxes</b>	<b>569</b>	<b>465</b>	<b>622</b>	<b>1,994</b>	<b>1,935</b>
Taxes	53	-136	-136	-417	-430
<b>NET PROFIT FOR THE PERIOD</b>	<b>622</b>	<b>329</b>	<b>486</b>	<b>1,577</b>	<b>1,505</b>
Net profit for the period attributable to:					
The parent company's shareholders	619	328	492	1,572	1,501
Minority owners	3	1	-6	5	4
<b>Profit per share (500 pcs)</b>	<b>1.24</b>	<b>0.66</b>	<b>0.98</b>	<b>3.14</b>	<b>3.00</b>

## CONSOLIDATED BALANCE SHEET

SEK mn	31 Dec 2006	31 Dec 2005
Intangible fixed assets	4,010	4,098
Tangible fixed assets	1,840	2,056
Financial fixed assets	6,995	6,180
<b>Total fixed assets</b>	<b>12,845</b>	<b>12,334</b>
Inventories etc.	955	1,289
Current receivables	3,229	2,872
Cash and cash equivalents	400	626
Assets held for sale	403	-
<b>Total current assets</b>	<b>4,987</b>	<b>4,787</b>
<b>TOTAL ASSETS</b>	<b>17,832</b>	<b>17,121</b>
Equity attributable to the parent company's shareholders	7,232	6,323
Equity attributable to minority owners	15	563
Long-term interest-bearing liabilities	3,645	4,785
Pension provisions	89	85
Deferred tax	2,132	1,883
Other long-term liabilities	20	6
Current interest-bearing liabilities	1,933	910
Other current liabilities	2,701	2,566
Liabilities related to assets held for sale	65	-
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>17,832</b>	<b>17,121</b>

## CONSOLIDATED CASH FLOW ANALYSIS

SEK mn	Q4 2006	Q3 2006	Q4 2005	Full year 2006	Full year 2005
Cash and cash equivalents at beginning of period	1,560	563	663	626	1,462
<i>Cash flow from operating activities before changes in working capital</i>	<i>387</i>	<i>358</i>	<i>407</i>	<i>1,612</i>	<i>1,282</i>
<i>Cash flow from changes in working capital</i>	<i>-29</i>	<i>-33</i>	<i>-128</i>	<i>-5</i>	<i>-331</i>
Cash flow from operating activities	358	325	279	1,607	951
Cash flow from investing activities	-75	-1,084	-92	-1,681	-883
Cash flow from financing activities	-1,444	1,741	-226	-146	-936
<b>CASH FLOW FOR THE PERIOD</b>	<b>-1,161</b>	<b>982</b>	<b>-39</b>	<b>-220</b>	<b>-868</b>
Exchange rate difference in cash and cash equivalents	1	15	2	-6	32
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>400</b>	<b>1,560</b>	<b>626</b>	<b>400</b>	<b>626</b>

## EMPLOYEES

	Full year 2006	Full year 2005
Average number	2,304	2,245

## CONSOLIDATED CHANGE IN EQUITY

SEK mn	Full year 2006	Full year 2005
At beginning of period	6,886	5,119
Change in translation reserve	-121	210
Change in hedging reserve	45	-33
Change in minority interest	-540	485
Dividend	-600	-400
Net profit for the period	1,577	1,505
<b>At end of period</b>	<b>7,247</b>	<b>6,886</b>
<b>Equity attributable to:</b>		
The parent company's shareholders	7,232	6,323
Minority owners	15	563

## CONSOLIDATED QUARTERLY DATA

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Net sales, SEK mn	2,974	2,529	2,604	2,238	3,058
Operating profit, SEK mn	641	549	668	417	691
Operating margin <sup>1</sup> , %	21.6	21.7	25.7	18.6	22.6
Sales volume, thousand 9-litre cases	7,433	6,432	6,627	5,240	7,093

<sup>1</sup> Operating profit as a percentage of net sales.

## CONSOLIDATED SEGMENT DATA

Q4	Net sales (SEK mn)		Operating profit (SEK mn)		Volumes (thousand 9-l. cases)	
	2006	2005	2006	2005	2006	2005
V&S Absolut Spirits	1,599	1,627	593	519	3,123	2,787
V&S Distillers	625	649	130	100	1,753	1,718
V&S Wine	685	692	61	46	2,767	2,733
Capital gains	-	-	-82	-1	-	-
Other and eliminations	65	90	-61	27	-210	-145
	<b>2,974</b>	<b>3,058</b>	<b>641</b>	<b>691</b>	<b>7,433</b>	<b>7,093</b>

Full year	Net sales (SEK mn)		Operating profit (SEK mn)		Volumes (thousand 9-l. cases)	
	2006	2005	2006	2005	2006	2005
V&S Absolut Spirits	5,882	5,402	1,914	1,757	11,195	9,903
V&S Distillers	1,948	2,033	284	264	5,603	5,820
V&S Wine	2,159	2,212	112	72	9,465	9,663
Capital gains	-	-	61	57	-	-
Other and eliminations	356	-69	-96	-81	-531	-501
	<b>10,345</b>	<b>9,578</b>	<b>2,275</b>	<b>2,069</b>	<b>25,732</b>	<b>24,885</b>

Stockholm, 31 January 2007

Bengt Baron  
Chief Executive Officer

This interim report has not been reviewed by the company's auditors.