



# ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013



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## About Alko

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## Welcome to Alko's online Annual Report and Corporate Social Responsibility Report 2013

In this Annual Report and Corporate Social Responsibility Report we will describe the year 2013 and our responsible actions.

In the Alko as a Company section there is information on Alko's strategy, organisation and our management practices. In the Customer Service and Products section there are details of Alko's products, product quality and safety, as well as our means of developing our services. Under the Responsibility section you will find information on corporate and social responsibility, which is a central part of everything we do at Alko.

The report was published in March 2014 as an online version. This pdf has been generated from the online report.





## Alko in 2013

In our shops you will be served by 2,600 knowledgeable Alko employees. The operations in our shops are supported by 134 personnel at our head office and 24 staff at our regional offices. Alko is a knowledgeable and responsible business, specialised in alcoholic beverages. The company has a network of shops and complimentary order points which cover the whole country. We offer quality products from a diverse selection

Alko's essential purpose is to carry out the retail sale of alcoholic beverages, in such a way that it takes into account the harmful effects of the products in its sales operations. The company's function and its sole right for the sale of drinks containing more than 4.7 per cent alcohol are justified, above all, by social and health policy goals. The Ministry of Social Affairs and Health is responsible for the ownership, steering and supervision of Alko Inc. due to the special task assigned to Alko Inc. in law.

	2013	2012
Shops	350	350
Order points	102	107
Customers (million)	60.1	61.7
Products in main product range	2,450	2,436
Company service stores	21	21

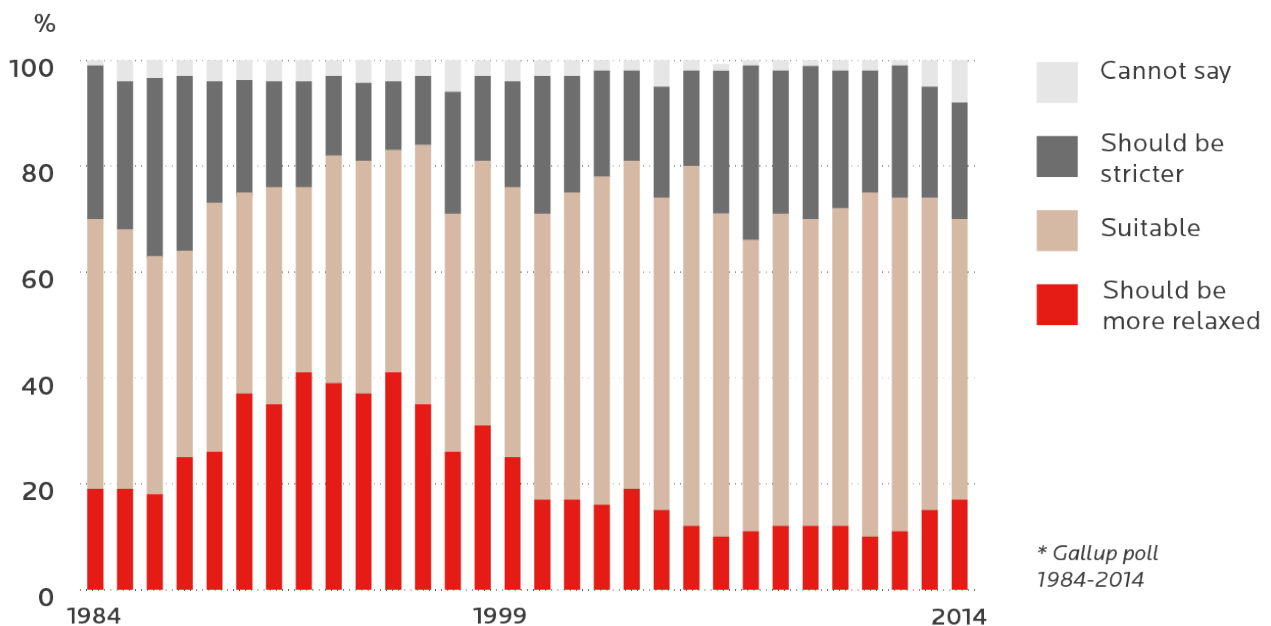
## Finnish opinion towards alcohol legislation

According to a survey conducted in January 2014 by TNS Gallup, two out of three Finns, 65 per cent, are of the opinion that the exclusive right given to Alko for the retail sale of alcoholic beverages is a good way to limit the extent of alcohol-related harm.

In the survey 1,001 Finnish people were interviewed by phone. In general, the Finnish views regarding alcohol policy were more liberal in January 2014 compared to the same date in 2013 and 2012.

In January 2014 the vast majority of the Finnish population was of the opinion that the retail sale of spirits should only be carried out at Alko's shops and medium strength beer should be on sale in grocery stores. The majority of Finns thought that the sale of strong beers and wines should be carried out only by Alko. Half of the respondents indicated that they thought the prices for alcoholic beverages were appropriate, a quarter of the respondents indicated they thought they were too high.

### FINNS' OPINIONS ON THE PREVAILING ALCOHOL POLICY\*





## Alko - responsible and service minded

### 1. How did 2013 affect Alko?

In 2013 there was a great deal of debate on alcohol policy related to increases in taxation on alcoholic beverages, future alcohol legislation reforms and restrictions on advertising.

From the perspective of Alko's operations the year was also demanding. Net sales decreased and the market situation was challenging due to the significant increase in imports, as well as low consumer confidence in the economy, which has also been the case for the commercial sector overall.

Measured by all indicators used, our results however were fine. In particular, staff satisfaction rose to new heights. Customer satisfaction improved further. We also continue to lead the way in customer service comparisons for the commercial sector. Additionally, in corporate responsibility, we remain leaders in the commercial sector and we will continue to invest in this area.

Public opinion towards alcohol policy also supported Alko's operations as a monopoly. 2/3 of consumers still believe that Alko's activities help reduce the harmful effects of alcohol and support its continued operation.

### 2. Why was Alko's strategy renewed in 2013?

The strategy was revised in 2013, mainly because we had achieved the goals set for the previous strategy period. Now the bar has been raised for the coming years. The organisation was restructured to support the new strategy, and in this way we are ready to carry out our strategic projects in 2014 and successfully carry them forward into the future.

### 3. How is the revised strategy reflected in Alko's operations?

From the customer experience perspective, service will improve with the coming electronic services, which will exist alongside the customer service that takes place in the shops. Additionally, our more diverse stores will better meet the needs of the different types of business locations and our range will continue to improve, corresponding more precisely to the consumers' needs for the shop and the locality.

A wide range of products is very important to us, and equally that the products are safe and ethically obtained. We have engaged in co-operation with other alcohol state monopolies to ensure that products are ethically sourced, and this work will continue into the future.



## Alko will continue in its task in providing service and responsibility

Our mission is to carry out the retail sale of alcoholic beverages and to reduce the harmful effects of alcohol through our special position.

We updated our strategy for the period 2014-2016. Our operations will be guided by the new strategic goals, which consist of the following:

- To provide the best customer service in Finland
- To be the most responsible company in Finland
- To be the best workplace in Finland
- To be an efficient specialist business chain

Our strategic objectives are clearly visible in the objectives and indicators for our company, as well as our units, teams and individuals, and in the [incentive system](#).

In 2013, our development work focused on the following themes: customer experience, well-being, finances and logistics, information systems, corporate social responsibility, stakeholder co-operation and the new [Alko web site](#). We also updated the overall strategic projects for 2014 to support our new objectives.

**”** We committed the personnel to the strategy work.

We started the work with an online brainstorming session for the entire staff, after which the strategy was developed iteratively at different organisational levels. The revised strategy was presented and discussed at the joint supervisor days covering the whole of Alko in September. This was followed by a national tour consisting of more than 40 events, in which the management discussed the strategy with the shop staff. The strategy was strengthened during the regional shop manager forum held in January 2014. The strategy was made more visible by two working groups at the headquarters. In the communication strategy, we got the message across using the staff magazine, our intranet and through staff and supervisor info.

### WE AIM TO BE THE BEST WORKPLACE AND THE MOST RESPONSIBLE AND SERVICE MINDED COMPANY IN FINLAND.



#### THE BEST CUSTOMER SERVICE IN FINLAND

Finland's best service company in chain comparisons.



#### THE BEST WORKPLACE IN FINLAND

Finland's best in the large companies category of the Great Place to Work survey.



#### THE MOST RESPONSIBLE COMPANY IN FINLAND

Finland's most responsible company in the commercial, service and finance groups.



#### EFFICIENT SPECIALITY CHAIN

Target oriented cost/turnover figures.

OUR MISSION IS TO CARRY OUT THE RETAIL SALE OF ALCOHOLIC BEVERAGES AND THROUGH OUR SPECIAL POSITION REDUCE THE HARMFUL EFFECTS OF ALCOHOL.

# Alko Inc.’s Corporate Governance

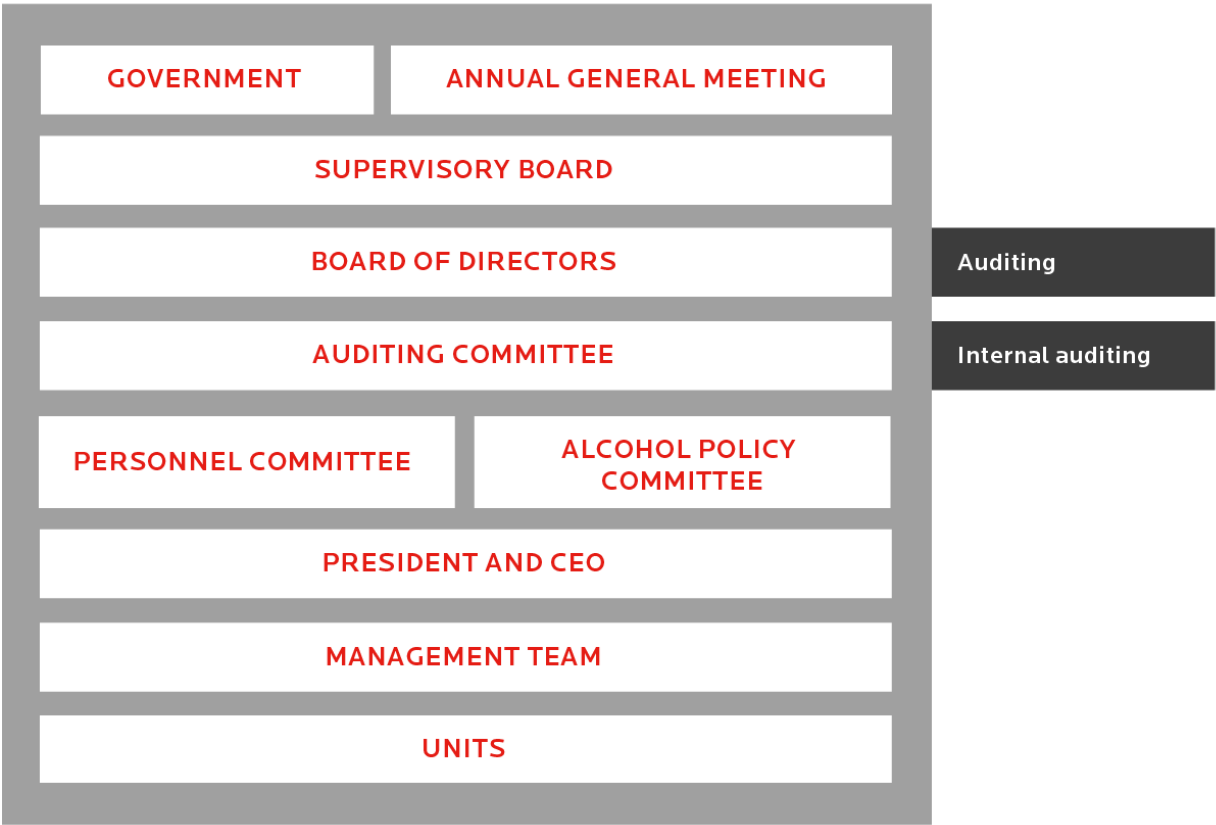
Alko Inc. is a limited company owned by the Finnish Government. Alko’s business activities are based on the Alcohol Act (1143/1994) and the Decree on the Operation of the Alcohol Company (243/2000), as well as on the Companies Act and Alko Inc.’s Articles of Association.

According to the Alcohol Act, Alko Inc.’s task is to carry on, with certain exceptions, the retail trade of alcoholic beverages prescribed exclusively for it, while aiming to prevent the adverse effects of alcohol consumption.

The Ministry of Social Affairs and Health is responsible for the ownership, steering and supervision of Alko Inc. due to the special task assigned to Alko Inc. by law. The Ministry of Social Affairs and Health adheres to the Ownership Steering Act (1368/2007) and cooperates with the Ownership Steering Department of the Prime Minister’s Office.

You can find detailed information about Alko’s corporate governance in the appendix ([page 126](#)) which describes, for instance, other public duties currently undertaken by the members of the Board of Directors.

## CORPORATE GOVERNANCE STRUCTURE



## Alko's broad responsibilities

According to the Alcohol Act, Alko's task is to carry on the retail trade of alcoholic beverages while aiming at the prevention of the adverse effects of alcohol consumption. The act stipulates that Alko has the sole right for such trade with certain exceptions. In addition, the company must take into account the rational use of natural resources and environmental protection requirements.

Alko's mission is the sale of alcoholic beverages and to reduce the harmful effects of alcohol. Alko donations, sponsorship and cooperation must be supportive of the company's mission to reduce alcohol-related harm and promote sustainable development.

### Objectives for donations, cooperation and sponsorship

Donations, cooperation and sponsorship are part of the company's responsibility and they support Alko's dialogue with key stakeholders.

Alko's projects are primarily national. It is important for Alko to pay attention to the different age groups in alcohol consumption and related harm reduction.

### Targets for donations, cooperation and sponsorship

Donations can be given for the public good or corresponding purposes. Donations are targeted at research institutions and projects, as well as national projects aimed at alcohol harm reduction.

Cooperation work is mainly directed towards social and health care organisations, as well as organisations acting in the interest of young people. For these sorts of organisations, agreements containing clear action plans are drafted and signed.

Targets for sponsorship include projects which promote sports and exercise for youth and children, well-being for different age groups, sustainable development, or which support the preservation of alcohol related history and research.

### Decision making

Donations and co-operation: Alko's Board prepares donation and cooperation plans as part of the annual plan to reduce the harmful effects of alcohol. Alko's Supervisory Board approves an action plan for achieving this aim for one calendar year at a time in accordance with the legislative decree on alcohol company operations. Donations and cooperation require a decision of the Annual General Meeting.

Sponsorship: The company's management may sponsor targets under this guideline within the maximum limits specified annually at the Annual General Meeting.

### Independence and reporting

Alko's management and key personnel provide an annual declaration of their interests. I.e. personnel are not permitted to participate in activities or decision-making in which they have a conflict of interest.

Alko publishes these guidelines on its web site and reports annually on donations given, cooperation projects and sponsorships as part of the Corporate Social Responsibility Report.



## Annual General Meeting

Alko Inc.'s Annual General Meeting must take place once a year before the end of June. The Ministry of Social Affairs and Health appoints a representative to the Annual General Meeting. The Annual General Meeting, in accordance with the Companies Act, decides on such matters as approval of the financial statements, profit distribution, exemption from liability, the election and fees

of the members of the Supervisory Board and the Board of Directors, and auditors and their remuneration, as well as on whether to amend the Articles of Association. Alko Inc.'s Board of Directors elects to convene the Annual General Meeting. Notice of the meeting and the agenda are sent at least one week prior to the meeting.

## Supervisory Board

Alko's Supervisory Board consists of twelve members, which the Government appoints for four calendar years at a time. The Government also appoints the Chairman and the Vice Chairman.

The work of the Supervisory Board is carried out according to the principles in the Supervisory Board's approved rules of procedure.

### **The Supervisory Board's tasks are as follows:**

- to ensure that the company's affairs and administration are handled according to sound business principles, with an eye to profitability, and that the law, the provisions of the Articles of Association, the decisions of the Annual General Meeting and other approved instructions are complied with
- to give instructions to the Board of Directors in far-reaching matters of fundamental importance
- to monitor alcohol-related trends both in Finland and abroad and, on the basis of this, issue general guidelines on the development of the alcohol company's operation
- to confirm the action plan aimed at preventing the adverse effects of alcohol in accordance with Section 1 of the Decree on the Operation of the Alcohol Company (243/2000)

- to provide the report referred to in Section 36 Paragraph 1 Subparagraph 2 of the Alcohol Act on the development of the company's retail sales and the measures that the company has initiated in the manner required by the Act and
- to give the Annual General Meeting a statement concerning the company's financial statements and auditors' report.

The Supervisory Board for 2011–2015 consists of Sari Sarkomaa (Chairman) and Eila Tiainen (Vice Chairman) and, as members, Timo Heinonen until 7 March 2013, Anne Holmlund, Reijo Hongisto, Arja Juvonen, Saara Karhu, Pauli Kiuru since 7 March 2013, Mats Nylund, Heli Paasio, Leena Rauhala, Markku Rossi and Simo Rundgren. Director Kari Paaso represents the Ministry of Social Affairs and Health. Representation of the Ministry of Social Affairs and Health on the Supervisory Board is decreed by Section 38 of the Alcohol Act. The Supervisory Board meets approximately five times a year.

## Board of Directors

The Annual General Meeting elects the Chairman and Vice Chairman of the Board and a minimum of three and a maximum of six members. A Board member's term of office lasts from his/her election until the end of the following Annual General Meeting. Two personnel representatives take part in the meetings. The Annual General Meeting is convened on the invitation of the Chairman or the Vice Chairman of the Board.

The work of the Board of Directors is carried out according to the principles in the Board of Directors' approved rules of procedure.

### The key tasks of the Board of Directors are as follows:

- to direct and oversee the company in accordance with the decisions of the Annual General Meeting, the Companies Act and the Articles of Association
- to direct and oversee the company in accordance with alcohol related statutes and to strengthen the company's strategy
- to approve the annual action plan and budget and to oversee their implementation
- to approve significant investments as well as the acquisition and sale of real-estate shares
- to strengthen the principles of internal monitoring and supervise their implementation and sufficiency
- to strengthen the principles of risk management
- to strengthen the internal audit directive and the annual plan to supervise the independence and work of the auditors and prepare a proposal on the election of the auditors for the Annual General Meeting
- to consider and approve the interim reports, the annual report and the financial statements
- to decide on the company's organisational structure and management system
- to appoint and relieve from their posts the President & CEO, the President & CEO's deputies and other members of the Management Team
- to decide on the salaries and other benefits of the President & CEO and the members of the Management Team
- to approve an incentive scheme for management and personnel
- to consider the results of the company's workplace atmosphere surveys
- to approve the company's corporate governance and the operating procedures of the Board of Directors and the committees, and to review their contents annually
- to consider the reports of the committees of the Board of Directors
- to consider matters presented by the members of the Board or the President & CEO
- to address issues related to regulatory control.

On 23 April 2013 the Annual General Meeting elected Soili Suonoja as Chairman to Alko's Board of Directors and Harri Vainio as Vice Chairman. Sari Aalto-Matturi, Arto Honkaniemi, Taru Keronen, Leila Kostiainen and Matti Pörhö were elected as members of the Board. Personnel representatives Juri Helmiö and Marko Säkkinen will attend the meetings of the Board of Directors without the right to vote.

The Board meets approximately ten times a year. The Board evaluates the effectiveness of its activities annually, as well as its procedures and success in accomplishing its task. The Board members are independent of the company. Board member Arto Honkaniemi works for the Ownership Steering Department of the Prime Minister's Office. Participating in Board meetings are President and CEO Hille Korhonen, Executive Vice President (Finance) Minna Alitalo until 31.12.2013 and Executive Vice President (Finance) Anton Westermarck as a 1 April 2014 and Executive Vice President (Communication and Social Responsibility) Maritta Iso-Aho as Secretary to the Board.

## Board of Directors



### **Soili Suonoja**

b. 1944  
Chairman  
Commercial Counsellor  
Member of the Board  
since 2004



### **Harri Vainio**

b. 1947  
Vice Chairman  
Doctor of  
Medicine and Surgery  
Director General,  
Finnish Institute of  
Occupational Health  
Member of the Board  
since 2013



### **Sari Aalto-Matturi**

Sari Aalto-Matturi  
b. 1966  
Member of the Board  
Licentiate in Political  
Science  
Executive Director  
Ehkäisevä päihdetyö  
EHYT ry  
Member of the Board  
since 2012



### **Arto Honkaniemi**

b. 1946  
Member of the Board  
Master of Laws, Master of  
Science (Economics and  
Business Administration)  
Senior Financial  
Counsellor, Ownership  
Steering Department,  
Prime Minister's Office  
Member of the Board  
since 2007



### **Taru Keronen**

b. 1966  
Member of the Board  
M.Sc. Economics, eMBA  
Member of the Board  
since 2013, until  
28.2.2014



### **Leila Kostainen**

b. 1950  
Member of the Board  
Master of Laws  
Secretary General of The  
Finnish Confederation of  
Professionals STTK  
Member of the Board  
since 2012



### **Matti Pörhö**

b. 1952  
Member of the Board  
Commercial Counsellor  
President and CEO  
Pörhö Autoliike Oy  
Member of the Board  
since 2012



Personnel representative:

### **Juri Helmiö**

b. 1952  
Chairman of Alkoholi-  
alan Toimihenkilöt ry



Personnel representative:

### **Marko Säkkinen**

b. 1974  
Chairman of  
Alkoholikaupan  
Ammattiliitto ALV ry



## Committees of the Board of Directors

Alko Inc.'s Board of Directors has three committees: the Audit, Personnel and Alcohol Policy committees. The Board appoints the Chairman of the committees and the members to each one. The Board has established rules of procedure for each committee, which include the central tasks and principles for the committee.

### Auditing Committee

The Auditing Committee assists the Board of Directors in managing the supervision tasks that it has been assigned.

#### The Auditing Committee's tasks are as follows:

- to oversee the financial reporting process
- to evaluate the sufficiency and functionality of internal auditing and risk management
- to oversee internal auditing activity
- to process and evaluate auditing and auditor-related matters
- to ensure compliance with laws, regulations and other provisions.

The committee consists of at least three and at most five members of the Board of Directors. The Chairman of the committee must have sufficient knowledge of accounting practices. The President & CEO and the Chief Financial Officer act as the committee's presiding officers, while the Auditing Director acts as secretary for the committee. The Auditing Committee meets approximately five times a year.

The Auditing Committee consists of Chairman Leila Kostiaainen, members Arto Honkaniemi and Soili Suonoja, Presiding Officers Hille Korhonen and Minna Alitalo (until 31.12.2013) and Anton Westermarck from 1.4.2014, and Auditing Director Heli Riivari as Secretary.

### Personnel Committee

The function of the Personnel Committee is to assist the Board of Directors in supervising and preparing the company's personnel policies and practices as well as in the development of the organisation, in addition to assisting the Board of Directors in all the tasks related to remuneration schemes and employment relationships. The committee consists of three members from the Board of Directors.

The company's President & CEO acts as the Presiding Officer and the director responsible for personnel acts as the Secretary of the Committee. The Personnel Committee meets approximately six times a year. The Remuneration Committee consists of Chairman Harri Vainio, members Taru Keronen until 28.2.2014 and Soili Suonoja, Presiding Officer Hille Korhonen and Secretary Tytti Bergman.

### The Alcohol Policy Committee

The task of the Alcohol Policy Committee is to assist and support the company's Board of Directors in an advisory role in order to achieve social and health policy objectives in accordance with the Alcohol Act and related legislation. The committee consists of one member from the Board of Directors, two representatives from the Ministry of Social Affairs and Health and one representative from the company. The director responsible for corporate relations acts as the secretary for the working group. The Alcohol Policy Committee meets approximately five times a year.

The Alcohol Policy Committee consists of Chairman Matti Pörhö and member Sari Aalto-Matturi and expert Ismo Tuominen (Ministry Representative) and Hille Korhonen, with Maritta Iso-Aho as Secretary.

## President and CEO

The task of the President & CEO is to manage the company's business operations in accordance with the law, the Articles of Association and the instructions issued by the Board of Directors. He or she also ensures that decisions taken at the Annual General Meeting and by Supervisory Board and Board of Directors are carried out. The President & CEO has two deputies.

The retirement benefits of President and CEO Hille

Korhonen are determined in line with the Employees Pensions Act (TyEL). The notice of termination period to be observed in the President and CEO's employment is six months, and, in addition to the salary for the notice of the termination period, she must be paid dismissal compensation corresponding to six month's salary if the termination of employment is through no fault of her own.

## Management team

The Management Team at Alko consists of seven members. Alko's Board of Directors appoints the President & CEO, the President & CEO's deputies and the other members of the Management Team. Alko's Management Team assists the President & CEO in leading the company and in implementing its strategic and operational objectives. The Management Team handles the company's strategy and its action plan and budget, as well as other matters to be presented to the Board of Directors. The task of the Management Team is to monitor financial performance, business operations and the implementation of operational decisions.

The company's Management Team consists of President & CEO Hille Korhonen, 1st Deputy CEO, Executive Vice President, Communications and Sustainability Maritta Iso-Aho, 2nd Deputy CEO,

Executive Vice President, Customer Services Kari Pennanen, Executive Vice President, Purchases Minna Alitalo, Executive Vice President, Marketing Mika-Pekka Miettinen, Executive Vice President, Human Resources Tytti Bergman and Executive Vice President, Finance Anton Westermarck from 1.4.2014. The Management Team meets regularly on average twice a month. More detailed information regarding the members of the Management Team is in the Corporate Governance.

All the members of the company's Management Team and other key persons have fully declared their commitments. Based on the statements received, all of the Management Team's representatives and the key people appointed are found to be independent of any interest groups.

## Members of the management team



**Minna Alitalo**

b. 1962

Master of Economics  
and Business  
Administration

Executive Vice  
President, Purchases

In service to the  
company since 2009



**Tytti Bergman**

b. 1969

Master of Economics  
and Business  
Administration

Executive Vice  
President, Personnel

In service to the  
company since 2013



**Maritta Iso-Aho**

b. 1964

Master of  
Administrative  
Sciences eMBA

Executive Vice  
President,  
Communication and  
Social Responsibility

In service to the  
company since 2008



**Hille Korhonen**

b. 1961

Licentiate in Technology  
President and CEO

In service to the  
company since 2013



**Tiina Lukkari**

b. 1954

Master of Philosophy  
Executive Vice  
President, Purchases,  
until 31.12.2013

In service to the  
company since 1989



**Mika-Pekka  
Miettinen**

b. 1964

Master of Economics  
and Business  
Administration

Executive Vice  
President, Marketing

In service to the  
company since 1999



**Kari Pennanen**

b. 1964

Master of Social  
Sciences, eMBA

Executive Vice  
President, Customer  
Services

In service to the  
company since 1989



**Anton Westermarck**

b. 1968

Master of Economics  
and Business  
Administration

Executive Vice  
President, Finance

In service to the  
company since 2014



## Benefits, Bonuses and remuneration

### **The Annual General Meeting has decided upon the following meeting fees for the Supervisory Board:**

- Chairman's meeting fee: EUR 1,000
- Vice Chairman's meeting fee: EUR 800
- Members' meeting fee: EUR 700

### **The Annual General Meeting has decided upon the following monthly fees decided for the Board of Directors:**

- Chairman's monthly fee: EUR 2,750
- Vice Chairman's monthly fee: EUR 1,300
- Members' monthly fee: EUR 1,100

Moreover, the Annual General Meeting has decided that a meeting fee of EUR 600 will be paid to the members of the Supervisory Board and to members of committees established by the Board of Directors for attending a Board or Committee meeting.

Alko's system of remuneration aims to support the achievement of the company's strategic objectives. The Board annually decides on the principles and performance targets of the incentive schemes for the personnel and the Management Team based on a proposal made by the Personnel Committee. The Board annually approves the Management Team's fees.

The Management Team's incentive scheme is based on strategic targets and on indicators describing their attainment, as well as on personal strategic development targets. The 2013 incentive bonus is set at most to 15 per cent of the annual salary. The ministerial Cabinet Committee on Economic Policy has outlined the remuneration for the company's management and key personnel in its comments stated on 13 August 2012.

The purpose of the incentive scheme for the personnel is to encourage Alko employees to achieve the strategic goals of the company. The starting point for the incentive scheme is group specific rewards. The 2013 incentive bonus is, depending on the job concerned, limited to 6–12 per cent of the annual salary.

## Salaries and remuneration 2013

According to the decision made at the Annual General Meeting on 23 April 2013, meeting fees will be paid to Supervisory Board members present for Supervisory Board meetings as follows:

- Chairman of the Supervisory Board: 1, 000 euros
- Vice Chairman of the Supervisory Board: 800 euros
- Member of the Supervisory Board: 700 euros

The Supervisory Board convened five times in 2013 and its members were in attendance as follows:

Member of the Supervisory Board	Participation in meetings, %	Fees, EUR
Sari Sarkomaa, Chairman	100	5,000
Eila Tiainen, Vice Chairman	80	3,200
Anne Holmlund	100	3,500
Reijo Hongisto	100	3,500
Arja Juvonen	100	3,500
Saara Karhu	100	3,500
Pauli Kiuru *)	100	3,500
Mats Nylund	100	3,500
Heli Paasio	100	3,500
Leena Rauhala	80	3,800
Markku Rossi	100	3,500
Simo Rundgren	100	3,500
<b>In total</b>	<b>97</b>	<b>42,500</b>

*The fees have been reported in accordance with the meetings held during the year.*

\*) The Government made the following decisions in its plenary session held on 7 March 2013: The Government accepted Member of Parliament Timo Heinonen's resignation from Alko Oy's Supervisory Board, and assigned Member of Parliament Pauli Kiuru in his place on the Supervisory Board from 7 March, for the period ending 31 December 2015. The first meeting of the Supervisory Board was held on 14 March 2013.

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### BENEFITS, BONUSES AND REMUNERATION > SALARIES AND REMUNERATION 2013

The Annual General Meeting decided on the following fees for the Board of Directors in 2013:

- Chairman of the Board EUR 2,750 per month
- Vice-Chairman of the Board EUR 1,300 per month
- Member of the Board EUR 1,100 per month
- Meeting fees EUR 600.

The Board convened 14 times and its members were in attendance as follows:

Member of the Board	Participation in Board meetings, %	Monthly fees, EUR	Board meeting fees, EUR	Committee meeting fees, EUR
Soili Suonoja, Chairman	100	33,000	8,400	9,600
Pekka Puska, Vice Chairman*)	100	5,200	3,000	1,800
Harri Vainio, Vice Chairman**)	100	10,400	5,400	3,600
Sari Aalto-Matturi	100	13,200	8,400	3,000
Arto Honkaniemi	86	13,200	7,200	3,600
Taru Keronen **)	100	8,800	5,400	3,600
Leila Kostiainen	100	13,200	8,400	3,600
Matti Pörhö	93	13,200	7,800	3,600
<b>In total</b>	<b>97</b>	<b>110,200</b>	<b>54,000</b>	<b>32,400</b>

*The fees have been reported in accordance with the meetings held during the year.*

\*) Member of the Board until 23 April 2013

\*\*) Member of the Board from 23 April 2013

Board members participated in all meetings of committees appointed by the Board.

## Management team and staff incentive system

Alko's incentive system supports the attainment of its strategic aims. The Board decides annually on the principles of the incentives and performance targets for the staff and Management Team on the basis of a proposal by the Staff Committee. The Board annually approves the paid remuneration.

The purpose of the staff incentive scheme is to encourage Alko staff to work towards achieving strategic objectives (in terms of customers, responsibility, staff and operational efficiency). The idea is that incentive rewards

are awarded on a team basis. In 2013 the incentive pay amounted to a maximum of 6 to 12 per cent of the annual salary.

The management team's incentive system is based on aims taken from the company scorecard (customers, responsibility, staff and operational efficiency) and indicators for monitoring their realisation. In 2013 the incentive pay amounted to a maximum of 15 per cent of the annual salary.

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### BENEFITS, BONUSES AND REMUNERATION > SALARIES AND REMUNERATION 2013

## Remuneration for the President and CEO, and the Management Team

The Remuneration Committee decides on remuneration for the President and CEO and the Management Team.

The management's remuneration complies with the

comments on remuneration for company's management and key personnel given by the ministerial committee on economic policy on 13 August 2012.

	Total salary, EUR (salary)		Short term incentive, paid annually, EUR		Benefits in kind		Total salary, EUR (salary+ incentive+ benefits in kind)	
	2013	2012	2013	2012	2013	2012	2013	2012
President and CEO Hille Korhonen from 1 Jan. 2013	366,131		0		19,336		385,467	
President and CEO Jaakko Uotila until 31 Dec. 2012		280,877	59,360	69,562		16,929	59,360	367,368
The rest of the Management Team	1,097,343	796,305	177,199	198,267	65,850	57,660	1,340,392	1,052,232
<b>In total</b>	<b>1,463,474</b>	<b>1,077,182</b>	<b>236,559</b>	<b>267,829</b>	<b>85,186</b>	<b>74,589</b>	<b>1,785,219</b>	<b>1,419,600</b>

	Retirement age	Retirement benefits	Period of notice	Severance pay in addition to pay for the period of notice
President and CEO Hille Korhonen from 1 Jan. 2013	63 years	Pension in line with earnings-related pension scheme legislation	By the President and CEO 6 months, and by the company 6 months	6 months salary
President and CEO Jaakko Uotila until 31 Dec. 2012	63 years	60% of annual wages serving as the basis for the calculation of pension, calculated on the basis of wages of the last ten years	By the President and CEO 6 months, and by the company 6 months	6 months salary
The rest of the Management Team	Two members 61 years	66% of annual wages serving as the basis for the calculation of pension	By Management Team Member 3 months and by the company 4-6 months	-
	Four members Retirement age is in line with earnings-related pension scheme legislation	TyEL insurance and additional pension based on 10% of annual salary		
	One member Retirement age is in line with earnings-related pension scheme legislation	Pension in line with earnings-related pension scheme legislation		

#### Annual payments of additional pensions

	2013, EUR *)	2012, EUR
President and CEO Hille Korhonen	In line with earnings-related pension scheme legislation	
President and CEO Jaakko Uotila	0	85,280
The rest of the Management Team	129,933	90,702
<b>In total</b>	<b>129,933</b>	<b>175,982</b>

\*) Assessment based on advance payment, to be finalised in April 2014.



## Internal supervision, risk management and internal auditing

The Ministry of Social Affairs and Health supervises compliance with the Alcohol Act and the rules and regulations issued under it. The National Supervisory Authority for Welfare and Health, Valvira, reports annually to the European Commission on how fully Alko Inc., as the holder of the sole right to sales of alcoholic beverages in Finland, has observed the required impartiality and transparency in its relations with suppliers. The report also takes account of a statement made by the Finnish Competition Authority. The National Supervisory Authority for Welfare and Health, Valvira, monitors Alko's retail sales. Any Alko decision concerning the retail of alcoholic beverages can be appealed to Valvira and further to the Supreme Administrative Court.

The Management Team is responsible for the internal supervision of Alko. The purpose of the internal supervision system is to ensure that the operations serve their purpose and are efficient, that economic and operative reporting is reliable, and that the regulations and operating principles are being complied with. The most important aspects of internal supervision include: governance and the organisation culture and reporting and internal communications, in addition to monitoring and supervision.

**Alko's financial reporting and related supervision consists of three components, namely:**

- 1) the effective and high-quality recording and processing of transactions,
- 2) financial reporting regulatory compliance, and
- 3) financial reporting to support business operations and decision-making.

The company's reporting is based on the Finnish Accounting Standards (FAS), as well as on internal reporting related to accounting guidelines and financial rules. The Finance Unit is responsible for the financial reporting process and the development of its supervision practices, as well as for ensuring that financial reporting-related laws and regulations are complied with. The Executive Vice President Finance reports the company's financial results and forecasts at meetings of the Auditing Committee and the Board of Directors.

Alko's values and its business method principles and impartiality guidelines, as well as its instructions on listing alcoholic beverages in its product range and on retail sales, form the basis of the company's management and cooperation with key interest groups. Alko's Board of Directors approves the company's risk management policy and monitors that risk management measures are adequate and effective. The President & CEO, together with the Management Team, is responsible for the risk management policy and its enforcement as well as for ensuring that risk management is arranged appropriately. Alko's risk management is based on systematically and pro-actively analysing and managing threats and opportunities related to its activities. The risks are classified as strategic, operational, economic and accident risks.

The company's internal auditing, in accordance with the operating principles approved by the Board of Directors, evaluates the adequacy and efficiency of Alko's supervision, as well as its risk management, the quality of its operations and its management process. Internal auditing is an independent function that administratively falls under the authority of the 1st Deputy to the President & CEO and reports to the Board of Directors.

## Compliance with the Finnish Corporate Governance Code and communications

Alko complies, where applicable, with the Finnish Corporate Governance Code issued on 15 June 2010 by the Securities Market Association. In addition to the corporate governance of Finnish listed companies, Alko Inc. complies with the ownership steering strategy of the Ministry of Social Affairs and Health and the Cabinet Committee on Economic Policy directive on state owned companies' remuneration and pension schemes given on 13 August 2012 and the Government Resolution on State Ownership Policy given on 3 November 2011.

Deviations from the Finnish Corporate Governance Code result from the company's ownership structure: the company has one shareholder and the company's shares are not publicly quoted, and the company has no share-based bonus or incentive schemes. The deviations are with regard to the following recommendations, identified in brackets, contained within the Corporate Governance

Code: recommendation 1 (publishing information on general meetings), recommendation 3 (attendance of the Board of Directors and auditor at a general meeting), recommendation 4 (attendance of a prospective director at a general meeting), recommendation 11 (notification of director candidates), and recommendation 55 (some of the above-mentioned deviations depart from the disclosure of information on the company website).

### Communications

Details about Alko Inc's corporate governance can be found on the company's website, [www.alko.fi](http://www.alko.fi). In addition, Alko Inc. published details about its corporate governance annually in connection with its annual report and corporate social responsibility report.

## Alko's operations are directed by legislation

Alko's operations are guided by specific legislation and ownership policy objectives set by the State. Alko is one of the State's special assignment companies, 'which have been assigned a certain task by the State or which do not operate in a competitive environment due to a granted exemption'. The key laws and regulations affecting the operation of Alko are the following:

- The Alcohol Act (1143/1994)
- The Alcohol Decree (1344/1994)
- The Decree on the Operation of the Alcohol Company (243/2000)
- The Decree on Alcoholic Beverages and Spirits (1344/1994)
- The Decree on the retail sale of alcoholic beverages by sending them to the customer or the buyer (680/1996)
- The Act on Excise Duty (182/2010)
- The Act on Excise Duty on Alcohol and Alcoholic Beverages (1471/1994)
- The Act on Excise Duty on Certain Beverage Containers (1037/2004)
- The Waste Act (646/2011)
- Council of State Decision on packaging and packaging waste (962/1997)
- The Government Decree on refund systems of some packaging containers (180/2005)

Alko's business activities are carried out according to the Articles of Association and the Companies Act (624/2006) and in accordance with the special legislation affecting the company. In addition, Alko complies with the Government Resolutions on State Ownership Policy (7 June 2007, 8 September 2009 and 3 November 2011) and, where applicable, with the Finnish Corporate Governance Code issued on 15 June 2010 by the Securities Market Association.

### Comprehensive reform of the Alcohol Act underway

A comprehensive overhaul of the Alcohol Act is underway and a legislative proposal will be submitted to Parliament in the spring of 2014. Parliament approved changes to the marketing section of the Alcohol Act in December 2013. The law, which comes into effect in the spring, allows for the publication of product information about spirits on Alko's website.

### Preparation

2011: The Ministry of Social Affairs and Health began preparations for the comprehensive reform of the Alcohol Act in line with the Government programme.

2012: The Ministry of Social Affairs and Health gave Valvira, the National Supervisory Authority for Welfare and Health, an assignment to draw up a list of changes needed in the Alcohol Act arising from supervision and execution of the alcohol legislation. The National Institute for Health and Welfare (THL) also drew up a report on current alcohol consumption, its harmful effects and methods used to fight the harmful effects of alcohol consumption. Alko participated in the work of the advisory boards mapping the needs for change on invitation from Valvira.

2013: The Ministry of Social Affairs and Health drafted an open memorandum with a list of points needing revision, which was circulated for comment. A draft Government proposal for the new alcohol legislation was sent for comments in spring 2014 and the Government's proposal went to Parliament in the spring session in 2014. At the end of 2013, Parliament approved the changes in the section of the Alcohol Act regulating advertising. The amendment permits Alko to communicate prices for strong alcoholic beverages in a consistent manner over an information network, in addition to the printed price list.

## Auditing

The company has one auditor, which must be a firm of independent public accountants approved by the Central Chamber of Commerce in Finland. The auditor's term of office is one financial year and the auditor's work ends upon completion of the next Annual General Meeting

following its election. In spring 2011, the Annual General Meeting elected the Authorised Accounting Firm KPMG Oy Ab as the company's auditor, with Authorised Public Accountant Reino Tikkanen as the auditor with the main responsibility.

# Glossary

## **The Alcohol Act (1143/1994)**

The Act aims at guiding the consumption of alcohol in order to prevent the harmful social and health effects caused by drinks containing alcohol. It applies to drinks containing alcohol, their manufacture, import, export, sale and other handover, use, possession, transportation and advertising.

## **Alcohol policy action plan**

Alko is responsible for the retail sales of alcoholic beverages with the aim of preventing the harmful effects of alcohol consumption. Alko's Board of Administration approves an action plan for achieving this aim for one calendar year at a time.

## **Documented consumption of alcoholic beverages**

Sales by Alko shops and supplies of alcoholic beverages by wholesalers to food shops and licensed bars and restaurants.

## **Ethyl alcohol**

An ingredient in all alcoholic beverages (ethanol, pure alcohol C<sub>2</sub>H<sub>5</sub>OH), intoxicating, with a pungent odour and burning taste when in pure form.

## **Listing procedure**

Alko has no brands or production of its own and it purchases products from domestic and foreign suppliers of alcoholic beverages. Decisions on the selection and pricing are made on grounds that are impartial and non-discriminating, regardless of the manufacturer's or seller's nationality or domicile, as described in Alko's publication entitled Listing Procedure and Retail Sale of Alcoholic Beverages.

## **Mild alcoholic beverages**

Containing not more than 22 per cent ethyl alcohol by volume.

## **Mystery Shopping research**

Research method based on observation, with research assistants or test customers telephoning, doing business with or contacting the company electronically as ordinary customers requiring service.

## **Order point**

Alko sets up order points at population centres in sparsely populated areas where there is no Alko shop. An order point is a service company operating in the community area that hands over on behalf of Alko alcoholic beverages ordered by customers.

## **Per cent alcohol by volume in alcoholic beverages**

Defines the proportion of the volume of a certain quantity of drink accounted for by pure alcohol. If a drink contains 40 per cent alcohol by volume, one litre contains four decilitres of pure alcohol.

## **Pricing coefficients**

Alko's sales margin covers the expenses of retail sales and its administration as well as the company's operating profit. The sales margin is included in the product's retail price by using pricing coefficients. More information on the pricing coefficients in the Listing procedure and retail sale of alcoholic beverages -publication.

## **Strong alcoholic beverages**

Containing more than 22 per cent ethyl alcohol by volume.

## **Total consumption**

The total consumption of alcohol includes both documented and undocumented consumption of alcoholic beverages.

## **Undocumented consumption of alcoholic beverages**

Imports of alcohol by travellers, homemade legal and illegal alcohol, smuggling, alcohol substitutes and alcohol drunk by travellers abroad.

## **Wines**

Mild alcoholic beverages made by fermentation from grapes (red wine, rosé, white wine, sparkling wine). Fruit wine is made entirely or in part from berries and fruit.



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Alko's annual report and corporate social responsibility report 2013 have been published both in English and Finnish.

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Leena Kisonen

### Video production

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Studio Skaala Oy

### In collaboration

The English Centre



## Customer service and products

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## We aim to exceed our customers' expectations

In many of our customers' opinions service truly lives at Alko. Our customers like our stores, the product range and our services even better than before. Our goal is to provide services that exceed customer expectations.

### How we developed our services in 2013

In 2013, we stepped into "the customer's shoes." For our sales staff, it is important to understand what sort of customer service to provide. A top customer experience also requires that the Alko staff themselves enjoy providing customer service.

**A good feeling amongst  
the staff also spreads  
to the customers.**

#### In 2013 our service themes included:

- praising your work colleagues
- recommending excellent choices of drinks to have with meals
- serving young people in a friendly manner
- being truly yourself in serving customers

In addition, the shop teams were allowed to choose their own local service theme related occasion, party or event. In late 2013 we organised a story telling campaign on Alko's website. We received about 500 first hand stories about visits to Alko shops that weighed on our customers' minds. The stories were collated for the staff and used to improve our service.

### Shop staff training 2012-2013

The customer service training that we started in 2012 was completed in December 2013. During that time all of the sales teams went through the training. The training took place in-store with customers present.

The growth in tourism from Russia can also be seen at Alko. For this reason, some of the shop teams had customer service training aimed at serving Russian customers.

The shop staff are continuously trained in the supervision of age-limits, suspected cases of intoxication and suspected cases of handing over alcohol to minors. In our supervision we make sure we pay attention to customer service in a friendly but firm manner.





## Service quality and customer satisfaction were diligently measured

Alko measured service quality and customer satisfaction in the following studies:

- Taloustutkimus: The Finland Today national customer service feedback survey
- TNS Gallup: Alko's customer satisfaction and commitment survey
- TNS Gallup: Mystery Shopping survey on service processes

Of these studies, the Finland Today customer service survey by the research company Taloustutkimus will be continued in 2014. The other studies will be replaced by the latest research methods in 2014.

Customer feedback collection devices were located in 56 of our shops, which allowed customers to respond to a variety of changing questions e.g. on service quality or the product range.



## The most important findings of the 2013 customer satisfaction survey

### 1. Taloustutkimus: National customer service survey 2013

**According to the national customer satisfaction survey Finland Today Alko achieved the best in customer experience for retail chains.**

Alko improved its customer satisfaction rating (8.45) for the sixth year in a row compared to other retail chains. Alko had the fourth most satisfied customers in a survey of 150 Finnish companies. Customers were more satisfied with their first impressions, levels of service expertise and flexibility as well as feeling comfortable in the surroundings. Satisfaction with the relationship between price and quality as well as the desire to return to Alko remained at the same level as in 2012. Uusimaa and Helsinki had the most satisfied customers.

### 2. TNS Gallup: Survey on customer satisfaction and customer commitment for 2013

The index describing customer satisfaction and commitment had increased from 56 to 60. Frequent customers at Alko are rarely more satisfied than others. Customers were satisfied with the quality of customer service and the wine selection, in particular. Most customers hoped for changes in prices, and the vast majority of customers did not come up with anything for improvement.

### 3. TNS Gallup: Mystery Shopping survey on service processes.

- The quality of our service processes improved in 2013 (from an index score of 84 to 86)
- Our strengths include friendly service and control of the service situation, noticing customers on arrival and actively providing assistance, making expert recommendations for drinks and initial greetings at the checkout points.
- Areas for development were observed in the needs assessment in 2012 and included offering additional services and improving the end of the checkout experience. In all of these, however we also developed well.
- The areas of Lapland, Eastern and Central Finland were the most successful in the survey. The Alko shops at Ilomantsi, Ulvila and Kiuruvesi achieved the best service processes in the whole of Finland. The team at Hämeenkylä in Vantaa made the most progress in service processes for 2013.
- 134 shops achieved a perfect one hundred point score during the year (10 per cent of the Mystery Shopping survey visits). The number has more than doubled since 2012.



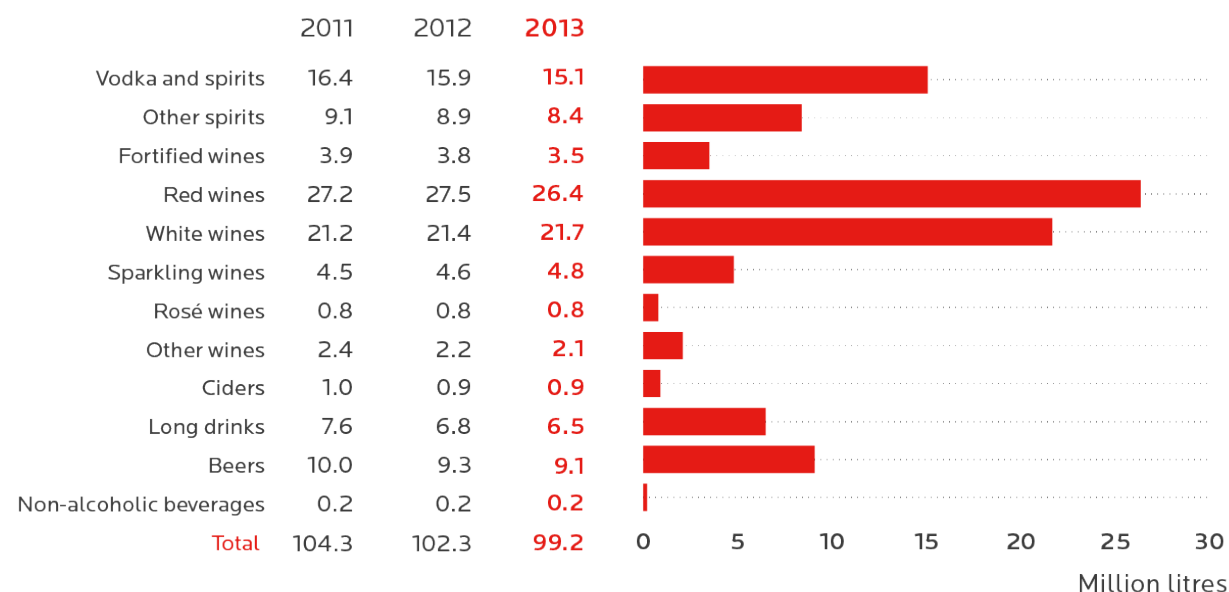
## Alko's share of alcohol sales declined

In 2013 Alko sold a total of 99.2 (102.3) million litres of alcoholic beverages. Alko's share of alcohol sales in Finland declined to 40.6 (41.4) per cent. Sales fell by 2.9 per cent in comparison with the previous year. Converted to 100 per cent alcohol, the sales added up to 16.8 million litres, which is almost 3.7 per cent less than a year earlier.

In Finland Alcoholic beverages are sold in Alko shops

and fermented alcoholic beverages containing up to 4.7 per cent alcohol by volume are sold at other retail sales points such as grocery stores and kiosks. In addition, there are a variety of alcohol licenses for restaurants. In 2013 sales of alcoholic beverages declined in restaurants as well as in Alko. At other retail sales points the sale of alcoholic beverages increased slightly.

## SALES BY PRODUCT GROUP



Total in 100% alcohol 16.8 (17.5) million litres in 2013



## Wine sales have declined

Mild wines are the largest of Alko's product groups. This product group includes e.g. red, white and sparkling wines. Over half of the litres we sell are mild wines. In 2013 our sales of mild wines amounted to 55.6 million litres, i.e. 1.4 per cent less than in 2012.

The most popular mild wines purchased at Alko by Finns are red wines. Cheap wines under 7 euros are the most popular. Sales at Alko of red wine began to decline in 2013. 4.0 per cent less red wine was sold than in 2012. As a result, the sale of mild of wines overall decreased. Nearly a third of the red wine sold at Alko comes from Chile. Spain, Australia and Italy are among the most popular wine countries.

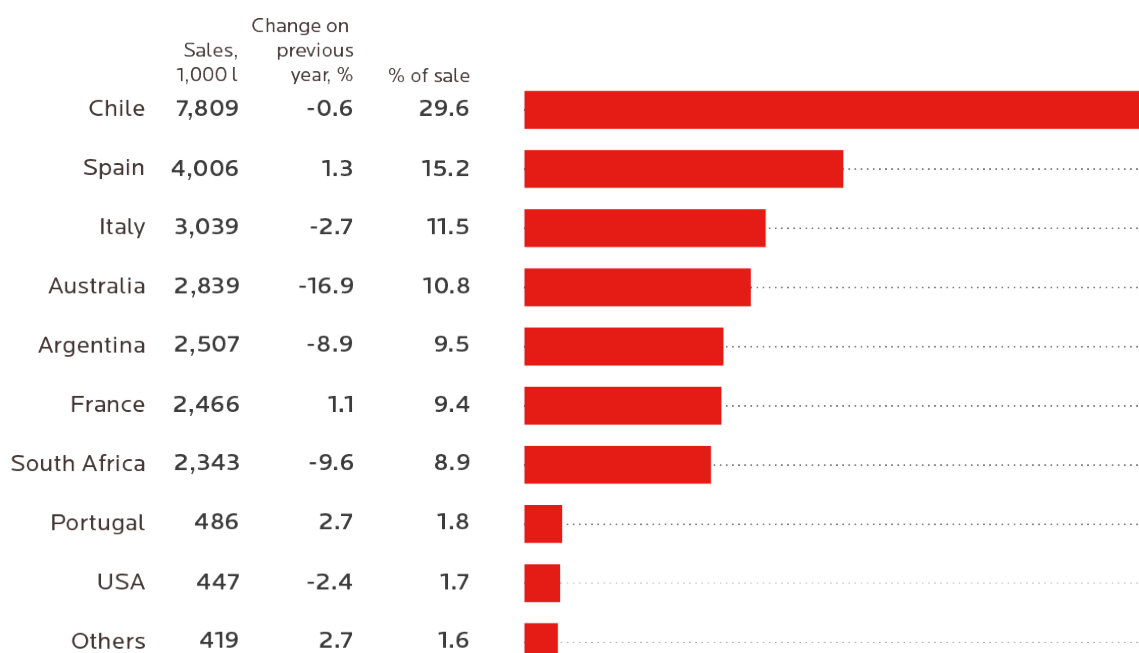
Sales volumes of white wines increased by 1.0 per cent in 2013. White wines costing less than 7 euros are still the most popular among white wines. The most popular countries of origin for white wines were Chile, South-Africa and Germany.

Sparkling wines have maintained their popularity and their sales increased by 4.2 per cent. Nearly 38 per cent of sparkling wines purchased from Alko come from Spain. The next most popular countries of wine origin are France and Italy.

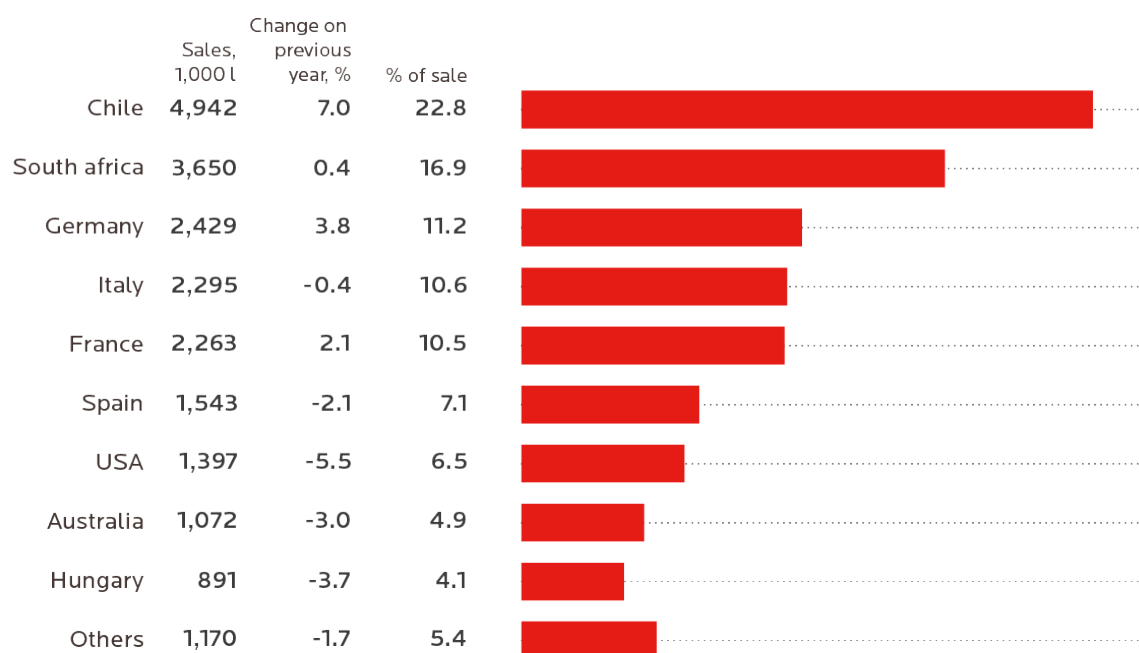
Sales of rosé increased by 4.9 per cent compared to the previous year. Their demand was clearly the strongest during the summer.

More information on the sales of wines on next pages.

## RED WINE SALES BY COUNTRY OF ORIGIN 2013

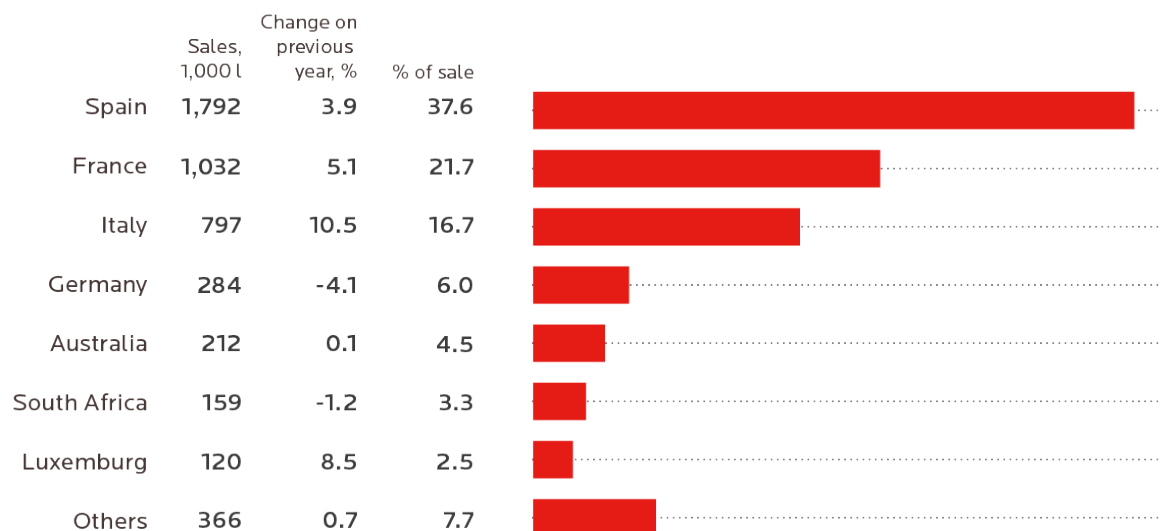


## WHITE WINE SALES BY COUNTRY OF ORIGIN 2013

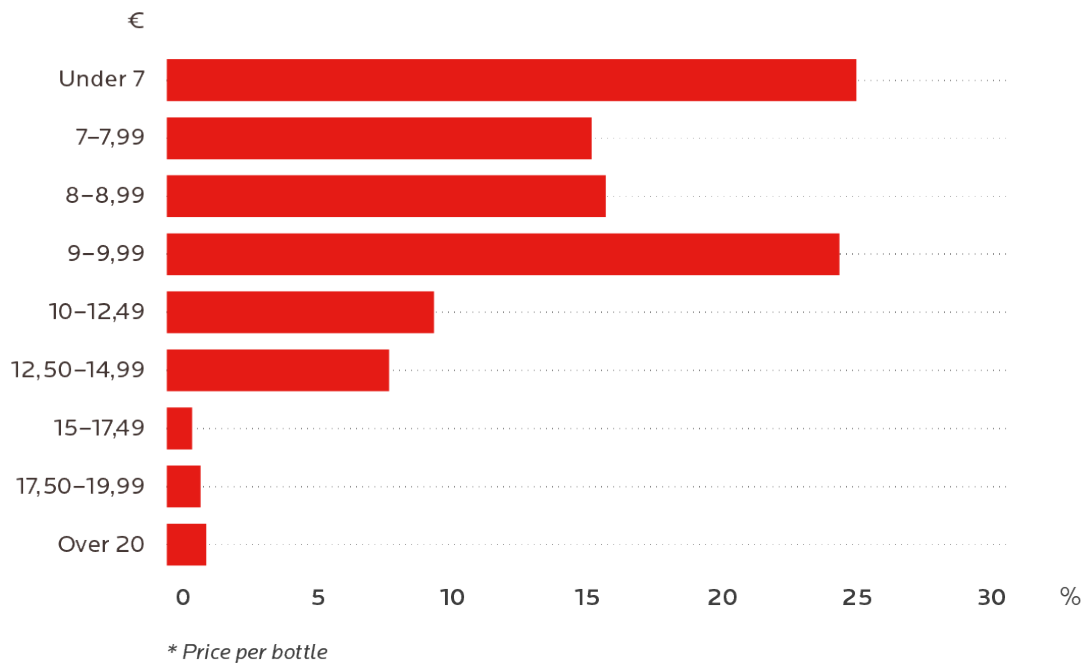




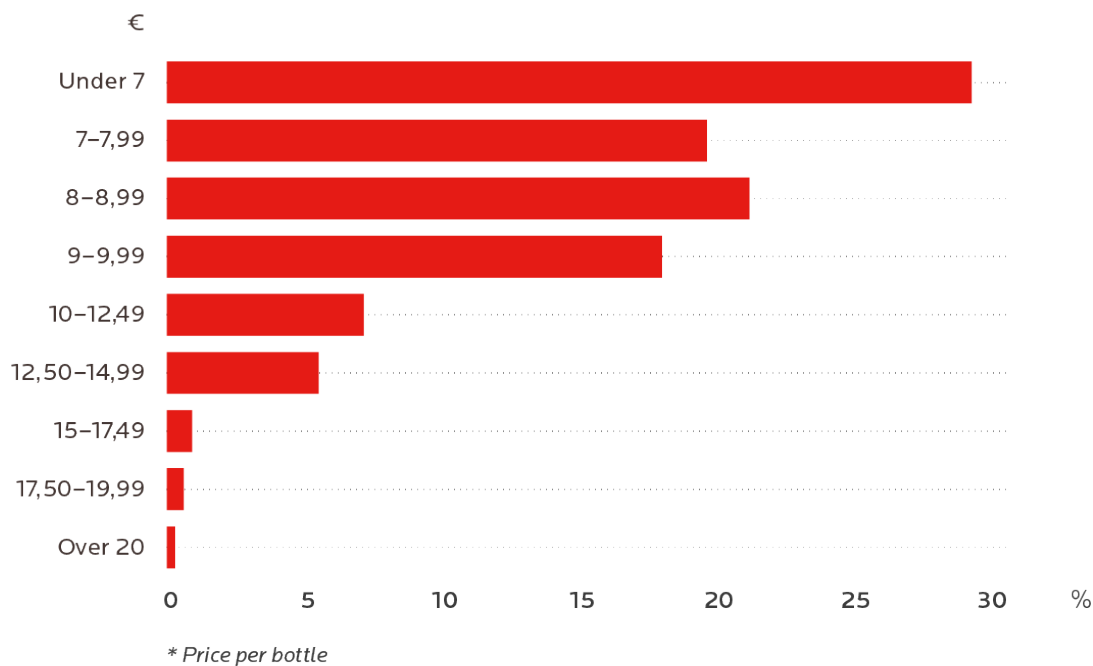
## SPARKLING WINE SALES BY COUNTRY OF ORIGIN 2013



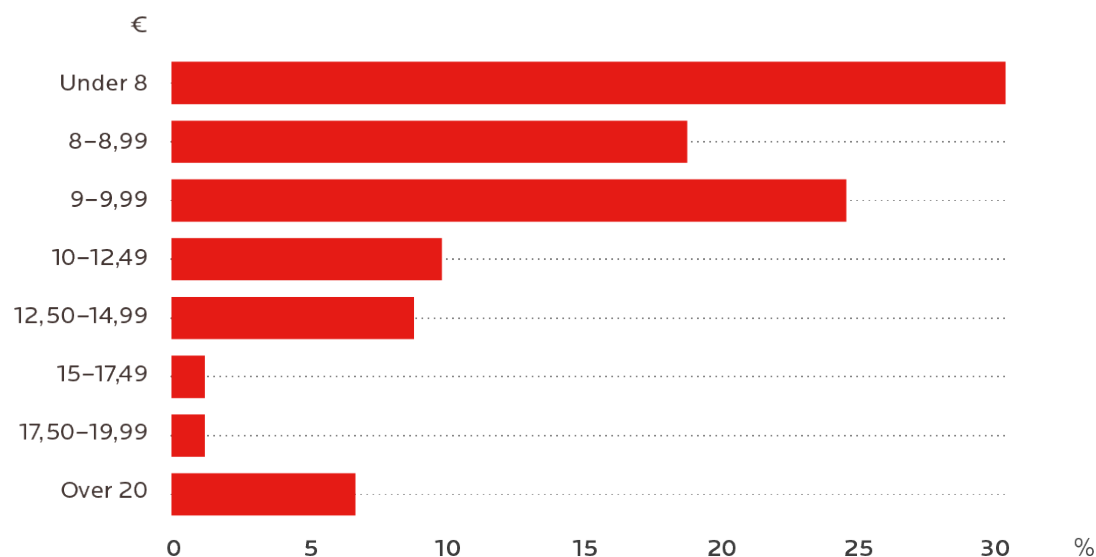
## RED WINE SALES BREAKDOWN BY PRICE CATEGORY\* 2013



## WHITE WINE SALES BREAKDOWN BY PRICE CATEGORY\* 2013

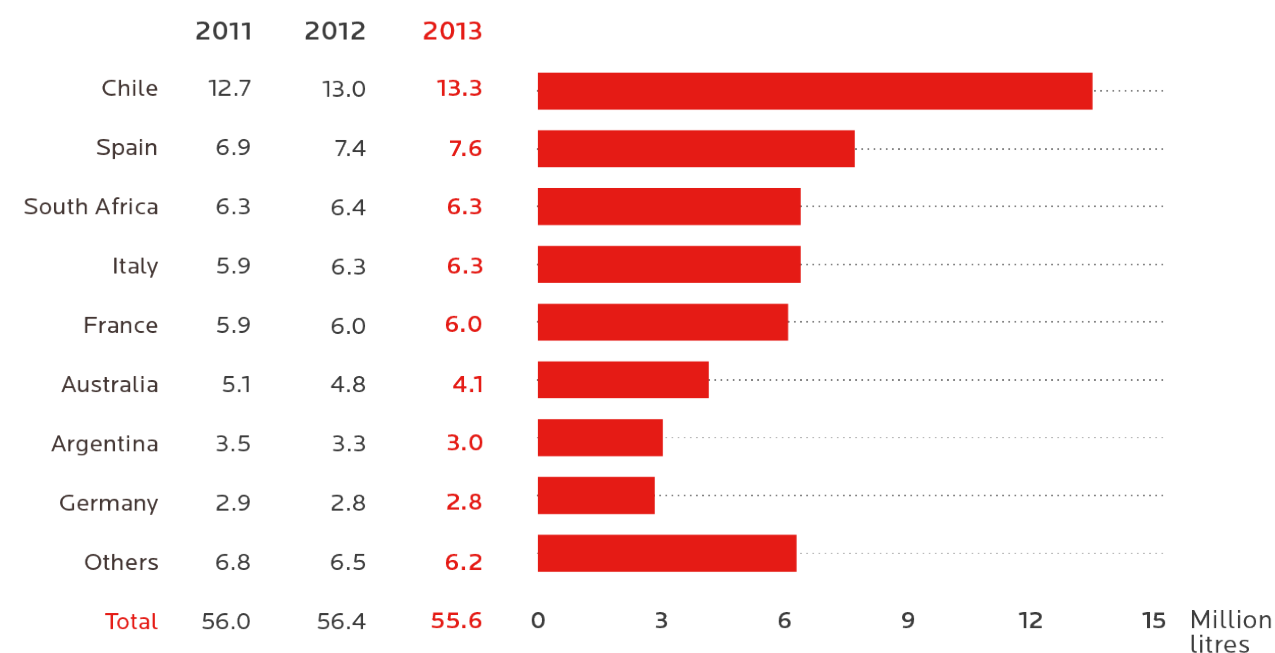


## SPARKLING WINE SALES BREAKDOWN BY PRICE CATEGORY\* 2013



\* Price per bottle

## WINE SALES BY COUNTRY OF ORIGIN



## Less spirits

In 2013, sales of spirits decreased in Alko shops in line with the trend in previous years. The sale of vodka and spirits by volume in litres fell by 4.5 per cent. It was significantly noticeable that the demand was focussed on products of a milder alcoholic strength than previously.

Sales of other spirits by volume fell by 6.1 per cent and fortified wines by 8.2 per cent. However, sales of Scottish malt whiskeys, increased (2.8 per cent), and sales of U.S. whiskeys were up slightly (0.8 per cent).

## Sales of beer and other brewery products decreasing

In 2013, Alko sold 6.6 percent less beer than during the previous year.

Lager and strong lager beers in the Alko product range were the most popular among Finns. However, sales of lager have fallen and this trend also continued in 2013. Sales of ale, Pils, stout & porter and wheat beers went up.

In addition, customers expressed more interest in beers made by small international and Finnish breweries.

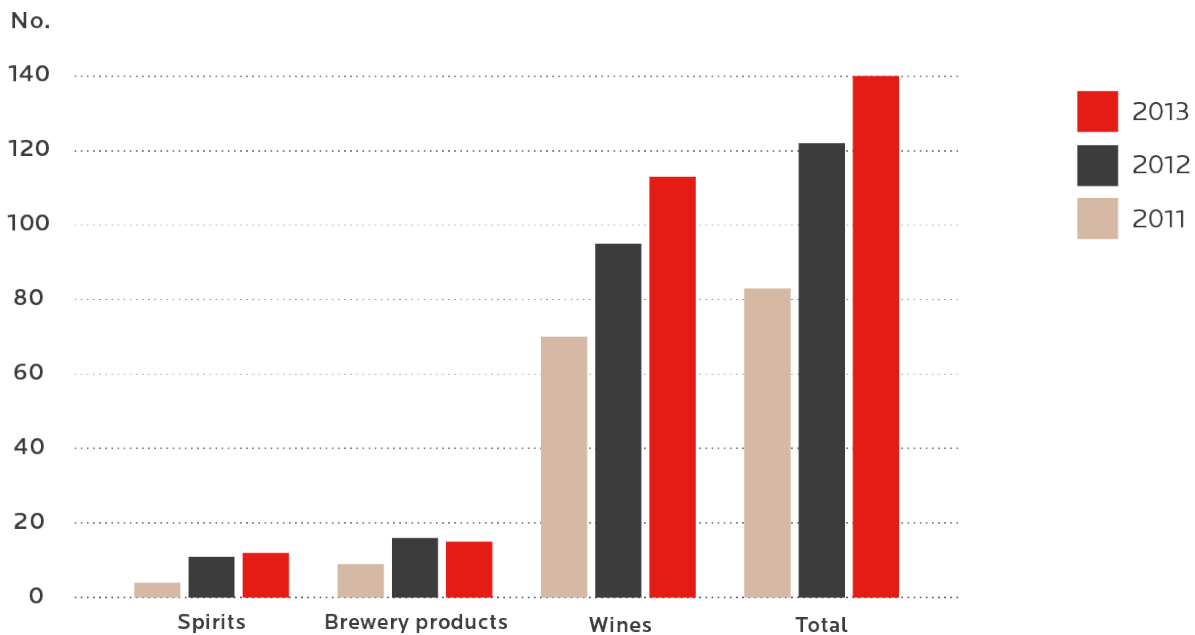
Sales of ciders in Alko fell by 8.1 percent from the previous year. Sales of Long Drinks in Alko shops fell by 4.9 per cent in 2013.

## Organic and ethical trade products

Organic alcoholic beverages are made from organically grown natural ingredients to the fullest extent according to the EU Regulation on Organic Production. Organic products sold through Alko are certified by local organic organisations and authorities. Alko has had a selection of organic products since 1994. About 4 million litres in volume of organic products were sold at Alko in 2013. Of these, the vast majority were wines.

Ethical trade is based on the idea that employees are paid fair compensation for their work. All our range of ethical trade products (e.g. Fair Trade and Fair for Life) have received international certification. Alko has had a selection of ethical trade products since 2007. In 2013, Alko sold 917,000 litres of ethically produced products.

### ORGANIC PRODUCTS







## The undocumented consumption increased

The overall consumption of alcohol in Finland mounted to 41.3 (42.0) million litres of [100 per cent alcohol](#). Alcohol sales declined both at Alko and in licensed sales at restaurants. At other retail sales places the sale of alcoholic beverages increased slightly. Alko's share of alcohol sold in Finland fell to 40.6 (41.4) percent.

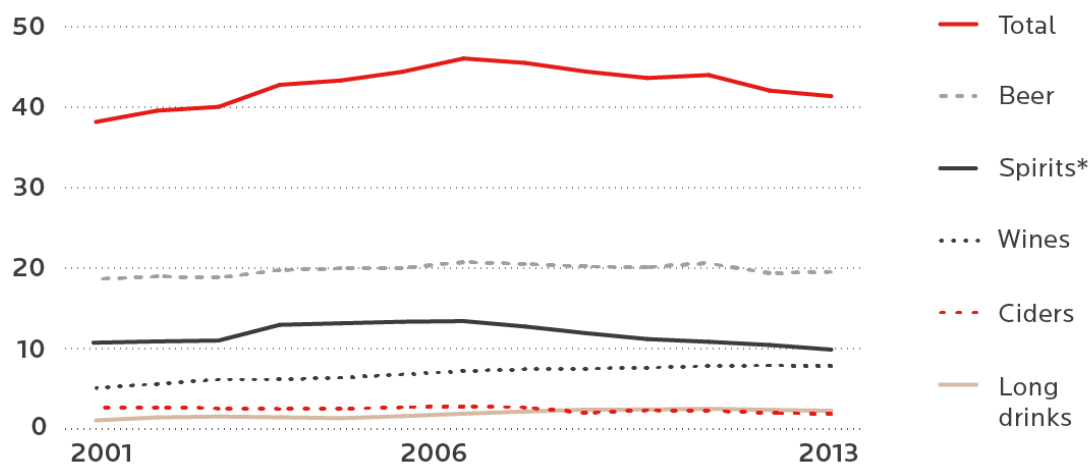
[The undocumented consumption](#) of alcoholic beverages increased due to increased imports of alcohol by tourists. Finns imported significantly more alcohol

when returning from trips abroad in 2013. According to a survey carried out by TNS Gallup, returning traveller imports increased by 15 per cent. Around 78 per cent of undocumented consumption of alcohol was imported by travellers.

The National Institute for Health and Welfare (THL) publishes information on the consumption of alcohol in April 2014.

## CONSUMPTION OF ALCOHOLIC BEVERAGES IN FINLAND BY DRINK CATEGORY

As 100% alcohol, million litres



Source: National Institute for Health and Welfare, National Supervisory Authority for Welfare and Health (Valvira)

\* Strong beverages include vodkas and other spirits as well as fortified wines.



Illustration: Kim Issakainen

## The quality and safety of our products can be trusted

Product safety and quality are central in Alko's responsible operations. Implementing this area is the responsibility of Alko's Quality Control and the Alcohol Control Laboratory (ACL). Quality control is an important part of the selection process for many products. In the process, the labelling is checked for its conformity to law and products are tested by using the human senses. The ACL conducts chemical and microbiological analyses of the products that Alko sells.

In the quality control process the quality of the alcoholic beverages is tested using the human senses because no technological device can yet evaluate taste or aroma to a sufficient extent. The method is good, affordable and fast, and it produces consistent quality assurance. A purely sensory evaluation alone is not however sufficient, so the end result is achieved using the strong support and expertise of the internationally recognised Alcohol Control Laboratory. Through these two functions Alko guarantees high product quality and safety, in a cost-effective manner.

### Product deviations under good management

In 2013, customers made 14,523 (16,736) complaints to Alko. The number of complaints decreased by 13 per cent compared to the previous year. The majority of the complaints (90 per cent) were directed at wines, which is understandable considering the nature of this product group. Complaints regarding cork taste and smell declined due to the broadening adoption of metal screw caps. On the other hand, the increase in bag-in-box sales and subsequent damages to their delicate packages through transportation and other reasons resulted in new tasks for quality control.

27 (13) product batches were withdrawn from sale during 2013. The most common reasons were due to inadequate labelling or reduced quality during storage. Thanks to the internal product management system, product deviations are noticed quickly and Alko is able to react immediately.

## Alko's Alcohol Control Laboratory (ACL) ascertains the chemical quality of products

Products in Alko's standard product range, as well as new products, are examined thoroughly at the Alcohol Control Laboratory. The standards are even more stringent than the level set by official regulations in the EU. In 2013, about 7,300 (6,300) alcoholic beverage samples were analysed in the laboratory. The ACL sells analysis services to other companies and to the authorities.

The ACL takes part in meetings of the subdivision for wine and alcohol matters at the Ministry of Agriculture and Forestry, and represents Finland at the International Organisation of Vine and Wine (OIV). ACL also participates in quality cooperation of Nordic state alcohol monopolies together with Alko's own quality control unit.

### New method of analysis and a renewed brochure

In 2013, we focussed on additives and foreign matter in beverages, in addition to normal checks. We also renewed the methods of analysis in use and developed a means of determining egg and milk proteins in wines. Egg and milk casein protein is used during the clarification stage during the wine production. After filtration, the resulting wine can contain milk and egg protein residues, which in turn can cause allergic reactions. According to a European Commission decision, egg and milk proteins have to be declared on the label from 30 June 2012. Notification is not required if the proteins have not been found in laboratory examinations.

We renewed our brochure on additives and contaminants in alcoholic beverages as well and hypersensitivity in cooperation with the Allergy and Asthma Federation / Allergy Information Center and the National Supervisory Authority for Welfare and Health alcohol industry group. In the publication there is information about the maximum permitted levels for various additives in different types of drinks, as well as allergens found in alcoholic beverages. The brochure is intended as an information source for consumers and can also be used in teaching. The brochure is available at Alko shops or can be downloaded from [alko.fi](http://alko.fi).

### The ACL is an impartial and competent testing laboratory

The ACL is a FINAS accredited testing laboratory T007 and it has been officially recognized as competent and impartial in carrying out chemical tests on spirits, alcoholic beverages and technochemical products. For a more detailed list of the methods the laboratory is accredited for, please visit the website at [www.finas.fi](http://www.finas.fi). The ACL has also been appointed Finland's official laboratory for the analysis of alcoholic beverages to the EU by the Ministry for Foreign Affairs.



## Alko's selection of alcoholic beverages is high quality and diverse

It is easy for customers to select a drink for every occasion. The standard product range is complemented by seasonal and limited availability products, which are included in the range for a limited time.

### The range of beverages is renewed throughout the year.

#### The product range is carefully planned

Our product category team, which includes category managers and product category coordinators, are responsible for planning the product range. As background for planning the selection, the team:

- identifies customer needs and wishes, using a variety of customer surveys
- actively monitors trends in drinking here and elsewhere, and
- listens to the opinions and wishes of customers and wine lovers.

#### The main principles guiding purchasing

The main principles guiding Alko's purchasing are transparency and the equal treatment of all tenderers. Producers, importers and agents can offer Alko their own products or the products they represent according to the purchasing plan on Alko's website.

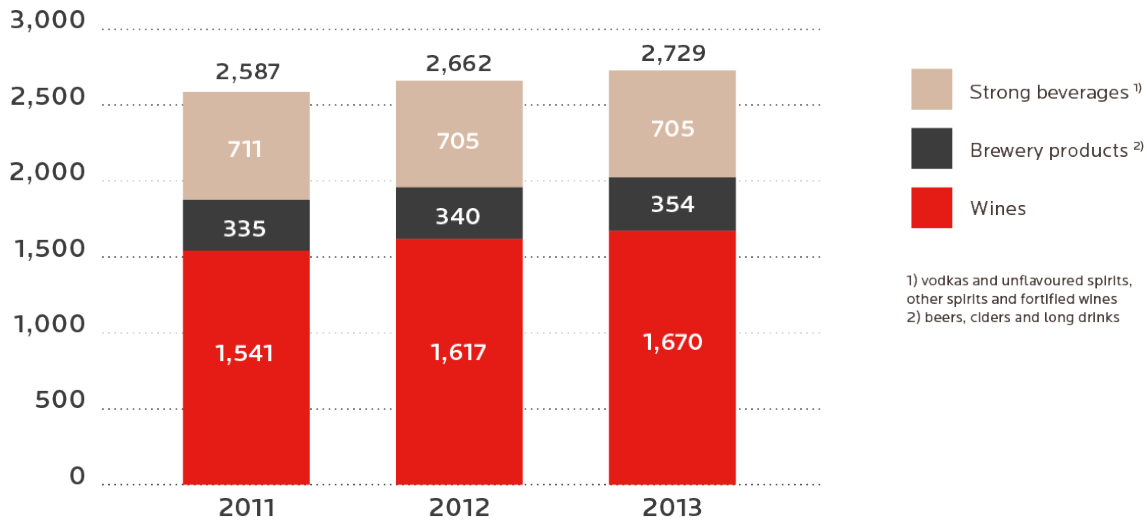
Our purchasing plan has strict criteria for the products that we seek. An independent expert panel assesses the products based on sensory evaluation, and the most successful ones are chosen to complement our product range. Approximately 7,000 new products were offered to Alko in 2013. From the products offered in 2013, we added 786 new products to the product selection in Alko shops.

#### Supplier of the Year 2013

Since 2010, Alko has presented a Supplier of the Year award. Pernod Ricard Finland Oy was selected as the Supplier of the Year for 2013. A total of 29 direct suppliers that met the selection criteria were included in the comparison.



## THE NUMBER OF ALCOHOLIC BEVERAGE BRANDS IN THE STANDARD PRODUCT RANGE FOR 2013



*Alko had the total of 2,729 alcoholic beverages. These figures include all bottle sizes and the special products sold at the Arkadia store in Helsinki. The data doesn't include non-alcoholic beverages.*





## Environmental perspective taken into account in selection of packaging and gift articles

Our shops offer a wide range of packaging and gift articles. The biggest selling article is the plastic bag.

- Plastic bags are 'recycled plastic bags' which are made from 60% recycled plastic. Some of the reused material comes from protective plastic films used in the transport of Alko goods. The bag can be reused as a garbage bag or it can be disposed of as energy waste.
- Alko paper bags decompose and can therefore put in the compost and or in recycled paper receptacles. Paper bags sold in the shops also decompose which means they can be used to collect organic waste.
- The reusable bags made from artificial fibres are an ecological choice due to their reusability and the small carbon footprint from their manufacturing. If so required, the bag can be disposed of as energy waste.
- Eco gift wraps are made from recycled material. The Eco paperboard packaging is 100 per cent recycled paperboard the paper in Eco gift bags is 100 per cent recycled paper.
- Alko's own Etiketti product line includes a variety of products for the use and storage of beverages. These products selected by experts at Alko are long-lasting and high-quality.

### Protective plastic for pallets gets a new lease of life in recycled plastic bags

Protective plastic used for the transportation of pallets, collected from Alko shops, is used in plastic bags at Alko. The protective plastic for pallets, collected from our shops, is baled and sent for refining, then granulated and recycled as raw material for the plastic film bags we manufacture. Using recycled protective plastic as a raw material for recycled plastic bags is a concrete example of recycling and has a tangibly positive affect on the environment. Although the use of recyclable materials in plastic bags causes some colour variations, we are willing to compromise a little with the appearance of the bags in favour of our environmental values.

### Smart gift bags

For the Christmas season in 2013, we included new smart bags in our product range. The materials and shape of the bags allow them to work well as both a gift bag and then for further use as a storage bag. The material is environmentally friendly jute as well as an impressive organic cotton. After its use as wrapping for a gift bottle, the bag can be folded double and it becomes a sturdy bag, which can be used, for example, for storing onions, kitchen utensils, nuts etc.



# Responsibility

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## May I see your identification please?

In Alko's shops it is a part of our responsible customer service to be concerned that alcohol is not sold to minors, clearly intoxicated people and does not lead to the handover of alcohol to minors.

In 2013, 3.5 million age checks were carried out on young people in Alko's shops. We carried out 607,000 suspected intoxication checks and 241,000 suspected handover checks.

In December 2013, we registered as many as 412,000 age-limit checks. It was the largest ever number of checks carried out in a month. December has traditionally been the busiest time for carrying out age-limit checks, but in December 2013 over 15 per cent more checks were carried out compared to the previous year. During the very first years of registering these sorts of checks (1999-2001) there were fewer age-limit checks on young people for a whole year than those that were carried out in December 2013.

In 2013 suspected cases of intoxication and registered numbers of suspected handovers were in other respects quite expected. The increasing number of registered suspected handover cases became a growing trend from the start of 2013: checks for suspected handovers increased by 40 per cent during the year.

### Success in age-limit checks measured

Alko measures the success of age-limit checks in two ways. One of the ways is in registering the checks in the POS system. The above mentioned figures are obtained in this way. Similarly, suspected cases of intoxication and handovers are also registered in the system.

The success of age-limit checks is also measured using the [Mystery Shopping](#) detection method. There were two mystery visits to every Alko shop in 2013. Our goal in 2013 was to achieve requests for identification for 83 per cent of all the mystery visits.

**Our target was clearly achieved with 92 per cent of the mystery visits checked for IDs.**

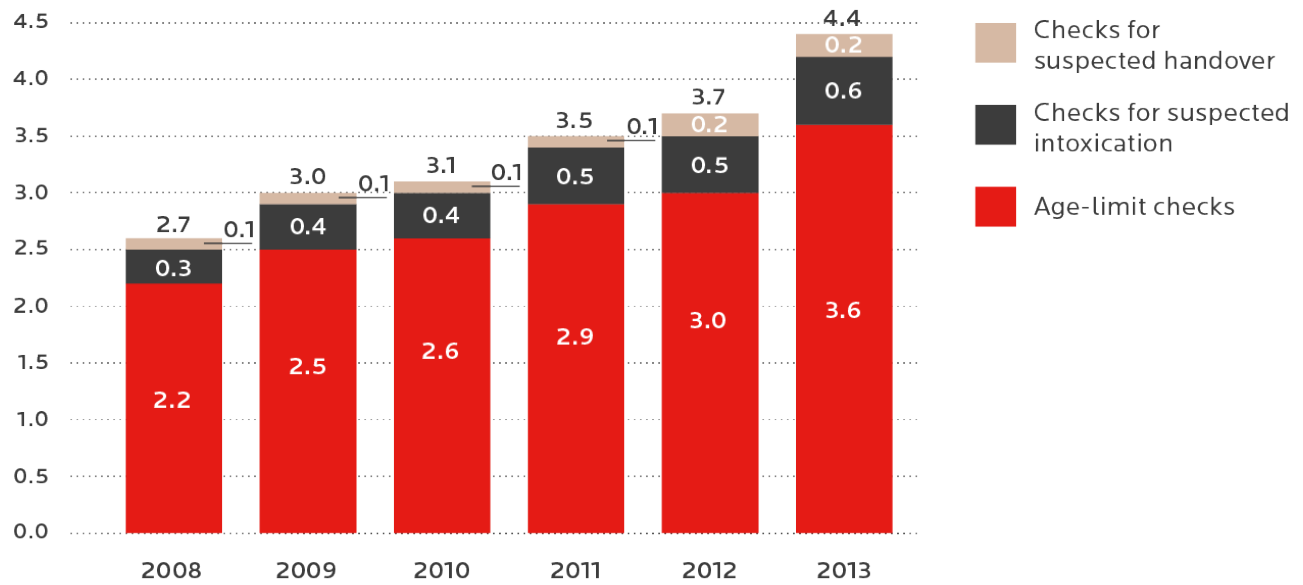
The staff regard sales supervision tasks as a very important part of their work and it is also reflected in the results. In addition, the decision to check age-limits for all customers who look under the age of 30 at everyday grocery stores also gave Alko a boost in this respect.

### When is a customer's ID checked?

There is an age check at Alko if a customer looks under the age of 25. A check for suspected intoxication will be carried out if the customer appears to be clearly intoxicated. In checking suspected handover cases we want to ensure that alcohol is not handed over to minors or intoxicated people. In 2013, we presented two short films titled Mother and daughter, which drew attention to the handover of alcohol and also possible handover that may be taking place in the home.

## RESPONSIBLE CUSTOMER SERVICE

Millions



## Purchase ban agreement to help customers

An agreement between the customer and Alko can help customers keep the use of alcohol under control.

The purchase ban agreement model was piloted in October 2012. By mutual agreement with the customer, purchases can be limited in separately agreed Alko shops. The initiative to draw up the agreement may come from the customer him/herself or from a close family member or a loved one. Drafting the agreement is always subject to the consent of the customer.

The agreement is always for a fixed term (1-12 months). The customer may cancel the agreement according to a specified procedure. In the agreement, customer purchases may have varying degrees of restriction, for example a complete ban on visits or a limit to the number

of purchases. If the initiative has come from someone close to the customer, the situation can be clarified in a meeting, which involves the customer, the person referring the customer and the store manager. There are detailed instructions on the use of the agreement at Alko.

During the pilot period at various stores a total of 15 purchase ban agreements were signed. The regional distribution was relatively even. The model contract and its guidelines were found to be satisfactory, and it was perceived as being part of the company's responsibility in operations. For this reason, it was decided in October 2013 to put the purchase ban agreement model into common practice. At the same time the possibility to extend the agreement to a number of stores was added.





## Management of corporate social responsibility

Alko's corporate social responsibility is managed as part of the company's business operations.

Our corporate social responsibility work is based on alcohol legislation in addition to the company vision and strategy. We are developing our corporate social responsibility according to the expectations of our stakeholder groups. Alko's vision of corporate social responsibility is based on the company strategy 2014–2016.

**Our goal is to be Finland's most responsible company, in the trade, service and finance sectors.**

We reduce the harmful effects of alcohol in society by ensuring the responsible sale of alcohol. We ensure the quality and safety of our products. We follow and develop the principles of socially responsible activities. We operate in a transparent and open manner.

Our stakeholders require corporate responsibility in our operations in the following areas:

- Customers: Excellent and responsible service, a customer-oriented product range
- Employees: Well-being, competence development
- Suppliers: A level playing field and a good relationship with suppliers, responsible purchasing
- The owner: Tax revenues, availability and price regulation

# Alko's responsibility goals and implementations in 2013

1. The aim of Alko's responsibility in alcohol policy is to support the prevention of the harmful effects of alcohol. To this end, we engage in cooperation work, for instance with the In the Company of Children programme.
2. We are developing a responsible value and supply chain so that our customers can trust that the products they purchase from Alko are ethically produced.
3. We set ambitious targets for own work and high quality requirements. Our operations are efficient and economically viable. We develop our operations further based on the results we have achieved. We are improving our multi-channel communications network to better listen to our stakeholders' expectations.

In the **responsibility goals and implementations for 2013** outlined below there is further information about the goals and their related measures.

## Our goals

Alko's goal is to prevent the harmful effects of alcohol consumption.

- We have a broad range of activities under Alko's responsibility programme [In the Company of Children](#).
- We are involved in the Sata Lasissa research project which aims to publish information on how drinking habits are transmitted (or not transmitted) from parents to teenagers, from youth to youth and possibly from one generation to another.
- We are engaged in cooperation work with the National Institute for Health and Welfare, [the sports organisation Valo](#), [the Youth Academy](#) and Junior Chamber International Helsinki (support for the Policeman of the Year award).

## Responsibility in customer service

- We train our staff in the supervision of [age-limits, suspected cases of intoxication and handing over of alcohol to minors](#).
- We achieved excellent results in the [Mystery Shopping](#) survey, which measured the success of the age limit controls at 92 per cent, while our target was 83 per cent.

## Safe and high-quality products

- [Our products are thoroughly tested](#) in the product selection process using both sensory and chemical testing methods.
- One of Alko's success factors most appreciated by the stakeholders.

## A comprehensive network of shops

- Our network of shops covers the entire country.

## Competence and occupational well-being

- [Knowledgeable staff](#) and excellent measured levels of customer service
- Continuous staff training
- We promoted supervisory skills
- We promoted recreation and leisure activities

## Responsibility in procurement

We are developing [a responsible value and supply chain](#) so that our customers can trust that the products they purchase from Alko are ethically produced.

- Since 2008, Alko has been a member of the international Business Social Compliance Initiative (BSCI), an organisation that offers its members a responsible procurement model. From the beginning of 2013, Alko has required all of its suppliers to sign a commitment that they are familiar with the ethical principles of the BSCI and an assurance that they comply with them in their own supply chain.
- Alko has forwarded information to the suppliers and encouraged them to participate in BSCI training events organised in various producer countries. Information about up to date responsible procurement issues and essentials on the topic can be found on Alko's website in the For Suppliers section.
- KPMG has carried out a risk analysis for Alko which assessed the relationship between the development of 15 BSCI specified risk countries and the risks towards international agreements. The analysis involved Alko's most important wine-producing countries. Alko will be able to utilise the results of the analysis in planning measures for the procurement model, e.g. in targeting audits.

- Alko has included Fair Trade and Fair for Life ethical trade products in the product range. In 2013, Alko made a decision approving the For Life brand to be included in the ethical trade products range.
- A comprehensive description of a responsible value and supply chain was set as a strategic project for 2014. Planning work began in the autumn of 2013. The description will be made in order to meet the expectations of stakeholders, as well as to support internal development. The GRI G4 reporting and accounting principals to be adopted in the 2014 report has challenged us to reflect extensively on our own business essentials from the perspective of corporate responsibility.
- Consumers are becoming increasingly interested in ethical products. Alko sales staff are also being asked more than previously about Alko's supply chain. To support our customer service we have published a variety of materials and responsible procurement has been discussed at monthly staff training sessions. Some video material aimed at introducing the topic of responsible procurement has also been produced for Alko's personnel.
- Alko continued to cooperate with the Nordic alcohol monopolies to further develop the responsible procurement model. When cooperating with suppliers the aim is to ensure that ethical principles are carried out in the entire supply chain. The cooperation focuses on environmental responsibility issues in addition to social responsibility.

## Reducing the environmental impact of Alko's operations

- [We certified our environmental management system](#) according to the ISO 14001 standard.
- We carried out internal environmental auditing at 165 Alko shops.
- We improved the efficiency of recycling and reporting for our packaging materials (cardboard, plastic pallets)
- We intensified our cooperation on environmental matters with the Nordic alcohol monopolies, Systembolaget and Vinmonopolet.

## Good corporate governance practices and responsible business practices

- Our corporate governance practices have been updated
- There is code of conduct training for all staff and as part of the staff induction programme

## Communications on responsibility

- Responsible behaviour was reported more than previously
- The new Alko web site contains an Alcohol and Health section and a Responsibility section
- There is a brochure on additives in alcoholic beverages and hypersensitivity

## Future directions for developing corporate responsibility

We actively monitor stakeholder opinions about Alko.

When we develop our areas of corporate social responsibility we take into account the expectations of our stakeholders. Alko's most important stakeholders are customers, employees, the owner, political parties, the authorities, NGOs, the media, suppliers and other partners.

**1.** In January 2014 we mapped the stakeholders' views on Alko's current state of corporate social responsibility and its future development prospects. To conduct the research we chose an interactive form of brainstorming, where participants were able to submit their views on the subject and prioritise themes raised and also see the themes raised and evaluated by other respondents.

The results of the stakeholder survey indicate that the participants are generally of the opinion that Alko currently acts responsibly in its position as state owned monopoly. The views on areas for development were very similar amongst the stakeholders, but the perceived importance varied considerably.

The issues raised in the survey included supply chain responsibility, certified products and localised shop product ranges. The respondents saw moderate alcohol consumption and age limit controls as an integral part of Alko's role. Ensuring the well-being and occupational safety of the staff also featured prominently. In addition, it was hoped that Alko would more openly describe its activities related to corporate social responsibility.

There were 1,230 respondents to the survey. From the survey, we gained information that we can utilise in our work in corporate social responsibility and in making the new materiality assessment.

**2.** A materiality assessment was last carried out in 2011, when Alko had examined stakeholder expectations in 2009 and 2010.

**3.** In 2012 we asked Finnish decision-makers whether cooperation between Alko and its stakeholders had been successful. The report indicated that Alko had an excellent reputation and quality rose as the strongest sector. Alko has succeeded in handling its role defined by the alcohol policy and Alko's monopoly has strong backing among decision-makers. It appeared that Alko had most room for improvement in enhancing the level of stakeholder cooperation and communicating about its activities. Key points for improvement were openness of corporate governance and ethics in the supply chain.

### Finns think that Alko's operations are responsible

In the autumn of 2013, TNS Gallup conducted a survey on the reputation and responsibility of Finnish companies for the fourth time amongst the general public. The study analysed 59 companies from six industry categories: retail, banking and insurance, services, energy, food, ICT and other industries. 9,800 interviews were conducted and there were altogether more than 22,800 company assessments. Alko ranked first place amongst the commercial sector companies. The most successful companies in the survey were the companies, which, in the view of the public, best took care of the environment, personnel, finances and tax matters.

### Responsibility is our foundation

Responsibility should include responsible customer service and a responsible value and supply chain, as well as responsibility in communication and maintaining our position in society.

Alko's reputation as a responsible company and as part of society requires understanding and compliance with business practice principles. Alko's business practice principals were updated and revised in late 2012. All of Alko's employees were trained in the spring of 2013, so they know and understand the business principles. The business principles are included in Alko's induction programme. We adhere to good corporate governance on Alko's company website.





Illustration: Kim Issakainen

## The risks of alcohol use

Alcohol use has become commonplace. About 90 per cent of Finnish men and women too nowadays use alcohol. Due to rise in the use of alcohol the harm caused by its use has also increased. Alcohol has become the main cause of death for men and women of working-age.

The majority of people who consume alcohol, do so reasonably. However, about one in five men and one in ten women drink alcohol above the accepted risk limits and endanger their health and well-being.

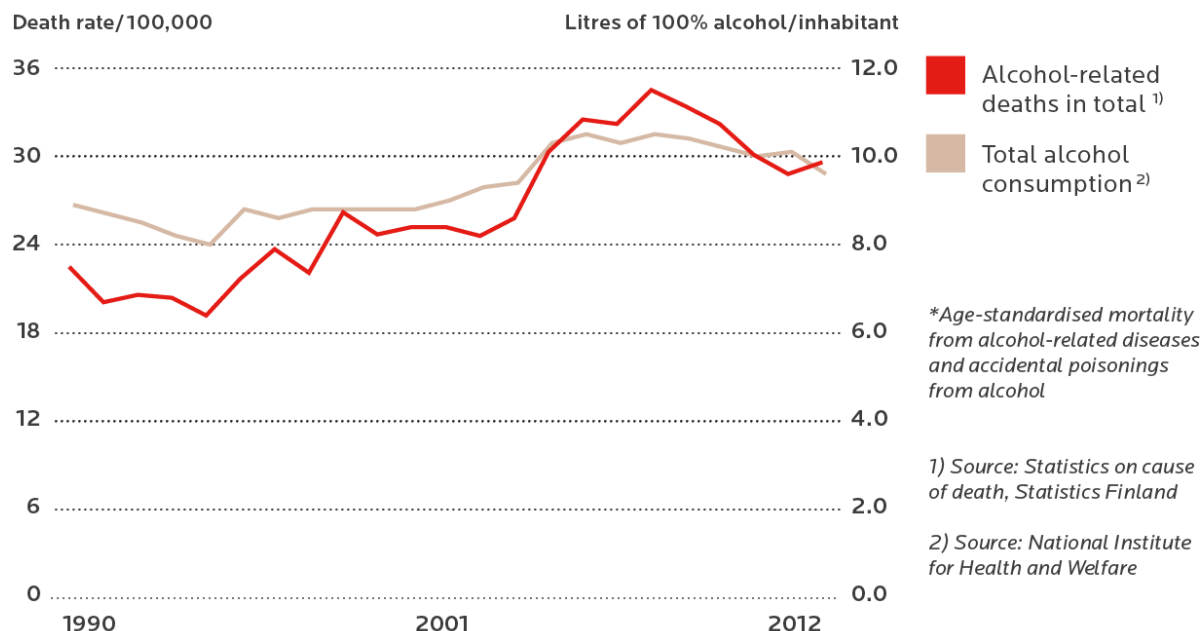
Alcohol-related deaths have been the most common cause of death for both men and women of working age for many years and the figures are also high for the population overall. Alcohol-related deaths include alcohol-related diseases and accidental alcohol poisoning.

**A major reason for the high mortality rate is due to the increased alcohol consumption in recent decades.**

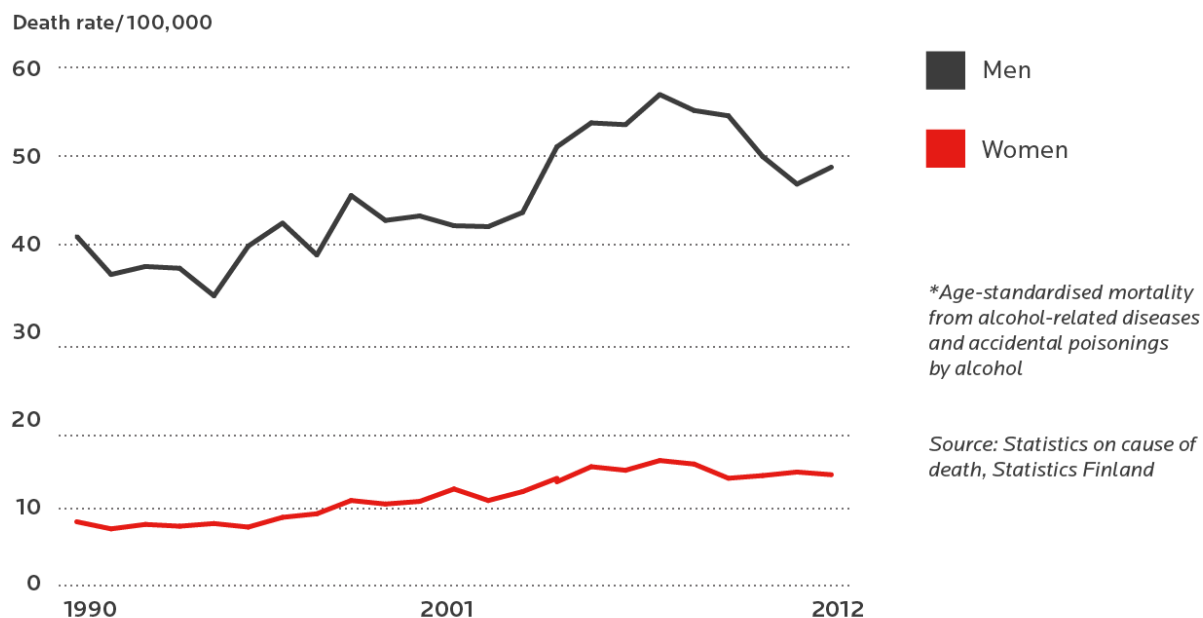
Changes in alcohol-related mortality have been followed on a fairly regular basis in the development of the overall drinking and alcohol related culture, even though death from alcohol-related diseases usually requires many years of alcohol abuse. Alcohol was the cause of death for a total of 1,960 people, of which 1,518 were men and 442 were women. Changes in the numbers of deaths due to alcohol from 2009 to 2012 are largely due to changes in alcohol-related deaths for men. (source: Statistics Finland)



## ALCOHOL-RELATED DEATHS\* AND TOTAL ALCOHOL CONSUMPTION 1990–2012



## ALCOHOL-RELATED DEATHS FOR MEN AND WOMEN\* 1990–2012



Changes in mortality are described in the age-standardised mortality figures in the national Compressed Mortality File (CMF). The standard is required when you want to see changes in the causes of mortality not due to the overall ageing of the population. The age-standardised mortality rate indicates the number of deaths for the mean population per 100,000 persons, when the age structure is considered the same throughout the analysis period.

Source: Statistics Finland



*Researcher Janne Härkönen worked at the National Institute for Health and Welfare until 31 December 2013, and from 1 January 2014 he has worked at the The Finnish Foundation for Alcohol Studies.*

## The liberalisation of the sale of medium strength beer changed Finnish drinking habits

Finnish alcohol use has become commonplace, and at the same time consumption has grown bigger. Due to these changes the harmful effects of alcohol use have increased steadily.

In his doctoral thesis, Janne Härkönen shows how the liberalisation of the sale of medium-strength beer in the 70s pushed Finns into an unprecedented cycle of drinking. The overall alcohol consumption has since doubled in men and increased six-fold in women.

We have talked for a long time about the so called wet generation when we refer to the effects of the alcohol policy liberalisation on the young generation of the time, but according to Janne Härkönen adults also changed their drinking habits. As a result, alcohol consumption doubled in the 1970s in six years.

Binge drinking increased drastically at that time and became more popular from generation to generation. Härkönen has also drawn attention to women's increased use of alcohol. Before the turning point women did not habitually drink alcohol.

### The growth in consumption increases problems

Researchers familiar with the changes in drinking habits over the last 40 years have revealed a clear correlation between liberalisation and the consumption of alcohol. The road has led to inevitable problems. Alcohol-related deaths have increased in the 2000s, becoming the most common cause of death for Finnish working-age men and women.

In addition to the traditional problems associated with alcohol, such as fights and accidents, Finns have also become subject to diseases familiar to the Mediterranean wine regions including cirrhosis of the liver and pancreatitis. The increase in illness can be explained by the fact, that in our country, half way through the 2000s, more alcohol was consumed than in the traditional wine producing Mediterranean countries.

**Alcohol-related deaths have increased in the 2000s, becoming the most common cause of death for Finnish working-age men and women.**

In Italy and France, however, the development has been in the opposite direction. In these countries, the citified and educated population are moving away from traditional drinking habits, towards drinking water along with meals instead of wine. Intoxication has not been part of the drinking culture of the Mediterranean countries historically.

### Youth again lead the way

Janne Härkönen tells us that we have some small signs of changes in the patterns being observed, as 14-16-year-olds have started to reduce their drinking. The researcher from the National Institute for Health and Welfare says that there are a couple of main reasons behind the trend: firstly that obtaining alcohol for young people has become more difficult, and in addition they have become more aware of the risks of alcohol.

The researcher predicts that the emerging new generation will drink less than their parents, if the favourable trend continues. He thinks the trend should be encouraged. Parents need to be encouraged to share their knowledge of the risks with young people. They should have permission to be interested not only in their children's use of alcohol, but also their children's friends and their use of alcohol. Härkönen bases his advice on the fact that young people learn their drinking habits through their mutual experimentation together. Young people learn the consumption of alcohol in the company people of the same age group, and their own consumption is proportionate to their friends' drinking habits.

” Parents need to be encouraged to share their knowledge of the risks with young people.

Against this background, the researcher into Finnish drinking habits is pleased that grocery stores have increased the age limit controls for buyers of alcohol. In his view this control is important and could even be further enhanced.

### A positive development worth supporting

Härkönen, who has followed Finnish drinking habits, is not in favour of the liberalisation of alcohol policy. Experiences gained of price reductions show that an increase in alcohol consumption occurs easily, but that reduction is much harder to achieve.

The researcher favours a responsible alcohol policy from society. Now that there are signs of a reduction in the use of alcohol, a rational alcohol policy should be in place to support this development, because drinking culture changes slowly.

*Text by Arja Suomalainen, photo Matti Matikainen*

## GRI index

The contents and the reporting principles of Alko's Annual Report are, where applicable, in line with the recommendations of the GRI Guidelines.

Comparison with the GRI Guidelines' recommendations	Included	Link	Observations
<b>1. STRATEGY AND ANALYSIS</b>			
1.1 Statement by the President and CEO	Yes	<a href="#">Review of the president and CEO</a>	
1.2 Description of impacts, risks and possibilities	Partially	<a href="#">Review of the president and CEO</a> , <a href="#">Internal Supervision, Risk Management and Internal Auditing</a> , <a href="#">Management of corporate responsibility</a> , <a href="#">Alcohol legislation</a> , <a href="#">Responsibility goals and implementations 2013</a> , <a href="#">Report scope and contents</a>	
<b>2. ORGANIZATIONAL PROFILE</b>			
2.1–2.9 Basic information about Alko	Yes	<a href="#">Alko in brief</a> , <a href="#">Corporate Governance</a> , <a href="#">Sales of alcoholic beverages</a> , <a href="#">Responsibility towards personnel</a> , <a href="#">Product range planning</a> , <a href="#">Contact</a>	
2.10 Awards received in the accounting period	Yes		No awards received
<b>3. REPORT PARAMETERS</b>			
3.1–3.4. Report profile and reporting period	Yes	<a href="#">Report scope and contents</a>	
3.5–3.11 Report scope and boundary partially	Partially	<a href="#">Report scope and contents</a> , <a href="#">Contact</a> , <a href="#">Stakeholder cooperation</a>	
3.12 Comparison with the GRI reporting guidelines	Yes	<a href="#">GRI index</a>	
3.13 External assurance of the report	Yes	<a href="#">Report scope and contents</a>	The report has not been assured
<b>4. GOVERNANCE, COMMITMENTS AND ENGAGEMENTS</b>			
4.1–4.10 Governance	Yes	<a href="#">AGM and Supervisory Board</a> , <a href="#">Board of Directors and Committees</a> , <a href="#">Corporate Governance</a> , <a href="#">Benefits, bonuses and remuneration</a> , <a href="#">Environmental responsibility</a> , <a href="#">Economical responsibility</a> , <a href="#">Responsibility towards personnel</a> , <a href="#">Report of the Board of Directors</a>	
4.11–4.13 Commitments to external initiatives in corporate social responsibility	Partially	<a href="#">In the Company of Children programme</a> , <a href="#">Other cooperation</a> , <a href="#">Responsibility in procurement</a> , <a href="#">Recycling drinks packaging</a> , <a href="#">Alcohol Control Laboratory</a> , <a href="#">Internal Supervision, Risk Management and Internal Auditing</a>	
4.14–4.17 Stakeholder engagement	Yes	<a href="#">Stakeholder cooperation</a> , <a href="#">Alko cooperates to mitigate harmful effects of alcohol</a>	

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### GRI INDEX

#### 5. MANAGEMENT APPROACH AND THE ORGANISATION'S ECONOMIC GOALS

##### Economic performance indicators

EC1 Direct economic value generated and distributed	Yes	<a href="#">Economical responsibility,</a> <a href="#">Salaries and employee benefits</a>	
EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change	Partially	<a href="#">Organic and Ethical trade products,</a> <a href="#">Global warming</a>	
EC3 Coverage of the organisation's defined benefit plan obligations and pension commitments	Yes	<a href="#">Salaries and employee benefits,</a> <a href="#">Benefits, bonuses and remuneration,</a> <a href="#">Economical responsibility,</a> <a href="#">Notes to the income statement</a>	
EC4 Significant financial assistance received from government	Yes		Alko does not receive the support referred to by GRI
EC5 Entry level wage compared to local minimum wage	Partially	<a href="#">Salaries and employee benefits</a>	
EC6–EC7 Locally based procurement and recruiting	Partially	<a href="#">Responsibility in procurement,</a> <a href="#">Economical responsibility,</a> <a href="#">Responsibility towards personnel</a>	Principles of impartiality and non-discrimination in the supplier chain of alcohol
EC8 Development and impact of infrastructure investment, and services provided primarily for the public good	Partially	<a href="#">Recycling drinks packaging,</a> <a href="#">Alko cooperates to mitigate harmful effects of alcohol</a>	
EC9 Indirect economic impacts and their extent	Partially	<a href="#">Economical responsibility</a>	

##### Environmental performance indicators

EN1–EN2 Used and recycled materials	Partially	<a href="#">Recycling drinks packaging,</a> <a href="#">Electricity, heating and waste,</a> <a href="#">Packaging and gift articles</a>	
EN3 Direct energy consumption from primary energy sources	No		
EN4 Indirect energy consumption from primary energy source	Partially	<a href="#">Electricity, heating and waste</a>	
EN5 Energy saved due to conservation and efficiency improvements	Partially	<a href="#">Electricity, heating and waste</a>	
EN6 Energy-efficient or renewable energy based products and services	No		
EN7 Measures to reduce indirect energy consumption and savings achieved	Partially	<a href="#">Electricity, heating and waste</a>	
EN8–EN10 Water use	No		Accurate data on water consumption not available
EN11–EN15 Vaikutukset luonnon monimuotoisuuteen	No		Not an integral part of Alko's functions, Alko does not own land
EN16–EN17 Greenhouse gas emissions	Partially	<a href="#">Transport</a>	
EN18 Initiatives to reduce greenhouse gases	Partially	<a href="#">Electricity, heating and waste</a>	
EN19–EN20 Emissions of ozone-depleting substances and NO and SO emissions	No		
EN21 Effluent discharges	No		All waste water goes into the municipal sewer system. Accurate data on waste water is not available.
EN22 Total amount of waste, broken down by the type of waste and destination	Partially	<a href="#">Recycling drinks packaging,</a> <a href="#">Electricity, heating and waste</a>	Accurate data on the quantity of waste is unavailable.



## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### GRI INDEX

EN23–EN25 Chemical, oil and other spills plus hazardous waste	Partially	<a href="#">ACL</a>	
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Partially	<a href="#">Recycling drinks packaging, Environmental responsibility, Packaging and gift articles</a>	
EN27 Percentage of recycled products and packaging materials of products sold	Partially	<a href="#">Recycling drinks packaging, Packaging and gift articles</a>	
EN28 Sanctions for non-compliance with environmental laws and regulations	Yes		Alko has not been fined or sanctioned on environmental matters
EN29 Products and materials, transportation and commuting caused significant environmental impact	Partially	<a href="#">Transport</a>	
EN30 Environmental protection expenditures and investments by type	No		Not an integral part of Alko's functions, Alko does not own land

#### Labour practices and work performance indicators

LA1 Workforce by employment type and type of employment contract	Yes	<a href="#">Length and type of contracts</a>	
LA2 Employee turnover	Partially	<a href="#">Length and type of contracts</a>	
LA3 Benefits that are offered to full-time employees which are not offered to temporary or part-time workers	No		
LA4 Percentage of employees covered by collective bargaining agreements	Yes	<a href="#">Length and type of contracts, Relations with organisations</a>	
LA5 Minimum notice period(s) including whether specified by collective agreements	Yes	<a href="#">Length and type of contracts, Relations with organisations</a>	
LA6 Percentage of total workforce, which is represented in the staff and management occupational health and safety monitoring committees	Yes	<a href="#">Occupational safety</a>	
LA7 Rates of injury, occupational diseases, lost workdays and absenteeism	Yes	<a href="#">Occupational safety</a>	
LA8 Education, training and counselling to assist workforce members, their families, or other community members regarding serious contagious diseases	Yes	<a href="#">Wellbeing at work</a>	
LA9 Health and safety topics covered in formal agreements with trade unions	Partially	<a href="#">Occupational safety</a>	
LA10 Average hours of training per year per employee per employee category	Yes	<a href="#">Wellbeing at work</a>	Applies to all according to one's function
LA11 Programs for skills management and lifelong learning for employees	Partially	<a href="#">Wellbeing at work, Responsibility towards personnel</a>	
LA12 Percentage of employees receiving regular performance and career development reviews	Yes	<a href="#">Management</a>	
LA13 Composition of governance bodies and breakdown of employees belonging to them per category according to gender, age group, minority group membership, and other indicators of diversity partially	Partially	<a href="#">The Board of Directors and Committees, Management, AGM and supervisory board</a>	
LA14 Ratio of basic salary of men to that of women by employee category	Yes	<a href="#">Salaries and employee benefits</a>	Gender equality plan

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### GRI INDEX

#### Human rights performance indicators

HR1–HR2 Human rights performance indicators	Partially	<a href="#">Responsibility in procurement</a>	
HR 3 Staff training on human rights-related policies and operational practices	No		
HR4 Number of incidents of discrimination and actions taken	Yes		No discrimination incidents
HR5 Activities involving the freedom of association and right to collective bargaining under attack	No		
HR6–HR7 Risk of using child labour, forced labour, or labour performed under a penal system	Partially	<a href="#">Responsibility in procurement</a>	
HR8 Number of security staff trained in human rights policies and practices	No		
HR9 Incidents of violations involving rights of indigenous people and action taken	No		

#### Society performance indicators

SO1 Programs and practices that assess and manage the impacts of operations on local communities	Partially	<a href="#">In the Company of Children programme,</a> <a href="#">Responsibility in procurement</a>	
SO2 Percentage and total number of business units analysed for risks related to corruption	No		
SO3 Percentage of employees trained in anti-corruption practices	Partially	<a href="#">Stakeholder cooperation</a>	
SO4 Actions taken in response to incidents of corruption	Yes		No cases of corruption have been detected in Alko
SO5 Participation in public policy development and lobbying	Yes	<a href="#">Alko cooperates to mitigate harmful effects of alcohol,</a> <a href="#">Alcohol legislation</a>	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Yes	<a href="#">Economical responsibility</a>	No contributions to politicians
SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices, related actions and their outcomes no Alko has not been fined or sanctioned	Yes		Alko has not been fined or sanctioned
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Yes		One case has been handled directly with the offenders, one is still under processing.

GRI INDEX

**Product responsibility performance indicators**

PR1 Assessment and development measures for health and safety impacts of products and services in different stages of their life cycle and percentage of significant product and service categories subject to such procedures	Yes	<a href="#">Quality control</a>	
PR2 Product health and safety violations	Yes		No such violations as indicated by the GRI guidelines
PR3 Type of product and service information required and their percentage	Partially	<a href="#">Quality control</a>	
PR4 Violations of the product information and product labelling regulations and related voluntary codes of conduct	Yes		No such violations as indicated by the GRI guidelines
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Yes	<a href="#">Measuring customer service</a>	
PR6 Practices related to adherence to laws, standards, and voluntary codes related to marketing communications	No		
PR7 Violations of laws and regulations concerning marketing communications	Yes		No such violations as indicated by the GRI guidelines
PR8 Complaints related to breaches of customer privacy and loss of customer information	Yes		No such violations as indicated by the GRI guidelines
PR9 Number of fines incurred through violation of legislation and regulations related to use of major product and services	Yes		No such violations as indicated by the GRI guidelines

## Alko's Annual Report and Corporate Social Responsibility Report 2013

The Corporate Social Responsibility Report follows the recommendation for sustainable development drawn up by the Global Reporting Initiative (GRI, G3) and Government Resolutions on State Ownership Policy given on 3 November 2011. The recommendation and resolutions are taken into account wherever possible.

External verification of Alko's Corporate Social Responsibility Report was carried out for the year 2010. The report was verified by Authorised Accounting Firm KPMG Oy Ab. The reports for 2011, 2012 and 2013 have not been verified. The information presented in the report is based on statements made in support of the company's operational activities and the figures from the audited accounts and financial statements.

Alko publishes an Annual Report and a Corporate Social Responsibility Report on a yearly basis. Alko's Annual Report and Corporate Social Responsibility Report 2013 (in Finnish and in English) is the company's third online report. Previously, these reports were published as printed versions. The report presents all of the key areas of alcohol policy, as well as social, environmental and economic responsibility outlined in the GRI G3 guidelines.

The report covers all of Alko's operations. The information on financial responsibility is based on Alko's financial reports, audited accounts and financial statements. The indicators for social responsibility are drawn from the personnel data system, payroll systems, service providers and accounts. The figures regarding environmental responsibility are largely drawn from our own systems and from service providers.

The staff figures are calculated according to the Accountancy Board's general guidelines for the preparation of annual reports. The applicable parts of the Finnish Corporate Governance Code were followed for the Corporate Governance section. The financial statements were prepared in compliance with the Finnish Accounting Standards (FAS).



## Building a working community

We aim to be the best workplace in Finland. Employee commitment and expertise are strategic success factors for us at Alko, as our highly knowledgeable customer service is one of our key assets. We invest significantly in promoting the well-being of our employees and the continuous development of their skills and areas of competence. Product, service and customer experience skills are the most important training topics for our shop staff. Responsibility and security are also important training areas.

Additionally, improving the competence of our supervisors plays a key role in how we are improving our working community. This ensures that our customers receive high quality service at all times, and we act both responsibly and efficiently.

In 2013 we invested in an innovative way to develop our company in cooperation with our personnel. Our strategy for the years 2013 - 2016 was updated in collaboration with all of our employees. The process started with an online brainstorming session, which about 1,800 Alko staff participated in. The strategy was worked out in small groups and approved elements were communicated over the intranet and in the staff magazine, as well as directly to supervisors. Finally the so called Management Road Show

delivered the strategy to the staff. Target and performance reviews, and job description upgrades commenced early in 2014 as part of the final implementation of the strategy.

**We have received  
thanks from the staff  
for the inspiration  
and motivation  
gained from the process.**

**Projects in support of the strategy of being the best workplace in Finland for 2014 include:**

- Strengthening Alko's leadership
- Community-based working methods and tools
- Developing well-being and safety
- Supportive and appropriate resourcing of our shops

In the Alko staff leadership project we agreed on common management principles and updated our supervisor development and assessment practices accordingly. With our collaborative working practices and tools we are building stronger than ever links between our shops and



RESPONSIBILITY TOWARDS PERSONNEL

better communications between our shops and the head office. At the same time we are updating our tools for supporting smooth and modern working practices.

Concerning occupational well-being and safety, we are continuing a number of tried and tested measures such as team building, accident prevention and consistent monitoring, actions aimed at reducing absenteeism due to sickness and targeted well-being projects for certain groups. In the resourcing of our shops we aim to achieve good shift planning practices in every shop so that we can offer supportive employment relationships for our part-time staff as well.

In 2014, the key for us is still working together and working-community-based development. We have already achieved our goal of becoming Finland's best place to work, as we won in the [Great Place to Work competition](#) organised in February 2014, in the larger organisations category. As we continue into the future our aim is that every team at Alko will experience being a part of the best working community in Finland. This will require contributions from every Alko employee. The supervisor's role in the well-being of a working community and its productivity is important, but in the end, a working community is simply as good as each member is to the other.



## Alko awarded best workplace in Finland for larger companies

Alko was chosen in February 2014 as best place to work in Finland in the Great Place to Work competition, in the larger companies category.

### The achievement is the result of a sustained effort and has been a key strategic objective

Becoming the best place to work is not the result of any single measure alone. Winning the Great Place to Work competition in Finland is the result of years of work and has been a strategic objective of Alko that has now been achieved. To arrive at this goal Alko has placed special emphasis on good leadership, teamwork and has focussed on the importance of skills in the workplace at all levels, as well as staff development and training and the development of well-being at work.

This jointly achieved success has been based on clear and specific goals. Both job descriptions and the objectives of the incentive scheme are derived from Alko's strategy. Employees also trust in the management's vision of the direction the company is headed. Alko stands out in its excellent induction and development processes,

inspiring the personnel, and how the management listens and involves the staff.

### At Alko skills training and development happens systematically

Alko's value system is based on continuous learning and the competence of the staff. Every Alko employee annually participates in an average of four training days. In house service and product trainers take care of competence development. In addition, there is an e-learning environment, degree oriented training and diversified work-based learning, as well as co-workers acting as trainers.

Occupational well-being has been developed in numerous ways, e.g. through training which offers supervisors concrete tools for managing occupational well-being, as well as identifying and utilising team strengths.

The Great Place to Work® Finland Institute, who carry out research into Finland's best workplaces, annually lists the top 50 best workplaces in Finland. In 2014 a total of 138 organisations participated in the competition.

## Number of staff remained unchanged

At the end of 2013 Alko had 2,705 (2,756) employees, with the number of employees remaining close to the previous year's level. There were 433 temporary employees at the end of 2013, which was slightly less than the the corresponding period for the previous year (454). When converted to working years, the work done by full-time and part-time staff amounted to 1,901 (1,928) working years, which is a decrease of 1.4 per cent since 2012.

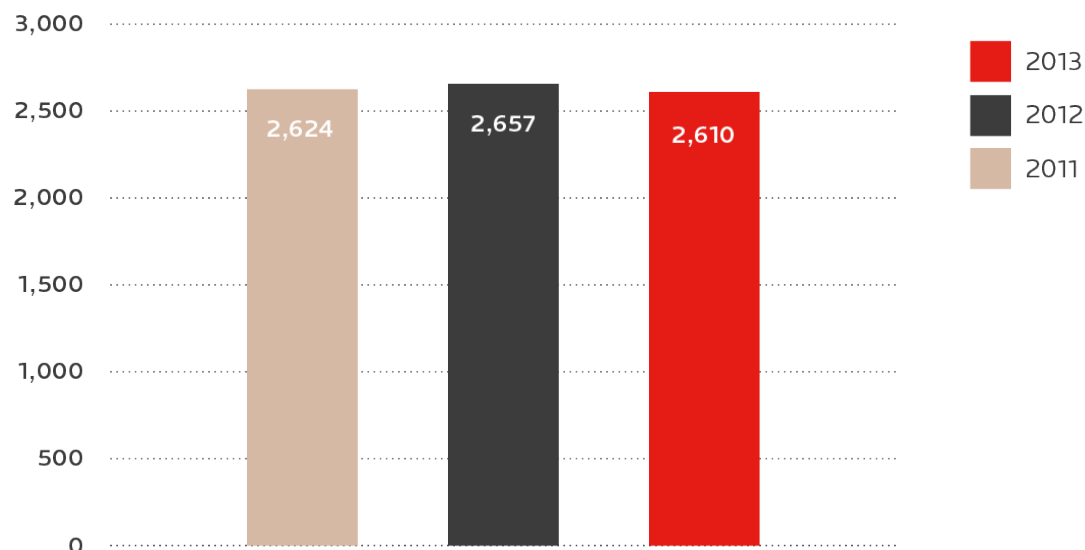
### For staff in permanent employment relationships (compared to the situation in 2012):

- the average age was around 37.8 years (37.5)
- the duration of employment relationships was on average around 10.6 years (9.5)
- the staff turnover was 11.5 per cent (11.5)
- the average retirement age was, including those on invalidity pension, 59.7 years (59.7).

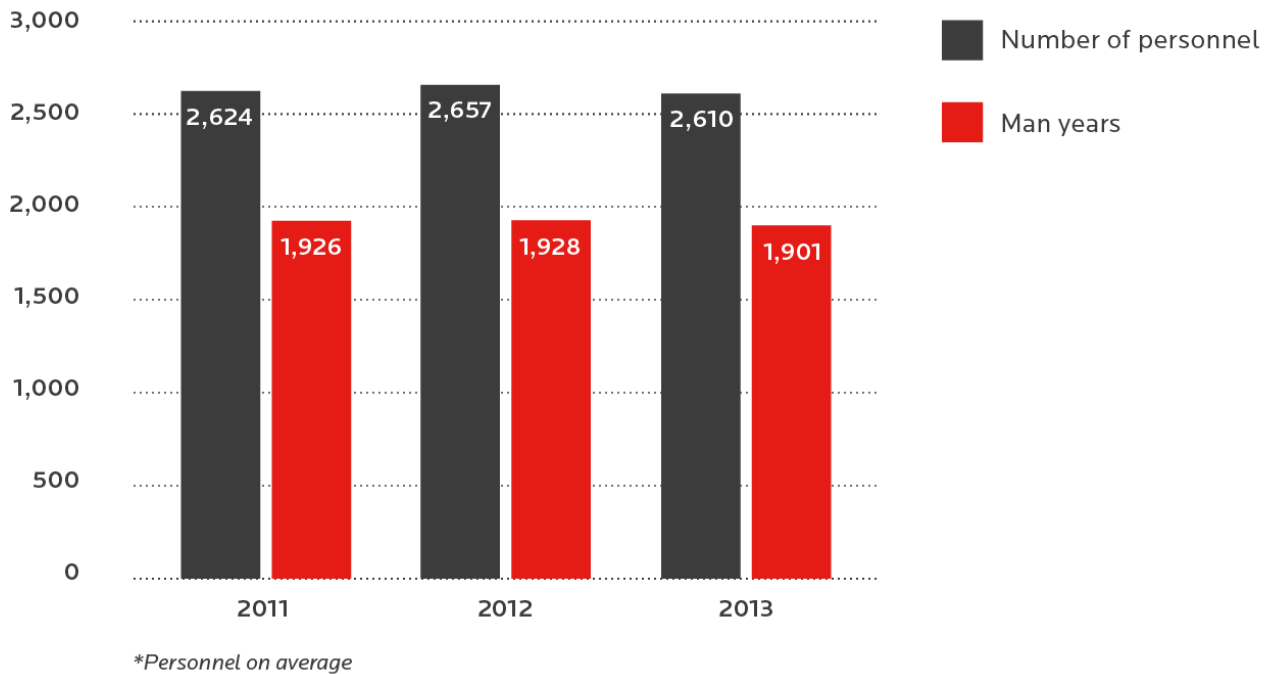
A total of 10 employment relationships were terminated by the employer. We comply with statutory periods of notice.

In all, 70 per cent of permanent employees are part-time, with the majority of them being sales personnel. In 2013 we continued the project we launched in 2012, which aims at supportive and appropriate allocation of staff resources. Extra work is always first offered to Alko's part-time staff. Alko currently uses a text messaging system to offer temporary available extra work equally to all part-time workers who want extra work.

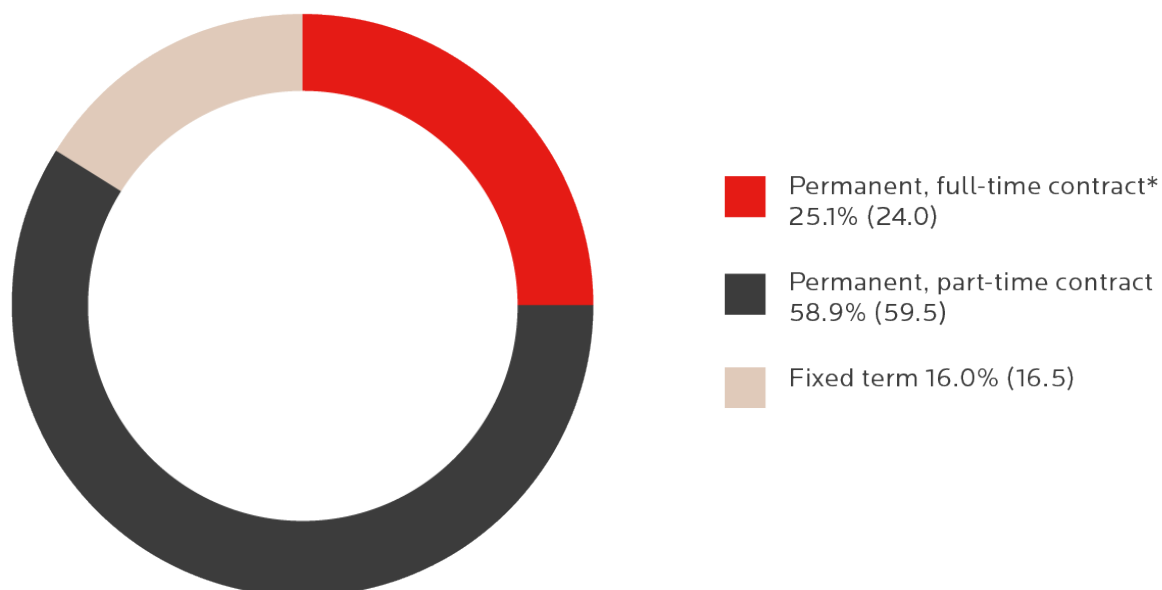
## PERSONNEL



## DEVELOPMENT IN THE NUMBER OF PERSONNEL\*

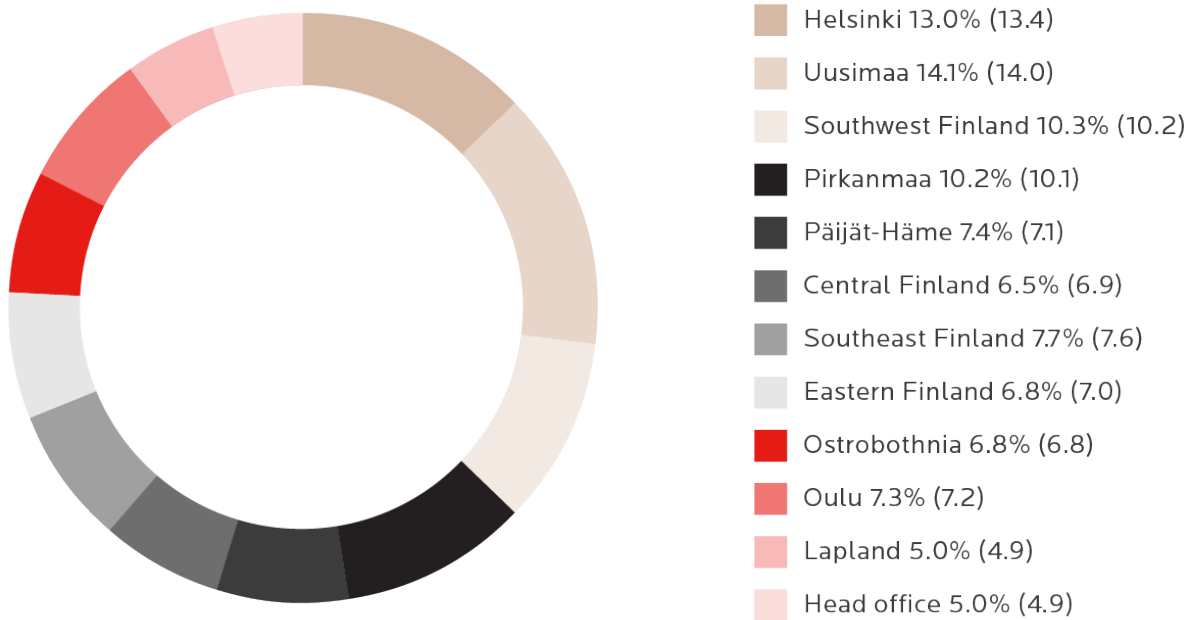


## CONTRACT TYPES 31 DECEMBER 2013

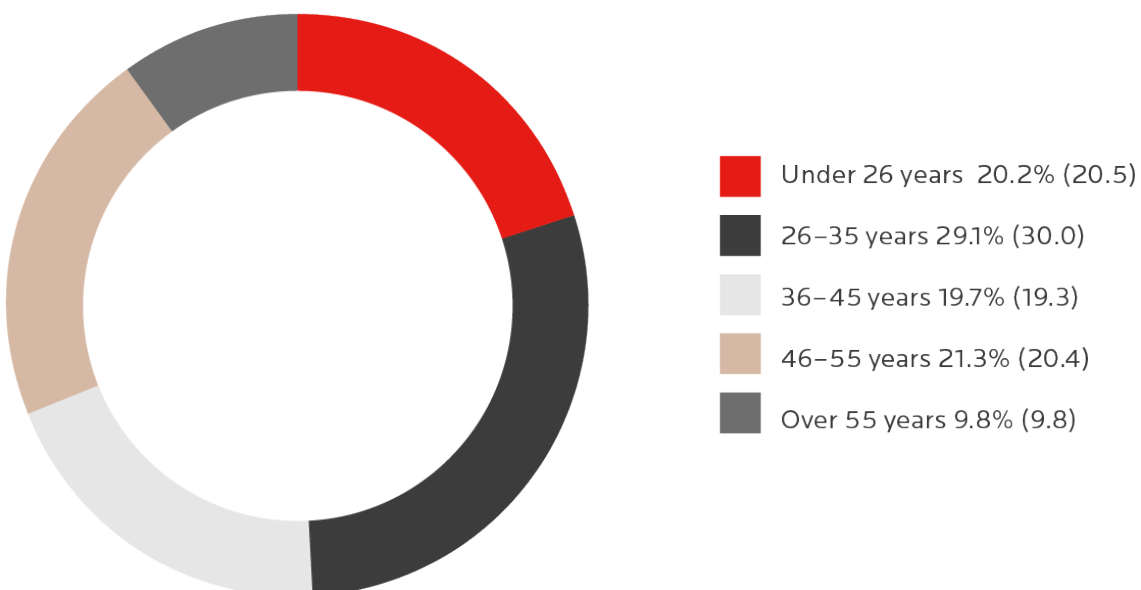


\* Average weekly working time of at least 37.5 h at the shops and 30.5 h at the offices

## PERSONNEL BY AREA 31 DECEMBER 2013



## AGE BREAKDOWN 31 DECEMBER 2013



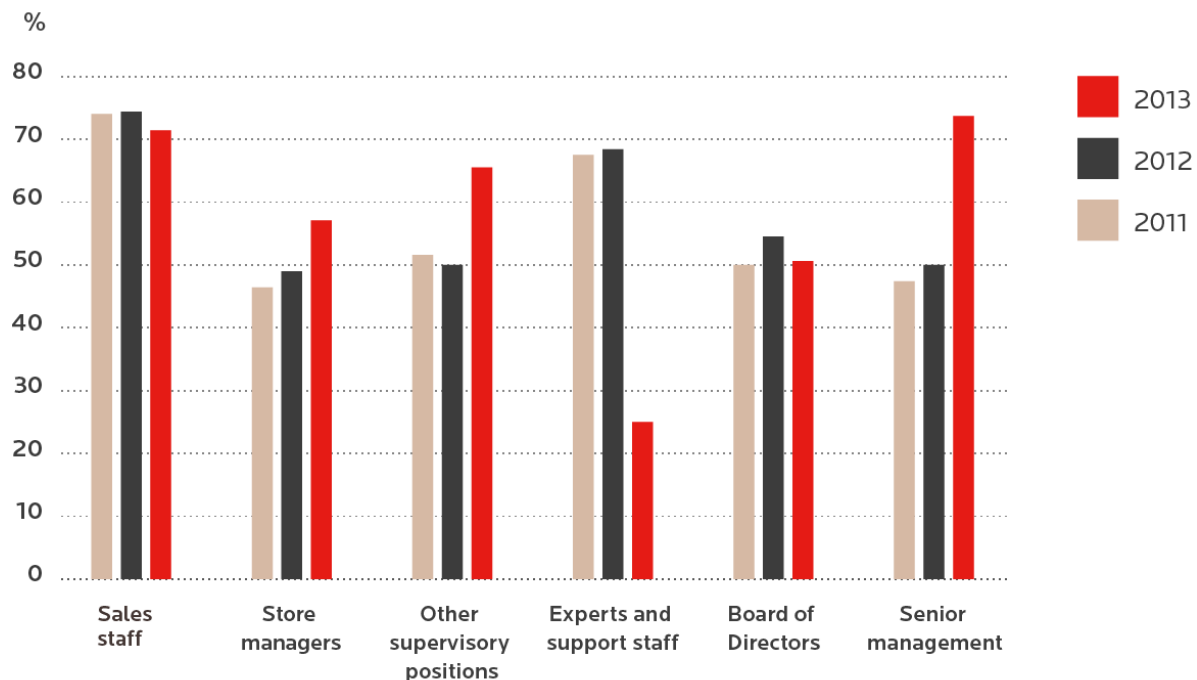


## Managerial positions are staffed by men and women in equal numbers

A gender equality plan is drawn up yearly in cooperation with staff representatives. Women still account for 71 (71) per cent of all personnel. In management and supervisory roles the balance between male and female workers is

fairly even. Women account for 50 (49) per cent of all managers. At the end of the year there were two men and five women in Alko's management team, and three men and three women on the board.

### WOMEN IN VARIOUS DUTIES 31 DECEMBER 2013



## Salary

Alko's personnel costs totalled 88.2 (88.1) million euros. A total of 70.3 (68.1) million euros were paid in salaries and fees.

Task specific salaries for sales staff and shop managers are paid according to the collective agreement. The salaries of staff carrying out managerial and office duties are based on how demanding the duties are.

We reward the best sales personnel and shop managers with an annual individual pay component, which is determined in line with criteria set together with staff representatives.

### The individual pay component criteria for sales staff are:

- responsibility
- customer service
- expertise
- succeeding together and
- result orientation.

### The individual pay component criteria for shop managers are:

- service management
- responsibility
- work community management
- change management and
- operational efficiency.

Personal rewards were paid in 2013 to 377 sales staff and 48 shop managers.

## Incentive system

The staff are encouraged to promote the realisation of joint strategic aims. The entire Alko personnel are covered by the incentive system.

The staff incentive system is strongly based on Alko's strategy and values: the system has a number of indicators on responsibility, customer service, personnel and finance and encourages profitability and being successful together. Alko teams receive team-specific rewards. In addition, managers are rewarded for succeeding in managerial duties.

Alko's Board of Directors decides annually on the staff incentive system. The reward is paid once per year and the prerequisite for its payment is a predetermined level of cost-effectiveness. In 2013, the amount reserved for the incentive scheme along with its personnel expenses amounted to 3.7 (3.6) per cent of the personnel costs including the incentive scheme for the members of the Management Team.

### Other staff benefits

- Occupational health care: In addition to statutory occupational health care we offer all staff general practitioner level medical care
- Meal benefit: All Alko personnel receive a meal benefit for every working day. We want to encourage staff to have a healthy and balanced diet.
- Cultural vouchers: We support the fitness and cultural activities of staff in their free time.
- Recreational allowance: We support joint team activities with a recreational allowance.
- Holiday destinations: We offer staff holiday destinations in Vierumäki, Ylläs, Tahkovuori and Luosto.
- Personnel clubs: In 2013 there were 18 clubs for personnel, which received financial assistance from Alko.
- A company phone and car are provided in line with task requirements.

## Relations with organisations

As an employer, Alko is a member of the Federation of Finnish Commerce. Alko's personnel are mainly organized into two trade unions:

- the sales staff belong to Alkoholikaupan ammattiliitto ALV ry and
- the office staff to Alkoholialan Toimihenkilöt ry.

Alkoholikaupan Ammattiliitto ALV ry belongs to Service Union United, PAM, and Alkoholialan Toimihenkilöt ry to the Federation of Salaried Employees, Pardia. The

working conditions are defined by company-specific agreements that apply to sales assistants and office staff. These are supplemented by the trade sector's collective agreement. Collective bargaining itself takes place at the union level. The current collective agreements are in effect until 31/01/2017.

To give advice on cooperation at the company level, there is a consultative committee, which met four times in 2013.

## Occupational safety

Alko has an occupational safety committee for organising cooperation on work safety. The sales staff have four representatives, while office workers have two, and the employer also has two. In addition, an occupational health physician or nurse participate in the meetings.

The committee convened four times in 2013. In our occupational safety policy we pay special attention to developing staff well-being at work.

### Accidents and absences due to sickness

In 2013, a total of 115 (100) work accidents took place in Alko. Of these, 33 (24) were accidents involving travel to and from work. Accidents accounted for an average of 5 (9) days leave.

The percentage of absences due to sickness was 4.15 (4.4) of the theoretical number of regular working hours. Absences due to sick leave fell slightly from the previous year and are below the retail sales average (4.7 per cent in 2012, Confederation of Finnish Industries EK working time report).

### Working environment

The safety of staff and customers is a significant factor in both work and customer satisfaction. We try to prevent security threats by reporting all threats encountered within the organisation. To ensure reports are sent, we use an electronic threat reporting system.

All Alko shops have had an ergonomics specialist since 2010, and at the head office since 2011. The ergonomics specialist ensures ergonomically correct working methods, and gives an introductory briefing to all new employees on work ergonomics. We provide supplementary education to the ergonomics specialists on an annual basis. We plan and implement the training in cooperation with occupational health services.

By focusing on ergonomics we support staff health and well-being in the workplace. The investments yield measurable results: musculoskeletal disorders continue to be the largest single cause of absence due to sickness, but their share of sickness absences overall is falling.



## Aiming to be the best in Finland in well-being in the workplace

We have for a considerable time now invested in key elements of well-being in the workplace, such as in areas of competence and management. These sectors include competence, management, the working environment, as well as health and social relations at work. Together these are key factors in job satisfaction. We have carried out measures in all areas of occupational well-being in partnership with employee organisations, occupational health care and a pension insurance company.

We have continued the three year management training programme for well-being at work targeting all Alko staff. This is related to the well-being in the workplace project started in 2012. The training programme has two training days for managers and one for teams including the team's supervisor. The training aims to increase understanding of well-being in the workplace and offer managers tools for managing occupational well-being. The team training focuses in particular on identifying different personalities and taking advantage of different strengths in teams.

### **We are doing sustained work to improve the competence of the staff at Alko.**

We used 4.0 (4.3) days per employee for training our shop staff.

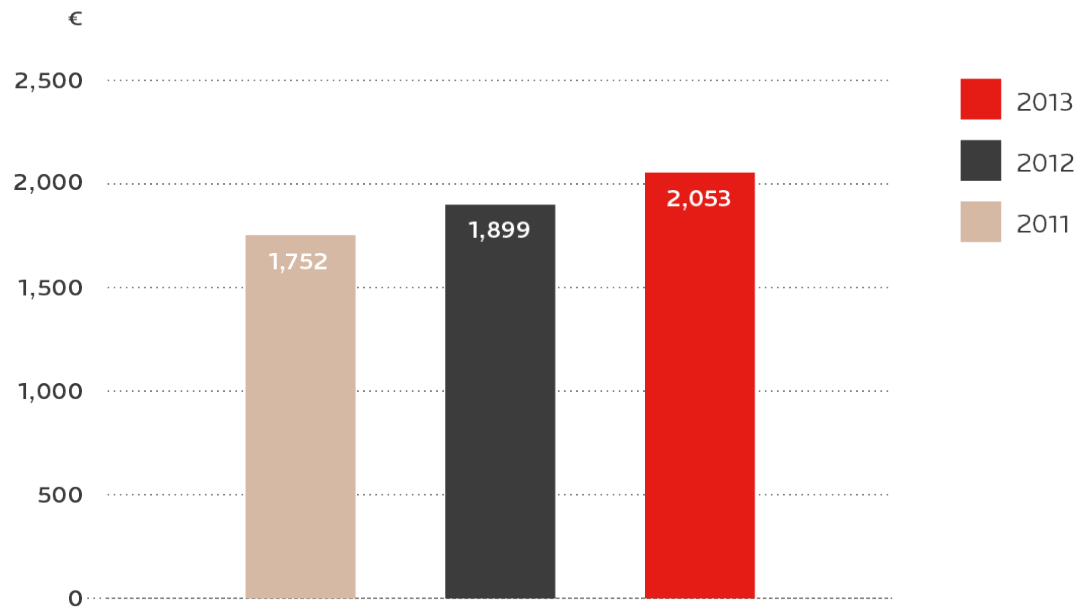
Staff receive regular monthly training sessions, in addition to service and product training courses. These are delivered by our full time service and product trainers, as well as sales staff and shop managers who work as part-time trainers. Service and product training is divided into

- basic level,
- advance level and
- supplementary training.

In addition to service and product training, Alko staff studied commercial, vocational and specialist vocational qualifications. They also maintained their safety know-how and skills, and participated in other targeted training.



## INVESTMENT IN WELL-BEING AT WORK PER EMPLOYEE





*Salla Sallmen, Store Manager Oulu Kaakkuri*

## Management

Personal development reviews and appraisal discussions are held with each employee twice per year. Targets for work performance and competence development are set in the discussions. Performance and development are also reviewed.

Supervisors receive regular feedback through the supervisor evaluation process, which focuses on the management of well-being in the workplace. Feedback is given by subordinates, superiors and in some cases by colleagues. The supervisors also carry out self-evaluation on their own performance.

### Diversity is a strength

"The things I really appreciate in management work are training and working together. It is important that everyone feels a part of the shop team, and that everyone's strengths should be utilised. In my own stores we have great customer service, as well financial and environmental experts. It's great that they can help me to succeed in my work and as a team supervisor.

” The things I really appreciate in management work are training and working together.

Everyone should get to shine at some task at work. I personally feel that it is important that it should be a task, which you can feel is your own. Therefore, it is essential that the discussion is open and that everyone's strengths are spoken aloud. You should let a light shine brightly and not bury it unseen. In my store everyone knows each other's strengths, and we aim to use these strengths in the everyday life of the shop. It is important that everyone can help each other."

*-Salla Sallmen,  
Store Manager Oulu Kaakkuri*

## ADDED ECONOMIC VALUE FROM ALKO'S OPERATIONS FOR DIFFERENT STAKEHOLDER GROUPS IN 2013



## Economic responsibility

The basis for our economic responsibility is to achieve sustainable economic performance through responsible values and business practices. In carrying out our economic responsibility, we require operational efficiency and we pay equal and fair attention to our stakeholders. It requires transparency and open financial reporting.

Our economically responsible practices include [personnel training](#). We see that by providing training for our personnel we support successful customer service experiences and increase well-being and safety in the workplace. One-third of our personnel training days were used to develop staff service and product knowledge. One fifth of our training days were used to improve team building and leadership skills. In addition to team skills, we developed occupational well-being through our safety training courses and professional skills by providing IT training. Our employees have the opportunity to apply for a study programme, which is carried out in the form of an apprenticeship leading to a vocational qualification.

In 2013, we invested a total of EUR 2.1 million in various kinds of training, and arranged 9,837 training days, which amounts to an average of four days for every Alko employee. In addition to the training we held ourselves,

this investment also included externally arranged training days, as well as travel expenses.

### Customers EUR 1,178.7 million

We provide our customers with [products and services](#). For us it is very important that our products are safe and of high quality. In 2013, revenue from alcoholic beverages amounted to EUR 1,167.9 (1,197.9) million. We offered services and supplies worth EUR 7.1 (8.9) million. These services included revenues worth EUR 322,000 (355,000) from research activities conducted at the [Alcohol Control Laboratory](#). In addition to providing safe and high quality products, we consider our comprehensive [network of shops](#), our wide [range of products](#), as well as our expert personnel providing excellent service as part of our financial responsibility towards our customers. In the development and maintenance of our product range we also take into account the potential effects of climate change, as well as [ethical responsibility in the supply chain](#).

Other operating income amounted to EUR 3.6 (2.7) million and consisted mainly of rental income, insurance compensation and capital gains.

## Suppliers of goods and services EUR 972.6 million

Commitment to ethical principles is part of our overall economic way of thinking and in addition to the direct purchase price, we also take indirect advantages and disadvantages into consideration. We apply responsible purchasing processes developed by the BSCI organisation in our purchasing of alcoholic beverages, and we expect ethical business practices from our suppliers. Our general terms of contract include ethical trading principles. In our procurement of alcoholic beverages we pay attention to the instructions set out in [legislation](#) (the Decree on the Operation of the Alcohol Company 243/2000) regarding the equal and transparent treatment of suppliers. In addition, we publish a guide book on our product range and retail sales of alcoholic beverages, in which we describe the product listing process for alcoholic beverages.

Most of our purchases are alcoholic beverages, which we bought from the alcoholic beverage industry and wholesale traders. These totalled EUR 931.4 (985.4) million in 2013. We purchased other products and services for EUR 41.2 (57.0) million in 2013.

Other product and service purchases include items such as transportation, IT services, rents, and work wear:

- Transportation costs came to EUR 1.4 (1.8) million. Transportation costs decreased mainly due to reduced return freight and lower volumes.
- We invested EUR 6.9 (6.1) million in IT services and consultation, which was slightly more than in 2012. The majority of the IT costs came from software licenses, maintenance and support.
- At the end of 2013, 328 of our 350 shops were located in rented premises, for which we paid EUR 17.5 (16.7) million in rent. Rent index increases led to a rise in rental expenses.
- We purchased working clothes for our shop staff worth EUR 0.5 (0.6) million. The working clothes expenses decreased from the previous year, even though every employee is now entitled to order new working shoes each year rather than the previous two years.

Our purchases, through our suppliers of goods and services, have indirect impacts on external players throughout the supply chain. We can take our indirect impacts into account with the help of ethical trading principles, but we have not evaluated the exact monetary value here.

## Personnel EUR 92,8 million

For the [personnel](#), our economic responsibility is reflected in salaries and remuneration. In 2013, EUR 70.3 (68.1) million were paid in and salaries and remuneration. Pension expenses amounted to EUR 14.5 (15.9) million and other personnel-related costs, in turn, came to EUR 3.8 (4.0) million in 2013.

In addition to the salaries and remunerations, we invested financially in our personnel in their well-being at work and in training.

We have also supported the well-being of our personnel through recreational support, meal benefits and medical care. Our investment per employee was EUR 2,053 (1,899), and altogether a total of EUR 5.4 (5.0) million. In addition to our versatile training programmes the staff can also learn through our internal web-based learning environment. EUR 2.1 (2.2) million was invested in training overall.

### Pensions

We have a supplementary pension scheme in addition to the statutory earnings-related pensions. Additional pension cover is managed by private pension companies, and also by the Alko Pension Fund (division A) supplementary pension. At the end of 2013, 397 of our personnel belonged to the Alko Pension Fund Division A supplementary pension, 6 fell under Vistalco supplementary pension cover and 3 members of the Management Team were covered by the management supplementary pension.

The President and CEO and one member of the Management Team have no supplementary pension scheme, but at the end of 2013 five Management Team members belonged to the supplementary pension fund. Two members of the Management Team belong to the Alko Pension Fund Division A, under which their retirement age is 61 years and their pension is 66 per cent of their salaries. One of them will retire in 2014. Three members of the Management Team have an accrued supplementary pension. The supplementary pension retirement age is determined by the Employees Pensions Act (TyEl) and the annual benefit paid is 10 percent of annual income, without incentive pay.

The retirement age for the Alko Pension Fund Division A supplementary pension is from 58 to 63 years depending on the job and length of service. The pension is 66 per cent of the salary.

In 2013, we paid EUR 2.7 million in supplementary pension insurance payments, which is 3.1 per cent of the company's total payroll.

## Society EUR 85.7 million

We pay taxes to society. We paid EUR 29.3 (37.8) million in taxes on alcohol on an accrual basis for alcoholic beverages passing through our central warehouse, of which EUR 0.3 million was beverage packaging tax. We paid EUR 44.1 (46.7) million in VAT and EUR 12.3 (14.3) million in income tax. In addition, suppliers pay alcoholic beverage and beverage packaging taxes on those products that do not come to our stores via Alko's central warehouse. All in all, Finnish companies paid over EUR 1.3 milliard to the state in alcohol beverage taxes in 2013.

**We pay all taxes in Finland, so that the taxes from every product we sell are directed to the state and are in this way distributed for the benefit of society as a whole.**

The tax revenues we pay go to finance general government spending through the state budget and are an important source of revenue for the state. Tax revenues are used to finance social and health services, among other things.

## Communities EUR 0.7 million

Alko participates in the [In the Company of Children programme](#) together with the A-Clinic Foundation, the Mannerheim League for Child Welfare, and the Finnish Parents' League. The cooperation is contract-based and overall we contributed EUR 171,700 (145,500) in 2013 in compensation for the activities of these societies. Additionally Alko's Board decided in accordance with the Annual General Meeting to donate EUR 250,000 to the Sata lasissa project organised by the Finnish Innovation Fund Sitra in 2013. Research conducted as part of the project will support the In the Company of Children programme.

In addition to this we engage in cooperation work with the Finnish Association for Substance Abuse Prevention (EHYT), the Youth Academy, the National Exercise and Sports Organisation (Valo), as well Junior Chamber International Helsinki for the Policeman of the Year project. The Police Officer of the Year award and scholarship for young athletes from Valo came to a total of EUR 6,500. Other areas of cooperation are in the form of compensation for activities, and they amounted to

EUR 37,000 (23,000). We also supported the research activities of the Finnish Foundation for Alcohol Studies with EUR 68,000 and contributed EUR 15,000 towards the Yhteiskuntapolitiikka publication.

Before Christmas Alko donated EUR 100,000 to the "Hyvä Joulumieli" (Christmas Cheer) collection organised by the Finnish Red Cross and the Mannerheim League for Child Welfare. The "Hyvä Joulumieli" collection goes towards helping families with children who are poor or in difficult life situations, so that they can buy groceries for Christmas.

The effects of the grants on profit for the whole year came to EUR 0.7 (0.4) million.

We did not give any grants or subsidies to political parties.

## The owner EUR 44.0 million

Alko is owned by the Finnish state (100 per cent). We paid our owner a dividend of EUR 44.0 million from the results from 2012 (EUR 50.0 million from the results from 2011). The dividend was paid in two instalments in 2013: EUR 22.0 million in April and EUR 22.0 million in September. The dividend for 2013 was smaller than in previous years, as the global economic downturn and tax increases contributed to a decline in our shop sales.

Alko does not receive any financial assistance from the state.

## Investments EUR 6.9 million

Investments were carried out for the development of the shops and for strategic projects. We invested EUR 4.3 (3.9) million in the development of our shops in 2013. One new shop was opened in 2013 and 20 shops changed premises. Three shops were closed. The investments arose from renewing the internal visual appearance of the shops and improving the cash registers ergonomically. The internal visual appearance was renewed in 28 shops and other renovations were carried at 15 shops.

We invested EUR 1.1 (2.4) million in our financial and logistics process and IT systems development project, which also includes the renewal of the financial reporting and budgeting system. In addition to the project, we invested EUR 0.4 million in information technology. There were additionally EUR 1.1 (0.4) million in other investments, which mainly arose from the renewal of the outside lighting for the Arkadia real estate property in Helsinki, as well as meeting room renovations.



## Alcohol is reflected in many ways in Finnish life

For many years Alko has engaged in cooperation work with organisations that support preventing the harmful effects of alcohol in various ways in their operations.

For the In the Company of Children programme our cooperation partners include the A-Clinic Foundation, the Mannerheim League for Child Welfare and the Finnish Parents' League. In addition, the National Institute for Health and Welfare is also a cooperation partner in the project.

In 2013, we broadened our cooperation work to include the Sata lasissa research project coordinated by the Finnish Innovation Fund Sitra.

Furthermore, we engage in cooperation with four other organisations: EHYT, The National Organisation for Physical Exercise and Sports Valo, the Youth Academy and Junior Chamber International Helsinki.



## Alcohol in the company of children

Alko's long-term [In the Company of Children programme](#) supports the National Alcohol Programme.

There is no single answer to the question of what amounts to a non-harmful use of alcohol, from the perspective of children and young people. Parents and adults should have a natural and controlled relationship with alcohol, so that the use of alcohol does not result in harm to the child or young person. Moreover, it is important that the parents and adults view negatively any use of alcohol by children and youth.

### The programme aims to

- reduce the use of alcohol by parents and adults in front of children and youth and its indirectly associated harmful effects and
- strengthen Alko's corporate social responsibility.

The cooperation partners for the programme include the National Institute for Health and Welfare (THL), the A-Clinic Foundation, the Mannerheim League for Child Welfare and the Finnish Parents' League. Alko makes mutual agreements and action plans with the organisations, taking into account changes in society that have occurred, or have been observed in studies, and directs actions accordingly.

The In the Company of Children programme also took a stand on handing over alcohol to minors in the spring before the end of school and in the autumn before school begins. At those times, we presented some video films titled Mother and Daughter.

[On the programme's website](#) almost 40 expert blogs were published, which dealt with the use of alcohol in families and by young people.

We described the programme and its related activities and events at various stakeholder meetings. We also communicated about the programme internally on Alko's website and in other external communications.

The programme's Facebook pages received over 7,000 likes. In 2013 the A Clinic Foundation built on the success of the campaign it produced the previous year titled Monsters and the discussion it generated with some new measures.

The Mannerheim League for Child Welfare trained workers for telephone helplines and web services to discuss problems due to the harm brought through the use of alcohol.

The Finnish Parents' League organized education evenings, as well as its own organisation and member association events.

## Alko's cooperation with other organisations

Alcohol is reflected in many ways in Finnish life. Alko has a long tradition of carrying out co-operation work with various organisations that pay particular attention to the harmful effects caused by alcohol. Alko's [In the company of children Programme](#) is one example of this kind of work. In addition, we are working together with four other organisations. We annually make a joint plan taking into account changes that occur in society. In accordance with the plan actions are carried out with the different groups.

### Youth Academy

The Youth Academy does work promoting well-being for young people. The aim is to offer young people opportunities in doing, learning and succeeding both with hobbies and at school. The Youth Academy carried out the [Bottle Speech](#) project with funding from Alko. The theme of the project was the prevention of youth substance abuse and substance abuse communication. A pilot project was carried out with 16 to 19-year-olds in the capital area, as well as in another project, where young people were able to challenge and question the current communication style on the topic of substance abuse. Young people believe that education on substance abuse should be clear enough on the dangers of alcohol, but not too black-and-white.

Alko has been involved with the Youth Academy since the year 2000 and has supported the organisation financially, mainly through the Mahis project and will continue to support the organisation through 2014.

### The National Organisation for Physical Exercise and Sports, Valo

Valo and Alko carry out cooperation work with a view to fostering substance free sports for young people or activities aimed at delaying the onset of substance use. Prior to this, cooperation was carried out with the Young Finland Association (since 2007). In addition to the other areas of cooperation, Alko donated one [scholarship](#) for exemplary substance abuse prevention activities to a sports club adhering to the Sinettiseura quality criteria for youth sports clubs.

### EHYT

Alko has started cooperation with EHYT which is an organisation focussing on preventive substance abuse work throughout Finland. The aim of the cooperation between Alko and EHYT in 2013 was to focus on road safety education and the increased use of alcohol amongst older people. In the [Safely on your moped courses](#), 8th graders participated in teaching and learning which raised the issue of the dangers of using intoxicants in traffic. We also supported a project which helps EHYT gain more information about older people and their use of alcohol. Before this, Alko supported the preventive substance abuse-work week, coordinated by EHYT, for many years.

### Policeman of the Year

Policeman of the Year is an award given annually by the Junior Chamber of Helsinki, Finnish Police Federation and the Police Department of the Ministry of the Interior. The award has been given since 1975. Alko has been one of the most long-standing cooperation partners of the project.





## Older people should drink less alcohol

A healthy person, over 65 years of age should not drink more than two units of alcohol at one time. Regular weekly alcohol consumption should not exceed seven units.

Some elderly people may be using alcohol as they did before - when they were younger. And there are those, whose use of alcohol starts only later in life.

As the number of different drugs or regular medication increases for older people, many times it happens that the elderly and their loved ones receive little information about the poor compatibility between alcohol and the medication.

**The portion of non-drinkers amongst the elderly is decreasing the whole time.**

The damaging effects of alcohol on the body increase with age, because when the body organs become dry and fat, the volume of alcohol distribution decreases and the metabolism slows down its degradation of alcohol and its removal from the body.

The portion of non-drinkers amongst the elderly is decreasing the whole time.

Less as you get older - this should be learnt and remembered. Alko supported the Finnish Institute for Substance Abuse Prevention (EHYT) in 2013. For example, we supported a project which helps EHYT gain more information about older people and their use of alcohol. People must be made aware of this issue and take it into consideration.

Find out more at [www.ehyt.fi](http://www.ehyt.fi).



## Sustained work to mitigate environmental impact

Alko's operations have a variety environmental impacts and the most significant of these include product transportation, combined heat and electricity consumption, as well as impacts arising from beverage packaging waste.

We are engaged in sustained work to prevent and mitigate the environmental impacts of our business activities. Alko's management of environmental issues is based on the Finnish Decree on the Operation of the Alcohol Company (243/2000), as well as Alko's strategy and environmental policy. Practical actions related to the environment are guided by [the objectives and responsibilities](#) specified in the ISO 14001 environmental management system. We report environmental impacts on Alko's website, as well as yearly in Alko's annual report and corporate social responsibility report.

Through the environmental management system we are able to identify and reduce harmful environmental impacts and reduce their related costs. Since the beginning of 2011, all of our retail outlets have followed the principles specified in the international ISO 14001

environmental management system. Our system was certified in 2013 and Alko was granted ISO 14001 environmental certification in January 2014.

### Taking into account the environmental impact of the supply chain

Information on the environmental effects throughout the life-cycle of alcoholic beverages is not complete at this stage. The carbon footprint study by the Swedish alcohol monopoly, Systembolaget, shows that the company's largest environmental impacts come from packaging, agriculture, and from producing and transporting the products.

Environmental issues are part of the joint Nordic responsible procurement model. The aim of cooperation work being carried out for 2014 is to further clarify the environmental effects of the supply chain for alcoholic beverages.





## Environmental certification for Alko

In January all Alko shops, regional offices and the Helsinki head office received international ISO 14001 environmental certification granted by an independent certification body.

Third-party certification is used to verify the reliability of a company's own environmental management system. A functioning environmental management system helps to consider environmental issues across the board, whether it is a matter of energy consumption, waste recycling or staff training. We also seek to reduce environmental impacts or ideally prevent them by setting specific objectives in our work.

Staff knowledge and environmental awareness are key - the effects become significant when the entire staff

is committed to common goals. Our shops are working to promote environmentally responsible issues in their own team training and by familiarising new employees with the latest in house practices. Internal environmental audits, in turn, ensure that practices are uniform in all shops throughout Finland. The system also guides the various head office departments to consider environmental aspects in their operations.

Alko is committed to continuous improvement in matters regarding the environment. Annual periodic reviews are used to monitor the achievement of our environmental objectives.

## Taking into account the environmental impacts of stores and head office

Each shop selects an environmental officer, whose task is to ensure that the personnel are aware of the environmental impact of their own work and that the shop complies with Alko's environmental guidelines. The environmental officer also ensures that new workers are familiar with Alko's environmental practices, and participates in the environmental audit for the shop.

Internal audits are carried out as part of the internal audit for the shops and all the shops are checked every two years. The internal environmental audits are a form of self-evaluation. The audit seeks to determine as accurately as possible how the shop's environmental practices meet the set criteria for the environmental policy and objectives. The audit is carried out using an environmental auditing form and the results are saved in an auditing database. The audits were started in February 2012 and during the year in 2013, 165 outlets were inspected.

### The environmental impact of the head office

We recycle energy and biowaste, glass, paper and cardboard at the head office in Salmisaari in Helsinki. Alko's Alcohol Control Laboratory (ACL), operating in the same building, sends all harmful chemicals to Ekokem Oy for further processing. The head office premises are cleaned by a company that has an ISO 14001 environmental programme.

The Green Office team at the head office encourage the staff to be environmentally friendly in their daily activities. In the spring of 2013 we organised a recycling campaign for the re-use of favourite books, CDs and DVDs. Alko's head office has implemented the WWF's Green Office system since 2009. In the future, it will be phased out and the head office will become part of Alko's ISO 14001 environmental management system.



## Empty drinks containers recycled efficiently

We sold over 148.4 million alcoholic beverage containers in 2013 as follows:

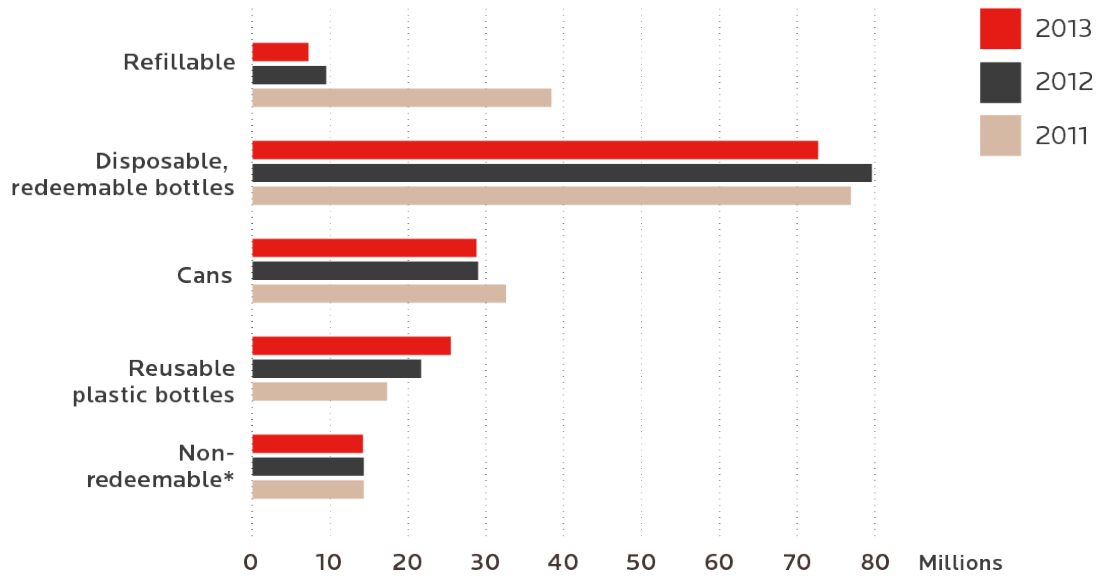
- 72.7 million single-use deposit glass bottles
- 7.2 million refillable glass bottles
- 28.8 million cans
- 25.5 million recyclable plastic bottles with redeemable deposit
- 6.4 million bag-in-boxes
- 2.8 million paperboard containers
- 5.0 million single-use non-deposit glass bottles

We cooperate on recycling empty beverage containers with other retail chains. At the end of 2013 most recycling machines (305 in total) were located at supermarkets or shopping centres and were joint machines where customers can return all deposit glass and plastic bottles and cans.

In addition, Alko had 40 machines at its own shops. While the majority of the machines do accept non-deposit glass bottles, it is recommended however to return them to municipal glass recycling points.

Alko is one of the owners of Suomen Palautuspakkaus Oy PALPA, which administers and develops deposit-based systems for recycling metal cans and plastic bottles. We are also one of the members of the Finnish association for promoting the recycling of glass Suomen Keräyslasiyhdistys ry. PALPA has for a number of years been responsible for the recycling system of deposit bottles and cans in Finland. Since the spring of 2012 Palpa Lasi Oy has been responsible for recycling system for single use glass bottles. Due to this change glass bottles purchased at Alko can now be returned to almost all supermarkets.

## PACKAGES SOLD IN ALKO



\* Bag-in-boxes, wine pouches and other non-redeemable products





## Reducing emissions by combining transports

Alko does not have its own transport fleet, the transportation of products to the shops is outsourced to external transport companies. We cooperate closely with our suppliers regarding transportation, so that each delivery to the same shop combines as many different deliveries from different stocks as possible. The transports are combined at the transport company terminals. With this arrangement it is possible to cut both transport costs and emissions.

In the transportation of alcoholic beverages Alko utilises reusable transportation devices such as pallets and cases. Most of these are deposit products and nearly all are recycled.

We monitor the CO<sub>2</sub> emissions of our transports. In 2013, the CO<sub>2</sub> emissions for import transports amounted to 666 (755) tonnes with the figure for domestic delivery transports being 116 (135) tonnes. The figures include products delivered to shops from Alko's central warehouse - return transport is not included in the figure. The reduction in emissions is due to a decrease in the volume of products passing through Alko's central warehouse.

The two biggest companies transporting Alko's products have environmental systems in use. Products purchased abroad through Alko import service were regularly transported by five companies, of which three had the ISO 14001 environmental certificate. Alko central warehouse services are operated by the logistics centre of Itella Logistics in Vantaa which also has the ISO 14001 certificate.



## Sustained work to mitigate energy consumption and waste

Alko has 348 shops (31 December 2013), 22 of which operate in their own premises. The total floor area of the shops amounts to 108,004 square metres, meaning that the average floor area for one shop is approximately 311 square metres. The shops, regional offices and head office operate primarily in leased facilities. The direct environmental impacts of the shop premises include heat, electricity and water consumption. Heating, water and waste management are mostly included in the rent for the operating premises. For this reason accurate consumption data is not fully available. We value locating our shops in business centres, and place special emphasis on opportunities for diverse waste sorting, environmentally friendly heating systems and energy recovery.

### Energy consumption reduced through new LED lighting solutions

The estimated power consumption in Alko stores decreased to 14.6 GWh compared to the previous year (15.1 GWh). The decrease can be partly explained by the increased use of LED lighting. All the spotlights in our stores, as well as the advertising signs have been implemented with LED technology. In three of our shops in 2013, we tested the implementation of the general lighting of the shop either wholly or partially using LED lighting. We constantly monitor the development of LED technology and its possible exploitation for shop lighting solutions.

We install presence detectors in our shops, which allow us to save energy used for lighting. We instruct the staff to pay special attention to the use of electricity and saving energy. The staff are also directed to turn unnecessary lights off in storage and social areas. Energy consumption can be reduced in the stores by using less lighting at night, while still ensuring that safety is not compromised.

We buy electricity that is produced from renewable energy sources including hydro, wind and bioenergy. The energy is produced in Finland and the other Nordic countries and has been granted the Guarantee of Origin eco-label for energy.

Additionally, a large part of our shops are heated by district heating. We prefer, where possible, for our properties to utilise renewable energy sources for heating systems and refrigeration equipment, e.g. by using cold condensate heat released from cooling equipment and air heat recovery in the underfloor heating of the premises.

### The stores follow standardised waste guidelines

In addition to their own waste sorting guidelines, Alko's head office, stores and regional offices follow municipal guidelines and regulations. All offices are instructed to sort waste, save energy and acquire environmentally friendly office products. Waste disposal, apart from handling hazardous waste, is mainly included in the rental contracts for the stores. Handling hazardous waste has its own environmental guidelines, and Alko's Alcohol Control Laboratory (ACL) sends all harmful chemicals to Ekokem Oy. Equipment taken out of operation, which consists mainly of cash registers, is sent to Työ & Toiminta Ry for the recovery of all recyclable material.

Waste disposal, apart from handling hazardous waste, is mainly included in the rental contracts for the stores. Cardboard and plastic waste generated in the stores is sorted and forwarded for further utilisation. The plastic wrapping surrounding transport pallets is also utilised in the production of plastic bags at Alko. Pallets, cases and other reusable transport equipment are used for the transport of alcoholic beverages and other products sold at Alko. Most of these are deposit products and nearly all are recycled.

### Shop furniture recycling makes savings over time

The materials for the furniture of the shops and office premises are selected so that they are durable, recyclable and reusable. The renovation of shops and furnishing are handled centrally. Our goal is to allow as much surplus furniture as possible to be re-used either on our own locations or at locations outside the company. In 2013, we were able to re-use more than 60 per cent of our shops' surplus wall shelf panels and wall frames, as well as more than 50 per cent of the standing floor shelves.

Stores may indicate surplus, but usable furniture and equipment on Alko's internal exchange. The exchange includes, among other items, shopping carts and poster frames that are looking for a new home. The exchange, which is located on the company intranet, makes the re-circulation of items much easier.



## A responsible value and supply chain

Alko takes responsibility for human rights, labour rights, and environmental issues when procuring products from foreign alcohol producing countries.

Legislation on the operation of the state alcohol company and its sole rights concerning the sale of alcohol regulate Alko's purchasing operations. Decisions on the selection of alcoholic drinks are to be made on grounds that are impartial and non-discriminating, regardless of the manufacturer's or seller's nationality or domicile.

The Nordic state alcohol monopolies Alko (Finland), Systembolaget (Sweden), Vinmonopolet (Norway), ATVR (Iceland) and Rúsdrekkasöla Landsins (Faroe Islands) have together been developing a model for the responsible procurement of alcohol since 2008. The ethical principles (Code of Conduct) based on the UN Global Compact initiative became part of Alko's alcoholic beverage supplier contracts from beginning of 2012. Ethical principles require companies to adopt and implement basic values in their own sphere of influence regarding human rights, labour and the environment and to engage in anti-corruption measures.

Alko is a member of the Business Social Compliance Initiative (BSCI), an organisation which aims to contribute towards improving working conditions in suppliers' production facilities, as well as to clarify and standardise supplier supervision. The BSCI provides training on

responsible practices for suppliers and producers both in producing countries and in Finland.

Through a combination of supplier self-assessments and Alko's commissioned audits, ethical business practices are ensured and developed. Inspections are carried out by external, BSCI approved auditors. Alko's first commissioned audit was conducted in Chile in March 2012. Since then, audits have also been carried out in Argentina, and South Africa. So far, the audits have raised shortcomings in management practices, missing written instructions and faults in work safety supervision. These shortcomings have been addressed. Their correction has been carried out through agreed measures, which are monitored by the producer and the supplier according to an agreed timetable. As a BSCI member Alko is committed to auditing 2/3 of the volume of alcoholic beverages purchased from high-risk countries by the end of 2014.

Alko will utilise the risk country analysis, carried out in 2013 while developing responsible procurement practices, which assessed the situation in 15 countries regarding international agreements on human and labour rights.

Alko also currently has two certified ethical product categories in the product range: Fair Trade and Fair for Life. There is a shelf edge label for both types of products with the blue ethical trade label, as well as either the Fair Trade or Fair for Life label. These certificates are identifiable brands that will help consumers make an ethical product choice at the time of purchase. We are doing our best to ensure that Finnish consumers are able to enjoy high quality, ethically produced wines.



## Financials

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# Report of the Board of Directors 2013

The turnover in the commercial sector decreased in 2013 for the first time since 2009. The decrease in sales was contributed to the slow development of purchasing power, the ageing population, high taxation and international competition for consumers.

In 2013, the main objectives of the strategy were to achieve high levels of customer satisfaction, responsible operations, to be the best workplace in Finland and to achieve operational efficiency. The strategic objectives

were achieved with regard to service and responsibility. Alko was the best retail shop in regard to both service and responsible operations. In the national survey *Suomi Tänään* (Finland Today) Alko was ranked first in the retail group and in the *Maine ja vastuullisuus* (Reputation and Responsibility) survey the most responsible company in the retail group.

Alko's sales by volume and net sales declined, however, the result was better than expected.

Key figures	2013	2012	2011
Net sales, million EUR	1,175.0	1,207.2	1,172.3
Net sales without alcohol beverage tax, million EUR	583.8	590.7	601.0
Operating profit, million EUR	49.4	57.3	67.0
Extraordinary items, million EUR		0.3	-0.5
Income tax on ordinary operations, million EUR	-12.4	-14.2	-17.6
Income tax on extraordinary operating items EUR		-0.1	0.1
Profit for financial year, million EUR	38.2	44.4	51.0
Income from ordinary operations, million EUR	38.2	44.0	51.4
Return on equity, %	53.0	54.0	44.4
Equity ratio, %	27.9	30.7	31.9
Balance sheet total, million EUR	266.6	261.9	268.6
Gross investments in fixed assets, million EUR	6.9	7.1	7.1
Average number of personnel during the financial year	2,610	2,657	2,624

Alko's net sales for 2013, with alcohol beverage tax came to EUR 1,175.0 (1,207.2) million. Alko's net sales excluding alcohol beverage tax came to EUR 583.8 (590.7) million. Net sales both including and excluding alcohol beverage tax declined largely due to the 2.9 per cent decline in sales by volume.

Operating profit came to EUR 49.4 (57.3) million, which was 4.2 (4.7) per cent of net sales including tax on alcohol. Fixed costs EUR 152.8 (150.3) million.

The result decreased the sales margin by EUR 6.9 million, which was due to both lower sales volumes and changes to the range of products. Staff costs and related expenses increased slightly, even though the use of staff was adjusted to a level lower than budgeted. The information system project (Talo) led to costs throughout the year. The result was boosted by a one-off sale of commercial premises and lower transport costs than in the previous year.

Financial income came to EUR 1.1 (1.0) million, which was slightly better than the previous year. Profit for the financial year amounted to EUR 38.2 (44.4) million. The

result was better than expected.

The balance sheet total came to EUR 266.6 (261.9) million. The balance sheet's total volume grew by EUR 4.8 million compared to the previous year. This was affected by investments in information systems and the increase in inventories.

The equity ratio came to 27.9 (30.7) per cent. The equity ratio fell due to a weaker financial performance than the previous year.

The company's total investments amounted to EUR 6.9 (7.1) million. Investments focused mainly on revamping the shops and development projects.

## Taxation and prices

At the beginning of 2013 the VAT was raised by one percentage point. Alcoholic beverage tax was the same as in 2012.

Alko's retail prices increased by 1.8 per cent. They were adjusted in January, June and October. Suppliers raised their prices for Alko by 4.6 per cent during the year.



## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### REPORT OF THE BOARD OF DIRECTORS

## Sales

The overall consumption of alcohol in Finland mounted to 41.3 (42.0) million litres of 100 per cent alcohol. Alcohol sales declined both at Alko and in licensed sales at restaurants. At other retail sales places the sale of alcoholic beverages increased slightly. Alko's share of alcohol sold in Finland fell to 40.6 (41.4) per cent.

According to a survey conducted by TNS Gallup travellers returning from abroad imported 15 per cent

more alcohol than in 2012. The National Institute for Health and Welfare will publish alcohol consumption statistics in April 2014.

Total sales of Alko shops by volume (litres) fell to 99.2 (102.3) million litres, or 2.9 per cent less than the year before.

The sales volumes of spirits fell by 5.5 per cent, mild wines by 1.4 per cent and brewery products by 4.0 per cent.

Product group	Sales for 2013 in millions of litres	Sales for 2012 in millions of litres	Change in comparison with the previous year in millions of litres	Change in comparison with the previous year, percent
Vodkas and spirits	15.1	15.9	-0.7	-4.5
Other strong alcoholic beverages	8.4	8.9	-0.5	-6.1
Fortified wines	3.5	3.8	-0.3	-8.2
Red wines	26.4	27.5	-1.1	-4.0
White wines	21.7	21.4	0.2	1.0
Sparkling wines	4.8	4.6	0.2	4.2
Rosé wines	0.8	0.8	0.0	4.9
Other wines	2.1	2.2	-0.1	-4.9
Ciders	0.9	0.9	-0.1	-8.1
Long Drinks	6.5	6.8	-0.3	-4.9
Beers	9.1	9.3	-0.3	-3.1
Non-alcoholic drinks	0.2	0.2	0.0	9.7
<b>In total</b>	<b>99.2</b>	<b>102.3</b>	<b>-3.0</b>	<b>-2.9</b>
<b>In total as 100% alcohol</b>	<b>16.8</b>	<b>17.5</b>	<b>-0.6</b>	<b>-3.7</b>

## Strategy

The strategy was updated for the period 2014–2016. The new strategic objectives are to provide the best customer experience in Finland (in service company comparisons), to be Finland's most responsible service-providing company (in the service and the financial sectors), and the best workplace (in the Great Place to Work category for large companies), as well as being an efficient speciality chain. One of the strategic objectives was achieved ahead of time, when Alko was chosen as best place to work in Finland in the Great Place to Work competition in the larger companies category for 2014.

## Responsibility for alcohol policy

Checks for age-limits, suspected cases of intoxication and the handover of alcohol to minors play a central role in Alko's responsible customer service work. In 2013, 3.5 (3.0) million of Alko's customers showed proof of their

legal age. 0.6 (0.5) million suspected intoxication checks and 0.2 (0.2) million suspected handover checks were carried out. The success of age-limit checks is measured using a Mystery Shopping survey. The result of the mystery visits was a success rate of 92 (82) per cent. Information about Alko's In the Company of Children programme, which is carried out in cooperation with the National Institute for Health and Welfare (THL), the A-Clinic Foundation, the Mannerheim League for Child Welfare and the Finnish Parents' League was provided online and on our Facebook pages.

The opinions of Finns regarding alcohol policy are surveyed on an annual basis. In January 2014, the data collected showed that 70 (87) per cent of Finns considered the existing alcohol policy restrictions appropriate, or would tighten them. 65 (67) per cent of Finns are of the opinion that Alko and its sole right to sell alcoholic beverages are a good way of controlling the extent of the harmful effects of alcohol.



## Environmental responsibility and responsible procurement

In 2013, 165 internal environmental audits were carried out in Alko shops. In the autumn an independent certification institute conducted certified audits in Alko shops and regional offices. In January 2014 Alko was awarded ISO 14001 environmental certification.

The Nordic alcohol monopolies (in Finland, Sweden, Norway, Iceland and the Faroe Islands) have jointly developed a responsible procurement model since 2008. The ethical principles based on the UN Global Compact initiative became part of Alko's alcoholic beverage supplier contracts from beginning of 2012. Alko's responsible purchasing model includes training in the production countries, and third-party audits of production facilities. In 2013 Alko commissioned a risk analysis of 15 producer countries' commitment to international agreements on human and labour rights. The analysis results will be used in the development of the responsible procurement model. In addition, Alko offers three ethically certified product categories: Fair Trade, Fair for Life and for Life. These certificates are identifiable brands that will help consumers make an ethical product choice at the time of purchase.

## Products

Alko's product range features products from 59 (63) countries. Products were purchased from 106 (132) domestic importers or manufacturers and from 201 (230) foreign suppliers.

The last price list from 2013 contained 2,450 (2,436) alcoholic beverages. As well as buying from the general selection, consumers may also purchase products from the sale-to-order selection, which in December 2013 contained 1,490 (1,499) products. In addition to this, Alko's flagship shop in Helsinki carries a special selection of close to 200 products.

Alko lists new products for sale on a weekly basis. Alko shops also sell non-alcoholic beverages and a range of accessories.

## Services and customers

At the end of 2013 Alko had a total of 350 (350) shops. The retail network was supplemented by 102 (107) order points. Approximately 60.1 (61.7) million customers visited Alko shops in 2012, which was around one percent fewer in comparison to the previous year. Alko improved its customer satisfaction rating for the sixth year in a row. In the Suomi Tänään (Finland Today) customer feedback survey Alko ranked first in the retail group and fourth among all service companies.

## Human Resources

At the end of the year in 2013 Alko's personnel numbered 2,705 (2,756). In terms of computational work-years, the total for full-time and part-time work was 1,901 (1,928) work-years.

There were an average of 4.0 (4.3) training days per employee. The project focussing on well-being in the workplace for the entire staff at Alko, which started in 2012, was continued. Additionally, our service know-how was further strengthened by continuing the trend of previous years and training staff as customer staff ambassadors.

The entire personnel is covered by an incentive scheme. The staff incentive system has a large number of indicators used to measure responsibility, customer service, personnel and finance and encourages profitability and being successful together. Alko teams receive team-specific rewards. In addition, managers are rewarded for succeeding in managerial duties.

Salaries and incentive pay to staff totalled EUR 70.3 (68.1) million euros. For 2013, an incentive provision of EUR 3.3 million for staff and management was paid, inclusive of personnel-related expenses, accounting for 3.7 (3.6) per cent of personnel costs.

## Shares and share holders

The Government is the owner of the entire share capital (10,000,000 shares).

## Management and administration

By the decision of the Annual General Meeting held on 23 April 2013, EUR 44.0 million was distributed as a dividend in two instalments. The first instalment of EUR 22.0 million, was remitted on 26 April 2013 and the remaining instalment of EUR 22.0 million, on 2 September 2013. The Annual General Meeting elected Soili Suonoja as Chairman of the Board of Directors and Harri Vainio as Vice Chairman. Sari Aalto-Matturi, Arto Honkaniemi, Taru Keronen, Leila Kostiainen, and Matti Pörhö were elected as members of the Board. Maritta Iso-Aho will act as Board Secretary. Personnel representatives Juri Helmiö and Saku Salonen attended the meetings of the Board of Directors without the right to vote.

The auditors appointed for the company are the Authorised Accounting Firm KPMG Oy. The auditor with the main responsibility is Reino Tikkanen, Authorised Public Accountant. Alko Oy's Board of Directors has three committees, namely the Audit, Staff and Alcohol Policy Committees.

## Risk management

Alko's Board of Directors is responsible for the company's risk management policy and monitors its implementation. The President and CEO, together with the Management Team, ensures that the risk management policy is complied with and risk management is appropriately taken care of.

Alko's risk management means analysing and managing threats related to its activities in a systematic and anticipatory way. The risks are classified into strategic, operational, economic and accident risks.

The company has defined possible risks that can influence its future development and profitability:

- Changes in the Alcohol Act may have a significant impact on the company's operations.
- An increase in the alcoholic beverage tax could lead to more imports of alcoholic drinks by returning travellers from abroad and thus result in a decrease in Alko's sales.
- Responsible customer service forms a central part of Alko's operations, for example, not selling alcohol to minors or intoxicated people. Possible deviations from this policy will result in a temporary closure of the shop in question.
- The company's business is based on efficient and reliable information systems. Possible malfunctions in the information systems or their incompatibility with business demands can cause interruptions to the business.
- Environmental and social responsibility risks in the procurement chain for alcoholic beverages may damage the company's reputation as a responsible player if they are realised.

## Prospects in the near future and after this financial period

Alko's sales by volume are expected to continue to decrease. The increase in alcoholic beverage tax on 1 January 2014, the prevailing current economic situation, and returning traveller imports of alcoholic drinks will be the main reasons for the decline in sales. The company's profits will decline mainly due to the weaker sales volumes.

An overhaul of the Alcohol Act is underway and a legislative proposal will be submitted to Parliament in the spring of 2014. Parliament approved changes to the marketing section of the Alcohol Act in December 2013. The law, which comes into effect in the spring, allows for the publication of product information about spirits on Alko's website from 1 April 2014.

Board Member Taru Keronen resigned from the Board on 1 March 2014.

## Income statement, FAS

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
<b>Net sales</b>	1,175.3	1,207.5	1,175.0	1,207.2
Other operating income	3.6	2.7	3.6	2.7
Materials and services	-976.5	-1,002.3	-976.5	-1,002.3
Total personnel costs	-88.6	-88.1	-88.6	-88.1
Depreciation and write-downs	-6.1	-5.3	-5.7	-5.2
Other operating expenses	-58.6	-57.1	-58.4	-57.0
<b>Operating profit</b>	49.1	57.4	49.4	57.3
Financial income and expenses	1.1	1.0	1.1	1.0
<b>Profit/loss before extraordinary items</b>	50.2	58.4	50.6	58.3
Extraordinary items		0.3		0.3
<b>Profit/loss after extraordinary items</b>	50.2	58.7	50.6	58.6
Income taxes	-12.3	-13.4	-12.4	-14.3
<b>Profit/loss for financial year</b>	38.0	45.3	38.2	44.4

FAS=Finnish Accounting Standards

## Balance sheet, FAS

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	7.9	6.3	7.9	6.3
Tangible assets	41.0	41.9	12.5	13.5
Investments	6.7	7.2	33.8	33.9
<b>Non-current assets</b>	55.5	55.4	54.2	53.7
<b>Current assets</b>				
Inventories	67.5	63.7	67.5	63.7
Non-current receivables	1.6	1.6	1.6	1.6
Deferred tax assets	0.7	0.8		
Current receivables	22.8	16.9	22.8	16.8
Cash in hand and on deposit	120.5	126.1	120.5	126.0
<b>Current assets</b>	213.2	209.2	212.4	208.2
<b>Assets</b>	268.7	264.5	266.6	261.9
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Total shareholders' equity</b>				
Share capital	16.8	16.8	16.8	16.8
Other funds	3.2	3.6	3.2	3.6
Retained profit	16.7	15.0	15.9	15.1
Profit/loss for financial year	38.0	45.3	38.2	44.4
<b>Total shareholders' equity</b>	74.7	80.7	74.0	79.9
<b>Liabilities</b>				
Imputed tax liability	1.4	1.7		
Current non-interest-bearing liabilities	192.6	182.1	192.6	182.0
<b>Liabilities</b>	194.0	183.8	192.6	182.0
<b>Shareholders' equity and liabilities</b>	268.7	264.5	266.6	261.9

FAS=Finnish Accounting Standards

## Cash flow statement, FAS

EUR million	2013	Alko Group 2012	2013	Alko Inc. 2012
<b>Cash flow from operations</b>				
Profit/loss for financial year	38.0	45.3	38.2	44.4
<b>Adjustments:</b>				
Depreciation and write-downs	6.1	5.3	5.7	5.2
Non-current asset items: sales profits (-)/ losses (+)	-0.7	0.2	-0.7	0.2
Financial income and expenses	-1.1	-1.0	-1.1	-1.0
Income taxes	12.3	14.3	12.4	14.3
Other adjustments	0.0	-1.1	0.0	-0.3
Cash flow before change in working capital	54.5	62.9	54.4	62.7
<b>Change in working capital:</b>				
Increase (-) /decrease (+) in inventories	-3.8	2.9	-3.8	2.9
Increase (-) /decrease (+) in current non-interest-bearing accounts receivable	-1.4	5.8	-1.3	5.8
Increase (+) /decrease (-) in current non-interest-bearing liabilities	12.5	-2.7	12.5	-2.6
Change in provision	0.0	-0.3	0.0	-0.3
Cash flow from operations before financial items and taxes	61.8	68.6	61.8	68.6
Interest paid and payments on other financial operating expenses	-0.1	0.0	-0.1	0.0
Dividends received from operations	0.0	0.0	0.0	0.0
Interest received from operations	0.7	1.3	0.7	1.3
Other financial items from operations	0.0	0.0	0.0	0.0
Direct taxes paid	-18.4	-9.6	-18.4	-9.6
Cash flow before extraordinary operating items	44.0	60.4	43.9	60.3
Cash flow due to extraordinary operating items		0.3		0.3
<b>Cash flow from operations</b>	<b>44.0</b>	<b>60.7</b>	<b>43.9</b>	<b>60.6</b>
<b>Cash flow from investments</b>				
Investments in tangible and intangible assets	-6.9	-6.7	-6.4	-6.7
Income from surrender of tangible and intangible assets	0.0	0.1	0.0	0.1
Acquisition of subsidiaries			-0.4	0.0
Sold shareholdings in associates	0.2	0.4	0.0	0.4
Other investments	0.0	-0.4	0.2	-0.4
Surrendered income from other investments	1.2	0.3	1.2	0.3
<b>Cash flow from investments</b>	<b>-5.6</b>	<b>-6.4</b>	<b>-5.5</b>	<b>-6.3</b>
<b>Cash flow from financial operations</b>				
Short-term loan withdrawals				
Long-term loan repayments				
Dividend paid	-44.0	-50.0	-44.0	-50.0
Received and paid Group contributions	0.0	-0.2	0.0	-0.2
<b>Cash flow from financial operations</b>	<b>-44.0</b>	<b>-50.2</b>	<b>-44.0</b>	<b>-50.2</b>
<b>Change in financial position</b>	<b>-5.6</b>	<b>4.1</b>	<b>-5.5</b>	<b>4.1</b>
Financial resources at the beginning of the year	126.1	122.0	126.0	121.9
Change in financial position	-5.6	4.1	-5.5	4.1
Financial resources at the end of the year	120.5	126.1	120.5	126.0



## Accounting principles

### Scope of the consolidated statement and accounting principles

The Alko Group includes the parent company and four real estate companies as subsidiaries:

Puolangan Keskus (50.48%), Raahen Asemakatu 12 (57.90%), Vuoksenniskan Harjulanrinne (73.08%) and Kiinteistö Oy Arkadiantalo (100.00%)

Group consolidation includes Kiinteistö Oy Arkadiantalo. Other subsidiaries have no material effect in the result or the financial position.

### Internal shareholdings

The consolidated financial statements have been prepared using the purchase method of accounting.

Depreciation is made according to the depreciation plan for non-current assets.

### Intercompany transactions and margins

Intra-Group transactions, internal deliveries, internal receivables and payables, as well as internal profits, are eliminated.

### Minority interests

There are no minority interests.

### Comparability of the financial statements

The financial statements are comparable.

### Valuation principles

#### Net sales

Net sales includes excise taxes.

### Fixed asset valuation

Fixed assets are stated at cost less planned accumulated depreciation. The planned depreciation has been calculated on a straight-line basis over the useful life of the item concerned. Depreciation has started the month following the date of the introduction of the item. The depreciation plan is the same as in the previous year.

#### Depreciation time:

	years
Buildings	25-40
Construction	20
Machinery and equipment (purchased before 2002)	10
Machinery and equipment (purchased in or after 2002)	7
Machinery and equipment (purchased in or after 2009)	5
Transport equipment	5
Computer hardware	3
Computer software	3
Renovation of shop premises	5

### Valuation of inventories

Inventories have been measured with variable costs according to the average price principle. The value of shop inventories includes an excise duty. The central warehouse in Viinikkala, Vantaa is excise duty free.

### Valuation of financial assets

Financial securities are valued at historical cost or, if lower, at the likely price of surrender.

### Items denominated in foreign currency

Any receivables and liabilities denominated in foreign currencies are converted into euros at the rate on the last day of the financial year.

## Notes to the income statement

### Total other operating income

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Rental income	1.9	1.9	1.9	1.9
Other operating income	0.9	0.8	0.9	0.8
Profit on sale of fixed assets	0.8	0.0	0.8	0.0
Total other operating income	3.6	2.7	3.6	2.7

### Materials and services

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Purchases during financial period	-980.1	-994.8	-980.1	-994.8
Increase/decrease in inventories	3.8	-2.9	3.8	-2.9
Materials, consumables and supplies	-976.3	-997.7	-976.3	-997.7
Outsourced services	-0.2	-4.5	-0.2	-4.5
Total materials and services	-976.5	-1,002.3	-976.5	-1,002.3
Average personnel during the financial year	1,901	1,931	1,901	1,931

### Total personnel costs

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Wages, salaries and remuneration	-70.3	-68.1	-70.3	-68.1
Pension expenses	-14.5	-15.9	-14.5	-15.9
Other personnel-related expenses	-3.8	-4.0	-3.8	-4.0
Total personnel costs	-88.6	-88.1	-88.6	-88.1

Alko employees whose employment contract started before 31 December 1991 are covered by the supplementary pension system. Their retirement age is 61 years and their pensions are 66 per cent of their salaries.

The OP-Life group pension insurance chosen by the parent company has an additional insurance fund of EUR 16.5 million.

This fund can be used as insurance against supplementary pension index increases and other obligations.

### Salaries, remunerations and fringe benefits paid to the management

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
President and CEO	0.4	0.4	0.4	0.4
Previous President and CEO	0.1	0.0	0.1	0.0
Members of the Board	0.2	0.2	0.2	0.2
Supervisory Board wages, salaries and remuneration	0.0	0.1	0.0	0.1
Total	0.7	0.6	0.7	0.6

Incentive bonuses are included in salaries on an accrual basis.

At the end of 2013, a part of the Management Team belonged to the supplementary pension benefit scheme. Two members of the Management Team have a pension arrangement with retirement age of 61 years and the pension amounts to 66 per cent of their salaries. Three members of the Management Team have an additional pension with retirement age was 63 years and annual payment of 10 per cent of the annual salary excluding bonuses. The pension for the President and CEO starting 1 January 2013 and Executive Vice President (Personnel) starting 15 November 2013 is determined by the Employees Pensions Act (TyEL) and they do not belong to the supplementary pension fund.

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE INCOME STATEMENT, FAS

#### Depreciation and write-downs

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Depreciation according to plan	-6.3	-5.4	-5.9	-5.3
Depreciation according to plan on non-current assets and goodwill	-6.3	-5.4	-5.9	-5.3
Reversed impairment on non-current asset items	0.2	0.2	0.2	0.2
Total depreciation and write-downs	-6.1	-5.3	-5.7	-5.2

#### Auditor's fees

EUR	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
KPMG Oy Ab				
Audit	26,120.00	30,181.38	22,400.00	25,000.00
Other fees	59,569.16	400.00	59,569.16	400.00
Total	85,689.16	30,581.38	81,969.16	25,400.00

#### Other operating expenses

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Rental expenses	-20.4	-20.5	-20.8	-20.5
Voluntary personnel-related expenses	-5.0	-5.0	-5.0	-5.0
Capital losses on non-current assets	-0.1	-0.3	-0.1	-0.3
Support given	-0.7	-0.4	-0.7	-0.4
Energy	-1.6	-1.5	-1.6	-1.5
Work outfits and equipment	-3.8	-3.0	-3.8	-3.0
Construction and repair services	-2.3	-2.8	-2.3	-2.8
IT services	-6.9	-6.1	-6.9	-6.1
Transport	-1.5	-1.8	-1.5	-1.8
Other outsourced services	-5.2	-4.8	-5.2	-4.8
Communications and marketing	-3.3	-3.7	-3.3	-3.7
Telecommunications	-1.6	-1.6	-1.6	-1.6
Credit card commissions and the handling of cash	-3.2	-3.1	-3.2	-3.1
Other expenses	-3.2	-2.6	-2.5	-2.5
Total other operating expenses	-58.6	-57.1	-58.4	-57.0

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE INCOME STATEMENT, FAS

#### Financial income and expenses

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
<b>Financial income</b>				
Dividends from others	0.0	0.0	0.0	0.0
Income from holdings	0.0	0.0	0.0	0.0
Other interest and financial income from others	1.1	1.0	1.1	1.0
Other financial income	1.1	1.0	1.1	1.0
Total financial income	1.2	1.0	1.2	1.0
<b>Financial expenses</b>				
Other interest and financial expenses	-0.1	0.0	-0.1	0.0
Other financial expenses	0.0	0.0	0.0	0.0
Total of other interest and financial expenses	-0.1	0.0	-0.1	0.0
Total financial expenses	-0.1	0.0	-0.1	0.0
Total financial income and expenses	1.1	1.0	1.1	1.0
Exchange rate profit	0.0	0.0	0.0	0.0
Total exchange rate profit/loss	0.0	0.0	0.0	0.0

#### Extraordinary items

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Extraordinary income, pension fund return of surplus		0.3		0.3
Total extraordinary items		0.3		0.3

#### Direct taxes

EUR million	Alko Group		Alko Inc.	
	1.1.-31.12.2013	1.1.-31.12.2012	1.1.-31.12.2013	1.1.-31.12.2012
Income tax on operations	-12.4	-14.2	-12.4	-14.2
Total income taxes on extraordinary income	0.0	-0.1	0.0	-0.1
Changes in deferred tax liabilities and assets	0.1	0.8	0.0	0.0
Income tax on ordinary operations	-12.3	-13.4	-12.4	-14.3

## Notes to the balance sheet

### Non-current assets

EUR million	31.12.2013	Alko Group 31.12.2012	31.12.2013	Alko Inc. 31.12.2012
<b>Intangible assets</b>				
Other capitalised expenditures	1.2	0.7	1.2	0.7
Advance payments on intangible assets	6.7	5.5	6.7	5.5
Intangible assets	7.9	6.3	7.9	6.3
<b>Tangible assets</b>				
Land and water areas	13.9	13.9	0.0	0.0
Buildings and constructions	14.6	14.5	0.0	0.0
Machinery and equipment	12.2	13.3	12.2	13.3
Other tangible assets	0.2	0.2	0.2	0.2
Tangible assets	41.0	41.9	12.5	13.5
<b>Investments</b>				
Holdings in Group's companies	0.4	0.4	27.5	27.1
Holdings in associates	1.8	1.9	1.8	1.9
Other shares and holdings	4.5	4.9	4.5	4.9
Investments	6.7	7.2	33.8	33.9
Total non-current assets	55.5	55.4	54.2	53.7

### Intangible assets

#### Alko Group

Intangible assets 2013	Other capitalised expenditure	Advance payments	Total
EUR million			
Acquisition cost 1 January	9.6	5.5	15.2
Increase	0.9	1.1	2.0
Acquisition cost 31 December	10.5	6.7	17.2
Accumulated depreciation 1 January	-8.9	0.0	-8.9
Depreciation for financial year	-0.4	0.0	-0.4
Accumulated depreciation 31 December	-9.3	0.0	-9.3
<b>Book value 31 December</b>	<b>1.2</b>	<b>6.7</b>	<b>7.9</b>

#### Alko Inc.

Intangible assets 2013	Other capitalised expenditure	Advance payments	Total
EUR million			
Acquisition cost 1 January	9.6	5.5	15.2
Increase	0.9	1.1	2.0
Acquisition cost 31 December	10.5	6.7	17.2
Accumulated depreciation 1 January	-8.9	0.0	-8.9
Depreciation for financial year	-0.4	0.0	-0.4
Accumulated depreciation 31 December	-9.3	0.0	-9.3
<b>Book value 31 December</b>	<b>1.2</b>	<b>6.7</b>	<b>7.9</b>



## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Tangible assets

##### Alko Group

Tangible assets 2013 EUR million	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 January	13.9	14.7	55.6	0.2	84.4
Increase	0.0	0.5	4.4	0.0	4.9
Decrease	0.0	0.0	-0.2	0.0	-0.2
Acquisition cost 31 December *	13.9	15.2	59.9	0.2	89.2
Accumulated depreciation 1 January	0.0	-0.2	-42.4	0.0	-42.5
Accumulated depreciation on decrease and transfers	0.0	0.0	0.2	0.0	0.2
Depreciation for financial year	0.0	-0.4	-5.4	0.0	-5.8
Accumulated depreciation 31 December	0.0	-0.6	-47.6	0.0	-48.2
<b>Book value 31 December</b>	<b>13.9</b>	<b>14.6</b>	<b>12.2</b>	<b>0.2</b>	<b>41.0</b>

##### Alko Inc.

Tangible assets 2013 EUR million	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 January	0.0	0.1	55.6	0.2	56.0
Increase	0.0	0.0	4.4	0.0	4.4
Decrease	0.0	0.0	-0.2	0.0	-0.2
Acquisition cost 31 December	0.0	0.1	59.9	0.2	60.2
Accumulated depreciation 1 January	0.0	-0.1	-42.4	0.0	-42.4
Accumulated depreciation on decrease and transfers	0.0	0.0	0.2	0.0	0.2
Depreciation for financial year	0.0	0.0	-5.4	0.0	-5.4
Accumulated depreciation 31 December	0.0	-0.1	-47.6	0.0	-47.7
<b>Book value 31 December</b>	<b>0.0</b>	<b>0.0</b>	<b>12.2</b>	<b>0.2</b>	<b>12.5</b>

\*) Acquisition cost does not include upward value adjustments.

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Investments

##### Alko Group

Investments 2013 EUR million	Holdings in Group's companies	Holdings in associates	Other shares and holdings	Total
Acquisition cost 1 January	0.9	2.2	5.2	8.3
Decrease	0.0	-0.2	-0.5	-0.6
Acquisition cost 31 December	0.9	2.1	4.7	7.6
Accumulated write-downs and adjustments to capital proportion				
1st January *	-0.5	-0.4	-0.2	-1.1
Accumulated write-downs on decrease and transfers	0.0	0.1	0.1	0.2
Accumulated depreciation 31 December	-0.5	-0.3	-0.2	-0.9
<b>Book value 31 December</b>	<b>0.4</b>	<b>1.8</b>	<b>4.5</b>	<b>6.7</b>

##### Alko Inc.

Investments 2013 EUR million	Holdings in Group's companies	Holdings in associates	Other shares and holdings	Total
Acquisition cost 1 January	27.6	2.2	5.2	35.0
Increase	0.4	0.0	0.0	0.4
Decrease	0.0	-0.2	-0.5	-0.6
Acquisition cost 31 December	28.0	2.1	4.7	34.8
Accumulated write-downs and adjustments to capital proportion				
1st January *	-0.5	-0.4	-0.2	-1.1
Accumulated write-downs on decrease and transfers	0.0	0.1	0.1	0.2
Accumulated depreciation 31 December	-0.5	-0.3	-0.2	-0.9
<b>Book value 31 December</b>	<b>27.5</b>	<b>1.8</b>	<b>4.5</b>	<b>33.8</b>

\*) Acquisition cost does not include upward value adjustments.

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Shares

Shares 2013								
Holdings in participating interest companies	Parent company's holdings, %	Holding of equity, EUR 1,000	Equity 1 000 €	Number of shares	Nominal value EUR/ share	Shares/holdings		Profit/loss according to the latest financial statements, EUR 1,000
						Nominal value 31 December 2013, EUR 1,000 Total	Book value 31 December 2013, EUR 1,000	
Kiinteistö Oy Arkadiankatu	100.00		19,680				27,141	-319.2
Kiinteistö Oy Puolangan Keskus, Puolanka	50.48	188	372	275	56.00	15	118	5.6
Kiinteistö Oy Raahen Asemakatu 12, Raahen	57.90	253	436	14,476	17.00	246	140	3.1
Kiinteistö Oy Vuoksenniskan Harjulanrinne, Imatra	73.08	698	955	7,308	0.30	2	120	12.9
<b>Total holdings in group's companies</b>	<b>1,138</b>						<b>27,519</b>	

Shares 2013								
Holdings in participating interest companies	Parent company's holdings, %	Holding of equity, EUR 1,000	Equity 1 000 €	Number of shares	Nominal value EUR/ share	Shares/holdings		Profit/loss according to the latest financial statements, EUR 1,000
						Nominal value 31 December 2013, EUR 1,000 Total	Book value 31 December 2013, EUR 1,000	
Kiinteistö Oy Enon Kauppakeskus, Eno	37.00	169	455	259	5.05	1	118	-0.9
Asunto Oy Juvan Myllynkerä, Juva	31.50	149	474	3,150	0.25	1	150	6.5
Kaavin Yrittäjätalo Oy, Kaavi	23.20	113	488	348	16.82	6	101	-13.4
Kiinteistö Oy Kaivolankulma, Puumala	36.37	106	292	2,515	67.28	169	100	0.0
Kiinteistö Oy Kannuksen Torinkulma, Kannus	46.03	331	719	2,900	1.68	5	155	0.0
Kiinteistö Oy Mantsintie 1-3, Ilomantsi	28.19	110	391	311	50.46	16	135	4.2
Kiinteistö Oy Nilsianportti, Nilsia	31.49	449	1,426	1,606	16.82	27	168	1.6
Asunto-osakeyhtiö Pieksälä, Pieksämäki	26.82	147	548	54,800	1.68	92	84	2.4
Kiinteistö Oy Pulkkilan Kauppakeskus, Pulkila	49.84	255	512	4,984	0.34	2	70	-35.1
Kiinteistö Oy Saarijärven Paavonaukio, Saarijärvi	29.58	149	503	392	168.19	66	120	0.0
Asunto Oy Sandelsinkatu 4, Helsinki	24.85	41	164	6,835	0.34	2	251	0.8
Kiinteistö Oy Savitaipaleen Torinkulma, Savitaipale	23.00	188	817	2,300	0.34	1	103	11.5
Kiinteistö Oy Urpala, Rantasalmi	36.88	295	799	2,950	0.34	1	100	0.0
Kiinteistö Oy Äänekosken Torikatu 5, Äänekoski	36.29	305	840	450	16.82	8	130	-10.9
<b>Total holdings in participating interest companies</b>		<b>2,806</b>					<b>1,785</b>	

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

	Parent company's holdings, %	Number of shares	Nominal value EUR/ share	Shares/holdings	
				Nominal value 31 December 2013, EUR 1,000 Total	Book value 31 December 2013, EUR 1,000 1 000 €
<b>Other shares and holdings</b>					
Asunto Oy Helsinginkatu 15, Helsinki	17.73	1,773	1.68	3	434
Kiinteistö Oy Karakeskus, Kouvola	4.60	5,013	0.17	1	7
Kaukotalo Oy, Helsinki	6.02	407	50.46	21	471
Kiinteistö Oy Keritori, Kerimäki	9.76	332	1.68	1	63
Kiuruveden Linja-autoaseman Kiinteistö Oy, Kiuruvesi	14.99	2,514	16.82	42	135
Kiinteistö Oy Kolarin Ylläs Chalets VII		122			244
Kontulan Ostoskeskus Oy, Helsinki	9.46	745	68.62	51	673
Asunto Oy Nilsiä Tahkokuuri Chalets B		1,805			178
Kiinteistö Oulun Kirkkokatu 14, Oulu	1.43	500	16.82	8	17
Kiinteistö Oy Paltamon Tervahamina, Paltamo	10.00	1,000	1.68	2	100
Kiinteistö Oy Pyhäsalmen Liiketalo, Pyhäsalmi	16.00	288	1.68	0	101
Savonlinnan Linja-autoasema Oy, Savonlinna	10.47	1,540	168.19	259	168
Kiinteistö Oy Siilinjärven Torikalla, Siilinjärvi	19.22	36,520	0.17	6	200
Tahko Golf Club Aoy, A 597					9
Tahko Golf Club Aoy, A 1044					9
Kiinteistö Oy Tampereen Hämeenpuisto 27b, Tampere	1.56	440	17.00	283	38
Tikkurilan Kauppatalo Oy, Helsinki	10.05	1,130	117.73	133	500
Asunto Oy Vuorimiehenkatu 33, Helsinki	15.41	4,445	16.82	75	228
Kiinteistö Oy Ämmänievari, Suomussalmi	1.36	3,915	16.82	66	10
Vierumäki Golf Garden Oy					488
Vierumäki Golf Garden Oy					38
Vierumäki Chalets					298
Luoston Huolto Oy	1.87	28	8.41	0	3
Luottokunta		1			0
Suomen Palautuspakkaus Oy	12.50	150			25
Total other shares and holdings				951	4,437
Other non-itemised shares and holdings (in telephone companies)					84
<b>Total other shares and holdings</b>					<b>4,521</b>
<b>Total shares</b>					<b>33,825</b>

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Cash in hand on deposit

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Shops' cash registers	13.7	16.4	13.7	16.4
Commercial papers	8.9	0.0	8.9	0.0
Bonds	25.1	0.5	25.1	0.5
Bank accounts	72.8	109.2	72.8	109.1
<b>Total</b>	<b>120.5</b>	<b>126.1</b>	<b>120.5</b>	<b>126.0</b>

#### Bond market and book value difference

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Financial securities' market value	274	0.5	274	0.5
Financial securities' book value	25.1	0.5	25.1	0.5
Difference	2.2	0.0	2.2	0.0

#### Inventories

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Finished products and goods	67.2	63.4	67.2	63.4
Advance payments on inventories	0.3	0.3	0.3	0.3
<b>Total inventories</b>	<b>67.5</b>	<b>63.7</b>	<b>67.5</b>	<b>63.7</b>
Non-current other receivables	1.6	1.6	1.6	1.6
Other	1.6	1.6	1.6	1.6
<b>Total</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>

#### Current receivables

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Accounts receivable	15.3	12.7	15.3	12.7
Current receivables (from others)	7.4	4.1	7.4	4.1
Other	0.1	0.1	0.0	0.0
<b>Total</b>	<b>22.8</b>	<b>16.9</b>	<b>22.8</b>	<b>16.8</b>
Current receivables	22.8	16.9	22.8	16.8

#### Major items in prepaid expenses and accrued income

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Income tax receivable	4.1	0.0	4.1	0.0
Lunch vouchers	0.0	0.7	0.0	0.7
Social Insurance Institution compensation for occupational health care	0.6	0.6	0.6	0.6
Interest receivables	0.5	0.0	0.5	0.0
Change money in transit	0.0	0.1	0.0	0.1
Trade invoiced in different period as received	2.2	2.4	2.2	2.4
Statutory insurance premiums	0.0	0.1	0.0	0.1
Current receivables	0.1	0.2	0.0	0.2
<b>Total</b>	<b>7.4</b>	<b>4.1</b>	<b>7.4</b>	<b>4.1</b>



## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Distributable earnings

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Retained profit			15.5	14.8
Profit/loss for financial year			38.2	44.4
Transfer from other funds			0.4	0.4
Donations			0.0	-0.2
Total adjustments			0.4	0.3
Distributable earnings			54.1	59.5

#### Current liabilities

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Accounts payable	159.3	145.2	159.3	145.2
Accrued expenses and deferred income	19.9	20.5	19.9	20.5
Other liabilities	13.4	16.4	13.4	16.3
Advances received	0.0	0.0	0.0	0.0
<b>Total</b>	<b>192.6</b>	<b>182.1</b>	<b>192.6</b>	<b>182.0</b>
Current liabilities	192.6	182.1	192.6	182.0
<b>Debts to group companies</b>				
Short-term debts to group companies			0.0	0.0
			0.0	0.0

#### Major items in accrued expenses and deferred income (non-current and current)

EUR million	Alko Group		Alko Inc.	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Payroll timing items, including social insurance costs	19.0	17.9	19.0	17.9
Timing of employer insurance	0.6	0.3	0.6	0.3
Timing of income tax	0.0	2.0	0.0	2.0
Other current accrued expenses and deferred income	0.3	0.2	0.3	0.2
<b>Total</b>	<b>19.9</b>	<b>20.5</b>	<b>19.9</b>	<b>20.5</b>

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Change in shareholders' equity

##### Change in shareholders' equity 2012

<b>Alko Group</b>				
<b>EUR million</b>	<b>Share capital</b>	<b>Other funds</b>	<b>Profit funds</b>	<b>Total</b>
<b>Equity 1 January</b>	16.8	4.0	64.1	84.9
Distribution of dividend	0.0	0.0	-50.0	-50.0
Direct entry into profit funds	0.0	0.0	-0.2	-0.2
Transfers between items, fund for work welfare	0.0	-0.4	0.4	0.0
Real estate companies removed from the Group	0.0	0.0	0.7	0.6
Profit for financial year	0.0	0.0	45.3	45.3
<b>Total equity 31 December 2012</b>	<b>16.8</b>	<b>3.6</b>	<b>60.3</b>	<b>80.7</b>

##### Change in shareholders' equity 2013

<b>Alko Group</b>				
<b>EUR million</b>	<b>Share capital</b>	<b>Other funds</b>	<b>Profit funds</b>	<b>Total</b>
<b>Equity 1 January</b>	16.8	3.6	60.3	80.7
Distribution of dividend	0.0	0.0	-44.0	-44.0
Transfers between items, fund for work welfare	0.0	-0.4	0.4	0.0
Profit for financial year	0.0	0.0	38.0	38.0
<b>Total equity 31 December 2013</b>	<b>16.8</b>	<b>3.2</b>	<b>54.7</b>	<b>74.7</b>

##### Change in shareholders' equity 2012

<b>Alko Inc.</b>				
<b>EUR million</b>	<b>Share capital</b>	<b>Other funds</b>	<b>Profit funds</b>	<b>Total</b>
<b>Equity 1 January</b>	16.8	4.0	64.8	85.7
Distribution of dividend	0.0	0.0	-50.0	-50.0
Direct entry into profit funds, contributions	0.0	0.0	-0.2	-0.2
Transfers between items, fund for work welfare	0.0	-0.4	0.4	0.0
Profit for financial year	0.0	0.0	44.4	44.4
<b>Total equity 31 December 2012</b>	<b>16.8</b>	<b>3.6</b>	<b>59.5</b>	<b>79.9</b>

##### Change in shareholders' equity 2013

<b>Alko Inc.</b>				
<b>EUR million</b>	<b>Share capital</b>	<b>Other funds</b>	<b>Profit funds</b>	<b>Total</b>
<b>Equity 1 January</b>	16.8	3.6	59.5	79.9
Distribution of dividend	0.0	0.0	-44.0	-44.0
Transfers between items, fund for work welfare	0.0	-0.4	0.4	0.0
Profit for financial year	0.0	0.0	38.2	38.2
<b>Total equity 31 December 2013</b>	<b>16.8</b>	<b>3.2</b>	<b>54.1</b>	<b>74.0</b>

Securities given, contingent and other liabilities

Other securities given

## ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY REPORT 2013

### NOTES TO THE BALANCE SHEET, FAS

#### Leasing liabilities

EUR million	Alko Group		Alko Inc.	
	2013	2012	2013	2012
Payable the following the year	0.3	0.4	0.3	0.4
Payable later	0.3	0.5	0.3	0.5
<b>Total</b>	<b>0.5</b>	<b>0.8</b>	<b>0.5</b>	<b>0.8</b>

#### Rental liabilities

EUR million	Alko Group		Alko Inc.	
	2013	2012	2013	2012
Payable the following the year	17.8	17.4	17.8	17.4
Payable later	89.1	86.8	89.1	86.8
<b>Total</b>	<b>107.0</b>	<b>104.2</b>	<b>107.0</b>	<b>104.2</b>

## Key figures

EUR million	Alko Group			Alko Inc.				
	2013	2012	2011	2013	2012	2011	2010	2009
Net sales	1,175.3	1,207.5	1,172.7	1,175.0	1,207.2	1,172.3	1,174.8	1,170.2
Operating profit	49.1	57.4	66.9	49.4	57.3	67.0	71.9	74.6
Proportion of net sales, %	4.2	4.8	5.7	4.2	4.7	5.7	6.1	6.3
Profit before extraordinary items, voluntary provisions and income taxes	50.2	58.4	68.9	50.6	58.3	68.9	73.4	76.7
Proportion of net sales, %	4.3	4.8	5.9	4.3	4.8	5.9	6.3	6.6
Profit before extraordinary items and income taxes	50.2	58.7	68.4	50.6	58.6	68.5	155.4	76.7
Proportion of net sales, %	4.3	4.9	5.8	4.3	4.9	5.8	13.2	6.6
Return on equity, %	48.9	54.0	44.2	53.0	54.0	44.4	46.5	65.2
Return on investment, %	64.7	70.0	59.1	70.6	70.1	59.4	62.8	88.2
Equity ratio, %	27.8	30.5	31.9	27.9	30.7	31.9	42.1	32.2
Current ratio	1.1	1.1	1.2	1.1	1.1	1.2	1.5	1.3
Gross investment in fixed assets	6.9	7.1	7.1	6.9	7.1	7.1	30.7	4.2
Proportion of net sales, %	0.6	0.6	0.6	0.6	0.6	0.6	2.6	0.4
Average number of personnel during the financial year	2,610	2,657	2,624	2,610	2,657	2,624	2,606	2,641

Return on equity, % 
$$\frac{(\text{Profit before extraordinary items} - \text{income taxes of the actual operations}) \times 100}{\text{Equity (average*)}}$$

Return on investment, % 
$$\frac{(\text{Profit before extraordinary items} + \text{financial expenses for current liabilities}) \times 100}{\text{Balance sheet total (average*)} - \text{non-interest-bearing liabilities (average*)}}$$

Equity ratio, % 
$$\frac{\text{Equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$$

Current ratio 
$$\frac{\text{Inventories} + \text{Financial assets}}{\text{Current liabilities}}$$

\*) Averages have been calculated as the averages of the final monthly balances.

## The Board of Directors' proposal about the distribution of profit and Auditor's report

The Board proposes that EUR 388,758.00 is transferred from other profit funds to retained profits to cover work welfare costs.

On 31 December 2013, the parent company had EUR 54,055,957.19 in distributable profit funds, of which the profit for the year amounts to EUR 38,164,000.69.

### **The Board proposes that the distributable funds be distributed as follows:**

- distributed as a dividend	38,000,000.00	EUR
- retained under equity	16,055,957.19	EUR
	<hr/>	
	54,055,957.19	EUR

No substantial changes have taken place in the company's financial situation since the end of the financial year. The company's liquidity is good and, in the opinion of the Board, the proposed distribution of profit does not put the company's liquidity at risk.

Helsinki, 10 March 2014

Soili Suonoja  
Chairman

Harri Vainio

Sari Aalto-Matturi

Arto Honkaniemi

Leila Kostiaainen

Matti Pörhö

Hille Korhonen  
President and CEO

### Auditor's report

A report has been given today on the audit carried out.

Helsinki, 10 March 2014

KPMG Oy Ab

Reino Tikkanen  
APA

## Statement by the Supervisory Board

The Supervisory Board of Alko Inc. has studied the company's financial statements and auditors' report for 2013 and proposes to the 2014 Annual General Meeting that the company income statement and balance sheets for the 2013 financial year be approved. The Supervisory Board agrees with the Board of Directors' proposal for disposal of the profits.

Helsinki, 20th of March, 2014

Sari Sarkomaa

Eila Tiainen

Anne Holmlund

Reijo Hongisto

Arja Juvonen

Saara Karhu

Pauli Kiuru

Mats Nylund

Heli Paasio

Leena Rauhala

Markku Rossi

Simo Rundgren





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## Christmas tree collection brings joy to children

In 2013, Alko's head office participated for the first time in the Christmas tree collection organised by Junior Chamber International Finland. People from different departments of the head office enthusiastically participated in the collection by bringing parcel upon parcel to be left under the Christmas tree collection point. A total of 47 presents for different aged children ranging from babies to teenagers were collected. They were delivered just before Christmas to the city of Helsinki's social collection point. From there the gifts were forwarded to children's homes in the Helsinki region or, via social services, to vulnerable children and teenagers in community care. The opportunity to selflessly help others brought a lot of joy to many people involved in the collection.

The Christmas tree project has been carried out in Finland for more than ten years. The charity collection aims to give a Christmas gift to those children who would otherwise be forgotten by Santa Claus. Collections are held throughout Finland by the local branches of Junior Chamber International Finland. The Christmas tree idea is to provide both individuals and businesses with an easy way to get into the Christmas spirit and spread it further. JCI take care of collecting the gifts, but social services and other parties ensure the delivery of the gifts to the children. This is to make sure that the gifts will go to the right addresses and that the child's right to privacy is not compromised.





## Global warming also brings changes to wine-growing

The earth's climate warmed by 0.6 degrees Celsius during the 1900s. In wine-growing regions, the change was even greater: in the last century over the past 50 years, the quality wine growing regions saw an average temperature rise of two degrees.

So far the development has even been favourable for some wine makers in cooler regions, who could not previously enjoy ideal grape harvests every year. In warm and hot regions, however, difficulties are already evident with increasing numbers of extreme weather events such as droughts, floods and hailstorms becoming more common.

If the climate continues to change as predicted, temperatures in the wine growing regions may yet rise more than two degrees Celsius by the 2050s. This could have dramatic consequences on the grape varieties used, wine character, the taste profile of wines and the economic cost of wine making.

### **Wine regions and grape varieties may be subject to change:**

- Grapes for wine may be grown in areas where before it was too cool for balanced wine making:
  - Wine-growing is spreading further south in the southern hemisphere and further north in the northern hemisphere. In Denmark and Sweden there are now more people who believe that vineyards have a future, and the UK has become a promising sparkling wine producing country.
- In the warm regions cultivation is becoming more difficult:
  - It may be necessary to move cultivation to cooler regions, i.e. closer to the sea or to higher elevations - provided they exist.
  - Increased drought and water shortages could force changes on the entire direction of wine production.
- Traditional grape varieties may no longer be suitable for the region's wine production:
  - Varieties are sensitive to changes in temperature. As temperatures rise, it may be necessary to change

## GLOBAL WARMING

to more heat-tolerant varieties, in which case the traditional nature and character of the wine region will change.

- Current legislation only allows carefully prescribed grape varieties in the traditional European wine-growing regions, which can make it difficult and slow to adapt to changing circumstances.

### Also the character of the wine may change:

- In warm regions the sugar content of the grapes can become really high before the grape flavours mature and develop.
- As a result, the wines can be very alcoholic with a rather low-acid flavour and become banal.
- The last decade has seen a trend in wines becoming very full bodied, strong, rich and fruity with a high alcohol content. Now the trend is changing towards more moderate and nuanced wines and the wine makers in warmer regions may find it difficult to meet the demand.

### Climate change has economic implications:

- Making changes to the vineyards costs money: creating new acreage or making changes can add up to tens of thousands of euros.
- Extreme weather events becoming more common may require new investments: farms must be protected from hail, irrigation systems must be constructed or adapted, and pesticides need to be increasingly sprayed as new pests arrive in warmer regions.
- Modern wine-making technology can be used to calculate the alcohol content and balance the flavour, for example by using reverse osmosis or spinning cone column technology. The law permits these, but they add to the cost. The use of modern technology can also reduce the wine's reputation as a pure and natural product.

Producers and consumers are starting to pay attention to the effects of wine-making on climate change.

Calculating the carbon footprint of wine production is already becoming established as a part of the consumer communications of wineries:

- Solar cells are being used as an energy source and winery tractors are being fuelled with biodiesel. Small quality producers have exchanged tractors for horses, for example in Champagne.
- Heavy glass bottles are being converted into lighter ones, and plastic bottles have also entered the market.

A greater portion of wine is being transported by sea in the world's largest bags-in-boxes, e.g. in 25,000-litre flexi-tanks, and is bottled or packed into wine boxes only in the destination country. When heavier bottles do not have to be carried, this saves energy and reduces the carbon footprint.

- Wineries can also offset their carbon footprints by investing some of their profits and financing carbon sink projects such as forestation.





## I understand but I do not approve

"I found a bottle of vodka in my eighth grade daughter's room. She said I did not need to be worried, because she already knows how to use alcohol and not to enjoy too much at one time."

"My 15-year-old son came home from a party heavily drunk and passed out on the couch. In the morning, he wondered how could have been so drunk, because he had only drunk only twelve beers."

"My high school student son enjoyed some beer with friends in his room before going into town, and I don't know how I should react to it."

When you first notice your offspring have enjoyed alcohol, a number of issues and questions come to mind. Where was the alcohol purchased? How much you did your son or daughter drink? Where was he or she? Who was he or she drinking with? Is it just a one off time or has your child been using alcohol for a longer time?

When discovering their children's experimentation with alcohol the mother or father may feel they are bad parents. What has gone wrong with their upbringing? On the other hand the mind may return to your own youth, which may include some similar experiments with alcohol. Parents' reactions are to some extent geared to their own experiences.

How should you react then if teenagers come home drunk or if they talk about their experiences with alcohol to their parents? Is it better to be completely negative, for example, by punishing them? Or would it be better to discuss the feelings raised by the issue? What are the consequences if I do not intervene? How to find out where your teenager has obtained alcohol?

In any case, you have to face the facts: explaining about the dangers of alcohol is not likely to prevent young people from experimenting with it. A young person growing up in Finland will have alcohol consumed everywhere, which is quite a challenge for parents and guardians. I think it is important that parents show they care and support their teenagers who have been caught using alcohol, even in those situations the parents do not approve of. Although experimentation with alcohol is understandable, parents and guardians do not need to consider it acceptable.

Parents rarely discuss their own children's use of alcohol together. Young people's consumption of alcohol in Finland is still something of a taboo. In school health surveys, only half of the eighth and ninth graders answered that they never drink alcohol. 4 per cent of girls and 6 per cent of boys answered that they drink alcohol every week. In high-school, slightly under 30 per cent of pupils indicated that they drink alcohol and 10 per cent of the boys and 6 per cent of the girls do so on a weekly basis. Of students studying at vocational college only 20 per cent are teetotal. 21 per cent of the boys and 14 per cent girls drink weekly.

Many parents and guardians have noticed that the above mentioned kinds of experiences have started in a circle of friends with their teenagers. Parents need peer support when facing teenage substance abuse. Let's be bold and let's openly talk about our teens' use of alcohol. In this way we can feed into our own conversations with our children.

*Suvianna Hakalehto-Wainio  
Specialist Lawyer, The Mannerheim League for Child Welfare*



*Alcohol and a moped – a bad combination. Photo Jonna Yletyinen*

## Alcohol and a moped – a bad combination

### Young people should always remember:

- Never lend a moped to a drunk friend
- Prevent friends from driving if they are intoxicated
- Do not accept lifts from intoxicated people

"Safely on your moped" is a training programme aimed at 8th graders, by the organisation EHYT, that provides information on key points for road safety and the dangers of substance abuse. The teachers are experienced driving instructors. The "Safely on your moped" course is spearheading the way in substance abuse prevention and the promotion of road safety.

In 2013 Alko supported the "Safely on your moped" courses.





## Towards a culture of responsible alcohol use

ITLA, the Independence Anniversary Children's Foundation, has launched a five year programme called "A century of children, youth and families in Finland".

The aim of the programme is, above all, to interpret and analyse how social structures and practices answer the needs of children, young people and families. The programme highlights the achievements in the improvement of children's lives over a hundred years, but not without criticism. The objectives of the study are to provide relevant information, making it possible to make wise decisions in the early stages of the next one hundred years.

Alko is funding the five year programme as part of

the Sata lasissa programme which focusses on growing up in Finnish alcohol culture. Part of the programme is designed to tackle issues related to the transmission of drinking patterns from one generation to another including the following questions: How are drinking habits transmitted or not transmitted from parents to young people and future generations? How does the consumption of alcohol seem to children whose parents are struggling with substance abuse problems? What does the mental picture of alcohol consist of and how is help sought regarding your own situation? Part of the programme aims to establish close cooperation between research bodies and parties with social influence.



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## We regularly survey pesticide concentrations in our wines

In the autumn of 2013 quite a stir arose when a Swedish TV programme presented a case where small amounts of pesticides were found in some wines. The news came as no surprise, as research results leaning in the same direction are being published all the time.

” Alko regularly examines the concentrations of pesticides in the wines we sell.

In most wines no pesticides are found at all, and the concentrations that are found are invariably much lower concentrations than those found for instance in grapes and fruits. This is largely due to the fact that wine-making is a cleansing process. The fat soluble pesticides remain on the skins of the grapes and do not themselves pass into the wine.

Current legislation does not specify any maximum permissible level for pesticides in wine.





*Timo Tossavainen and Taina Vilkkuna in front of an oil painting by Christina Snellmanin called Vintage from 1954. The painting is owned by Alko.*

## Accompanying an audit

Taina and Timo had the opportunity to be involved in auditing a wine production facility for Alko's product range in Argentina.

Product Communications Manager Taina Vilkkuna and Product Manager Timo Tossavainen followed the auditing being carried out as part of the responsible procurement policy in Argentina, at the end of October in 2013.

Both have visited vineyards and production facilities as part of their work many times before, but this was their first audit.

"It was a new and interesting," they both say.

Two production facilities were audited in Argentina: auditing one plant took two and a half days overall. In the audit, among other things, how the producer company's workers' rights were implemented was evaluated.

Taina and Timo were involved in the audit for a day. They followed employee interviews and accompanied the auditor inside the plant.

"The interviewees were selected representatives of the company being audited. The most interesting thing was to be present at the interviews and to get more information for ourselves for our work, and for the "information bank" regarding our responsible operations," commented Taina and Timo. "The interviewees were ordinary production workers. The auditor made the interview feel comfortable and relaxed, so us Finns felt quite at home, as well," says Taina.

**It was emphasised to the participants that the interview is confidential and no individual information will be passed on to the employer.**

## WHAT IS AUDITING?

### All sorts of questions

"There were really all sorts of questions, and yes in our opinion the answers were honestly given," say Taina and Timo.

"The questions were things like what kinds of working conditions are there? What sort of pay, job security, or in general whether there is a feeling of safety," continues Taina.

"Did they think there were illegal immigrants at the plant or were people being exploited? How is social equality implemented, can you get training and what sort of confidentiality exists? Do the workers and management communicate together and can you belong to a trade union? Is there discrimination because of gender or ethnic background? Is there any child labour? What is the situation like for sub-contractors?

"The answers to all these questions are in the report delivered to Alko and our job was not of course to carry out the audit, but to understand its significance as part of Alko's responsibility.

"I was left with a solid understanding of the fact that people could make their voices heard. The production facility even has a feedback day every Friday. You can belong to a union and there did not seem to be any major social problems. One interesting thing was the fact that the company's staff were trained in the environmental management ISO 14001 standard. The working time was 9 hours per day, and the longest possible was a 12-hour day. The workers said that these working hours were carefully complied with.

And a bit like we are in Finland, they were of the same opinion of the cafeteria as we often are: yes it serves perfectly good food, four choices, but not always quite gourmet cooking! It felt at home there," say Taina and Timo.

We got a look at the advance material at the meeting and the company being audited was in very good compliance. We were aware in advance that the recruitment of the auditors in South America is difficult, but in our opinion the choice was well made.

### Explaining things to the value and supply chain is important

"For us it is very important that supply chain responsibility is explained, that the matter is raised and that the supply chain develops in a responsible direction at all times. When we send the message that we are a responsible company, then it also affects the supply chain outside our own country. It is a very essential part of our values," says Taina. "And we have already become conscious of the fact that the most important thing is to work on these issues constantly," say Timo and Taina.



## Alko scholarship goes to Koyama Judo Club

The Koyama Judo Club in Rovaniemi received the 2013 Alko Kasvata urheilijaksi scholarship, worth 3,500 euros. The scholarship was awarded on 5 October at a large gala event organised by the National Organisation for Physical Exercise and Sports, Valo.

The scholarship was awarded for the club, for promoting an exemplary holistic lifestyle for young sports people, and abstinence from alcohol and drugs plays an essential

role in this. For Alko it is important that young athletes, their parents and coaches discuss the harmful effects of alcohol and agree on appropriate behaviour, especially regarding delaying the age that people start consuming alcohol. The grant was used for camp activities.





*Samuel Onatsu (left.), Valtteri Vuorinen, Johanna Soininen and Nelli Veijo. Photographer: Matti Matikainen*

## **In the Bottle Speeches pilot project, young people assessed communication on substance abuse**

The Youth Academy carried out the Bottle Speech project with funding from Alko. The theme of the project was the prevention of youth substance abuse and substance abuse communication.

The pilot experiment gathered young people of 16 to 19 years of age from the capital area, as well as a second group of ninth-graders from various locations in Central Finland. In the project, the young people challenged and questioned the existing communication style on substance abuse. Young people believe that education on substance abuse should be clear enough on the dangers of alcohol, but not too black-and-white. They think that one drink will not lead you on a path of destruction. On the other hand the pilot group believed that binge-drinking being labelled as fun should be changed.

**Young people believe that education on substance abuse should be clear enough on the dangers of alcohol, but not too black-and-white.**

The results give those of us who support substance abuse communication and for the parties carrying it out, a great deal to think about.



# CORPORATE GOVERNANCE

1.4.2014

PIRTEÄ &  
HEDELMÄINEN



FRISKT &  
FRUKTIGT

VIVAHTEIKAS  
& RYHDIKÄS



NYANSERAT &  
STRUKTURERAT

MEHEVÄ &  
HILLOINEN



MUSTIGT &  
SYLTIGT

VIVAHTEIKAS &  
KEHITTYNYT



NYANSERAT &  
UTVECKLAT



# ALKO INC.'S

# CORPORATE GOVERNANCE

*Alko Inc. is a limited company owned by the Finnish Government.* Alko's business activities are based on the Alcohol Act (1143/1994) and the Decree on the Operation of the Alcohol Company (243/2000), as well as on the Companies Act and Alko Inc.'s Articles of Association. According to the Alcohol Act, Alko Inc.'s task is to carry on, with certain exceptions, the retail trade of alcoholic beverages prescribed exclusively for it, while aiming to prevent the adverse effects of alcohol consumption.

The Ministry of Social Affairs and Health is responsible for the ownership, steering and supervision of Alko Inc. due to the special task assigned to Alko Inc. by law. The Ministry of Social Affairs and Health adheres to the Ownership Steering Act (1368/2007) and cooperates with the Ownership Steering Department of the Prime Minister's Office.



## ANNUAL GENERAL MEETING

Alko Inc.'s Annual General Meeting must take place once a year before the end of June. The Ministry of Social Affairs and Health appoints a representative to the Annual General Meeting.

The Annual General Meeting, in accordance with the Companies Act, decides on such matters as approval of the financial statements, profit distribution, exemption from liability, the election and fees of the members of the Supervisory Board and the Board of Directors, and auditors and their remuneration, as well as on whether to amend the Articles of Association.

Alko Inc.'s Board of Directors elects to convene the Annual General Meeting. Notice of the meeting and the agenda are sent at least one week prior to the meeting.

## SUPERVISORY BOARD

Alko's Supervisory Board consists of twelve members, which the Government appoints for four calendar years at a time. The Government also appoints the Chairman and the Vice Chairman.

The work of the Supervisory Board is carried out according to the principles in the Supervisory Board's approved rules of procedure.

### The Supervisory Board's tasks are as follows:

- to ensure that the company's affairs and administration are handled according to sound business principles, with an eye to profitability, and that the law, the provisions of the Articles of Association, the decisions of the Annual General Meeting and other approved instructions are complied with
- to give instructions to the Board of Directors in far-reaching matters of fundamental importance
- to monitor alcohol-related trends both in Finland and abroad and, on the basis of this, issue general guidelines on the development of the alcohol company's operations
- to confirm the action plan aimed at preventing the adverse effects of alcohol in accordance with Section 1 of the Decree on the Operation of the Alcohol Company (243/2000)
- to provide the report referred to in Section 36 Paragraph 1 Subparagraph 2 of the Alcohol Act on the development of the company's retail sales and the measures that the company has initiated in the manner required by the Act and
- to give the Annual General Meeting a statement concerning the company's financial statements and auditors' report.

The Supervisory Board for 2011–2015 consists of Sari Sarkomaa (Chairman) and Eila Tiainen (Vice Chairman) and, as members, Timo Heinonen until 7 March 2013, Anne Holmlund, Reijo Hongisto, Arja Juvonen, Saara Karhu, Pauli Kiuru since 7 March 2013, Mats Nylund, Heli Paasio, Leena Rauhala, Markku Rossi and Simo Rundgren. Director Kari Paaso represents the Ministry of Social Affairs and Health. Representation of the Ministry of Social Affairs and Health on the Supervisory Board is decreed by Section 38 of the Alcohol Act.

The Supervisory Board meets approximately five times a year.

## BOARD OF DIRECTORS

The Annual General Meeting elects the Chairman and Vice Chairman of the Board and a minimum of three and a maximum of six members. A Board member's term of office lasts from his/her election until the end of the following Annual General Meeting. Two personnel representatives take part in the meetings. The Annual General Meeting is convened on the invitation of the Chairman or the Vice Chairman of the Board.

The work of the Board of Directors is carried out according to the principles in the Board of Directors' approved rules of procedure.

### The key tasks of the Board of Directors are as follows:

- to direct and oversee the company in accordance with the decisions of the Annual General Meeting, the Companies Act and the Articles of Association
- to direct and oversee the company in accordance with alcohol-related statutes and to strengthen the company's strategy
- to approve the annual action plan and budget and to oversee their implementation
- to approve significant investments as well as the acquisition and sale of real-estate shares
- to strengthen the principles of internal monitoring and supervise their implementation and sufficiency
- to strengthen the principles of risk management
- to strengthen the internal audit directive and the annual plan
- to supervise the independence and work of the auditors and prepare a proposal on the election of the auditors for the Annual General Meeting
- to consider and approve the interim reports, the annual report and the financial statements
- to decide on the company's organisational structure and management system
- to appoint and relieve from their posts the President & CEO, the President & CEO's deputies and other members of the Management Team
- to decide on the salaries and other benefits of the President & CEO and the members of the Management Team
- to approve an incentive scheme for management and personnel
- to consider the results of the company's workplace atmosphere surveys
- to approve the company's corporate governance and the operating procedures of the Board of Directors and the committees, and to review their contents annually
- to consider the reports of the committees of the Board of Directors
- to consider matters presented by the members of the Board or the President & CEO
- to address issues related to regulatory control.

On 23 April 2013 the Annual General Meeting elected Soili Suonoja as Chairman to Alko's Board of Directors and Harri Vainio as Vice Chairman. Sari Aalto-Matturi, Arto Honkaniemi, Taru Keronen, Leila Kostinen and Matti Pörhö were elected as members of the Board. Personnel representatives Juri Helmiö and Marko Säkkinen will attend the meetings of the Board of Directors without the right to vote. More detailed information regarding the members of the Board is appended to this report.

The Board meets approximately ten times a year. The Board evaluates the effectiveness of its activities annually, as well as its procedures and success in accomplishing its task.

The Board members are independent of the company. Board member Arto Honkaniemi works for the Ownership Steering Department of the Prime Minister's Office.

Participating in Board meetings are President and CEO Hille Korhonen, Executive Vice President (Finance) Minna Alitalo until 31 December 2013 and Executive Vice President (Finance) Anton Westermarck as of 1 April 2014 and Executive Vice President (Communication and Social Responsibility) Maritta Iso-Aho as Secretary to the Board.

## COMMITTEES OF THE BOARD OF DIRECTORS

Alko Inc.'s Board of Directors has three committees: the Audit, Personnel and Alcohol Policy committees. The Board appoints the Chairman of the committees and the members to each one. The Board has established rules of procedure for each committee, which include the central tasks and principles for the committee.

### Auditing Committee

The Auditing Committee assists the Board of Directors in managing the supervision tasks that it has been assigned.

#### The Auditing Committee's tasks are as follows:

- to oversee the financial reporting process
- to evaluate the sufficiency and functionality of internal auditing and risk management
- to oversee internal auditing activity
- to process and evaluate auditing and auditor-related matters
- to ensure compliance with laws, regulations and other provisions.

The committee consists of at least three and at most five members of the Board of Directors. The Chairman of the committee must have sufficient knowledge of accounting practices. The President & CEO and the Chief Financial Officer act as the committee's presiding officers, while the Auditing Director acts as secretary for the committee. The Auditing Committee meets approximately five times a year.

The Auditing Committee consists of Chairman Leila Kostiaainen, members Arto Honkaniemi and Soili Suonoja, Presiding Officers Hille Korhonen and Minna Alitalo until 31 December 2013 and Anton Westermarck as of 1 April 2014 and Auditing Director Heli Riivari as Secretary.

### Personnel Committee

The function of the Personnel Committee is to assist the Board of Directors in supervising and preparing the company's personnel policies and practices as well as in the development of the organisation, in addition to assisting the Board of Directors in all the tasks related to remuneration schemes and employment relationships. The committee consists of three members from the Board of Directors.

The company's President & CEO acts as the Presiding Officer and the director responsible for personnel acts as the Secretary of the Committee. The Personnel Committee meets approximately six times a year.

The Remuneration Committee consists of Chairman Harri Vainio, members Taru Keronen and Soili Suonoja, Presiding Officer Hille Korhonen and Secretary Tytti Bergman.

### The Alcohol Policy Committee

The task of the Alcohol Policy Committee is to assist and support the company's Board of Directors in an advisory role in order to achieve social and health policy objectives in accordance with the Alcohol Act and related legislation. The committee consists of one member from the Board of Directors, two representatives from the Ministry of Social Affairs and Health and one representative from the company. The director responsible for corporate relations acts as the secretary for the working group. The Alcohol Policy Committee meets approximately five times a year.

The Alcohol Policy Committee consists of Chairman Matti Pörhö and member Sari Aalto-Matturi and expert Ismo Tuominen (Ministry Representative) and Hille Korhonen, with Maritta Iso-Aho as Secretary.

## PRESIDENT AND CEO

The task of the President & CEO is to manage the company's business operations in accordance with the law, the Articles of Association and the instructions issued by the Board of Directors. He or she also ensures that decisions taken at the Annual General Meeting and by Supervisory Board and Board of Directors are carried out. The President & CEO has two deputies.

The retirement benefits of President and CEO Hille Korhonen are determined in line with the Employees Pensions Act (TyEL). The notice of termination period to be observed in the President and CEO's employment is six months, and, in addition to the salary for the notice of the termination period, she must be paid dismissal compensation corresponding to six month's salary if the termination of employment is through no fault of her own.

## MANAGEMENT TEAM

The Management Team at Alko consists of seven members. Alko's Board of Directors appoints the President & CEO, the President & CEO's deputies and the other members of the Management Team.

Alko's Management Team assists the President & CEO in leading the company and in implementing its strategic and operational objectives. The Management Team handles the company's strategy and its action plan and budget, as well as other matters to be presented to the Board of Directors. The task of the Management Team is to monitor financial performance, business operations and the implementation of operational decisions.

The company's Management Team consists of President & CEO Hille Korhonen, 1st Deputy CEO, Executive Vice President (Communication and Social Responsibility) Maritta Iso-Aho, 2nd Deputy CEO, Executive Vice President (Customer Services) Kari Pennanen, Executive Vice President, (Purchases) Minna Alitalo, Executive Vice President (Personnel) Tytti Bergman, Executive Vice President (Marketing) Mika-Pekka Miettinen and Executive Vice President (Finances) Anton Westermarck as of 1 April 2014.

The Management Team meets regularly on average twice a month. More detailed information regarding the members of the Management Team is appended to this report.

All the members of the company's Management Team and other key persons have fully declared their commitments. Based on the statements received, all of the Management Team's representatives and the key people appointed are found to be independent of any interest groups.



## BENEFITS, BONUSES AND REMUNERATION

The Annual General Meeting has decided upon the following meeting fees for the Supervisory Board:

- Chairman's meeting fee: EUR 1,000
- Vice Chairman's meeting fee: EUR 800
- Members' meeting fee: EUR 700

The Annual General Meeting has decided upon the following monthly fees decided for the Board of Directors:

- Chairman's monthly fee: EUR 2,750
- Vice Chairman's monthly fee: EUR 1,300
- Members' monthly fee: EUR 1,100

Moreover, the Annual General Meeting has decided that a meeting fee of EUR 600 will be paid to the members of the Supervisory Board and to members of committees established by the Board of Directors for attending a Board or Committee meeting.

Alko's system of remuneration aims to support the achievement of the company's strategic objectives. The Board annually decides on the principles and performance targets of the incentive schemes for the personnel and the Management Team based on a proposal made by the Personnel Committee. The Board annually approves the Management Team's fees.

The Management Team's incentive scheme is based on strategic targets and on indicators describing their attainment, as well as on personal strategic development targets. The 2013 incentive bonus is set at most to 15% of the annual salary.

The purpose of the incentive scheme for the personnel is to encourage Alko employees to achieve the strategic goals of the company. The starting point for the incentive scheme is group-specific rewards. The 2013 incentive bonus is, depending on the job concerned, limited to 6 - 12% of the annual salary.

## INTERNAL SUPERVISION, RISK MANAGEMENT AND INTERNAL AUDITING

The Ministry of Social Affairs and Health supervises compliance with the Alcohol Act and the rules and regulations issued under it. The National Supervisory Authority for Welfare and Health, Valvira, reports annually to the European Commission on how fully Alko Inc., as the holder of the sole right to sales of alcoholic beverages in Finland, has observed the required impartiality and transparency in its relations with suppliers. The report also takes account of a statement made by the Finnish Competition Authority. The National Supervisory Authority for Welfare and Health, Valvira, monitors Alko's retail sales. Any Alko decision concerning the retail of alcoholic beverages can be appealed to Valvira and further to the Supreme Administrative Court.

The Management Team is responsible for the internal supervision of Alko. The purpose of the internal supervision system is to ensure that the operations serve their purpose and are efficient, that economic and operative reporting is reliable, and that the regulations and operating principles are being complied with. The most important aspects of internal supervision include: governance and the organisation culture and reporting and internal communications, in addition to monitoring and supervision.

Alko's financial reporting and related supervision consists of three components, namely: 1) the effective and high-quality recording and processing of transactions, 2) financial reporting regulatory compliance, and 3) financial reporting to support business operations and decision-making. The company's reporting is based on the Finnish Accounting Standards (FAS), as well as on internal reporting related to accounting guidelines and financial rules. The Finance Unit is responsible for the financial reporting process and the development of its supervision practices, as well as for ensuring that financial reporting-related laws and regulations are complied with. The Executive Vice President Finance reports the company's financial results and forecasts at meetings of the Auditing Committee and the Board of Directors.

Alko's values and its business method principles and impartiality guidelines, as well as its instructions on listing alcoholic beverages in its product range and on retail sales, form the basis of the company's management and cooperation with key interest groups.

Alko's Board of Directors approves the company's risk management policy and monitors that risk management measures are adequate and effective. The President & CEO, together with the Management Team, is responsible for the risk management policy and its enforcement as well as for ensuring that risk management is arranged appropriately. Alko's risk management is based on systematically and pro-actively analysing and managing threats and opportunities related to its activities. The risks are classified as strategic, operational, economic and accident risks.

The company's internal auditing, in accordance with the operating principles approved by the Board of Directors, evaluates the adequacy and efficiency of Alko's supervision, as well as its risk management, the quality of its operations and its management process. Internal auditing is an independent function that administratively falls under the authority of the 1st Deputy to the President & CEO and reports to the Board of Directors.

## AUDITING

The company has one auditor, which must be a firm of independent public accountants approved by the Central Chamber of Commerce in Finland. The auditor's term of office is one financial year and the auditor's work ends upon completion of the next Annual General Meeting following its election. In spring 2011, the Annual General Meeting elected the Authorised Accounting Firm KPMG Oy Ab as the company's auditor, with Authorised Public Accountant Reino Tikkanen as the auditor with the main responsibility.

## COMMUNICATIONS

Details about Alko Inc.'s corporate governance can be found on the company's website, [www.alko.fi](http://www.alko.fi). In addition, Alko Inc. publishes details about its corporate governance annually in connection with its annual report and corporate social responsibility report.

## COMPLIANCE WITH THE FINNISH CORPORATE GOVERNANCE CODE

Alko complies, where applicable, with the Finnish Corporate Governance Code issued on 15 June 2010 by the Securities Market Association. In addition to the corporate governance of Finnish listed companies, Alko Inc. complies with the ownership steering strategy of the Ministry of Social Affairs and Health and the Cabinet Committee on Economic Policy directive on state-owned companies' remuneration and pension schemes given on 13 August 2012 and the Government Resolution on State Ownership Policy given on 3 November 2011.

Deviations from the Finnish Corporate Governance Code result from the company's ownership structure: the company has one shareholder and the company's shares are not publicly quoted, and the company has no share-based bonus or incentive schemes. The deviations are with regard to the following recommendations, identified in brackets, contained within the Corporate Governance Code: recommendation 1 (publishing information on general meetings), recommendation 3 (attendance of the Board of Directors and auditor at a general meeting), recommendation 4 (attendance of a prospective director at a general meeting), recommendation 11 (notification of director candidates), and recommendation 55 (some of the above-mentioned deviations depart from the disclosure of information on the company website).

## BOARD OF DIRECTORS

### Soili Suonoja

b. 1944

Chairman

Commercial Counsellor

Member of the Board since 2004

#### **Current employment of trust:**

Leijona Catering Oy, Chairman (2012–)

Finavia Corporation, Chairman (2011–)

Finnpilot Pilotage Ltd, Chairman (2010–)

Huoltoliitto Association, Chairman (2008–)

Eilakaista Ltd, Member of the Board (2004–)

Nurmijärven Linja Oy, Member of the Board (2001–)

### Harri Vainio

b. 1947

Vice Chairman

Doctor of Medicine and Surgery

Director General, Finnish Institute of Occupational Health

Member of the Board since 2013

#### **Current employment of trust:**

Finnish Ash – Action on Smoking and Health, Chairman (2006–)

Cancer Foundation and Finnish Foundation for Cancer Research, Member of the Board (2006–)

School of Health Sciences, University of Tampere (UTA), Member of the Board (2004–)

### Sari Aalto-Matturi

b. 1966

Member of the Board

Licentiate in Political Science

Executive Director  
Ehkäisevä päihdetyö EHYT ry

Member of the Board since 2012

#### **Current employment of trust:**

A-Clinic Foundation, Supervising Commission, Member (2013–)

Espoon päihdeasioiden neuvottelukunta, Member (2013–)

SOSTE Finnish Society for Social and Health, Member of Board (2012–)

Sosped Säätiö (Foundation), Member of Board (2012–)

Helsingin kaupungin vastuullisen alkoholinkäytön toimenpideohjelman seurantaryhmä, Member (2012–)

### Arto Honkaniemi

b. 1946

Member of the Board

Master of Laws, Master of Science (Economics and Business Administration)

Senior Financial Counsellor, Ownership Steering Department, Prime Minister's Office

Member of the Board since 2007

#### **Current employment of trust:**

Patria Group, Member of Board (2009–)

## BOARD OF DIRECTORS

### Leila Kostiainen

b. 1950

Member of the Board

Master of Laws

Secretary General of The Finnish

Confederation of

Professionals STTK

Member of the Board since 2012

#### Current employment of trust:

Rasto Oy, Member of the Board (2009–)

Väinö Tanner Foundation, Supervising Commission, Member (2009–)

Labour Institute for Economic Research, Vice Chairman (2007–)

Lexman Oy, Member of the Board (1995–)

### Matti Pörhö

b. 1952

Member of the Board

Commercial Counsellor

President and CEO

Pörhön Autoliike Oy

Member of the Board since 2012

#### Current employment of trust:

The Fennia Group, Vice Chairman (2013–)

Volkswagen-Audio kauppiat ry, Chairman (2008–)

CECRA (European Council for Motor Trades and Repairs), Member of the Board (2007–)

Kaupan liitto, Member of the Board (2007–)

VW-AUDI EDC, Germany, 1. Vice Chairman (2005–)

ODL Säätiö (Foundation), Vice Chairman (2003–)

Suomen Työkalu Oy, Chairman (2002–)

Garage Equipment Service Ab, Chairman (2001–)

Kärppä-Säätiö (Foundation), Member of the Board (2000–)

Autoalan koulutuksen edistämissäätiö (Foundation), Chairman (1993–)

Pörhön Autoliike Oy, Chairman (1987–)

### Personnel representative

#### Juri Helmiö

b. 1952

Chairman of Alkoholialan toimihenkilöt ry

### Personnel representative

#### Marko Säkkinen

b. 1974

Chairman of Alkoholikaupan Ammattiliitto ALV ry

## MANAGEMENT TEAM

### Hille Korhonen

b. 1961

Licentiate in Technology  
President and CEO  
In service to the company  
since 2013

#### Principal employment history:

Fiskars Corporation, Vice President, Operations (2008–2012)

Iittala Group, Group Director, Operations (2003–2009)

Nokia Corporation, Management duties for logistics (1996–2003)

Outokumpu Copper Plc, Manager, Logistics and Marketing Development (1993–1996)

#### Current positions of trust:

Kaupani liitto, Member of the board (2014–)

Lassila & Tikanoja Plc, Member of the Board (2009–)

Nokian Tyres Plc, Member of the Board (2006–)

### Minna Alitalo

b. 1962

Master of Economics and Business Administration

Executive Vice President, Purchases

In service to the company since 2009

#### Principal employment history:

Alko Inc., Executive Vice President, Finance (2009–2013)

Isku-Yhtymä Oy, Director of Finance (2005–2009)

Indoor Group Oy, Financial and Administrative Director (2003–2005)

Eimo Oyj, Project Manager, Manager and Senior Vice President of Customer Process, Controller (1999–2003)

Makron Oy, Project Manager, Product Manager, Marketing Services Manager (1995–1999)

Lahden Seurahuone Oy, Sales representative, Sales secretary (1987–1993)

#### Current positions of trust:

SRV Yhtiöt Plc, The Chair of the Auditing Committee of the Board of Directors (2013–)

SRV Group Plc, Board Member, (2012–)

Finnish Federation of Commerce, Tax and Economic Policy Committee, Member (2009–)

### Tytti Bergman

b. 1969

Master of Economics and Business Administration

Executive Vice President, Personnel

In service to the company since 2013

#### Principal employment history:

Microsoft Oy, Executive Vice President, Personnel (2009–2013)

Novartis Oy, Executive Vice President, Personnel (2005–2008)

Elisa Oyj, Vice President, HRD (2001–2005)

ICL Invia Oyj, Competence Manager (1998–2001)

KPMG Mgmt Consulting, Consultant (1996–1998)

Larus-koulutus, Trainer (1993–1996)

### Maritta Iso-Aho

b. 1964

Master of Administrative Sciences eMBA

Executive Vice President, Communication and Social Responsibility

In service to the company since 2008

#### Principal employment history:

Eurest Finland Oy, Chief operating Officer (2007–2008)

Silta Oy, Director of Sales and Marketing (2006–2007)

Fazer Amica Oy, Director of Marketing and Vice Managing Director (2004–2006)

Confederation of Finnish Industries, Economic Policy Officer (2002–2004)

Amica Ravintolat Oy, Administrative Manager, Administrator, Head of Development (1994–2002)

Kulinaari Ravintolat Oy, Administrator (1990–1993)

#### Current positions of trust:

The Finnish Foundation for Alcohol studies, Member of the Board (2013–)

Federation of Finnish Commerce, The CSR-Development group, Member (2013–)

Nordic Morning Plc, Board Member (2012–)

Katri Antell Oy, Board Member (2011–)

State Economic and Human Resources Service Centre, Advisory Board Member (2010–)

A-Clinic Foundation, Board Member (2009–)



## MANAGEMENT TEAM

### Mika-Pekka Miettinen

b. 1964

Master of Economics and Business Administration  
Executive Vice President, Marketing

In service to the company since 1999

#### Principal employment history:

Neste markkinointi Oy,  
Head of Communications  
(1996–1999)

Kesoil Oy, District Manager  
(1991–1996)

#### Current positions of trust:

Hotel and Restaurant  
Museum Foundation, Board  
Member (2007–)

### Kari Pennanen

b. 1964

Master of Social Sciences,  
eMBA

Executive Vice President,  
Customer Services

In service to the company  
since 1989

#### Principal employment history:

Alko Inc., District Manager  
(1997–2003)

Alko Inc., Shop Manager  
(1992–1997)

Alko Inc., Supervisor  
Preparation Trainer  
(1989–1991)

Kesko Oy,  
Marketing Consultant  
(1988–1989)

#### Current positions of trust:

Helsinki Region Chamber  
of Commerce, Member  
of trade and services  
committee (2012–)

### Anton Westermarck

b. 1968

Master of Economics and  
Business Administration

Executive Vice President,  
Finance

In service to the company  
since 2014

#### Principal employment history:

Oy Gustav Paulig Ab,  
Finance Director  
(2012–2014)

Novo Nordisk, Regional  
Finance Director  
(2006–2012)

Novo Nordisk, Controlling  
Manager (2002–2006)

Novo Nordisk, Business  
Development Director  
(2002)

Siemens Building  
Technologies, Finance &  
Admin Manager  
(1999–2002)

France Telecom/Global  
One, Country Controller  
(1995–1999)

ISS Servisystem Oy,  
Finance  
Manager (1993–1995)

ISS Servisystem Oy,  
Financial Assistant  
(1991–1993)

## AUDITOR

### Reino Tikkanen

b. 1954

Head Auditor, KPMG Oy Ab  
APA



PIRTEÄ &  
HEDELMÄINEN



FRISKT &  
FRUKTIGT

VIVAHTEIKAS  
& RYHDIKÄS



NYANSERAT &  
STRUKTURERAT

MEHEVÄ &  
HILLOINEN



MUSTIGT &  
SYLTIGT

VIVAHTEIKAS &  
KEHITTYNYT



NYANSERAT &  
UTVECKLAT