

CORPORATE GOVERNANCE

8.2.2016



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 of 2016-2019 consists of Vesa-Matti Saarakkala (Chairman) and Anna-Maja Henriksson (Vice Chairman) and, as members, Tuula Haatainen, Susanna Huovinen, Antti Kaikkonen, Osmo Kokko, Pauli Kiuru, Ulla Parviainen, Aino-Kaisa Pekonen, Tuomo Puumala, Päivi Räsänen and Sari Sarkomaa. 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 deputy 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 27 April 2015 the Annual General Meeting elected Harri Sailas as a Chairman to Alko's Board of Directors and Kirsi Varhila as Vice Chairman. Sari Aalto-Matturi, Juhani Eskola, Leila Kostiainen, Kuisma Niemelä and Jarmo Väisänen were elected as Members of the Board. Personnel representatives Riina Väntsi, Marko Säkkinen until 14 September 2015 and Mikko Eronen since 15 September 2015, 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. Kirsi Vahila works for the Ministry of Social Affairs and Health and Jarmo Väisänen 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) Anton Westermarck and Executive Vice President (Communication and Social Responsibility) Maritta Iso-Aho as Secretary to the Board (Legal Counsel Jonna Björklund as of 1st of September 2015).

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 Kuisma Niemelä, members Leila Kostiainen and Jarmo Väisänen. Presiding officers Hille Korhonen and Anton Westermarck 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 Personnel Committee consists of Chairman Harri Sailas, members Leila Kostiainen and Jarmo Väisänen. 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 Kirsi Varhila, members Sari Aalto-Matturi, Juhani Eskola and Kuisma Niemelä and by invite 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, Deputy CEO, Executive Vice President, Stores and Facilities Kari Pennanen, Vice President, Online and Supply Chain Paula Kujansivu, Executive Vice President, (Purchases) Minna Alitalo, Executive Vice President (Human Resources) Tytti Bergman, Executive Vice President, Communications Maritta Iso-Aho and Chief Financial Officer Anton Westermarck.

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 2015 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 2015 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 Lasse Holopainen 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. 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

Harri Sailas

b. 1951

Chairman of the board

Master of Economics and
Business Administration

Member of the Board since
2014

Current employment of trust:

Finavia Corporation,
Chairman (2015-)

Finnvera Corporation,
Member of the Board
(2015-)

The Helsinki Deadconess
Institute Foundation,
Member of the Board of
Trustees (2015-)

Kirsi Varhila

b. 1961

Vice Chairman

Master of Political Science

Director General, Ministry of
Social Affairs and Health

Member of the Board since
2014

Current employment of trust:

Huoltovarmuuskeskus,
Member of the Board
(2014-)

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:

SOSTE Finnish Society
for Social and Health, Vice
Chairman (2015-), Member
of the Board (2012-)

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

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

Juhani Eskola

b. 1951

Member of the Board

Doctor of Medicine and
Surgery

Director General,
National Institute for
Health and Welfare

Member of the Board since
2015

Current employment of trust:

International Vaccine
Institute, Member of the
Board (2009-)

BOARD OF DIRECTORS

Leila Kostiainen

b. 1950

Member of the Board

Master of Laws

Member of the Board since 2012

Current employment of trust:

Väinö Tanner Foundation, Member of the Board (2009-)

Lexman Oy, Member of the Board (1995-)

Kuisma Niemelä

b. 1958

Member of the Board

Master of Philosophy, D.Sc (Econ.) h.c.

Member of the Board since 2014

Current employment of trust:

Oriola-KD Oyj, Member of the Board (2014-)

Joutsen Finland Oy, Member of the Board (2014-)

Puls Nutrition Oy, Chairman of the Board (2014-)

Partiosäätiö - Scoutstiftelsen rs, Member of the Board of Trustees (2013-)

Huoltovarmuusneuvosto, Member of the Board (2010-)

Jarmo Väisänen

b. 1951

Member of the Board

Licentiate in Political Science

Senior Financial Counsellor, Prime Minister's Office

Member of the Board since 2014

Current employment of trust:

Finrail Oy, Member of the Board (2015-)

Suomen Erillisverkot Oy, Chairman (2011-)

Gasum Oy, Chairman of the Supervisory Board (2010-)

Personnel representative

Riina Väntsi

b. 1973

Chairman of Alkoholialan Toimihenkilöt ry

Personnel representative

Mikko Eronen

b. 1978

Acting Chairman of the ALV Union

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 (2003-2008)

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

Otokumpu Copper Plc,
Manager, Logistics and
Marketing Development
(1993-1996)

Current positions of trust:

Ilmarinen Mutual Pension
Insurance Company,
Member of the Board
(2015-)

Kauppa liitto, Member of
the board (2014-)

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:

Palpa Lasi Oy, Member of
the Board (2014-), Chairman
of the Board (2015-)

Suomen Palautuspakkaus
Oy, Member of the Board
(2014-)

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

SRV Group Plc, Member of
the Board (2012-)

Tytti Bergman

b. 1969

Master of Economics and
Business Administration

Executive Vice President,
Human Resources

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)

Current positions of trust:

Kiinteistö Oy Arkadiantalo,
Member of the Board
(2015-)

Federation of Finnish
Commerce, Member of the
Labour Market Committee
(2014-)

Maritta Iso-Aho

b. 1964

Master of Administrative
Sciences eMBA

Executive Vice President,
Communications

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:

Federation of Finnish
Commerce, Member of the
Communication committee
(2014-)

Nordig Morning, Member of
the Board (2012-)

Katri Antell Oy, Member of
the Board (2011-)

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

A-Clinic Foundation,
Member of the Board
(2009-)

Paula Kujansivu

b. 1976

Adjunct Professor, D.Sc.
(Tech.), M.Sc.

Vice President, Online and
Supply Chain

In service to the company
since 2012

**Principal employment
history:**

Alko Inc., Project Director,
Digital Service Business
(2015-2016)

Alko Inc., Development
Manager (2012-2015)

Tampere University
of Technology, Senior
Researcher (2008-2012)

Tampere University of
Technology, Researcher
(2001-2008)

Current positions of trust:

Lappeenranta University
of Technology, Adjunct
Professor (2013-)

Kari Pennanen

b. 1964

Master of Social Sciences,
eMBA

Executive Vice President,
Stores and Facilities

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

Chief Financial Officer

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)

Current positions of trust:

Federation of Finnish
Commerce, Member of
the Taxation and Financial
Committee (2014-)

Kiinteistö Oy Arkadiantalo,
Chairman of the Board
(2014-)

Lasse Holopainen

b. 1960

Head Auditor, KPMG Oy Ab
APA



Alko Oy

Salmisaarenaukio 1

PL 33

00181 Helsinki

Phone: 020 711 11

www.alko.fi