



Annual Report 2018



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ALKO'S DIRECTION

1. PRESIDENT AND CEO'S REVIEW

2. ALKO'S MANDATE

3. OPERATING ENVIRONMENT

4. STRATEGY AND OBJECTIVES

5. ALKO IN 2018

PRESIDENT AND CEO'S REVIEW

We updated our strategy during 2018. The new strategy period that started at the beginning of 2019 will take Alko's responsibility and customer experience in an even more ambitious direction.

Alko's operations are tied to its roots, that is, its mandate to serve Finland's welfare society. This is evident in many aspects of our daily work, such as uncompromising sales supervision, responsible pricing, involvement in projects to prevent the harmful effects of alcohol consumption, and a procurement process that guarantees product safety.

We are always looking to the horizon, and are continually thinking about new ways in which we can carry out our mandate in a contemporary manner with an ear to the needs of the modern consumer.

We must combine responsible operations with an excellent customer experience, and our in-store staff's daily work is living proof of this. We updated our strategy during 2018, and the new strategy period that started at the beginning of 2019 will take Alko's responsibility and customer experience in an even more ambitious direction.

Alko customers value our customer service. In 2018, Finns once again voted Alko's customer service as the best in the Finnish retail sector – as they have been doing since 2011. We are developing our multichannel customer experience in many ways, such as in our innovation lab, where we seek new ways of developing Alko's services and operations.

Finns think that we have succeeded in operating responsibly: 59 (60) per cent are of the opinion that Alko and its monopoly are good ways of limiting the harmful effects of alcohol consumption. Our stakeholders also praise us for our responsible operations. The Friends of Temperance presented their annual temperance award to Alko for the release of the mobile version of the game Lydia.

2018 was in many ways a year of change, as the new Alcohol Act gradually came into force in January–March.



“We are continually thinking about new ways in which we can carry out our mandate in a contemporary manner with an ear to the needs of the modern consumer.”

Alko's 2018 sales (in litres) fell on the previous year due to tax increases and amendments to the Alcohol Act. However, this fall was less than expected and we sold a total of 85.3 (93.2) million litres of beverages in 2018. Alko's net sales including alcohol tax totalled EUR 1,153 (1,174) million. Customers' growing interest in higher-value products combined with an increase in alcohol taxation meant that there was only a relatively minor fall in net sales.

During 2018, Alko expanded its service network by opening four new stores. At the end of the year, we provided service through a network of 359 stores and 65 pick-up points. Alko's online store and evolving digital customer experience have made our entire extensive assortment available to all of our customers.

Leena Laitinen

President & CEO

ALKO'S MANDATE

Alko Inc. is a limited company owned by the Finnish State. In Finland, Alko has the sole right to engage in the retail sale of beverages containing more than 5.5 per cent alcohol by volume, with the exception of microbrewery beers and farm wines made from fruits and berries other than grapes. Alko's special mandate is specified in the Alcohol Act: we engage in the retail sale of alcoholic beverages in a manner that accounts for the harmful effects of the products we sell. The Ministry of Social Affairs and Health is responsible for the ownership steering and supervision of Alko pursuant to the special mandate assigned to Alko in law.

The sale of alcohol is about more than individual freedom, as it involves many social and health-related risks for both individuals and society as a whole. Alko does not aim to maximise sales of alcohol, but instead seeks to reduce the harmful effects of alcohol consumption on society, both through concrete action and its very existence.

Also has many ways of preventing the harmful effects of alcohol consumption. Our measures are effective, for both individuals and society at large. Alcohol has a considerable financial impact on society – the National Institute for Health and Welfare (THL) estimates the annual cost at over EUR 2 billion. This figure consists of both indirect costs, such as lost production and working hours, and the direct costs of alcohol consumption, such as costs incurred by security and policing, social welfare, specialised hospital treatment and basic healthcare.

Total alcohol consumption and its harmful effects go hand in hand: the more that is drunk, the greater the harmful effects.

Alko implements projects to promote responsible alcohol consumption in collaboration with a variety of organisations and associations. These projects seek to increase

wellbeing for people living in Finland and combat social exclusion. Alko's focal areas are the harmful effects of alcohol consumption on children and young people and the impact of alcohol on working life. We advocate healthy lifestyles and good life management skills, and encourage people to think about their own drinking habits and how they use alcohol in various situations. Alcohol has become a part of everyday life and it is sometimes difficult to judge whether we are drinking in moderation.

Alko is also uncompromising in its age-limit checks and prices its products responsibly.

STAKEHOLDER'S FEEDBACK IS IMPORTANT FOR ALKO

Alko's social approval is measured using the Opinions on Alcohol Policy survey commissioned by the National Institute for Health and Welfare. Alko's approval rating stood at 59 per cent in 2018 (2017: 60; 2016: 62; 2015: 60%). At Alko, we develop our operations on the basis of feedback from stakeholders. We work with an extensive stakeholder network to prevent the harmful effects of alcohol consumption. The National Institute for Health and Welfare (THL), A-Clinic Foundation, Finnish Association for Substance Abuse Prevention (EHYT), Mannerheim League for Child Welfare, Finnish Parents' League, Finnish Institute of Occupational Health (TKK) and KELA are all involved in cooperation projects with Alko. Our other partners include the Finnish Olympic Committee, Youth Academy and Police.

We engage in proactive discussion with all of our partners on ways to prevent the harmful effects of alcohol consumption, and their effectiveness. With assistance from KPMG, we also commissioned some research in 2018: a materiality assessment of Alko's operations based on stakeholder interviews and a survey, and a study conducted with researcher Jenni Simonen on which responsibility themes and perspectives Alko is expected to focus on in the future. Alko's various customer service channels also actively forward feedback that helps us to further develop our operations. There were growing expectations in all channels for Alko to lead debate on the harmful effects of alcohol consumption. Even though Alko's role seems in some occasions contradictory, stakeholders are increasingly expecting Alko to communicate actively about moderate use of alcohol and its influence on health and well-being.

We advocate healthy lifestyles and good life management skills, and encourage people to think about their own drinking habits and how they use alcohol in various situations.



- 1 Controlling the availability of alcohol with opening hours and the number of stores.
- 2 Cooperation to prevent the harmful effects of alcohol.
- 3 Responsible customer service: sales supervision, purchase ban agreement.
- 4 Communications about alcohol and health.
- 5 Responsible pricing – no discount campaigns. Balanced product displays.
- 6 Non-alcoholic and low alcohol products, small package sizes.
- 7 Support for alcohol research.
- 8 Promoting the culinary arts and drinking culture through multiple channels.

OPERATING ENVIRONMENT

In 2018, Alko updated its strategy to meet changes in its operating environment. Our new strategy period started at the beginning of 2019.

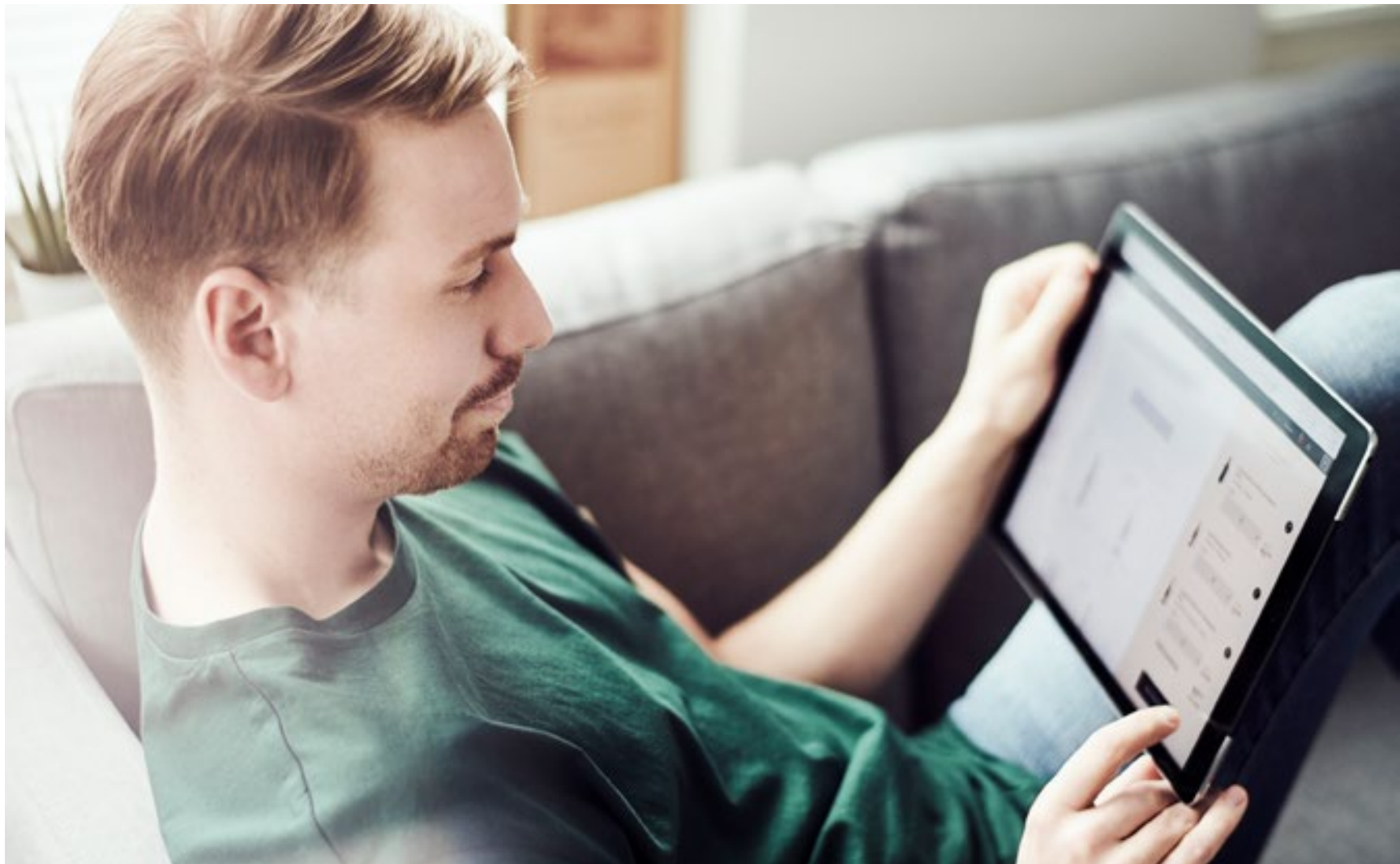
The legislation governing Alko’s operating environment and the retail sale of alcoholic beverages changed during 2018. In December 2017, Parliament decided to amend the Alcohol Act, and the new act came into force gradually between January and March 2018.

The new Alcohol Act brought changes to the percentage volumes of alcohol in beverages that can be sold outside Alko. The restriction on production methods was also removed. An increase in alcohol tax in January 2018 combined with these changes to percentage limits reduced Alko’s sales in litres during 2018.

However, statistics produced by the National Supervisory Authority for Welfare and Health Valvira for 2018 showed that documented alcohol consumption had actually increased again after a long decline. Alcohol sales in Finland had been steadily decreasing since 2007. It is, however, impossible to predict the eventual impacts of the new Alcohol Act, as many of the harmful effects of alcohol consumption only become evident years later.

New increases in alcohol taxation will affect Alko’s operating environment in the immediate future. They will raise taxes by an average of 2.5 per cent at the beginning of 2019. Changes in Estonia’s alcohol policy may also affect travellers’ private imports and Alko’s sales. Trends in the general economy also have an impact on Alko’s outlook for the near future.

Over the long term, Alko’s operations will be affected by digitalisation, consumers’ expectations, and more complex consumer decision processes. However, when it comes to Alko’s sales, it is clear that the health and wellbeing megatrend is con-



Over the long term, Alko’s operations will be affected by digitalisation, consumers’ expectations, and more complex consumer decision processes.

tinuing, and consumers are increasingly interested in non-alcoholic beverages and responsibly produced drinks. Consumers’ tastes are also continuing to diversify, driven by a culture of individuality. Urbanisation and an aging population will continue to drive developments in Finland, and will impact society in many ways.

In order to meet these and many other changes in Alko’s operating environment, we updated our strategy during 2018. Alko’s new strategy period started at the beginning of 2019, and our revised strategy will take Alko’s responsibility and customer experience in an even more ambitious direction.

STRATEGY AND OBJECTIVES

Our Strategy 2019–2021 will take Alko’s responsibility and customer experience in an even more ambitious direction.

Alko’s updated strategy was approved in late 2018. All Alko employees were given the opportunity to participate in our strategy work at an online workshop held during the spring. Our staff suggested a total of 2,277 ideas that were taken into consideration in our strategy. Staff also participated in strategy preparation work groups.

Our strategy will take Alko’s responsibility and customer experience in an even more ambitious direction. Our mission, vision, customer promise and focal areas have been updated accordingly.

THE MOST RESPONSIBLE WAY TO SELL ALCOHOL IN THE WORLD

Over the coming years, Alko’s activities will continue to revolve around responsible operations in line with our mandate. As stated in our strategy, our mission is: *The most responsible way to sell alcohol in the world.*

It is therefore vital for us to pay even more attention to responsibility in all of our operations. Responsibility has become a strong megatrend, and consumers are demanding companies to operate responsibly.

ESTEEMED BY CUSTOMERS

Alko has been part of Finnish society since 1932, and our way of operating has changed over the years. We want to listen even more carefully to our customers and act in a manner that best serves both our customers and Finland’s welfare society.

Alko’s revised strategic vision is operations that are *Esteemed by customers*. We will achieve this via our excellent customer experience and through responsible work that benefits everyone in Finland’s welfare society.

WORLD-CLASS SERVICE

An excellent customer experience lies at the heart of our operations, and this is something we have already achieved: since 2011, our customers have named Alko the best service company in the Finnish retail sector.

Alko wants to provide an even better customer experience during the new strategy period starting in 2019. The customer promise in our revised strategy is *world-class service*. In order to keep this promise, we must make shopping at Alko even easier in all of our service channels and between them.

The focal points of our strategy are *world-class service, responsible enjoyment, success through enthusiasm*, and *agile and efficient*.

LEADING THE WAY IN CUSTOMER EXPERIENCE

Changes in our operating environment raise the bar and spur us on to develop our operations – every day. Our customers expect continual improvements in service, more service channels, and a product assortment that is perfectly suited to them. We want to meet our customers’ and stakeholders’ expectations to the best of our ability.

We are continually working to ensure seamless service between different channels. Our diverse and ever-evolving assortment enables customers to take an arm-chair tour of the world from their own living rooms. Alko’s stores and digital channels constitute a comprehensive service network that provides both excellent and expert service and interesting products from everywhere from Hanko to Nuorgam. We keep our stores in excellent condition.

RESPONSIBLE ENJOYMENT

Alko has now defined seven broader-ranging areas for responsibility: *fair to everyone, high-quality alternatives for customers, championing wellbeing and fighting social exclusion, uncompromisingly responsible service, promoting food and drink culture, making the invisible visible*, and *environmentally friendly choices*. Responsibility is an important value for all Alko staff, and we make sure it is realised in all of our work and decisions.

Our staff suggested a total of 2,277 ideas that were taken into consideration in our strategy.

CHANGES IN OUR OPERATING ENVIRONMENT

- Customers' increasingly diversifying wishes
- Growing regional variations
- Responsibility and wellbeing increasingly important
- Declining environmental sustainability
- New working habits and increased competition in labour markets
- New technologies and ecosystems
- New legislation has changed the market

MISSION
**THE MOST RESPONSIBLE
WAY TO SELL ALCOHOL
IN THE WORLD**

CUSTOMER PROMISE
**WORLD-CLASS
SERVICE**

OBJECTIVES

- World-class service**
Leading the way in customer experience
- Responsible enjoyment**
A pioneer in responsibility
- Success through enthusiasm**
The most wanted employer in service sector
- Agile and efficient**
Has economic impact

VISION
**ESTEEMED BY
CUSTOMERS**



Alko wants to make it easy to make sustainable purchase decisions and increase the wellbeing of people and environment through tangible means.



Alko is uncompromising in age-limit checks.

Alko treats everyone equally and transparently and without discrimination. We want to make it easy for people to make responsible decisions and take concrete action to increase the wellbeing of both human beings and our planet. Alko will stop selling single-use auxiliary products by 2020. In the next few years, customers will be able to trace a product’s journey from ‘field-to-flagon’. This will enable us to support customers who want to make purchase decisions that are in the best interests of not only the environment but also the people and communities involved in primary production.

The sale of alcohol is about more than individual freedom, as it involves many social and health-related risks for both individuals and society as a whole. Alko does not aim to sell as much alcohol as possible. We are also uncompromising in our age-limit checks and price our products responsibly. Alko implements projects to promote responsible alcohol consumption in collaboration with a variety of organisations and associations. These projects seek to increase wellbeing for people living in Finland and combat social exclusion.

SUCCESS THROUGH ENTHUSIASM

Our staff play a key role in creating our customer experience. Skilled and motivated personnel provide responsible, world-class service through all channels.

We involve our staff in our developmental activities in a number of ways. We are further developing new channels that will enable personnel to better express their own development ideas. Our communications are based on transparency, and we always keep our staff informed about things that are important to them and the company.

We engage in long-term efforts to improve the competence of Alko staff and our investments in competence will continue. Our expanding multiple-store approach to work will enable staff to develop their own competence and provide the best possible customer service. Standardised yet flexible working methods create the foundations for success. The key factors in Alko’s culture are personal competence development, sharing competence with colleagues, and leadership and supervisory work that support success.

Alko wants to have a modern and diverse workplace community in which all employees have the chance to succeed. We value our staff’s diversity and versatile competence. We want to be pioneers in development, which is why we are experimenting with bold new working methods and tools.

AGILE AND EFFICIENT

At Alko, we continually improve and develop our operations. Operational efficiency is important, and Alko’s efficiency is assessed in collaboration with external experts. We work agilely and conduct experiments. Alko’s profits benefit everyone who lives in Finland. We want our profit distribution to have the support of Finns.

STRATEGIC OBJECTIVES

Focal area	Objective	Indicators
World-class service	Leading the way in customer experience	National customer service feedback survey, (Taloustutkimus Oy) Online store praise index Assortment satisfaction (Dagmar Oy)
Responsible enjoyment	A pioneer in responsibility	Confidence and Reputation survey (T-Media Oy) Team-specific responsibility targets
Success through enthusiasm	The most desirable employer in the service sector	Most Attractive Employer survey (Universum) Pulse index
Agile and efficient	Has economic impact	Costs/net sales Customer/person-work-day External agility measurement

Skilled and motivated people provide responsible, world-class service through all channels.

A TABLE OF 2018 OBJECTIVES AND ACCOMPLISHMENTS

Strategic objective	Accomplishments 2018
Best customer experience – Expert, personal service	<ul style="list-style-type: none">• National customer service feedback survey (Taloustutkimus Oy): number one in the retail trade for the eighth year running• Four new stores were opened and 41 were overhauled in line with the new concept.• We received 85,000 contacts from customers who contributed to developing service, the assortment and stores in order to provide even better service.
Best work – Expertise and flexibility lead to the best work	<ul style="list-style-type: none">• Pulse and Personnel Motivation Index was slightly lower than last year, but still at a good level 3.99.• All in all, we provided 4.2 days of training to Alko staff members on average, which represents a major outlay on personnel development.• Each Alko employee shared their product expertise with their colleagues by making at least 20 tasting notes in the Taste Deposit app during 2018.
Proactive player in the community – A pioneer in responsibility	<ul style="list-style-type: none">• 95 per cent of young people had their age checked during Mystery Shopper test visits to Alko stores (TNS Kantar Oy). Over 4.6 million age-limit checks were performed in stores.• Two programmes – In the Company of Children and Clearly Good Work – challenged people to consider their own alcohol use in a variety of situations.• The mobile game Lydia was recognised at the 2018 Temperance Awards. Its theme is alcohol use by adults from a child’s perspective.• Green Choices now encompasses six different details about the environmental responsibility of beverage production methods and conditions: vegan, natural wine, certificate of local sustainable development, lightweight glass bottle, organic, and biodynamic. At the end of the year, 15 per cent of the products in Alko’s selection (about 16 per cent) listed one or more of these environmental details.
Efficient company – Effective chain management and processes to support our customer experience	<ul style="list-style-type: none">• We have retained our cost-effectiveness and ability to pay dividends in spite of the amendments to the Alcohol Act.• Delivery promise in our online store was 99 per cent.• We have an extensive store network, and three quarters of Finns live within four kilometres of Alko’s services.



ALKO IN 2018

Alko updated its strategy during 2018, and the new strategy will guide work at Alko from 2019 onwards.

ALKO IN FIGURES

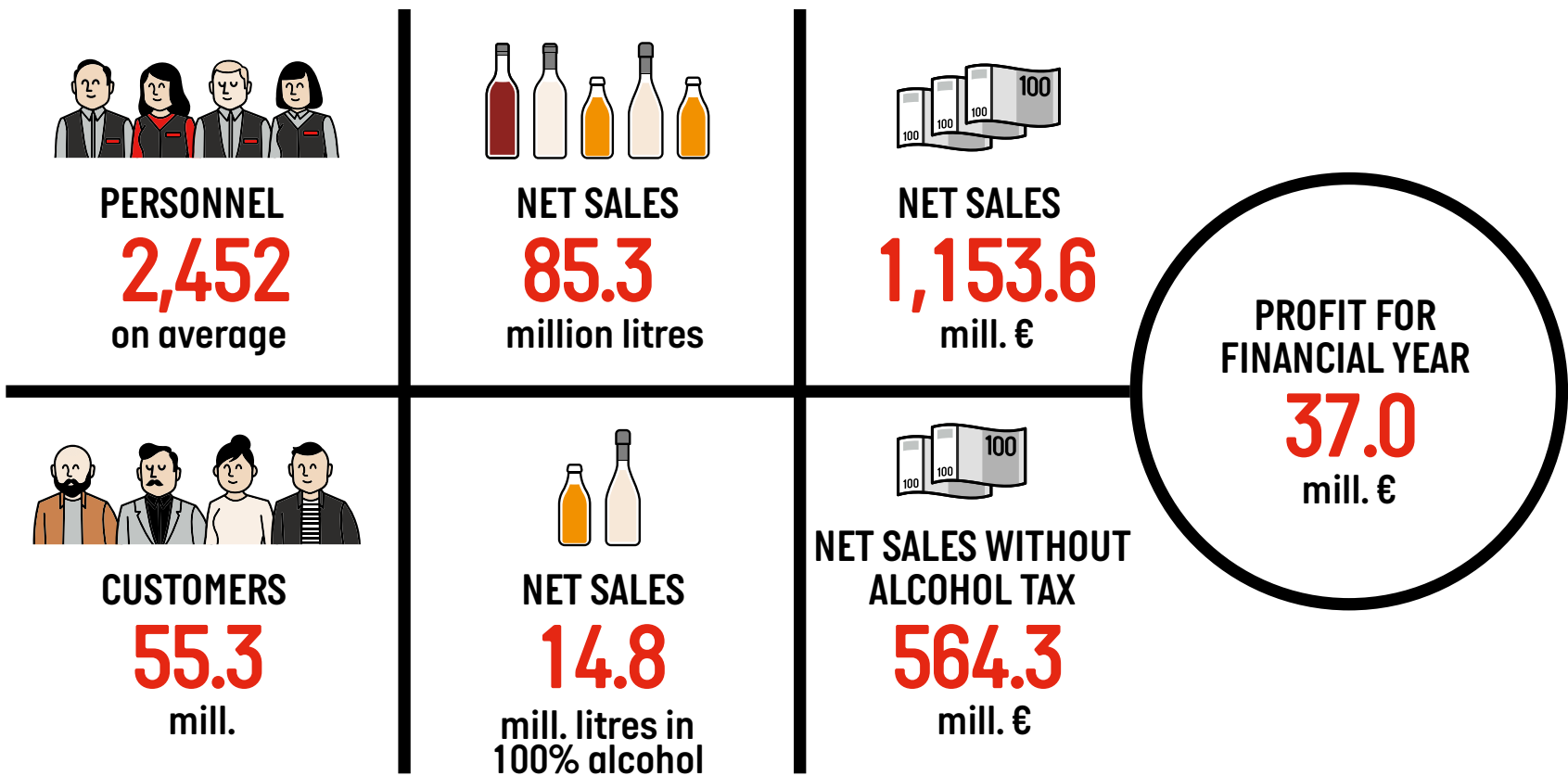
About 2,452 Alko staff provide in-store customer service. Our product portfolio includes beverages from about 76 countries. Alko’s head office is in Helsinki and we have four regional offices around Finland. Alko had 359 stores at the end of 2018. Four new stores were opened in 2018: Ratina (Tampere), Otaniemi (Espoo) and Kalasatama and Laajasalo (Helsinki). No stores were closed.

- 2,452 employees (on average)
- 359 stores and 65 order pick-up points
- 9,578 alcoholic beverages
- 604 drinks suppliers
- 55.3 million customer visits
- Net sales: EUR 1,153.6 million
- Operating profit: EUR 46,0 million
- Equity ratio: 34.8%
- Wholly owned by the Finnish State
- Established: 1932
- President & CEO: Leena Laitinen
- Head office: Helsinki

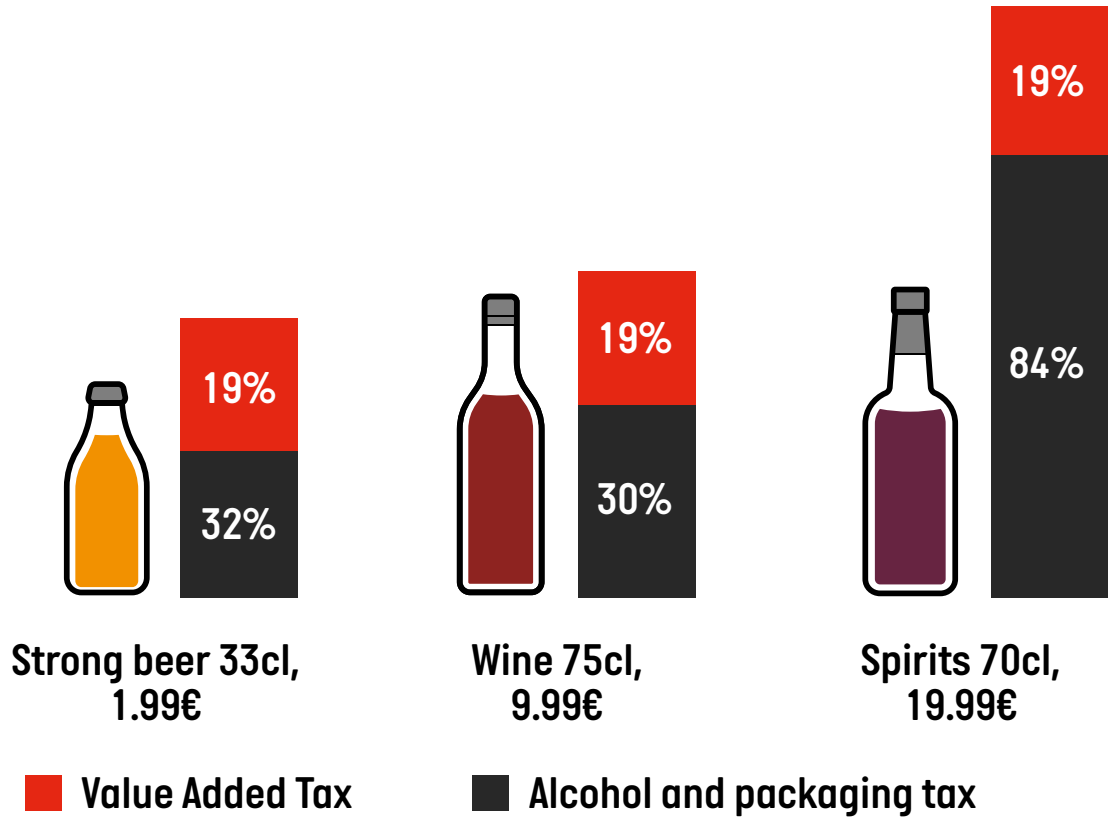


Our customers expect continual improvements in service, more service channels, and a product assortment perfectly suited to them.

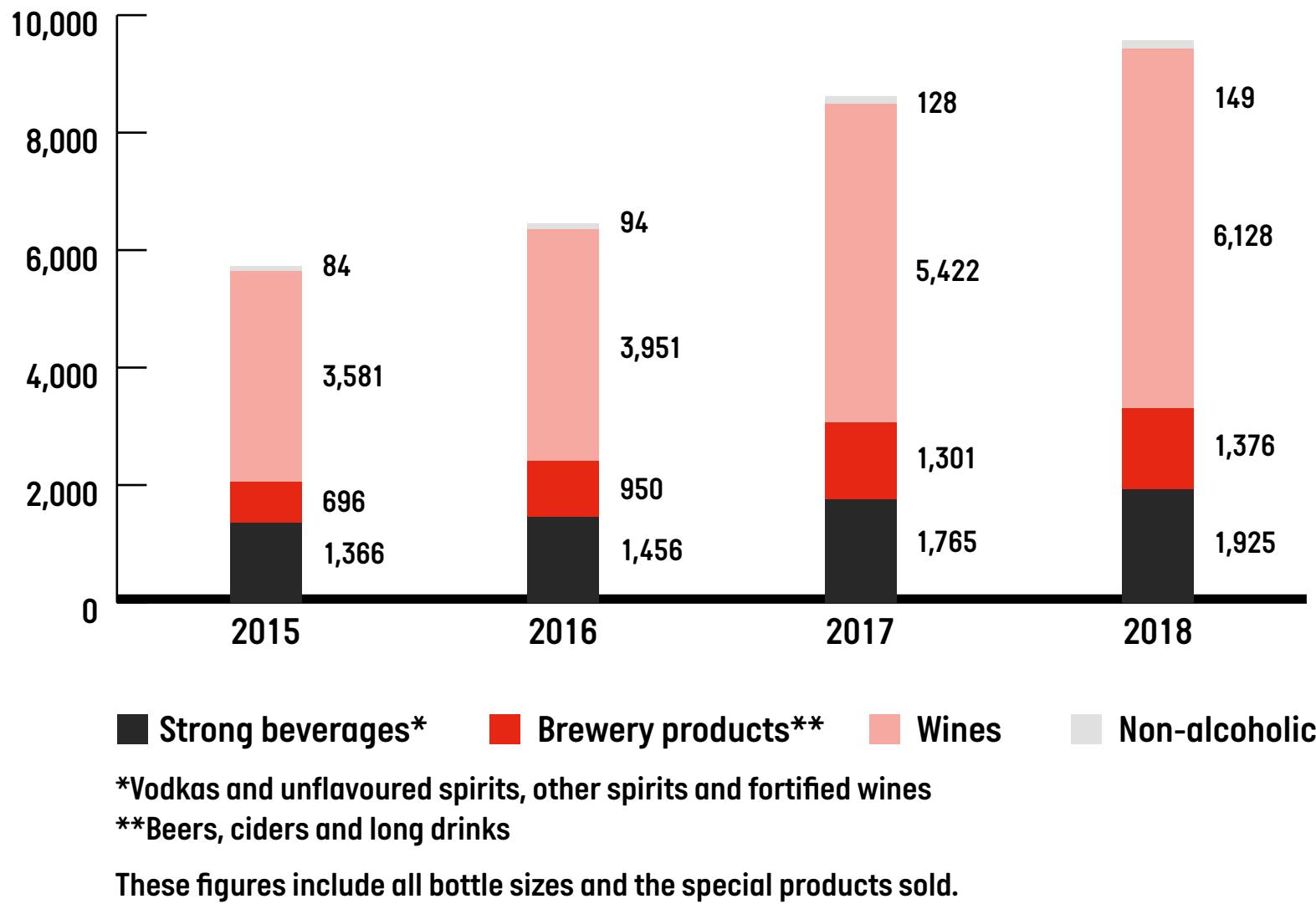
KEY FIGURES 2018



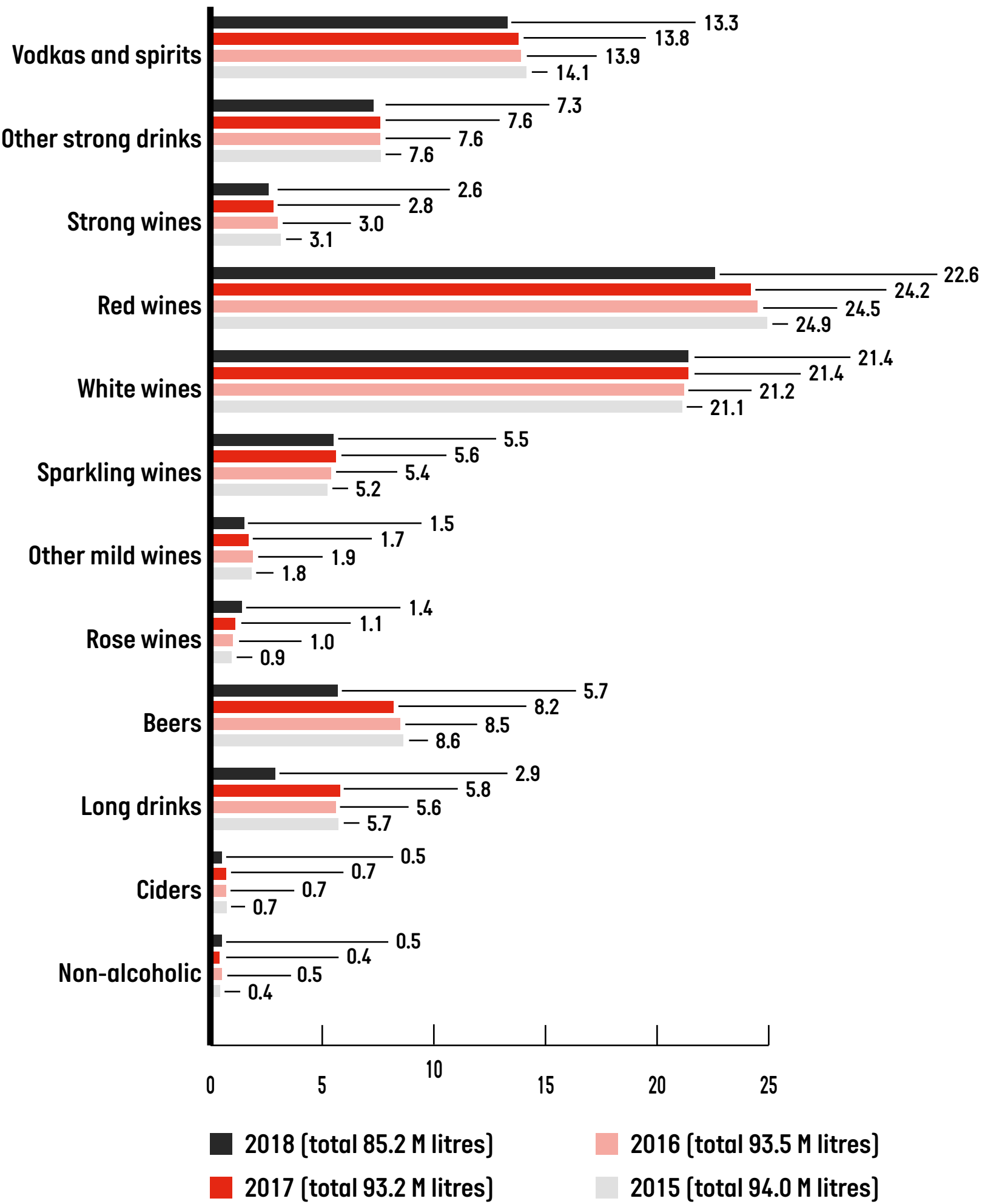
AMOUNT OF TAX IN VARIOUS PRODUCTS



SOLD PRODUCTS BY PRODUCT GROUP



ALKO SALES BY PRODUCT CATEGORY, M litres



CORPORATE GOVERNANCE

1. CORPORATE GOVERNANCE

2. BOARD OF DIRECTORS AND
COMMITTEES

3. MANAGEMENT TEAM

4. SALARY AND REMUNERATION
REPORT 2018

5. RISK MANAGEMENT

CORPORATE GOVERNANCE

Alko Inc. is a limited company owned by the Finnish State. Alko Inc.'s business activities are based on the Alcohol Act (1102/2017), the Government Decree on Implementation of the Alcohol Act (151/2018), the Decree of the Ministry of Social Affairs and Health on Enforcement of the Alcohol Act (158/2018), the Companies Act (624/2006), and Alko Inc.'s Articles of Association.

ALKO INC.'S CORPORATE GOVERNANCE

According to the Alcohol Act, Alko Inc.'s task is to undertake, with certain exceptions, the retail trade of alcoholic beverages prescribed exclusively for it, while aiming to reduce the adverse effects of alcohol consumption on those who consume it, other people and society as a whole. 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.

A [Corporate Governance](#) Statement has been published in Finnish on Alko's website and is updated on an annual basis.

BUSINESS PRACTICES

Openness and transparency are the basis for all of Alko's operations. Our [business practices](#), published in Finnish, guide each and every Alko employee in accordance with the current values and principles for responsible operations that have been approved by Alko's management. They cover the entire company, from store level right up to senior management, and everyone must comply with and promote these business practices.

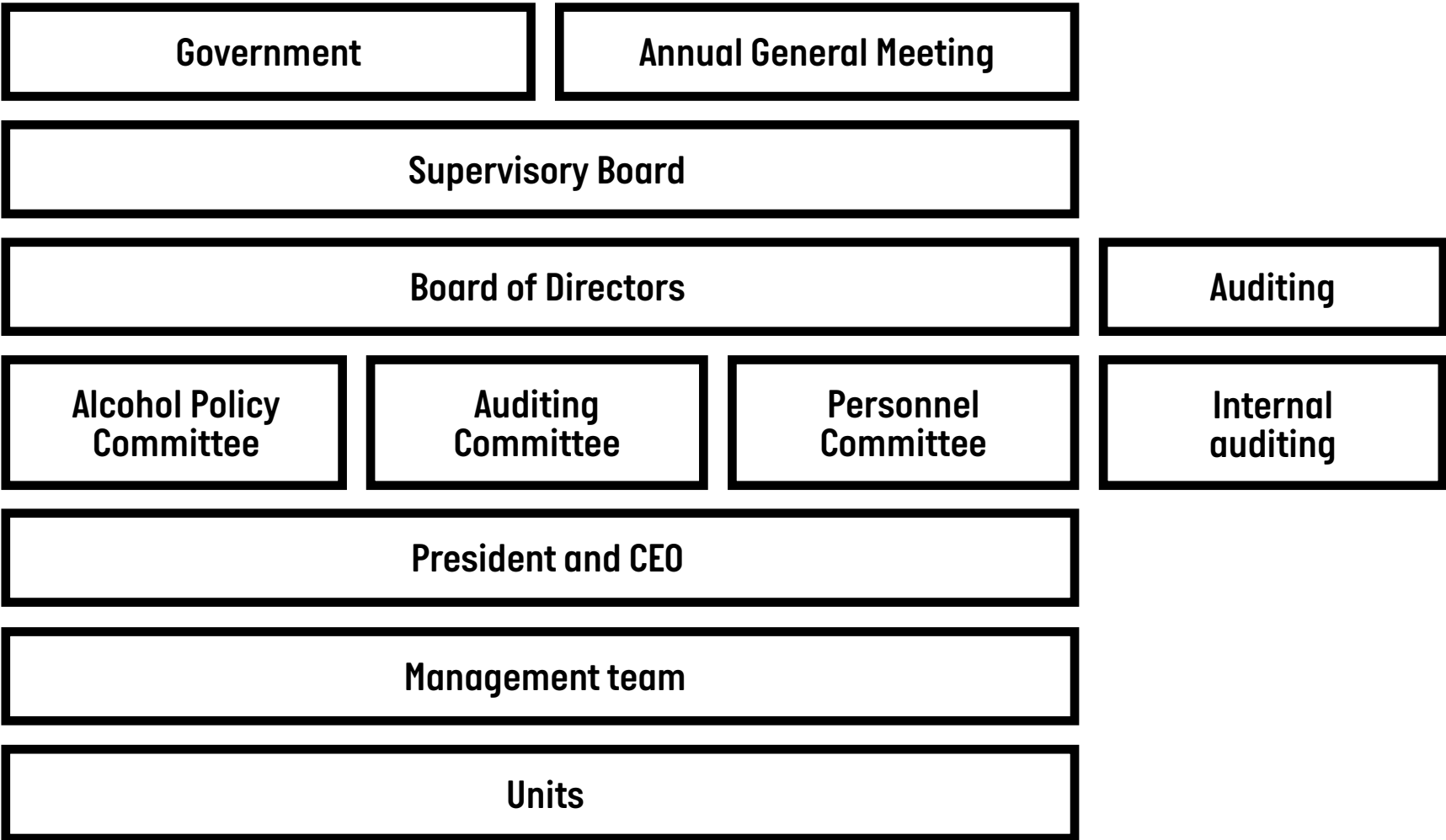
Alko's business practices are laid down in the legislation covering the company's operations, and are based in the company's values and operating methods.

All personnel receive training in Alko's business practices. We are not currently monitoring the training outcomes. Alko's business practices are included in the company's induction programme. Any changes to this programme are approved by the Board of Directors.

In accordance with our business practices, Alko personnel may not accept or give any direct or indirect gifts or benefits that could be considered as bribery or corruption. Alko requires every employee to comply with and promote its business practices. Personnel should report any instances of non-compliance to their own supervisor, the supervisor's immediate supervisor, or the internal audit function. The company does not have a separate system for reporting non-compliance.

During 2018, there were no corruption-related legal cases in which Alko was the defendant.

ORGANISATION



AGM AND SUPERVISORY BOARD

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 decides, in accordance with the Companies Act, on such matters as adoption of the financial statements, profit distribution, exemption from liability, the fees of members of the Supervisory Board, the election and fees of members of the Board of Directors, the election and fees of the auditors, and on whether to amend the Articles of Association. According to the Government Resolution on State Ownership Policy given on 13 May 2016, state-owned companies must report the achievement of significant social responsibility objectives to the Annual General Meeting, and must also describe their remuneration policy and justify any performance-related incentives that have been paid.

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

Supervisory Board

Alko's Supervisory Board consists of 12 members, which the Government appoints for four calendar years at a time. The Government also appoints the Chair and the Vice-Chair. The Supervisory Board's tasks are defined in the Alcohol Act and Alko's Articles of Association.

The Supervisory Board's tasks are:

- to ensure that the company's affairs and administration are handled according to sound business principles, with an eye to profitability, and to ensure compliance with legislation, the provisions of the Articles of Association, the decisions of the Annual General Meeting and other approved instructions,
- 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, to issue general guidelines on how to develop the alcohol company's operations,

- to ratify an action plan to reduce the harmful effects of alcohol (as specified in Section 1 of the Alcohol Act), and to issue a report on the company's retail sales (as specified in Section 24 of the Alcohol Act) and the measures taken to reduce the harmful effects referred to in the aforementioned Section 1, 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 (Chair), Anna-Maja Henriksson (Vice-Chair) and, as members, Tuula Haatainen, Susanna Huovinen, Antti Kaikkonen, Pauli Kiuru, Osmo Kokko, Ulla Parviainen, Aino-Kaisa Pekonen, Tuomo Puumala, Päivi Räsänen and Sari Sarkomaa. The Supervisory Board granted MP Tuomo Puumala permission to resign from his Supervisory Board duties as of 1 July 2017 and appointed MP Pekka Puska in his place. The Supervisory Board also granted MP Antti Kaikkonen permission to resign from his Supervisory Board duties as of 16 October 2017 and appointed MP Juha Rehula in his place for the remainder of the Board's term of office. Director Kari Paaso was the Ministry of Social Affairs and Health's representative on the Supervisory Board until the end of 2018. Representation of the Ministry of Social Affairs and Health on the Supervisory Board is decreed by Section 24 of the Alcohol Act. The Supervisory Board meets approximately five times a year.

BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors' task is to manage the company and its operations in an appropriate manner in accordance with legislation and the company's Articles of Association, the decisions of the Annual General Meeting, and the instructions issued by the Supervisory Board.

BOARD OF DIRECTORS

The Annual General Meeting elects the Chair and Vice-Chair of the Board plus a minimum of three and a maximum of six members. The composition of the Board takes the requirements placed on the company's activities into account. Some of its elected members work in leadership or managerial positions in sectors such as alcohol policy, wellbeing at work, and social and healthcare policy.

Prospective Board members must have the required competence, sufficient and diverse expertise, and complementary experience and knowledge of the sector. In accordance with its mandate, Alko cooperates with a variety of organisations to prevent the harmful effects of alcohol consumption. These organisations primarily come from the same sectors as those represented by Alko's Board members.

Both genders are represented on the Board. The term of office for Board members lasts from their election until the end of the following Annual General Meeting. Two personnel representatives take part in the meetings. The Board of Directors is convened at the invitation of the Chair or Vice-Chair of the Board.

The principles adhered to by the Board of Directors in their work are contained in the Board's 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 Alko's Articles of Association
- to direct and oversee the company in accordance with alcohol-related statutes
- to strengthen the company's strategy

- to approve the annual action plan and budget and to oversee their implementation
- to approve significant investments and the acquisition and sale of real-estate shares
- to strengthen the principles of internal monitoring and supervise their implementation and adequacy
- to strengthen risk management principles
- to strengthen the internal audit directive and the annual plan
- to supervise the independence and work of the auditors
- to prepare a proposal on the election of the auditors for the Annual General Meeting
- to consider and approve the interim reports, annual report and financial statements
- to decide on the company's organisational structure and management system
- to appoint the President & CEO, Deputy CEO and other members of the Management Team, and to relieve them of their duties
- to decide on the salaries and other benefits of the President & CEO and other members of the Management Team
- to approve an incentive scheme for management and personnel
- to decide on strategic HR policies as part of the company's overall strategy
- to consider the results of the company's personnel surveys
- to approve the company's corporate governance and rules of procedure for the Board of Directors and its committees, and to review their contents annually
- to consider reports from Board committees
- to consider matters presented by Board members or the President & CEO
- to address issues related to regulatory control.

On 26 April 2018, the Annual General Meeting elected Harri Sailas as Chair of Alko's Board of Directors and Kirsi Varhila as Vice-Chair. Juhani Eskola, Kuisma Niemelä, Kirsi Paakkari, Pekka Perttula and Ulrika Romantschuk were elected as Members of the Board. The previous Board consisted of Harri Sailas (Chair), Kirsi Varhila (Vice Chair), Juhani Eskola, Kristiina Hannula, Kuisma Niemelä,

Jarmo Väisänen and Ulrika Romantschuk. Personnel representatives Riina Väntsi, Mikko Eronen (until 25 November 2018) and Sini Heikkinen (as of 25 November 2018) attended the Board of Directors' meetings without the right to vote. More detailed information about Alko's Board members is given at the end of this report.

The Board convened nine times during the year. The members of the Board of Directors are independent of the company, and the majority are independent of the company's owner. Juhani Eskola is the Director General of the National Institute for Health and Welfare and Kirsi Varhila works for the Ministry of Social Affairs and Health. Of the previous Board members, Kristiina Hannula works for the Ministry of Social Affairs and Health and Jarmo Väisänen for the Ownership Steering Department of the Prime Minister's Office. President & CEO Leena Laitinen attends Board meetings, along with the Executive Vice President, Finance (Anton Westermarck) and Legal Counsel (Jonna Björklund) as Secretary.

COMMITTEES OF THE BOARD OF DIRECTORS

Alko Inc.'s Board of Directors has three committees: the Auditing, Personnel and Alcohol Policy Committees. The Board appointed the current chairs and members of these committees at its meeting on 14 May 2018. The Board has established rules of procedure for each committee, and these include its key tasks and principles.

AUDITING COMMITTEE

The Auditing Committee assists the Board of Directors in managing the supervision tasks assigned to it.

The Auditing Committee's tasks are as follows:

- to oversee the financial reporting process
- to evaluate the adequacy and effectiveness of internal control and risk management
- to supervise internal auditing
- to process and evaluate auditing and auditor-related matters
- to ensure compliance with legislation, regulations and other provisions.
- to prepare a proposal on the choice of auditor for the Annual General Meeting
- to evaluate the independence of the auditor and the scope and quality of the audit
- to evaluate accounting principles and bookkeeping practices.

The committee consists of a minimum of three and a maximum five members of the Board of Directors. The committee's Chair must have adequate knowledge of accounting practices. The President & CEO and Executive Vice President, Finance are the committee's presiding officers, with the Auditing Director as secretary. The Auditing Committee meets five or six times a year.

The Auditing Committee consists of Kuisma Niemelä (Chair), Kirsi Paakkari and Ulrika Romantschuk. Its Presiding Officers are Leena Laitinen (President & CEO) and Anton Westermarck (Executive Vice President, Finance), and its Secretary is Sirkku Karjalainen (Auditing Manager).

PERSONNEL COMMITTEE

The Personnel Committee assists the Board of Directors in supervising and preparing the company's personnel policies and practices, and in organisational development. It also assists the Board in all tasks related to remuneration schemes and employment relationships. The committee consists of at least three members of the Board of Directors. Its presiding officer is the company's President & CEO, and its secretary the Executive Vice President, Personnel. The Personnel Committee meets five or six times a year.

The Personnel Committee consists of Harri Sailas (Chair), Kuisma Niemelä and Kirsi Varhila. Its Presiding Officer is Leena Laitinen (President & CEO) and its Secretary is Merja Rissanen (Executive Vice President, Personnel).

THE ALCOHOL POLICY COMMITTEE

The Alcohol Policy Committee assists and supports 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 to attain the company's other strategic targets for responsibility. The committee consists of three or four members of the Board of Directors. Experts from the Ministry of Social Affairs and Health also attend committee meetings when necessary. The committee's presiding officer is the company's President & CEO, and its secretary is the Executive Vice President, Communication. The Alcohol Policy Committee meets approximately four times a year.

The Alcohol Policy Committee consists of Juhani Eskola (Chair), Pekka Perttula and Ulrika Romantschuk. Ismo Tuominen (Ministry of Social Affairs and Health) attends by invitation as an expert. Leena Laitinen (President & CEO) is the Committee's Presiding Officer and Maritta Iso-Aho (Executive Vice President, Communications) is its Secretary.

MEMBERS OF THE BOARD OF DIRECTORS



Harri Sailas

b. 1951
Chair of the Board
Master of Economics and Business Administration
Member of the Board since 2014 (19 December 2014–)

Positions of trust:
Finavia Corporation, Chair of the Board (22 December 2015–)
Solidium Oy, Chair of the Board (1 August 2016–)
The Helsinki Deaconess Institute Foundation, Member of the Board of Trustees (2015–)
HSE Foundation, Vice-Chair of the Board of Trustees (2014–)



Kirsi Varhila

b. 1961
Vice-Chair of the Board
Master of Political Science
Director General, Ministry of Social Affairs and Health
Member of the Board since 2014

Positions of trust:
National Emergency Supply Agency, Board Member (2014–)
State Housing Fund (ARA), Member of the Board (2018–)



Juhani Eskola

b. 1951
Member of the Board
Doctor of Medicine and Surgery
Director General, National Institute for Health and Welfare (until 31 December 2018)
Member of the Board since 2015



Kuisma Niemelä

b. 1958
Member of the Board
Master of Philosophy, D.Sc (Econ.) h.c.
Member of the Board since 2014

Positions of trust:
Joutsen Finland Oy, Board Member (2014–)
Puls Nutrition Oy, Chair of the Board (2014)
Oy Checkmark Ab, Member of the Board (2017–)
Partiosäätiö-Scoutstiftelsen rs, Member of the Board of Trustees (2013–)
Ruokaboksi Oy, Chair of the Board (2018–)



Kirsi Paakkari

b. 1963
Member of the Board
Master of Economics and Business Administration
GBT Finland Oy, Managing Director until 31 Jan 2019, Kalevala Koru Oy, Managing Director as of 1 Feb 2019
Member of the Board since 2018

Positions of trust:
Association of Finnish Travel Agents (AFTA), travel agency group member (2013–31 January 2019)
Confederation of Finnish Industries, Representative Assembly, personal deputy member (appointed by Palta, 2017–2018)

MEMBERS OF THE BOARD OF DIRECTORS



Pekka Perttula

b. 1960
Member of the Board
Member of the Board since 2018
Doctor of Political Science

Positions of trust:

Association for Rural Culture and Education,
Chair (2016–)



Ulrika Romantschuk

b. 1966
Member of the Board
Bachelor of Political Science
Fazer Group, Executive Vice President,
Communications & Branding
Member of the Board since 2017

Positions of trust:

Delegation for Swedish Affairs at the
University of Helsinki, Member (2013–),
Chair (2016–)
Association for Finnish Work, Vice-Chair of
the Board of Governors (2014–)
WWF Finland, Member of the Supervisory
Board (2016–)
Natural Resources Institute Finland,
Member of the Management Board (2018–)



Sini Heikkinen

b. 1974
Personnel representative
(as of 25 November 2018)
Chief occupational safety delegate
Chair of the ALV Union
(as of 25 November 2018)

Positions of trust:

Service Union PAM, Member of the Board
Central Organisation of Finnish
Trade Unions (SAK), Member of the
Representative Assembly



Mikko Eronen

b. 1978
Personnel representative
(until 25 November 2018)
Chair of the ALV Union
(until 25 November 2018)



Riina Väntsi

b. 1973
Personnel representative
Service Manager
Chair of Alkoholialan Toimihenkilöt ry

MANAGEMENT TEAM

The Management Team assists the President & CEO in leading the company and achieving its strategic and operational objectives.

Alko's Board of Directors appoints the President & CEO, the President & CEO's deputies, and the other members of the Management Team. The Management Team assists the President & CEO in leading the company and achieving its strategic and operational objectives. The Team also prepares the company's strategy, action plan and budget, and any other matters that need to be presented to the Board of Directors. Its task is to oversee financial performance, business operations, and the implementation of operative decisions.

In 2018, the Management Team consisted of Leena Laitinen (President & CEO), Kari Pennanen (Deputy CEO and Executive Vice President, Stores and Facilities), Minna Alitalo (Executive Vice President, Purchases), Tytti Bergman (Executive Vice President, Personnel) until 15 April 2018, Maritta Iso-Aho (Executive Vice President, Communication), Paula Kujansivu (Vice President, Online and Supply Chain), Litmanen (Vice President, Customer Experience) until 6 April 2018), Merja Rissanen (Executive Vice President, Personnel) as of 11 June 2018, and Anton Westermarck (Executive Vice President, Finance). The Management Team meets regularly, on average twice a month. More detailed information about Management Team members is given at the end of this report.

All the members of the company's Management Team and other key persons have fully declared their commitments. On the basis of these declarations, all members of the Management Team and the named key personnel are independent of the company's stakeholders.

PRESIDENT & CEO

It is the task of the President & CEO to manage the company's business operations in accordance with legislation, the company's Articles of Association, and the instructions issued by the Board of Directors. The CEO also ensures that decisions taken by the Annual General Meeting, Supervisory Board, and Board of Directors are carried out. The President & CEO has one deputy.

The terms and conditions of the President & CEO's service are specified in a written service contract approved by the Board of Directors.

The CEO's pension benefits are determined in line with the Employees Pensions Act (TyEL). The period of notice for termination of the President & CEO's service contract is six months.

MANAGEMENT TEAM MEMBERS



Leena Laitinen
b. 1970
Master of Economics and Business Administration
President and CEO
Joined Alko on 1 October 2017



Minna Alitalo
b. 1962
Master of Economics and Business Administration
Executive Vice President, Purchases
Joined Alko in 2009



Maritta Iso-Aho
b. 1964
Master of Administrative Sciences, eMBA
Executive Vice President, Communications
Joined Alko in 2008



Paula Kujansivu
b. 1976
Adjunct Professor, D.Sc. (Tech.), M.Sc.
Vice President, Online and Supply Chain
Joined Alko in 2012

MANAGEMENT TEAM MEMBERS



Kari Pennanen

b. 1964
Master of Social Sciences, eMBA, Certified
Real Estate Manager
Executive Vice President, Stores and
Facilities
Joined Alko in 1989



Merja Rissanen

b. 1967
Master of Economics and Business
Administration
Executive Vice President, Human Resources
Joined Alko in 2018



Anton Westermarck

b. 1968
Master of Economics and Business
Administration
Executive Vice President, Finance
Joined Alko in 2014

SALARY AND REMUNERATION REPORT 2018

Salary and remuneration report indicates fees and salaries paid to supervisory board and management team, and briefly describes the personnel incentive scheme.

In accordance with the decision made at the Annual General Meeting on 26 April 2018, fees for meeting attendance will be paid to members present at Supervisory Board meetings as follows:

- Chair of the Supervisory Board EUR 1,000
- Vice-Chair of the Supervisory Board EUR 800
- Member of the Supervisory Board EUR 700

In 2018, the Supervisory Board convened five times and its members were in attendance as follows:

Member of the Supervisory Board	Attendance at meetings, %	Fees, EUR
Vesa-Matti Saarakkala, Chair	100	5,000
Anna-Maja Henriksson, Vice-Chair	100	4,000
Tuula Haatainen, member	60	2,100
Susanna Huovinen, member	80	2,800
Pauli Kiuru, member	100	3,500
Osmo Kokko, member	40	1,400
Ulla Parviainen, member	80	2,800
Aino-Kaisa Pekonen, member	80	2,800
Pekka Puska, member	100	3,500
Juha Rehula, member	80	2,800
Päivi Räsänen, member	100	3,500
Sari Sarkomaa, member	100	3,500
Total	85	37,700

Fees are reported in accordance with the number of meetings held during the year.

The Annual General Meeting decided on the following fees for the Board of Directors in 2018:

- Chair of the Board EUR 2,750 per month
- Vice-Chair of the Board EUR 1,300 per month
- Member of the Board EUR 1,100 per month
- plus meeting attendance fees of EUR 600.

The Board of Directors convened nine times, one of which was an email meeting (12 April) concerning the appointment of the new Executive Vice President, Human Resources, for which no meeting fee was paid by decision of the Chair. The attendance rate at meetings of the Board of Directors was as follows:

Member of the Board *	Attendance at Board meetings, %	Monthly fees, EUR	Board meeting fees, EUR	Committee meeting fees, EUR	Fees in total, EUR
Harri Sailas, Chair	100	33,000	4,800	3,600	41,400
Kirsi Varhila, Vice-Chair	100	15,600	4,800	3,600	24,000
Juhani Eskola, member	100	13,200	4,800	3,000	21,000
Kristiina Hannula, member until 26 April 2018	100	4,400	1,200	600	6,200
Kuisma Niemelä	100	13,200	4,800	7,200	25,200
Kirsi Paakkari, member as from 26 April 2018	100	8,800	3,600	2,400	14,800
Pekka Perttula, member as from 26 April 2018	100	8,800	3,600	1,800	14,200
Ulrika Romantschuk, member	100	13,200	4,800	6,600	24,600
Jarmo Väisänen, member until 26 April 2018i	100	4,400	1,200	1,800	7,400
Total	100	114,600	33,600	30,600	178,800

*The composition of the Board of Directors changed at the Annual General Meeting of 26 April 2018.

Fees are reported in accordance with the number of meetings held during the year. The participation rate at meetings of committees appointed by the Board was 96 per cent.

MANAGEMENT AND PERSONNEL INCENTIVE SCHEME

All Alko Oy personnel and management are covered by incentive schemes. Incentive schemes spur Alko employees to act in line with the strategic objectives, thereby supporting their realisation. In 2018 the strategic objectives guiding the incentive scheme were the best customer experience, best work, active player in society, and an efficient company. Since the beginning of 2019, our strategic objectives include *world-class service, responsible enjoyment, succes through enthusiasm*, and *agile and efficient company*. On the basis of a proposal by the Personnel Committee, the Board makes an annual decision on the performance targets and principles to be applied to incentives for personnel and management. The Board approves the annual remuneration paid.

The strategic incentive scheme for personnel seeks to encourage all employees to achieve Alko's strategic objectives (best customer experience, proactive player in the community, best work and efficient company). It is based on both company-wide and regional incentives that reward staff for achieving shared targets. Incentives for staff working at our head office are also partially based on achieving personal and unit objectives. Incentives for 2018 totalled a maximum of 6–16 per cent of annual salary, depending on the recipient's job description.

Management's strategic incentive scheme is based on selected objectives from the company's strategy (best customer experience, proactive player in the community, best work and efficiency) and indicators for monitoring their attainment. Incentives for 2018 totalled a maximum of 60 per cent of annual salary.

REMUNERATION FOR THE PRESIDENT AND CEO AND THE MANAGEMENT TEAM

The Board of Directors decides on remuneration for the President & CEO and Management Team on the basis of a proposal from the Personnel Committee. Management's remuneration complies with the decision in principle on State ownership that was issued by the Ministerial Committee on Economic Policy on 13 May 2016.

	Retirement age	Pension benefits	Period of notice
President and CEO	Retirement age in line with earnings-related pension scheme legislation (TyEL)	Pension in line with earnings-related pension scheme legislation (TyEL)	By the President and CEO 6 months, and by the company 6 months
Other members of the Management Team	One member 61 years	66% of pension	By Management Team Member 3 months and by the company 4–6 months
	Two members: Retirement age in line with earnings-related pension scheme legislation (TyEL)	TyEL insurance and additional pension based on 10% of annual salary	
	Three members: Retirement age in line with earnings-related pension scheme legislation (TyEL)	Pension in line with earnings-related pension scheme legislation (TyEL)	

ANNUAL PAYMENTS OF ADDITIONAL PENSIONS

	2018, EUR*	2017, EUR*
President and CEO	-	-
Other members of the Management Team	92,962	90,846
Total	92,962	90,846

*Does not include potential refunds

	Total salary, EUR		Short-term incentive, paid annually, EUR		Benefits in kind		Total, EUR
	2018	2017	2018	2017	2018	2017	2018
President and CEO	336,373	83,076	0	-	14,686	3,015	351,060
Other members of the Management Team	1,069,581	1,176,446	295,426	138,058	26,409	38,556	1,391,416
Total	1,405,954	1,488,524	295,426	188,813	41,095	46,183	1,742,475

RISK MANAGEMENT

Alko's risk management seeks to ensure the realisation of Alko's strategy.

INTERNAL CONTROL AND 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) makes an annual report to the European Commission on the extent to which 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. This report also takes account of a statement made by the Finnish Competition Authority. The National Supervisory Authority for Welfare and Health Valvira supervises the alcohol company's retail sales. In issues concerning Alko's decisions on the stocking, destocking and pricing of alcoholic beverages, appeals may be made to Valvira, the Administrative Court and the Supreme Administrative Court.

The Management Team is responsible for internal control at Alko. Alko's internal control system seeks to ensure the appropriate organisation of operations, efficiency, reliable financial and operative reporting, and compliance with regulations and operating principles. The most important aspects of internal control are: corporate governance and organisational culture, reporting and internal communications, and monitoring and supervision.

RISK MANAGEMENT AND INTERNAL AUDITING

Alko's Board of Directors approves the company's risk management policy and monitors the adequacy and effectiveness of risk management measures. The President & CEO is, with the assistance of the Management Team, responsible for risk management policy and its enforcement, and also for ensuring that risk management is appropriately arranged. Alko's risk management is based on systematically and proactively analysing and managing the threats and opportunities related to its activities. These risks are classified as strategic and operational risks.

The Management Team regularly assesses risks that may impact on its future development and profitability. Named persons are then assigned to manage these risks by defining preventative measures and ensuring their implementation.

The most critical risks are:

- changes in alcohol tax may have a significant impact on the company.
- changes in alcohol tax may affect both travellers' private imports of alcoholic beverages and alko's sales trends and profitability.
- responsible customer service is a central aspect of alko's operations – for example, not selling alcohol to minors or clearly intoxicated people. any exceptions to this pose a reputation risk for the company.
- the company's business is based on efficient and reliable information systems. any malfunctions in these information systems or their incompatibility with business demands can cause business interruptions.
- responsibility risks in the procurement chain for alcoholic beverages may damage the company's reputation as a responsible player.

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

The internal audit evaluates the company's risk management, operational standards, management processes, and the adequacy and effectiveness of its internal controls in accordance with the operating principles approved by the Board of Directors. Internal auditing is an independent function that administratively falls under the authority of the President & CEO and reports to the Board of Directors.

AUDITING

The company has one auditor, which must be a firm of authorised 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 2018, the Annual General Meeting elected KPMG Oy Ab, a firm of Authorised Public Accountants, as the company's auditor with Lasse Holopainen, Authorised Public Accountant, as chief auditor.

Auditor: Lasse Holopainen, b. 1960, Chief Auditor, KPMG Oy Ab, APA

RESPONSIBILITY

1. RESPONSIBILITY HIGHLIGHTS
IN 2018

2. STAKEHOLDERS AND MATERIALITY

3. PREVENTING THE HARMFUL
EFFECTS OF ALCOHOL

4. RESPONSIBLE CUSTOMER SERVICE
AND PRODUCTS

5. HUMAN AND LABOUR RIGHTS IN
BEVERAGE PRODUCTION

6. AN INSPIRING AND MOTIVATING
WORKPLACE

7. ENVIRONMENTALLY FRIENDLY
CHOICES

8. TRANSPARENT AND EFFICIENT
OPERATIONS

9. REPORTING PRINCIPLES

10. GRI CONTENT INDEX

HIGHLIGHTS OF RESPONSIBILITY WORK 2018



Mobile game Lydia at the Temperance Awards

On November 2018, Alko received an honourable mention in the Friends of Temperance's annual Temperance Awards. Alko funded a Finnish-language mobile version of the game Lydia. The game was created by the Finnish com-

pany Platonic Partners. Lydia earned the award for its bold and open approach to helping adults handle childhood memories of substance abuse and prevent problems related to substance abuse. The game also won the Best Creative Achievement at the Finnish Game Awards and the Finnish Game of the Year as chosen by readers of Pelit magazine. Alko wants to highlight children's bad alcohol-related experiences, with the aim of influencing adults' alcohol use when in the company of children. Game was released as part of the In the Company of Children programme.

[Read more](#)

A Child's Burden – an arresting video campaign

Alcohol use is more commonplace than ever. Alcohol may be a part of everyday life, but is it appropriate to drink everywhere, for instance, at places that where children practice their hobbies? Alko and the Finnish Olympic Committee collaborated on a video campaign called A Child's Burden. The video wants to make adults think about their own alcohol use in the company of children, and in particular in connection with sports, such as when watching matches. Every child and young person deserves an intoxicant-free environment for their hob-



by. In addition to Alko's communication channels, the video has been shown at the Finnish Olympic Committee's events and at the 2019 Finnish Sports Gala. It was produced as part of the In the Company of Children programme.

[Read more](#)



Our uncompromising sales supervision receives recognition

Alko's mission is to prevent and reduce the social and health-related problems caused by the consumption of alcohol, by performing age-limit checks and by supervising and investigating suspected cases of intoxication and handovers. Sales supervision is a key aspect of both Alko's social responsibility and our responsible customer service and sales work. There is legislation in place to prevent both the use of alcohol by minors and the harmful effects arising from excessive alcohol consumption. In 2018, our sales supervision campaign *Learn to Say No* received a lot of visibility in Alko's communication channels. During the year, Alko received recognition for its sales supervision efforts in the form of a Security Award from the City of Kuopio. The team at our Munkkivuori store in Helsinki also received recognition for their responsible sales work from the City of Helsinki's Pakka steering group.

[Read more in Finnish](#)

Don't let a drop become an ocean – a seminar of alcohol and work

All too often, people keep silent about alcohol-related problems in working life. The Clearly Good Work programme aims to spark off debate about alcohol and work. It's always worthwhile raising and discussing the topic. In short, you could say that it makes good sense to consider alcohol-related risks in the workplace. Companies examine alcohol use from the perspectives of occupational safety, wellbeing at work and the overall functionality of the workplace community, but also with a view to productivity and efficiency. And this is not just a matter for consideration within

companies and associations, but also in employee and employer organisations. This important topic was discussed at stakeholder events in October 2018. The seminar was organised as part of the Clearly Good Work programme.

[Read more](#)

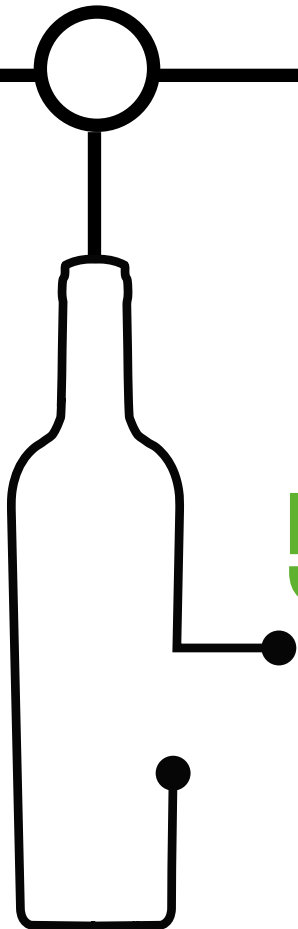


Carbon footprint of wine packaging studied

As part of our efforts to fight climate change, Alko commissioned a study of the climatic impacts of packaging, that is, the calculation of average carbon footprints. The calculations clearly revealed the different climatic impacts of various types of beverage packaging. The per-litre climatic impact of heavy glass bottles is well over six times that of the least environmentally loading option, that is, cardboard packaging.

During the year, the results of the study were used in environmental efforts with suppliers and in customer communications – and especially in a new campaign that started in January 2019. The data will also be harnessed over the coming years, as we further refine our environmentally friendly packaging.

[Read more](#)



525
CO₂e g/l

GLASS BOTTLE
0,75 L / 420g

OBJECTIVES AND ACTIONS

Goals	Actions in 2018	Actions in 2019
Preventing the harmful effects of alcohol consumption as part of our own activities	<ul style="list-style-type: none">• Uncompromising sales supervision, an excellent result in Mystery Shopping 95 (95) per cent• The Learn to Say No sales supervision campaign• An additional module in our sales supervision training: Encounters with customers requiring special assistance• Compulsory online responsibility training for all staff• The City of Helsinki’s Pakka steering group recognised our Munkkivuori store for its responsible sales work• Alko received the City of Kuopio’s Security Award for proactive sales supervision• Communications about the harmful effects of alcohol consumption, including the brochure Seven responsibility issues	<ul style="list-style-type: none">• Uncompromising sales supervision, target 96%• Further developing the advanced modules in our sales supervision training• Updating the intensive weeks in sales supervision• Alko wants to spark off and engage in debate about alcohol consumption on the theme Not Just One Drink• Visibility for our responsibility theme weeks in all Alko channels• Revising the content and structure of Alko.fi’s responsibility section• Adding more products to our range of non-alcoholic products
Preventing the harmful effects of alcohol in collaboration with stakeholders	<ul style="list-style-type: none">• The Numbers Speak for Themselves – our study of the costs incurred by alcohol in working life was completed• Let’s Talk about Intoxicants in the Workplace – a new tool for supervisors was completed• Not Just One Drink – a seminar that discussed alcohol and working life• Piloting drama workshops based on the play Fragile• Support for the Sports Club of the Year and Grow Up to Be an Athlete awards• A Child’s Burden – a video campaign• Lydia – funding a Finnish-language mobile game and gaining an honourable mention in the Friends of Temperance’s annual awards• Funding the assistant professorship of addiction medicine at the University of Helsinki• Financial support for the Finnish Foundation for Alcohol Studies• The Police Officer of the Year award	<ul style="list-style-type: none">• Launching a new programme to promote young people’s wellbeing• Learn to Say No to Intoxicants – material for children and young people• Expanding the operating model for drama workshops based on the play Fragile• Participating in the Anti-substance Abuse Days• Let’s Talk About Intoxicants – material for adults• Give a Young Person Wings – a main partner in the campaign• The Sports Club of the Year award• Financial support for the Finnish Foundation for Alcohol Studies• The Police Officer of the Year award
Sustainable development	<ul style="list-style-type: none">• Announcing our new target: No Single-use Plastics at Alko 2020• The introduction of our environmental information system• Alko joined the City of Helsinki Climate Partnership• Alko joined the Plastic Bag Free Kerava pilot project• Alko participated in the Ruka Nordic Games’ campaign..• A study of the environmental impacts of wine packaging• Beverage packaging was the Nordic theme for the year	<ul style="list-style-type: none">• Concrete actions towards our target Single-use-plastics-free Alko in 2020• Customer communications about the carbon footprint of wine packaging• CO2 emissions and energy consumption in beverage production is the Nordic theme for the year• Reducing energy consumption in our store network by 10 per cent by 2020• Reducing CO2 emissions in our store network by 50 per cent by 2020• An study of CO2 emissions in logistics
Traceable products and good working conditions in the supply chain	<ul style="list-style-type: none">• Alko became a member of Stronger Together, a movement that seeks to prevent modern slavery• Version 2.0 of Alko’s online responsibility training course for suppliers• Training employee organisations in South Africa• A Nordic stakeholder event in Italy• Other supervisory measures in the supply chain• An international supplier event	<ul style="list-style-type: none">• Launching our Supply Chain Information project, which seeks to ensure product traceability from ‘field-to-flagon’• Capacity building activities shall be further developed on all levels of the supply chain• Developing customer communications to support informed purchase decisions• Introducing new tools to make risk management more effective• Forging closer relations with stakeholders in selected sectors• Sustainable Sugar – a Nordic seminar

RESPONSIBILITY MANAGEMENT

Responsibility will be playing an even greater role in all of our operations over the coming years.

We will continue in our concerted efforts to ensure responsible customer service and high-quality products, and to promote food and beverage culture. Our operations are run with transparency and equality. We involve our stakeholders in our operational development, and we are proactive influencers. Our responsibility efforts will also continue at a local level, particularly in supporting young people’s wellbeing. We want to help our customers make informed purchase decisions by providing more comprehensive data about our supply chain. Responsibility is present in every Alko employee’s work and targets.

The Alcohol Act legally requires Alko to engage in the retail sale of alcoholic beverages with the aim of preventing the harmful effects of alcohol consumption. Alko must also pay particular attention to the rational use of natural resources and environmental protection standards.

Our responsibility management is based on the task specified for Alko by the Alcohol Act. We manage our responsibility strategically. To support our responsibility management, we have a responsibility programme that contains policies for the focal areas of our planned measures. We set annual targets for both responsible operations and developing our responsibility management, and also measure our success in achieving them. We assess the responsibility of our operating methods in all of our operations.

The responsibility steering group handles any development projects or measures involving responsibility issues. The Executive Vice President, Communication chairs this steering group, and makes progress and action reports to the company’s Management Team and the Board of Directors. Alko’s Supervisory Board approves an action plan for achieving this aim for one calendar year at a time. The President & CEO reports on overall responsibility management to Alko’s General Meeting.



The Board’s Alcohol Policy Committee prepares alcohol policy-related matters for presentation to the Board of Directors. The leader of each business unit and support function is in charge of operative management in responsibility issues as well.

Alko’s responsibility programme includes an environmental strategy. Its implementation is led by an environmental expert who engages in development work with experts from other units to consider environmental perspectives in the development of our supply chain, product assortment, store network, and product communications. Alko’s environmental policy states that business development must pay attention to environmental perspectives: both preserving natural resources and reducing their consumption.

RESPONSIBILITY INDICATORS

The growing expectations of stakeholders' challenge Alko. Success indicators are set every year for Alko's responsibility on different levels of the organisation. There are two corporate level strategy indicators; the responsibility image indicator by Luottamus & Maine -research (Trust and Reputation), as well as success in responsible sales.

In 2018, the responsibility image score in Luottamus & Maine (Trust and Reputation) research, indicating stakeholder engagement, was 3.28 (objective 2018: 3.42; 2017: 3.31; 2016: 3.42).

Measuring responsibility takes the following points of view into account: whether Alko acts in a correct and responsible manner, while considering the society and environment, and how Alko produces societal benefit through its business operations.

For Alko to be able to improve its responsibility image, we conducted a thorough research to identify the factors contributing to it the most. This analysis showed that the themes related to Alko's mandate, responsibility in the transparent supply chain, employer image, and actions as a diligent, law-abiding corporate citizen, are the factors that most influence the responsibility image. These will get a special emphasis through the updated strategy.

The other indicator reflecting responsible operations follows the success in responsible sales. We exceeded the stores' Mystery Shopping objective, 93 per cent. Out of the young customers, 95 (95) per cent were asked to show their ID, and five per cent were not asked. The score at the collection points was lower, at 86.2 (90) per cent. Mystery Shopping is a research method based on observation



in which professional test customers visit stores as regular customers as if needing the service.

The results of these responsibility indicators are a part of the strategic remuneration system accepted for the year 2018.

10 YEARS OF RESPONSIBILITY IN ALKO

2008

Nordic collaboration is launched to ensure the realisation of human rights, labour rights and good working conditions in beverage supply chains. Alko works with Systembolaget (Sweden), Vinmonopolet (Norway), ÁTVR (Iceland) and Rúsdrekkasøla Landsins (Faroe Islands). Since then, Alko and the other monopolies have joined the global sustainability association, amfori.



2008

2009

The *In the Company of Children* programme is established. This programme seeks to make adults think about their drinking habits and alcohol use from a child's perspective. It is visible on television, on the radio and on the internet.

2010

Alko donates EUR 2.5 million to universities and other institutions of higher education. This funding is used to support drug- and alcohol-related research and education. The projects at universities and other institutions of higher education run until the end of 2014.

2012

The video *Monsters* is released in collaboration with the A-Clinic Foundation as part of the *In the Company of Children* programme. The video depicts the world through a child's eyes when an adult relative has been drinking alcohol. The monsters can become real.

2010

ISO 14001 Environmental Management System is used at Alko stores. The recycling of boxed wine packaging and wine bags is launched at Alko stores. New types of beverage packaging are introduced. At that time, boxed wine packaging and wine bags could not be returned to or recycled at existing deposit points.



2014

The video *Orphan-ages* is released in collaboration with the A-Clinic Foundation as part of the *In the Company of Children* programme. The video reinforces the idea that children cannot choose their parents but parents can choose how they drink alcohol in the company of their children.



2012

Alko comes first in the large companies category of Finland's Great Place to Work competition.

2014

2015

Alko updates its assortment and display of non-alcoholic products.

Wellbeing is a global trend, and this interest in personal health can also be seen in the everyday choices made by Finnish consumers. Alko makes non-alcoholic products more approachable by updating its assortment and in-store displays.



2016

The *Clearly Good Work* programme is launched. Alko wants to highlight the costs incurred by alcohol in working life and the importance of efforts to prevent substance abuse within companies.

2016

The #nofilter blog is a new way to make the invisible visible. A variety of writers discuss the realities within responsibility.

2017

Green Choices product communications begin. Responsibility is becoming an increasingly important purchase criterion for Alko customers as well. Alko uses the Green Choices symbol to let consumers know about measures that support environmental wellbeing in the supply chain.

Alko expands its assortment of non-alcoholic beverages with the introduction of its own range of Mocktails.

Alko celebrates its 85th anniversary.

2018



STAKEHOLDERS AND MATERIALITY

Alko engages in open and fact-based social debate. In 2018, we conducted a broad-ranging stakeholder analysis and used the results to revise Alko’s material themes for responsibility.

Why is this important to us?

“Alko’s stakeholder work is open and based on listening.”

Alko has a clear mission in Finland. As a Finnish-owned company, we are working to enhance our welfare society. Alcohol is no ordinary commodity, as its consumption has consequences for both users and those close to them. Numerous international studies agree on two things: 1) increased supply equals increased consumption – and this is also true of alcohol. 2) Increased consumption increases harmful effects on health. That is why we must pay greater attention to the sale of alcohol than to the sale of many other commodities.

“Stakeholder relations are important to Alko for at least two reasons.

The first is listening. It’s extremely important for state-owned companies, and especially those with a special mandate like Alko, to have a clear understanding of the requirements of their operating environment. In addition to customers’ changing tastes and new ways of shopping, it is important to listen to what other actors expect from Alko – for example, our owner, political decisionmakers, the authorities, our suppliers and the media.

It’s important to work with our stakeholders, so we can discuss ways of improving society. In autumn 2018, Alko organised a thought-provoking seminar called Ei tippa, vaan tapa (Not just one drink). The event debated whether alcohol was still taboo in Finnish workplaces. How should you raise the subject of a colleague’s alcohol use? One of the speeches included an arresting fact: there are about 560,000 high-risk users in Finland and about a million Finns are negatively affected by the alcohol use of someone close to them.

Harri Sailas

Chair of the board

For a company with a special mandate like Alko, it is important to pay attention to detail with the operating environment’s requirements. Hence, it’s essential to work with the stakeholders. As the Chair of the board, Harri ensures everything is done correctly with the correct stakeholders.

Alko's stakeholder relations cover a broad spectrum and we engage in discussion with all parties – even those who may disagree with us. This kind of open, curious and fact-based approach is vital for a high standard of stakeholder relations,” says Harri Sailas, Chair of Alko's Board of Directors.

Where are we headed?

Responsibility is one of Alko's strategic focal areas. Our responsibility activities are steered by both Alko's strategy and a materiality assessment that takes key stakeholders' expectations into account. Stakeholders' expectations are continually monitored through Alko's management system, and also when drawing up our strategy and action plans. We engage in continual dialogue with our stakeholders, and aim to take any changes in their expectations into practical consideration as soon as possible.

At Alko, we actively monitor any changes occurring in our operating environment. Stakeholders' expectations steer our business development. There have been growing expectations with regard to Alko's operations in recent years, which is why we redefined our material themes in 2018.

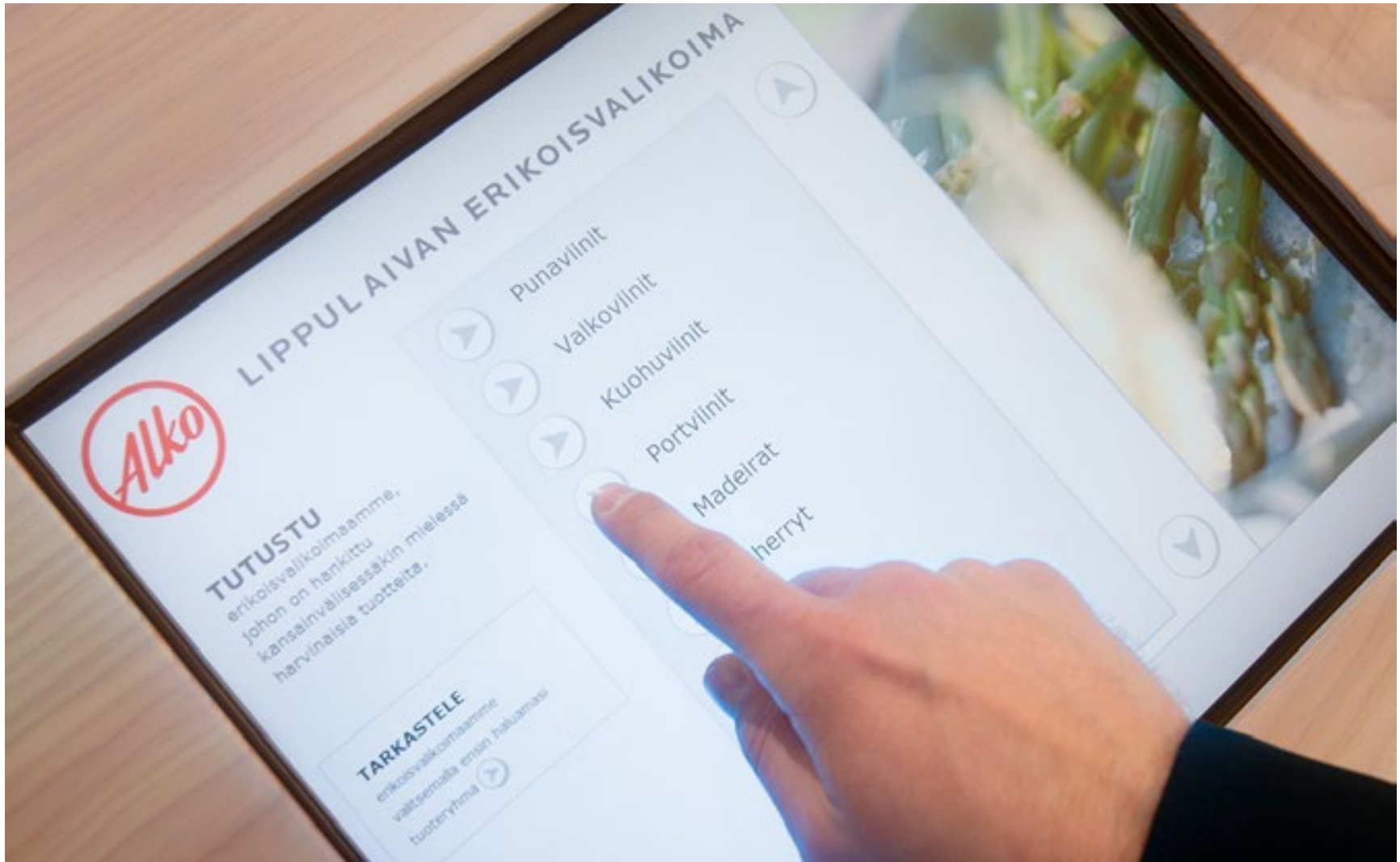
What have we done?

CONTINUAL DIALOGUE WITH STAKEHOLDERS IS IMPORTANT

We engage in continual dialogue with our stakeholders and identify their expectations using a variety of surveys. We listen carefully to the opinions of important groups in everything from daily customer interactions to goods supplier surveys. Stakeholders' expectations are taken into consideration when we develop our business and responsibility activities.

Alko's key stakeholders in business and responsibility activities are:

- customers
- owner, political decision-makers
- personnel



- suppliers
- associations
- the media

In addition to key stakeholders, there are a number of other actors with whom we can cooperate to have a greater impact than we would alone. Alko works with a large stakeholder network to prevent the harmful effects of alcohol consumption. The National Institute for Health and Welfare (THL), A-Clinic Foundation, Finnish Association for Substance Abuse Prevention (EHYT), Mannerheim League for Child Welfare, and Finnish Parents' League are all involved in cooperation projects with Alko.

When developing responsible procurement, we create best practices with all stakeholders on all levels of supply chain and with other Nordic alcohol monopolies. These two stakeholders are also essential with regard to Alko's environmental efforts.

STAKEHOLDERS

Stakeholder	Most important responsibility topics	Responsible actions	Participation
Customers	<p>Multichannel customer service.</p> <p>Responsibility is taken into consideration in our product assortment.</p> <p>Alcohol is not sold or handed over to minors.</p> <p>The impact of alcohol consumption on health.</p>	<p>Personal and responsible customer service in all channels.</p> <p>Responsibility is highly visible in stores and other channels.</p> <p>Measures</p> <ul style="list-style-type: none"> • customers can make more responsible choices, such as smaller packages, low-alcohol products, eco-labelled products • ensuring proper sales supervision, both in our online store and brick-and-mortar stores • communicating the impact of alcohol consumption on health. <p>Improving accessibility in customer service</p>	<p>Customer service in stores and through other channels, such as alko.fi, chat, our customer service centre and Advisors events.</p> <p>Customer satisfaction surveys</p> <p>National customer service feedback survey, Taloustutkimus Oy</p> <p>Social media dialogue</p>
Owner, political decision-makers	<p>Alko engages in the responsible sale of alcohol in accordance with its mandate.</p> <p>Alko is a pioneer in supply chain responsibility.</p>	<p>According to the Government Resolution on State Ownership Policy of 13 May 2016, Alko must report the achievement of significant social responsibility objectives to the Annual General Meeting.</p> <p>The Supervisory Board approves the action plan to prevent the harmful effects of alcohol consumption, and gives a statement on Alko’s retail sales and the measures that the company has employed to prevent the harmful effects of alcohol consumption.</p> <p>Alko openly and transparently communicates responsibility measures that are of interest to its stakeholders.</p>	<p>Annual General Meeting</p> <p>Supervisory Board meetings</p> <p>Stakeholder meetings in line with Alko’s principles</p> <p>Confidence and Reputation survey, T-Media Oy</p>
Associations and networks	<p>Human rights and working conditions in the supply chain</p> <p>The impact of climate change</p> <p>Cooperation and communications relating to the harmful effects of alcohol consumption</p>	<p>Interactive cooperation with a variety of associations and organisations</p> <p>Cooperation with other Nordic alcohol retail companies on responsible procurement and climate change issues</p> <p>Alko cooperates with associations in the social welfare and health sector on a number of programmes aimed at reducing the harmful effects of alcohol consumption.</p>	<p>Amfori BSCI’s national and international activities</p> <p>Stronger Together</p> <p>civic organisations</p> <p>Nordic alcohol monopolies</p> <p>associations in the social welfare and health sector</p>

Stakeholder	Most important responsibility topics	Responsible actions	Participation
Personnel	Best work Responsible customer service Environmentally sustainable operations in stores	Providing the 'Best work' and being a 'Proactive player in the community' are two key areas of Alko's strategy, and associated measures have been mobilised for key targets covering all personnel. Continual work to develop a proactive and flexible working culture with a real sense of community. Revising our guidelines for sales supervision and training all personnel. Developing a system for stores to monitor their environmental impact	Target and competence discussions Training Internal communications for the Alko community: intra, Yammer, Skype conferences Personnel Motivation Index Passing the test to obtain a sales supervision passport A system for monitoring the environmental impact of stores
Goods suppliers Goods suppliers' domestic and foreign interest groups	Cooperation with suppliers Product quality assurance	Open and diverse cooperation with domestic and foreign interest groups to ensure responsible procurement with regard to issues involving environmental and social responsibility. The entire supply chain must comply with the operating model for responsible procurement Product quality assurance through sensory evaluation and chemical testing	Alcoholic beverages stocked and sold in accordance with Alko's instructions, which include the operating model for responsible procurement Supplier meetings and briefings Supplier survey Best Supplier indicator Trainings in responsible procurement, workshops, audits and follow-up measures, particularly in high-risk countries
Lessors	Environment Impartiality	The rental agreement model, including perspectives and operating methods relating to indoor air, energy efficiency, etc. Open supply model for premises Making more efficient use of space in stores using a customer- and assortment-oriented approach. Our new store concept, which takes into account energy saving, the recycling of fittings and fixtures, and the use of existing structures, surfaces, equipment, devices, fixtures and fittings whenever they are in good condition and it is otherwise possible.	Annual meetings Reviews of investment plans and schedules
The media	Open and transparent communications about Alko's activities	Comprehensive and transparent communications about Alko's activities Sales reports Annual Report	Media conferences Media tastings Media briefings Corporate Communications survey, Taloustutkimus Oy

Our responsibility activities are steered by the Executive Vice President, Communications, who is in charge of responsibility, communications, community relations, and brand marketing. The EVP, Communications is a member of the Management Team, and reports to the Management Team on stakeholder expectations regarding alcohol policy, social responsibility, and environmental responsibility. The Executive Vice President, Finance monitors expectations relating to Alko's financial responsibility, and also steers any associated development.

ALKO'S ASSOCIATION MEMBERSHIPS

Alko has representatives in numerous national and international associations and organisations. The most significant of these are listed below. The key positions of trust held by members of the Management Team and Board of Directors are given in the Governance section.

INTERNATIONAL ORGANISATIONS

Amfori Network Finland

Chair: Marja Aho (Sustainability Manager)

OTHER ASSOCIATIONS, ORGANISATIONS AND COMMUNITIES

Suomen Palautuspakkaus Oy (PALPA)

Board Member: Paula Kujansivu (Vice President, Online and Supply Chain);

Suomen Keräslasiyhdistys ry (Finnish Glass Recycling Association)

Board Member: Maritta Iso-Aho (Executive Vice President, Communications);

Finnish Foundation for Alcohol Studies

Board Member: Jonna Björklund, Legal Counsel

Hotel and Restaurant Museum Foundation

Advisory Board Member: Marja Aho (Sustainability Manager);

Board Member: Sari Karjalainen (Marketing Manager)

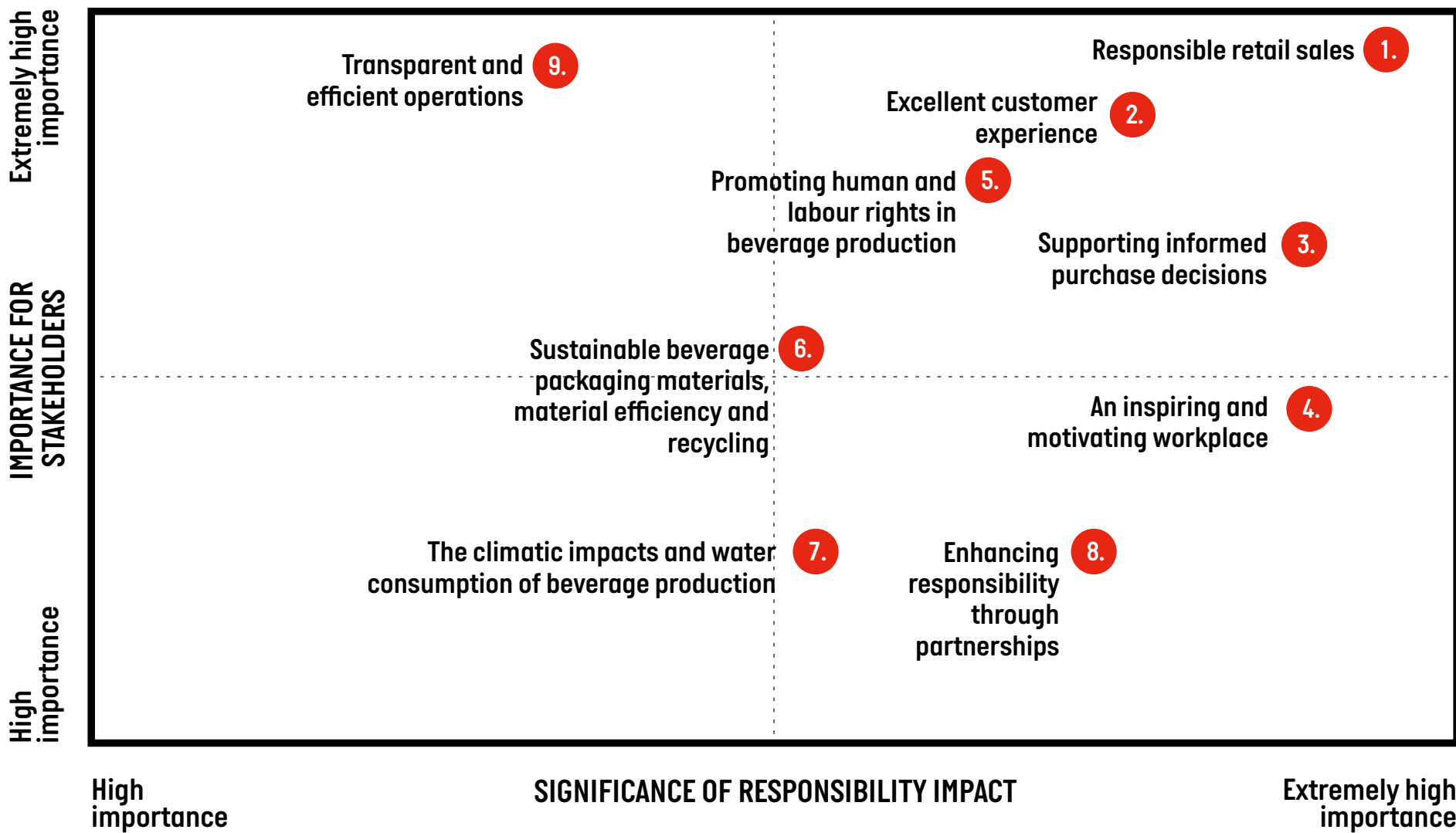
MATERIALITY

The material items presented here were defined on the basis of a stakeholder analysis conducted in 2018. The process began with an analysis of background data. The identified themes were then further developed at workshops with Alko experts. 22 themes were selected for inclusion in an online survey that asked respondents to choose the ten most important responsibility themes for Alko. A total of 680 stakeholder representatives answered the online survey. These responses were supplemented with eight in-depth interviews.

As a result of this process, Alko's management confirmed the following materialities:

- | | |
|---|--|
| 1. Responsible retail sales | 6. Sustainable beverage packaging materials, material efficiency and recycling |
| 2. Excellent customer experience | 7. The climatic impacts and water consumption of beverage production |
| 3. Supporting informed purchase decisions | 8. Enhancing responsibility through partnerships |
| 4. An inspiring and motivating workplace | 9. Transparent and efficient operations |
| 5. Promoting human and labour rights in beverage production | |

THE MATERIALITY MATRIX 2018



PREVENTING THE HARMFUL EFFECTS OF ALCOHOL CONSUMPTION

Alcohol is not an ordinary commodity. Use of alcohol has health related and social effects on both individual and the whole society. Alko works in the service of the renewing welfare state and when the Finns do well, the whole nation does well.

Why is this important to us?

Virpi Valtonen

Sustainability advisor

Preventing the harmful effects of alcohol is Alko's special mandate and an important responsibility topic. Virpi is in a key position to develop new ways for preventing alcohols harmful effects.

Total alcohol consumption and its harmful effects go hand in hand: the more that is drunk, the greater the harmful effects.

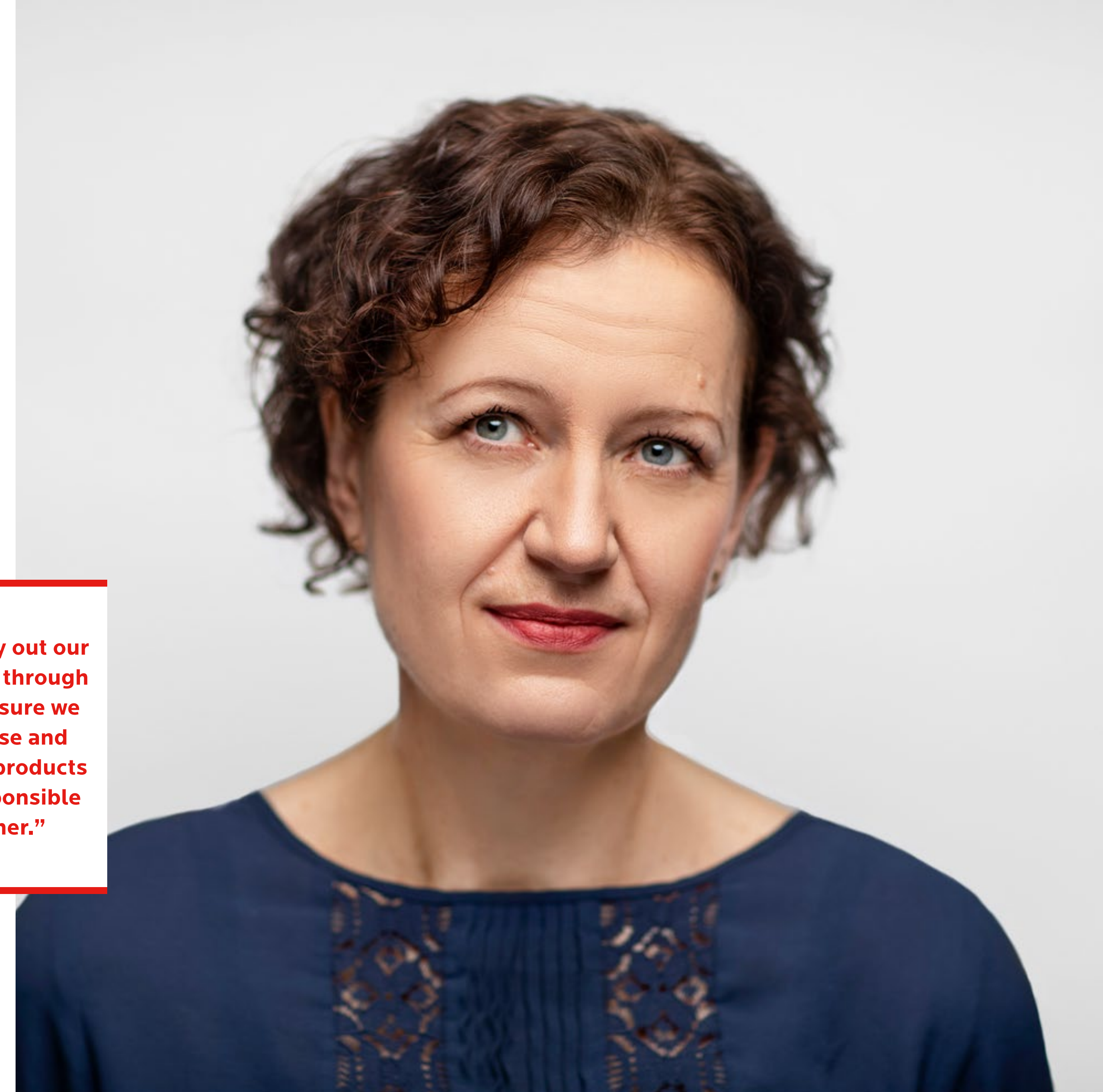
Alcohol also has a considerable financial impact on society – the National Institute for Health and Welfare (THL) estimates the annual cost at over EUR 2 billion a year. This figure consists of both indirect costs, such as lost production and working hours, and the direct costs of alcohol consumption, such as costs incurred by security and policing, social welfare, specialised hospital treatment and basic healthcare.

Studies show that the most effective ways to reduce the harmful effects of alcohol are by:

- increasing alcohol taxation
- restricting alcohol advertising
- retaining an alcohol retail monopol
- restricting the hours during which alcohol may be sold
- enhancing efforts to prevent drunk driving
- enhancing social and healthcare services

Source: Ministry of Social Affairs and Health

“We carry out our mandate through making sure we purchase and sell our products in a responsible manner.”



Alko's mission is to minimise the harmful effects of alcohol consumption. We carry out our responsible role by ensuring that we both buy and sell products responsibly. We also cooperate with a variety of partners to reduce the harmful effects of alcohol consumption and run campaigns to promote responsible alcohol use.

Finns think that we have succeeded in our responsible role, as 59 (60) per cent of Finns consider Alko to be a good way of limiting the harmful effects of alcohol consumption.

"There have been great changes in Finnish alcohol consumption in the course of my just over 20 career. When I started work at Alko in the mid-1990s, we were in the throes of joining the EU and loosening restrictions on alcohol. Alko's existence was questioned and alcohol consumption began to increase dramatically. "Everyone" drank and you often had to explain your decision to abstain. At the turn of the millennium, cheap beverages were also carted in from our brand-new EU neighbour, Estonia. This boozy culture could be seen and heard in the streets, and its side-effects were sparking off debate.

These days, some young people in Finland have never drunk any alcohol at all. There is a prevailing trend for health and wellbeing, and being teetotal is even in fashion. At the same time, some people who consider themselves to be moderate drinkers are on the verge of becoming high-risk users. Problem drinking still causes endless personal, financial and social problems in Finland.

It is impossible to predict which direction alcohol consumption will take in the future. However, Alko will continue along the firm policy it has been following since 1932 – to prevent the harmful effects of alcohol consumption and promote responsible drinking," says Virpi Valtonen, Alko's Sustainability Advisor.

Which direction are we heading in?

In 2018, the total consumption of alcoholic beverages measured in pure alcohol per Finnish resident over the age of 15 was 10.4 litres. Total consumption increased by 0.6 per cent compared to year 2017. (Source: The National Institute for Health and Welfare (THL), Preliminary information)

Consumption is weighted towards the retail trade, that is, beverages purchased from Alko stores and other retailers that sell alcoholic beverages (grocery stores, kiosks and service stations).

The new Alcohol Act came into force in its entirety on 1 March 2018. Some of the legislative amendments had already come into force on 1 January 2018, when grocery stores gained the right to sell beverages containing 5.5 per cent ethyl alcohol by volume, the previous limit being 4.7 per cent (source: THL).

Alko's 2018 targets for reducing and preventing the harmful effects of alcohol consumption focused on both individual consumers and society at large.

In 2018, the most significant measures aimed at preventing harmful effects were:

- Responsible customer service: sales supervision, purchase ban agreement, product display, responsible beverage options
- Promoting the culinary arts and drinking culture through multiple channels
- Measures undertaken as part of the programmes "In the Company of Children" and "Clearly Good Work"
- Communications about alcohol and health
- Working with alcohol researchers and relevant associations

What have we done?

COOPERATION TO PREVENT HARMFUL EFFECTS

Alko has numerous partners and projects with whom we cooperate to reduce the harmful effects of alcohol consumption. Substantial and long-term alcohol consumption often causes both health and social problems that cast a shadow over the lives of family and loved ones, particularly children and young people. These projects vary in nature, but they all share the same goal – to prevent the harmful effects of alcohol consumption in society.

What does alcohol use look like through a child's eyes?

In the Company of Children is an Alko responsibility programme that seeks to prevent and reduce the harmful effects of adults' alcohol abuse on children. Our cooperation partners in this programme include the A-Clinic Foundation, Mannerheim League for Child Welfare, Finnish Parents' League, and National Institute for Health and Welfare (THL).

We cooperate with a variety of partners to reduce the harmful effects of alcohol consumption

Alko funded a Finnish-language mobile version of the game Lydia. The game was created by the Finnish company Platonic Partners. Alko received an honourable mention in the Friends of Temperance’s annual Temperance Awards. Lydia earned the award for its bold and open approach to helping adults handle childhood memories of substance abuse and prevent problems related to substance abuse.

Performances of the theatre play Fragile continued during 2018. Fragile toured schools in several municipalities, including the Kauhajoki, Turku and Hämeenlinna regions, where 11 performances reached over 1,000 secondary school pupils and almost 100 adults. A theatrical performance of Fragile was also given at the STOA cultural centre in spring 2018.

A new art workshop concept based on the play was piloted with the Youth Academy’s Mahis groups during autumn 2018. The workshop’s diverse exercises can be harnessed and adapted to suit the specific needs of different youth groups. As the concept was well received by both the young people and workshop leaders, we have decided to expand it to several new locations during 2019.

Alko collaborated with the Finnish Olympic Committee on the [A Child’s Burden](#) campaign, which seeks to spark off debate about whether even moderate alcohol consumption is appropriate in all circumstances, such as those involving children’s hobbies. The target group is parents and coaches, and adults in general. This touching campaign was launched in early 2018.

The “Clearly Good Work”

Cooperation aims to spark off debate about the harmful effects of alcohol in working life and generate new data on the subject. Alko’s partners in this programme are the A-Clinic Foundation, the Finnish Association for Substance Abuse Prevention (EHYT), KELA, the National Institute for Health and Welfare (THL), the Centre for Occupational Safety, and the Finnish Institute of Occupational Health.

One of the programme’s main events in 2018 was the responsibility seminar Don’t let a drop become an ocean, which delved into alcohol-related problems in working life.

Let’s talk about intoxicants in the workplace – a coaching course for supervisors that has been produced by the A-Clinic Foundation with funding from Alko – was also introduced in 2018. This online coaching tool awakened interest at the companies where it was piloted, and also received good feedback from those who tested it. We will further develop this online coaching in 2019.

The Finnish Association for Substance Abuse Prevention (EHYT) spoke about

substance abuse problems in working life and its associated report [The Numbers Speak For Themselves](#) (only summary in English) at three major trade fairs. With funding from Alko, the association also produced a new video about the significance of substance abuse problems in the workplace.

Communications about alcohol and health

For three years, Alko participated in the [International FASD Awareness Day](#) by opening its stores at 9:09 am. As the day fell on a Sunday this year, we communicated the dangers of drinking alcohol during pregnancy with the aid of in-store posters and social media posts. The Finnish Association on Intellectual and Developmental Disabilities is our partner in this campaign.

We repeated our Learn to Say No campaign against the handing over of alcoholic beverages at both the end of the spring school term and the beginning of the autumn term. The campaign’s humorous videos once again went viral in social media.

Promoting the culinary arts and drinking culture

Promoting the culinary arts and drinking culture has been a fundamental aspect of our responsibility efforts for decades. Finding a suitable drink for different occasions is an important element in a successful customer experience. Occasions and customs that combine the enjoyment of both food and drink are also important from a responsibility perspective. We support a culture and etiquette than involves eating together, social interaction and consideration for others. Everyday routines create a sense of caring. Promoting food and drinking culture will continue to be a strategically important element in Alko’s future responsibility efforts.

Support for alcohol research

Alko also supports research and education. The longest-term support has been given to the Finnish Foundation for Alcohol Studies and [Yhteiskuntapolitiikka](#), a Finnish journal that publishes research and articles on topics related to substance abuse.

[The Finnish Foundation for Alcohol Studies](#) was established in 1950 to promote and support scientific research on alcohol consumption in general, or alcohol as a personal or social problem. Four (7) doctoral theses that received funding from the Finnish Foundation for Alcohol Studies were published in 2018. 30 (24) new peer-reviewed articles were published in international publication series in 2018. 13 (10) other publications also came out. A total of EUR 269,825 (279,820) was distributed to alcohol and drug-related research.

The donation will be distributed over the next three years as an annual grant to five students whose theses relate to promoting health and wellbeing. It was the customer who initiated the sponsorship.

Yhteiskuntapolitiikka published a total of three (6) peer-reviewed research articles on alcohol-related topics in 2018 and one (4) other longer analysis. The articles dealt with the impact of the new Alcohol Act on marketing alcohol products in social media, social representation of mixed substance abuse in the newspaper Helsingin Sanomat in 1990–2016, and the situation with regard to social welfare and healthcare services for substance abuse customers in South-East Finland and Lapland.

In 2016, Alko's Annual General Meeting decided to donate a total of EUR 360,000 to support and develop the University of Helsinki's medical research on addiction and alcohol. On 1 July 2018, Kaarlo Simojoki, MD, started as part-time professor of practice in addiction medicine at the University of Helsinki's Faculty of Medicine. This position is held for a five-year term.

Alko decided to sponsor Aalto University's Life Science Technologies students with a one-off sum. The donation will be distributed over the next three years as an annual grant to five students whose theses relate to promoting health and wellbeing. It was the customer who initiated the sponsorship

Sports Club of the Year

Alko gives an annual grant of EUR 10,000 to a sports club that promotes wellbeing through sports and exercise. The selected club will work to ensure that everyone can get involved regardless of their skill level, be accepted, share in a good team spirit, and experience the joy of success. The grant is awarded once a year at the Finnish Sports Gala, to the club that wins Sports Club of the Year. In 2018, this honour went to Helsingin Uimarit.

Police Officer of the Year

The Police play a key role in maintaining order and safety, and in preventing crime. Though our cooperation in the Police Officer of the Year award, we want to show our appreciation for the important work done by the Police. Alko is one of the Police Officer of the Year award's longest-standing partners. Detective Inspector Santeri Sivonen, commanding officer of the UHKAT (Threats) function at the National Bureau of Investigation, was chosen as Police Officer of the Year 2018.

Mobile version of Lydia recognised at the annual Temperance Awards

Alko launched a mobile version of the game [Lydia](#) in late summer 2018. The game gives a touching description of the life of a child growing up with alcoholism in the

family. The Friends of Temperance recognised Alko's release of the mobile version of Lydia with their 2018 Temperance Award.

Steering the special mandate

Alko's special mandate is specified in the Alcohol Act: we engage in the retail sale of alcoholic beverages in a manner that accounts for the harmful effects of the products we sell. Our operations and sole right to engage in the retail sale of beverages containing more than 5.5 per cent alcohol by volume are based on social and health policy goals. The Ministry of Social Affairs and Health is responsible for the ownership steering and supervision of Alko pursuant to the special mandate assigned to Alko in law.

Alko's Supervisory Board approves Alko's action plan to reduce the harmful effects of alcohol consumption, as specified in Section 1 of the Alcohol Act, for one calendar year at a time. The Supervisory Board also gives an annual statement to the Ministry of Social Affairs and Health on the measures that Alko has taken to reduce these harmful effects.

The responsibility steering group handles any development projects or measures involving responsibility issues. The Executive Vice President, Communication chairs this steering group, and makes progress and action reports to Alko's Management Team and Board of Directors.

The Board's Alcohol Policy Committee prepares alcohol policy-related issues for presentation to the Board of Directors. The leader of each business unit and support function is in charge of operative management in responsibility issues as well.

We annually assess the results of our measures to reduce the harmful effects of alcohol consumption with the aid of an impact assessment drawn up by an independent organisation.

Grievance mechanisms

Staff can give feedback and ask questions about our efforts to prevent the harmful effects of alcohol consumption, not only within their own unit, but also by directly contacting senior management through internal channels (Yammer and the intranet). Customers and other stakeholders can also contact Alko's customer service on issues relating to sales supervision and the harmful effects of alcohol consumption, by phone, email and chat.



RESPONSIBLE CUSTOMER SERVICE AND PRODUCTS

2018 was a year defined by continual developments in our customer experience and service – just like previous years. Our theme for the year highlighted strengthening basic functions to ensure a consistently high-quality experience that pays attention to each and every customer.

Why is this important to us?

“Responsibility is also an important element in the induction and training of new employees.”

Alko’s strategic target is to be Finland’s best service-sector company and a pioneer in providing the best customer experience. The Best Customer Experience is also an indicator that guides staff remuneration and everything we do at Alko. Checks of age-limits, suspected handovers and suspected intoxication are an inseparable component of high-quality and responsible customer service. Responsibility is also evident in Alko’s product assortment – we want to offer an extensive range of high-quality, responsibly produced and environmentally friendly products, and to ensure product traceability in the supply chain.

“Our customer experience, and its associated responsible operating principles, lie at the heart of my work. The targets and indicators for responsible customer service and sales supervision are always on the table when we have discussions with store team supervisors. Responsibility is also an important element in the induction and training of new employees.

The diversity and range of our store’s assortment form the cornerstones of a good customer experience. Responsibly produced products are also an inseparable element of our selection. Our customers are the driver for all management and development: how can we work in this particular store and with these particular customers so as to gain their esteem?

Kimmo Mäkelä
Regional Manager

Alko wants to offer the best customer experience. As the regional manager of Western Finland, Kimmo is responsible for his region’s customer service and practices.

Our success is measured in every customer encounter, which means continual learning. We want to achieve a positive loop in which success feeds enthusiasm, which in turn leads to further success,” says Kimmo Mäkelä, Alko’s Regional Manager for Western Finland.

Which direction are we heading in?

Although we manage and develop our customer experience in terms of subcategories, we also ensure that the overall customer experience is smooth, inspiring and standardised irrespective of the service channel used.

The pillars of our customer experience are:

- encounters with customers in stores, over the phone or via chat,
- an assortment of over 8,500 products,
- easy shopping and a store network that covers every inch of Finland.

Our store network is supplemented by our online store, through which customers have access to Alko’s entire assortment at any store or pick-up point. In 2018, we strengthened our multichannel approach by enabling customers to make online orders at our stores. This means that we make the order on the customer’s behalf.

THE RESPONSIBLE SALE OF ALCOHOL

The responsible sale of alcohol is both Alko’s mission and the basis for our customer service. Our customer service revolves around the idea that alcohol must not be sold or handed over to minors or anyone who is intoxicated.

We monitor successful sales supervision in two ways: via our own cash registers and using a mystery shopping survey conducted by an external organisation. Alko’s responsibility steering group sets annual targets for shopping by test customers at both stores and pick-up points. Our company-level target for 2018 was 93 per cent and our top target was 96 per cent. We aimed to make four mystery shopping visits to every store and one to every pick-up point. The results are monitored by region, store and salesperson. Salesperson-specific entries are regularly monitored. Monitoring seeks to ensure reliable sales supervision of a uniformly high standard in all of our stores. The registered results are continually monitored, and are used to steer customer service.

Alko’s service network consists of stores and pick-up points. A pick-up point is a service company operating in the area that hands over alcoholic beverages ordered from our online store on Alko’s behalf. We examine the alcohol-related attitudes and capabilities of prospective pick-up point entrepreneurs when they make their applications. Providing new partners with induction in sales supervision plays a key role. Under the new Alcohol Act, every pick-up point must also draw up a self-supervision plan.

SALES SUPERVISION CAMPAIGNS

Age-limit checks are supported by customer communications at stores and pick-up points, particularly at the end of the spring school term and when school starts up again in the autumn. On the basis of the good feedback it received, we decided to continue our Learn to Say No campaign in 2018. We also decided to produce training materials to support challenging customer service situations. Another of our objectives for 2018 was to make more effective use of our purchase ban agreement.

What have we done?

In 2018, we revised our three-step model for customer encounters, that is, the targets we have set for these encounters. The first step in the model involves a commitment to treating all customers equally. We also pay attention to the cleanliness and organisation of the store.

The second step highlights individual service. Our staff are experts in analysing and identifying what kind of service customers are hoping for. While one customer may value quick and efficient service with familiar products, another may wish to hear more about new products and specialities. In customer service, our task is to adapt our expertise to a variety of situations, and temporarily get involved in our customers’ lives on both everyday and special occasions. During the third step, we affirm the customer’s choice by paying attention to responsibility perspectives in our product recommendations. We have an extensive assortment, and more than 8,000 products are available in Alko stores through our online store. We want to help our customers and make them feel that they have made the right choice. Every Alko store team has two ‘masters’ who work in tandem – a service and assortment master. These new master roles were established during 2018.

We want to ensure that the overall customer experience is smooth, inspiring and standardised irrespective of the service channel used.

➤ Every Alko store team has two ‘masters’ who work in tandem – a service and an assortment master. These new master roles were established during 2018.



In addition to their regular duties as sales staff, the masters will ensure that:

- sales staff in every store listen to and closely monitor customers’ feedback and wishes
- the store’s assortment meets local requirements
- premises and displays are kept in good order, and team members spur each other on to provide even better customer service

Employees’ product expertise was strengthened throughout the year with both appropriate seasonal training and more advanced further training. Food trends involved insects, sparkling wines and – above all – the responsible combination of food and drink. Our training themes included Australian wines, new taste types for sparkling wines, Chilean wines, and current whisky trends. 75 per cent of Alko sales staff participated in these seasonal training sessions. Service master training provided a more in-depth understanding of Alko’s customer service culture and helped participants to identify their own strengths. All Alko staff receive an average of five training days per year to develop their service and product expertise. In

late 2018, we introduced a service that enables sales staff to make an in-store order from Alko’s online store on a customer’s behalf.

AWARDS FOR CUSTOMER SERVICE EXPERTISE

Our investments in developing the Alko customer experience are also reflected in the results of customer surveys. Alko retained its number-one spot in the national customer service feedback survey conducted by Taloustutkimus. We also carry out our own measurements of customers’ service experiences. The results show that our customer experience further improved in both Alko stores and our online store.

In 2018, we launched a new Advisors concept that seeks to involve customers in our development efforts. We invited customers to three Advisors events, and asked them to tell us what they were hoping for with regard to our assortment and digital services.

In May 2018, the City of Helsinki’s Pakka steering group recognised the Alko store in Munkkivuori for its responsible sales work. Our Munkkivuori store is one of the sales points that received a clean sheet in shopping tests.

In November 2018, the City of Kuopio’s security working group also gave its annual Security Award to the sales staff at the Alko store in Kuopio. Alko sales staff were praised for their proactive sales supervision and cooperation with a variety of organisations to reduce disturbances.

RESPONSIBLE SALES PRACTICES

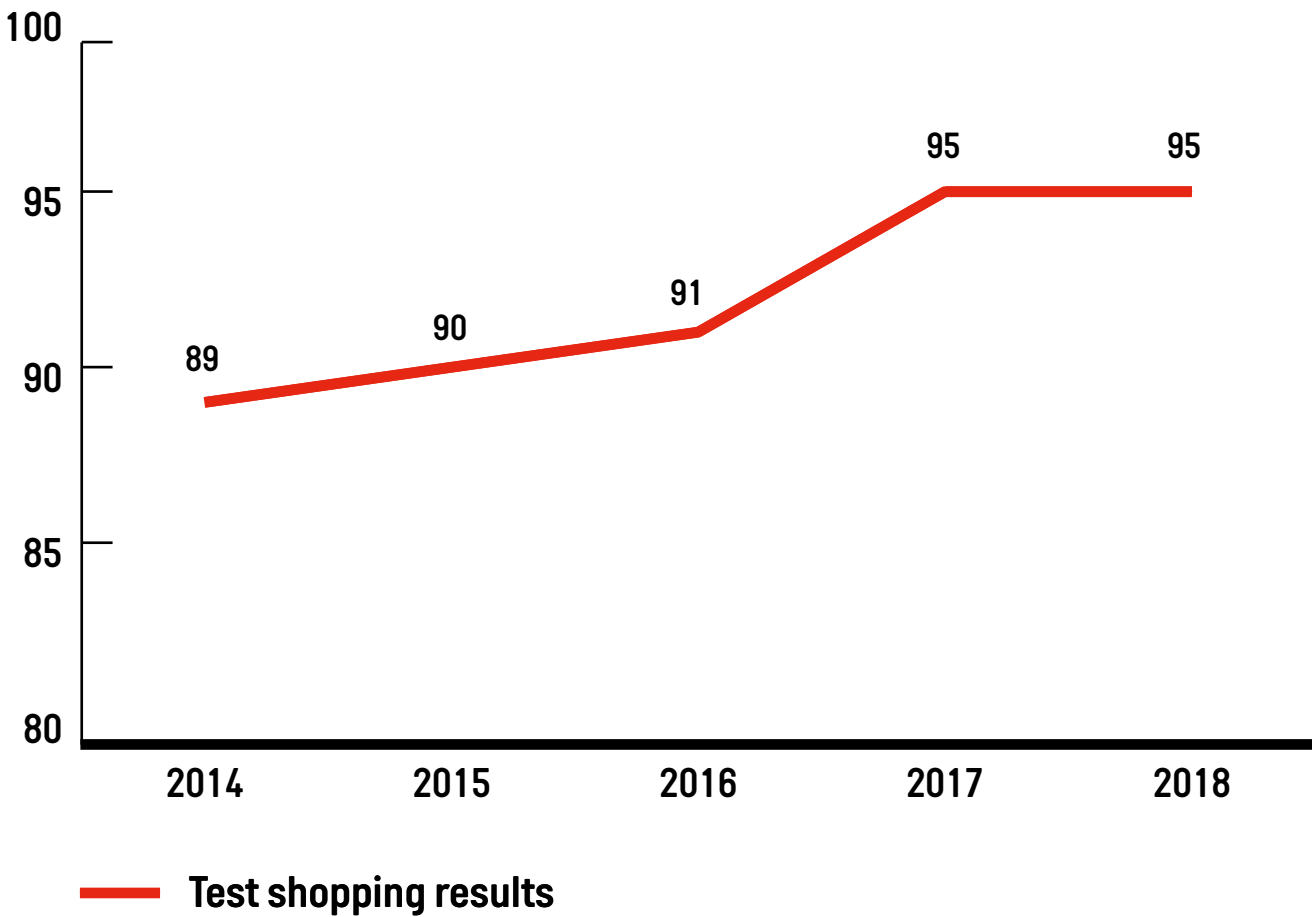
Sales of alcoholic beverages are governed by the Alcohol Act. Sales supervision denotes the procedures that Alko sales staff use to ensure that beverages are not sold or handed over to minors, or sold to anyone who is clearly intoxicated. Alko’s in-house supervision rules are based on the Alcohol Act and Decree, and the instructions issued by the National Supervisory Authority for Welfare and Health (Valvira).

Sales supervision forms part of the induction and training of Alko employees. New employees receive induction in the supervision of age limits, suspected intoxication, and suspected handovers. Every Alko employee must complete a Sales Supervision Passport, also after returning from a longer absence. Staff receive regular training in responsibility issues. The new responsibility training introduced in 2018 also covers responsibility themes for customer service. In addition to training, practical learning on the job is also important, as skills develop gradually through experience.

MEASURING SUCCESS IN RESPONSIBLE OPERATIONS

	2014	2015	2016	2017	2018
Age-limit checks, million	3.60	3.7	3.8	4.6	4.6
Checks for suspected intoxication, thousand	660	634	635	670	577
Checks for suspected handover, thousand	360	311	345	395	359

MYSTERY SHOPPING - RESULTS OF AGE-LIMIT CHECKS, %



In Alko stores, age-limit checks and other sales supervision procedures are entered into our POS system. The results are monitored by region, store and salesperson. Salesperson-specific entries are regularly monitored. Monitoring seeks to ensure reliable sales supervision of a uniformly high standard in all of our stores.

In 2018, we performed 4.6 (4.6) million age-limit checks, and checked over 359 (390) thousand cases of suspected handovers and over 577 (670) thousand cases of suspected intoxication.

Regional managers worked together to draw up our 2019 targets on the basis of the results for previous years. We do not intend to make a significant increase in the number of age-limit checks. Our 2019 targets will therefore follow 2018 figures, taking into account similar target levels for similar stores. In 2019, we will change our salesperson-specific monitoring so that a salesperson’s results will include not only their main store but also any other stores in which they have registered sales supervision.

We also use mystery shoppers of legal age to monitor our success in age-limit checks. In 2018, mystery shoppers made four visits to each Alko store, that is, a total of 1,436 visits. One visit was also made to each pick-up point, that is, 64 visits.

In 2018, our stores exceeded the Mystery Shopping target of 93 per cent. The ages of 95 (95) per cent of customers were checked, while five per cent were not checked. The result was slightly lower at pick-up points, with 86.2 (90) per cent being checked.

Under the new Alcohol Act, all stores had to revise their self-supervision plans in 2018. The new plans were discussed with our entire staff during our stores’ own team meetings.

Support for challenges in sales supervision

The amusing videos in Alko’s Learn to Say No campaign once again received a lot of visibility in social media. This campaign focuses on handovers of alcoholic beverages.

In 2018, we continued to develop new tools to support challenging situations in stores. We produced new training material to support encounters with customers requiring special service. Our new online responsibility training, which is targeted at all

Every Alko employee must complete a Sales Supervision Passport.

Alko staff, also provided more information about situations in which customers need help or support in managing problematic alcohol use – either their own or that of a family member or a loved one. We will continue to develop new tools in 2019.

Purchase ban agreement limits alcohol purchasing

If you want to help yourself or a loved one to reduce problematic drinking, you can draw up a purchase ban agreement at any Alko store. A purchase ban agreement is a voluntary agreement aimed at limiting a customer’s purchases of alcoholic beverages from one or more Alko stores. The initiative to draw up the agreement may come directly from the customer, or from a close family member or a loved one. Purchase ban agreements are always temporary, and can last a maximum of 12 months.

In 2018, we signed 13 (24) purchase ban agreements, three of which were signed with custodians. With the exception of one agreement, all involved complete bans. In the remaining agreement, we agreed to sell the customer only mild beverages.

Nine of the agreements were for 12 months and four were for six months. Ten of the agreements were made in rural areas and three in cities.

RESPONSIBILITY IN OUR BEVERAGE ASSORTMENT

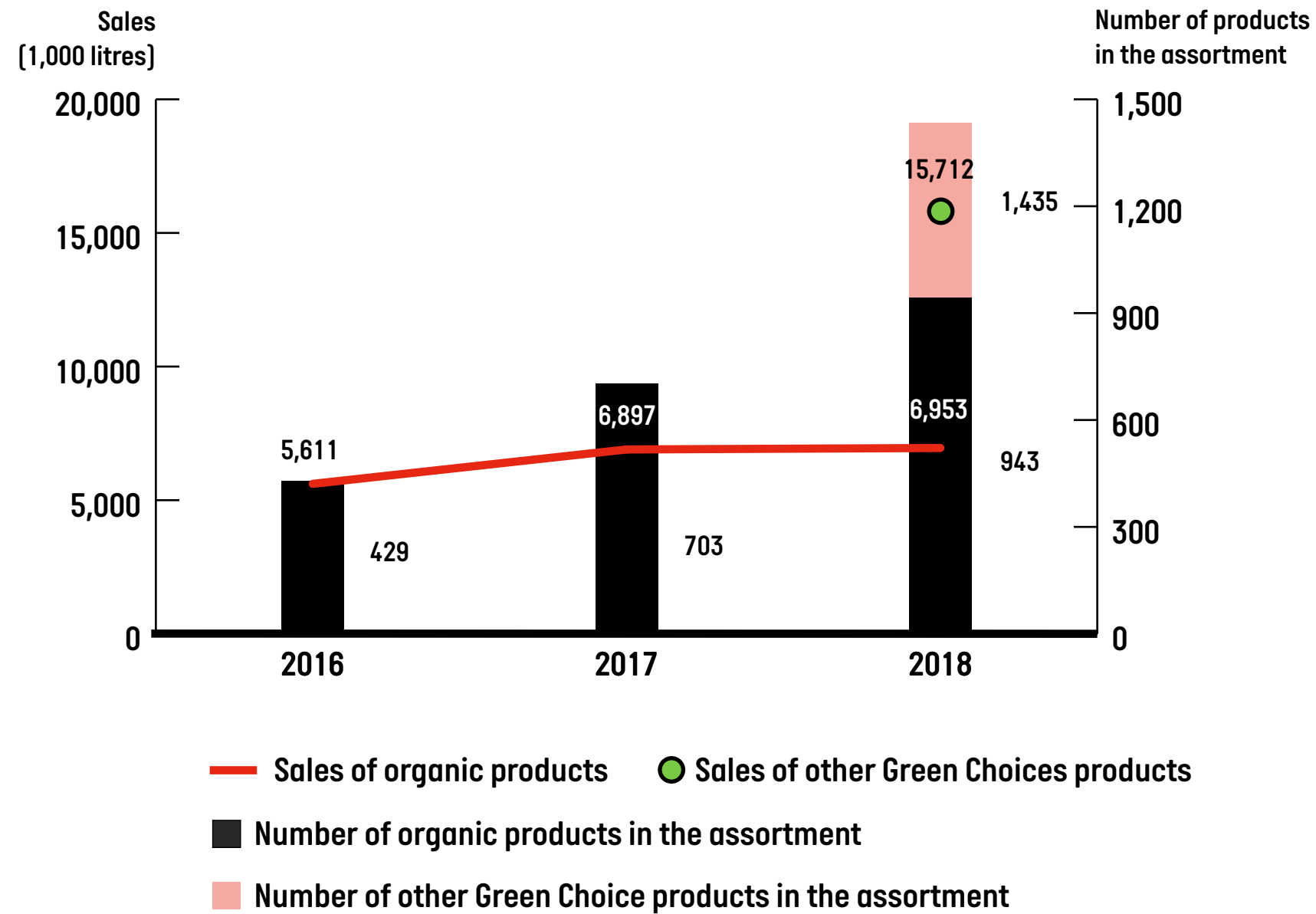
Alko cooperates with suppliers, producers and NGO’s to increase awareness of social and environmental responsibility and to promote responsibility throughout the entire supply chain. We seek to offer our customers an extensive assortment of high-quality, responsibly produced products, and to ensure traceability in the supply chain. In addition, we offer our customers selections for conscious use of alcohol; low-alcohol beverages, small product packages and non-alcoholic drinks. Our operations are steered by our desire to be an exemplary purveyor of alcoholic beverages. In 2018, responsibility took on an even more important role in our assortment strategy.

With the aid of [communications and workshops](#), we worked to get suppliers to commit to Alko’s strategy.

Alko believes that responsibility will play a much bigger role in consumers’ beverage choices in the future. According to a supplier survey conducted in 2018, responsibility already has some level of importance in the purchase decisions of 91 per cent of Alko customers. Almost 50 per cent of customers are interested in making responsible product choices. (Source: Alko’s assortment satisfaction survey, Dagmar Drive, September 2018.)

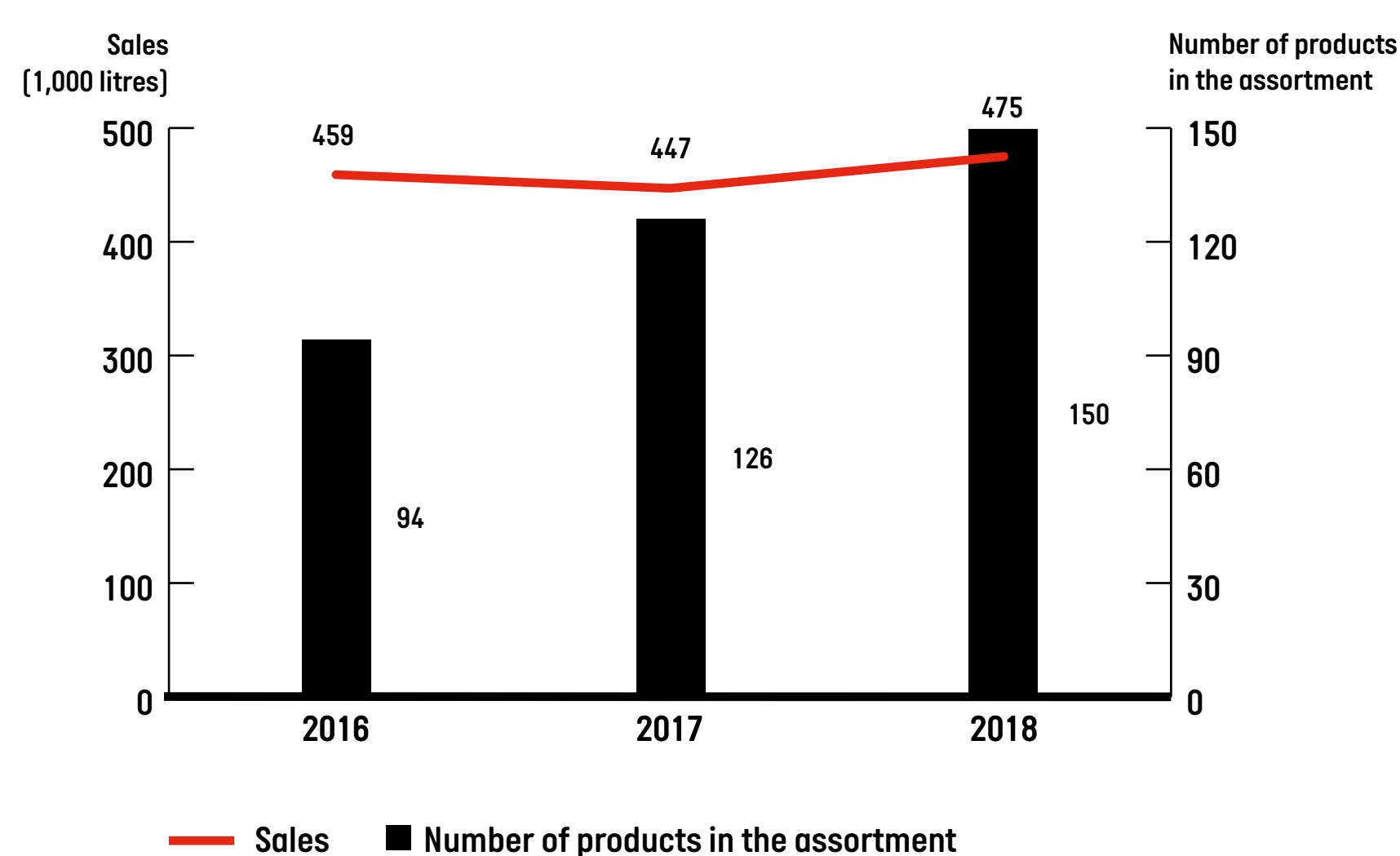
Demand for responsible Alko products continued to grow. For example, customers were interested in the Green Choices product range that we launched in 2018. We sold over 15.7 million litres of these products, which number almost 1,900 in total. Alko had in its’ assortment 150 alcohol-free products, 213 low-alcohol beverages and 399 products with small packages. The sales of these products were 3 837 070 litres in 2018.

**SALES OF ORGANIC PRODUCTS AND THE NUMBER OF PRODUCTS;
AND SALES OF GREEN CHOICES PRODUCTS**



Green Choice product information is reported for the first time from year 2018. Green Choice includes organic and biodynamic products, natural wines, vegan products, locally sustainability certified wines and wines bottled in lighter glass bottles.

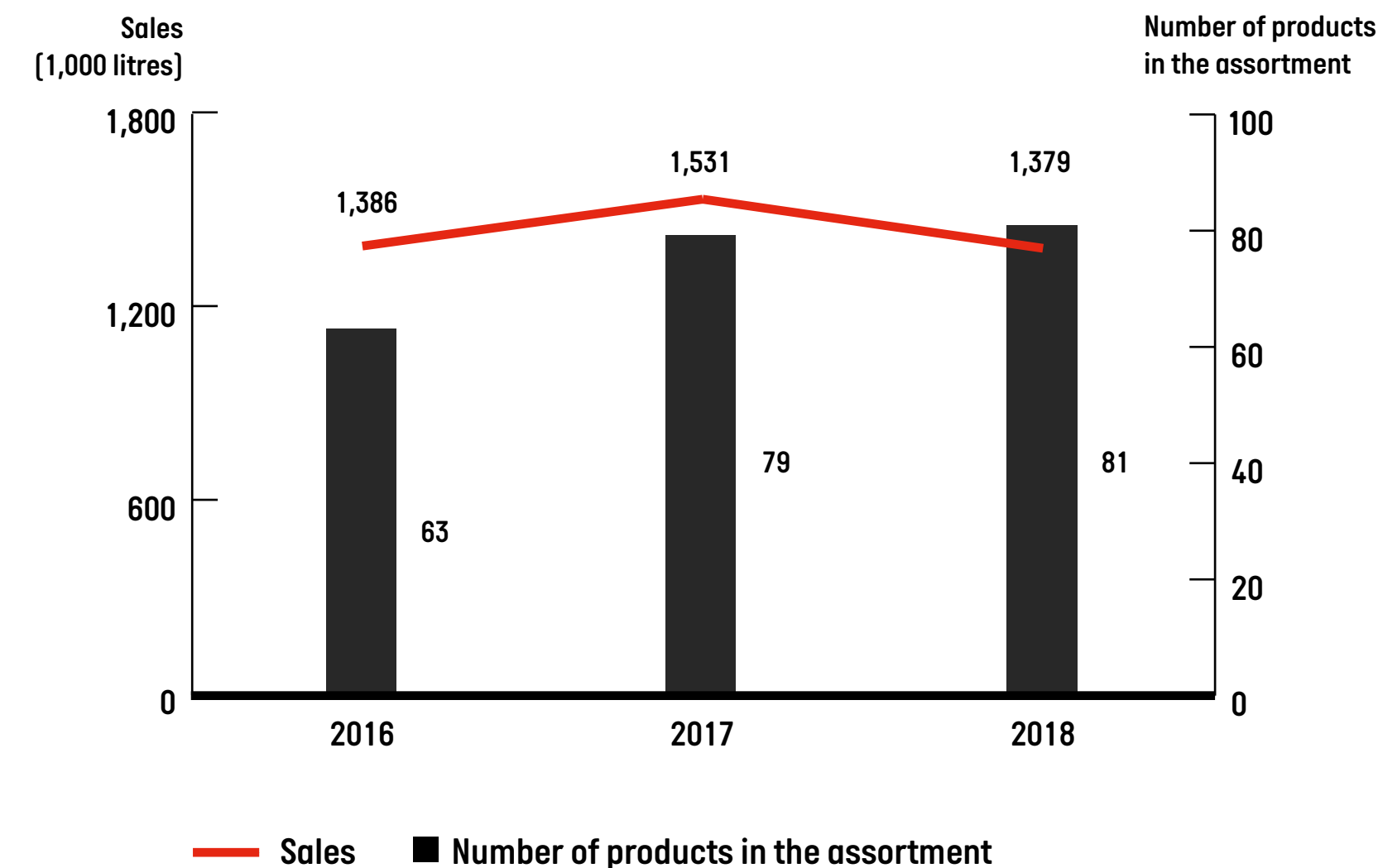
ALCOHOL-FREE PRODUCTS, SALES TRENDS AND THE NUMBER OF PRODUCTS



It is also worth mentioning that sales of organic products rose by nine per cent. Alko's selection contained a total of 943 organic products in 2018, which represents a rise of 34 per cent on the previous year. In addition to expanding our assortment of responsible products, we also launched product searches for our 2019 objective of finding new types of responsibly produced beverage packages. We also reinforced the significance of responsibility when Alko chooses which products to list.

In 2018, as a part of developing the wine and dine culture, Alko took the special edition products into its assortment. The special edition products include world class products as well as affordable quality drinks. Arkadia store's assortment of 500 different kinds of beer and expert service convinced The Holy Brotherhood of Moderate Intoxication to award the store with a diploma "Kohtuullisen mainio olutkauppa".

ETHICAL PRODUCTS, SALES TRENDS AND THE NUMBER OF PRODUCTS



Alko seeks to ensure the [high quality and safety of its products](#). This was put into practice via Alko's quality assurance programme and Alcohol Control Laboratory (ACL). Quality assurance performed sensory evaluations of more than 10,000 products. Customers' product returns saw a year-on-year decline of 15 per cent during 2018. Alko's laboratory performed a total of 2,519 beverage analyses on Alko products, plus more than 1,500 analyses for other operators.

AN INSPIRING AND MOTIVATING WORKPLACE

Our staff play a key role in creating the best customer experience. Skilled and motivated personnel provide responsible, world-class service through all channels.

Why is this important to us?

Jaana Lokka-Palomäki
Training Manager

Personnel coaching is an important means of influencing enthusiasm and success at work. Through her work, Jaana ensures that Alko can be proud of its staff's knowledge and skills also in the future.

Our employees are of key importance to both providing a world-class customer experience and ensuring Alko's success. Our employees' well-being and job satisfaction are vitally important to us – they enable our customers to receive expert, knowledgeable and attentive service.

The significance of our personnel is strongly evident in our strategy, which we updated towards the end of the year. During the new three-year strategy period, our strategic objective is to provide our employees with opportunities for enthusiasm and success and to be the most desirable employer in the service sector. We regularly monitor our employee experience with personnel surveys two to three times a year. The surveys provide us with valuable and wide-ranging information on our employees' opinions and experiences on cooperation, occupational wellbeing, learning opportunities, use of their own expertise on the job, flow of information, teamwork and supervisory work. On the basis of this survey, our most important indicator of the employee experience as a whole is the **Personnel Motivation Index**.

"The expertise of Alko's personnel is a matter of pride for us. We want to make great outlays on it. At Alko, expertise consists of strong and diverse knowledge of products, sharing of competence and top-notch customer service. The major role of expertise is also evident in that the remuneration system for salespeople is expertise-based

"At Alko, expertise consists of strong and diverse knowledge of products, sharing of competence and top-notch customer service."



and we have dedicated four to five training days a year to developing the skills of Alko staff during the past four years. Most of this training is implemented by in-house trainers. We believe that strong expertise, an upbeat vibe in the working community and an enthusiastic approach to customer service translate to customer satisfaction,” says Jaana Lokka-Palomäki, Training Manager at Alko.

Which direction are we heading in?

Alko uses a model for personnel competence development and HR management that places great importance on Alko’s skills hierarchy that describes the competence of salespeople, voluntary competence development, and identifying and sharing your own expertise.

Personnel training and development focuses largely on enhancing the product and service expertise of both newcomers to Alko and those who have been with the company for years. We use a variety of means to actively ensure strong knowledge of the assortment and product expertise. In addition, we enhance service and store expertise with formal training and online studies as well as passports for sales supervision and responsibility issues, for instance, that employees must renew at regular intervals. We want to provide our salespeople with the opportunity to develop in roles other than their main tasks, too: for instance, a salesperson at a store may also serve as a trainer or as an expert at the customer service centre.

In the development of expertise at Alko, we consider it important to employ a variety of methods for learning and development on the job. We use the 70/20/10 model: 70 per cent consists of learning by doing in day-to-day work, 20 per cent is communal learning and 10 per cent is formal training. That said, our aim is to organise training events such that they always involve participatory ways of learning, which facilitates sharing the lessons learned with other Alko employees.

The tools we use for developing expertise include the HR system training environment, Yammer discussion groups and our own Taste Deposit platform that collects product information.

We also support Alko’s strategic objectives by ensuring employees’ occupational well-being and safety. As our targets, we have set promoting and supporting personnel wellbeing and health, actively managing working capacity and preventing accidents, sick leaves and occupational disability.

What have we done?

PERSONNEL STRUCTURE

The overhaul and development of operating models following the structural reform of the store organisation in 2017 continued in 2018. We have sought to redefi ne personnel needs in a new business-centred way so that we can offer even more attractive working models that are as flexible as possible to suit the different needs of employees.

PERSONNEL IN FIGURES

	2016	2017	2018
Personnel Motivation Index	4.09	4.08	3,99
Number of red teams (identical vs prev. year)	6	2	3
Voluntary turnover	8.72%	10.10%	19%*
Total absences due to sickness	4.33%	4.61%	4.68%
Accidents at work	113	111	83
No. of disability pensions	2	6	8
Pay grade and forecast for the following 2 years	5	3; E2	2; E6
Retirement age (retirement pensions)	61	60.7	61.6
No. of retirees	53	24	47
Attendance rate for seasonal training	79%	75.20%	75.5%
Duty rota fill rate	72%	76%	71.1%
No. of personnel/No. of supervisors (in stores)			
- all	-	17.5	18.8
- permanent	8.8	12.8	15.3

*Calculation method was changed in 2018. Comparable figure in 2017 was 14%.

We want to offer even more attractive working models that are as flexible as possible to suit the different needs of employees.

	2015	2016	2017	2018
No. of personnel at year-end	2,525	2,655	2,646	2,690
Person work years	1,821	1,856	1,870	1,924
No. of permanent contracts at year-end	2,108	2,057	2,037	2,216
Average no. of personnel during the year	2,415	2,385	2,401	2,452
Fixed-term contracts			757	740

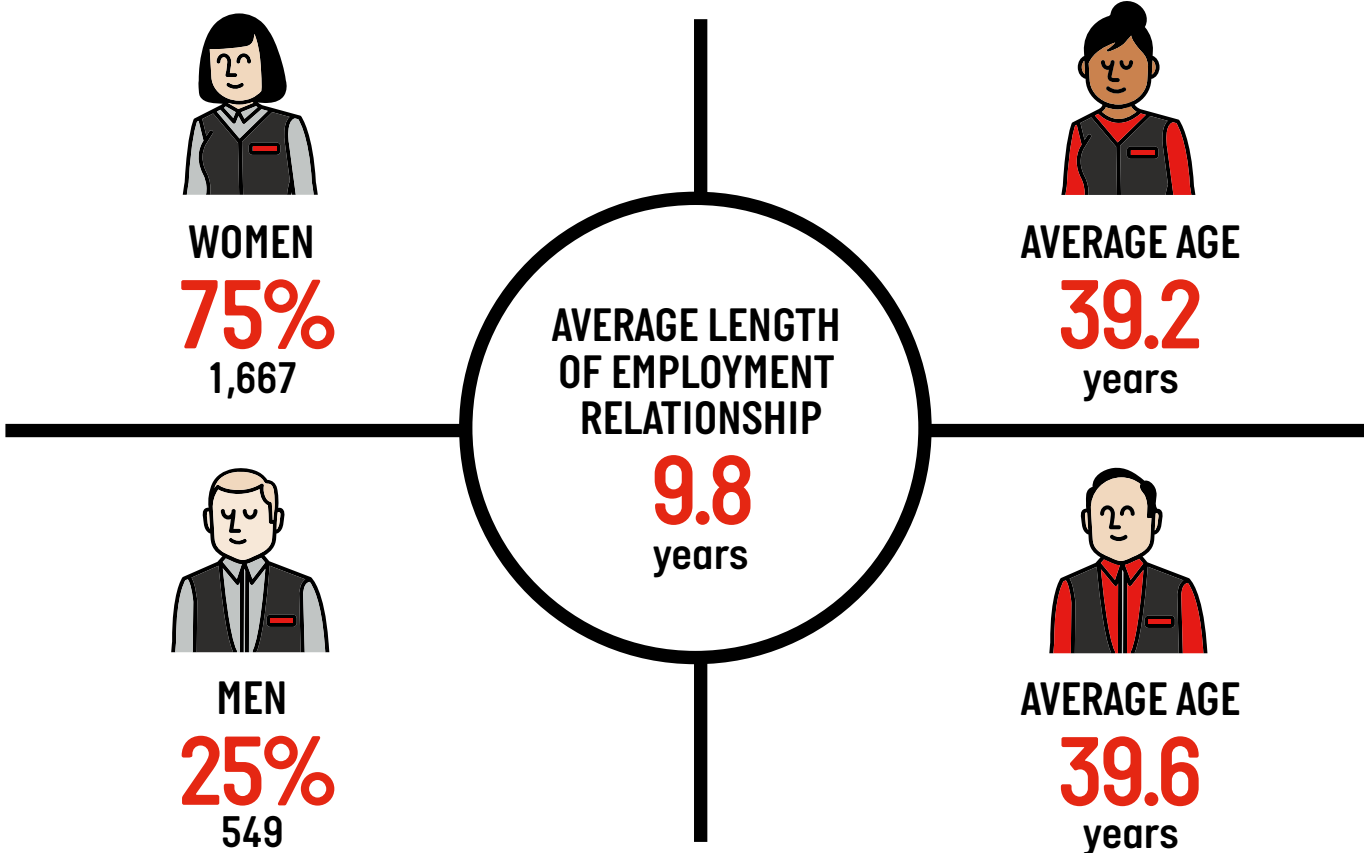
In 2018, we also introduced a new position structure for store groups and an assessment model for minimum working hours, which is strongly linked to personnel expertise. This enables us to ensure even more effectively that each store group has the right number of competent employees serving all customers and that Alko provides excellent customer service. There has been no great year-on-year change in the number of personnel. Alko's payroll rose by an average of 2.1 (0.67) per cent during 2018.

There is significant variation in Alko's number of personnel over the year. During peak seasons, we hire plenty of employees on fixed-term contracts to maintain our high level of service.

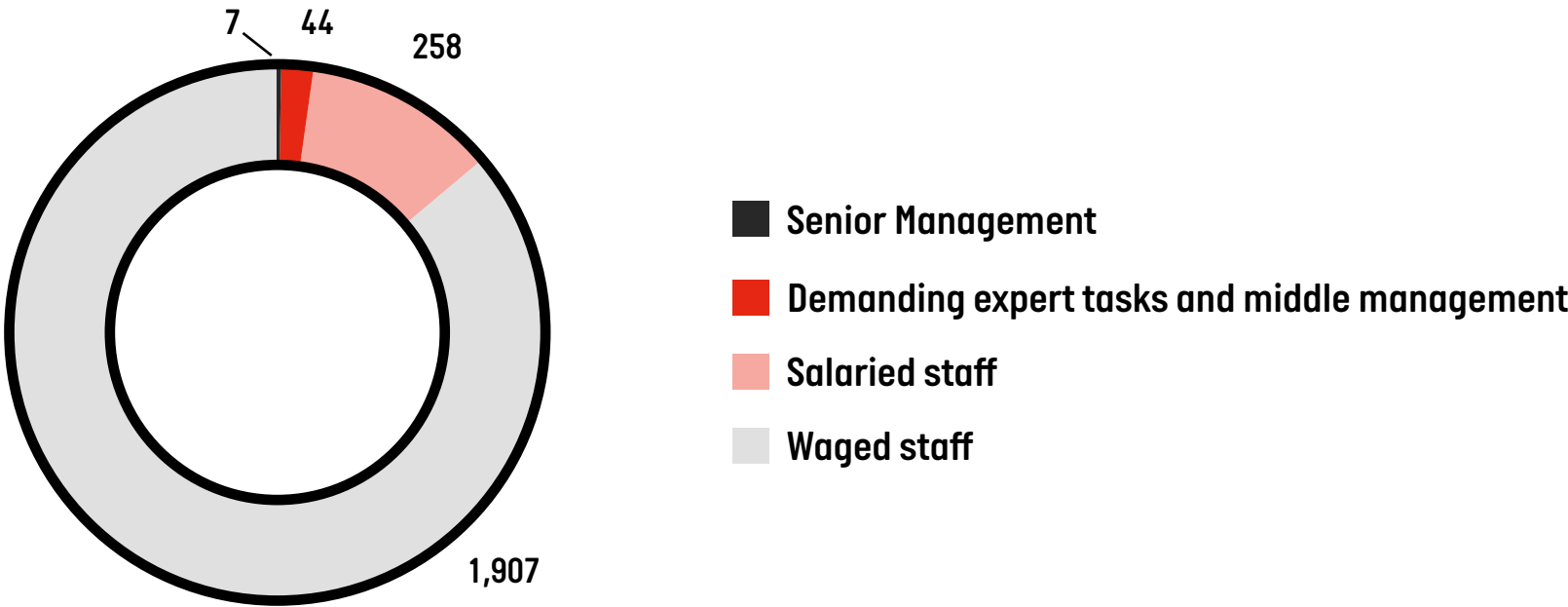
Most of the experts at head office are employed on a full-time, permanent basis. The majority of our part-time employees are salespeople, as our sales are weighted towards the end of the week and peak seasons. We constantly make outlays on HR planning and resourcing. We stepped up these investments in 2018. With effective and successful HR planning, we seek to ensure a suitable workload for our personnel and a high duty rota fill rate.

A large percentage of our store staff are women, and one reason for this is that the retail industry in general is dominated by women.

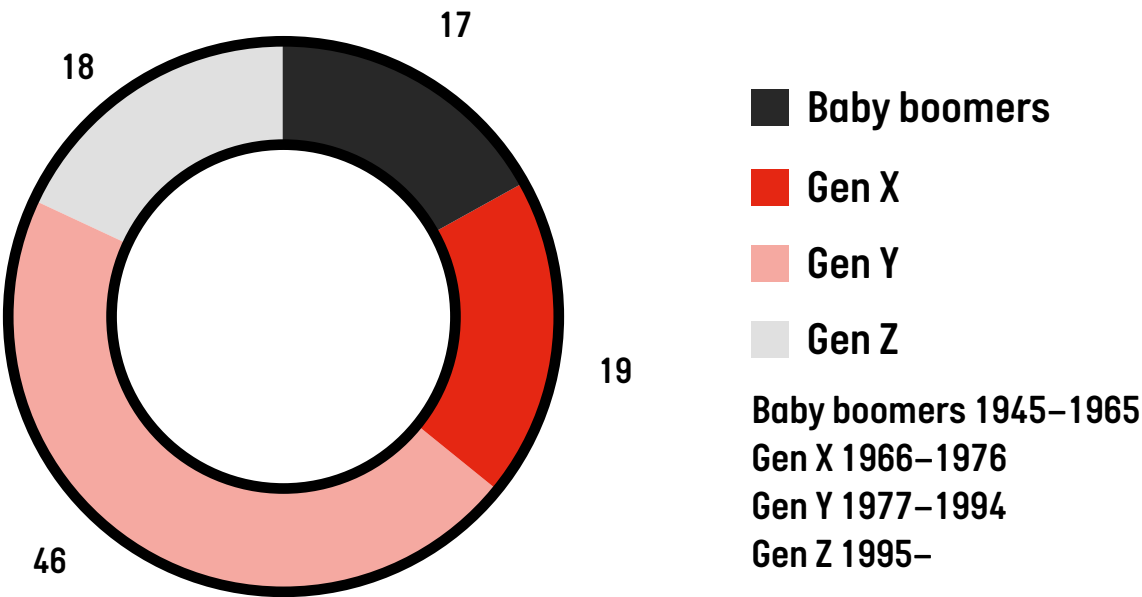
A TYPICAL ALKO EXPERT



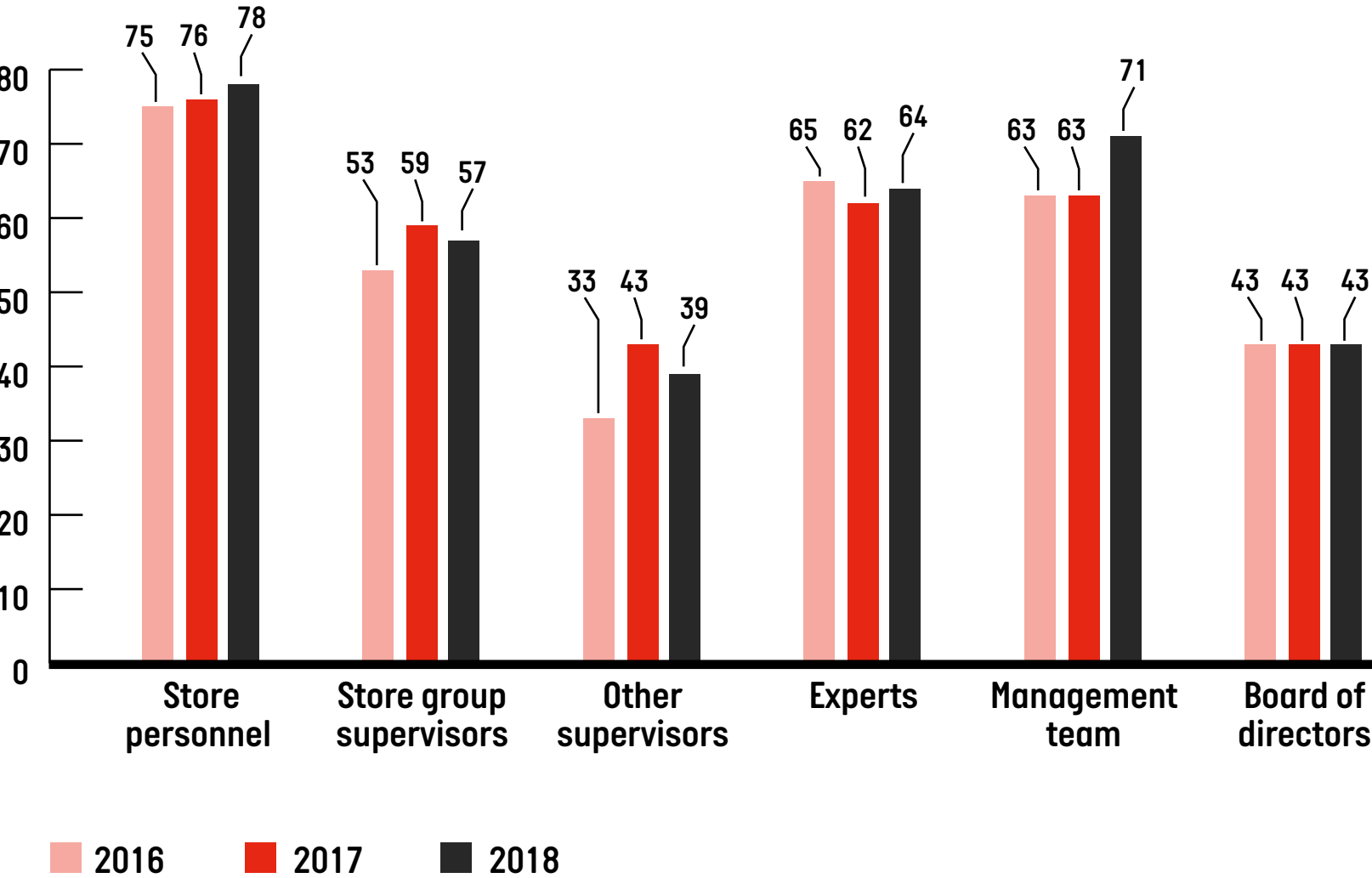
NO. OF PERSONNEL BY PERSONNEL GROUP PERMANENT CONTRACTS



AGE DISTRIBUTION , %
ALL EMPLOYMENT CONTRACTS



PROPORTION OF WOMEN BY TYPE OF POSITION, %
PERMANENT CONTRACTS



Five of Alko’s seven-person Management Team are women. 57 per cent of service managers are women and 43 per cent men. 39 per cent of supervisors at head of fice are women and 61 per cent men.

Duration of employment and turnover

Long-term employment contracts at Alko are an indication of the high level of employee loyalty. About 60 (60) per cent of our permanent employees have been with Alko for more than five years. However, we did see more voluntary personnel turnover in 2018 than previously. The good state of the economy and labour market also contributes to growth in turnover.

During 2018, Alko signed 1,207 (1,146) new employment contracts with 1,081 (1,000) people. 467 (248) of these were permanent contracts and the remainder were fixed-term contracts. The seasonal nature of Alko’s business explains the high number of fixed-term contracts – additional HR resources are required to support permanent employees during high seasons. The same people regularly return to work at Alko during the high seasons.

We want to support a diverse working community and take this into consideration when hiring new personnel. We aim to increase our future investments in personnel diversity.

Age distribution

The age distribution for Alko employees as a whole has remained quite similar for the past five years. Women are in a majority in all age groups. Seasonal employees tend to be slightly younger than our permanent staff.

Family leave

60 (70) employees were on family leave at the end of 2018. Of these, three were men and the remainder women.

Most of the men taking family leave were on paternity leave, which lasts for a shorter period than the maternity leave taken by women. Comparably, the majority of those taking parental and child-care leave were women. The actual ratio of returns or employee retention has not been monitored, but most employees returning from family leave return to their previous positions. Only a minority do not return due to, for example, transferring to another employer.

We aim to increase our future investments in personnel diversity.

Terminated employment contracts

The average duration of employment contracts at Alko is 11.4 (12.8) years for men and 8.4 (9.6) years for women.

Retirees accounted for 47 (24) of those who left Alko's employment in 2018.

The average retirement age in 2018 was 61.5 (60.9).

Voluntary turnover increased in 2018. The improvement in external labour markets is believed to have influenced the growth in turnover.

Due to the long duration of employment contracts at Alko, we have not previously seen any need for leaving interviews. In 2018 we launched an anonymous online questionnaire that is sent to everyone who leaves Alko's employ. This will help us identify the areas we should develop in order to curb the rising trend in personnel turnover.

	2016	2017	2018
Terminated employment contracts	823	1,186	1,197
No. of resignations	180	279	351

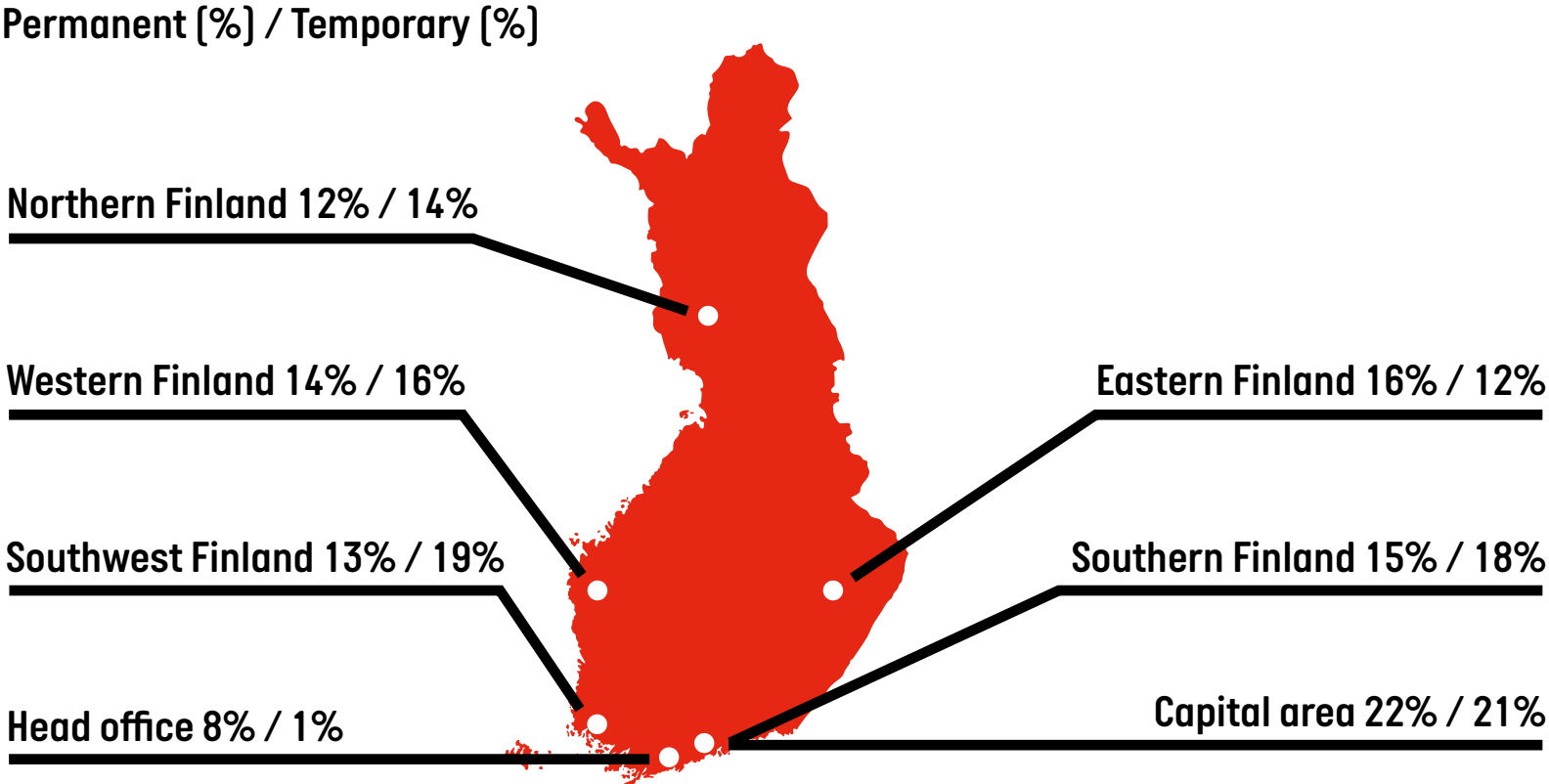
REMUNERATION

Alko provides its employees with diverse remuneration, consisting of both monetary remuneration and other benefits. Our strategic incentive scheme plays a significant role in monetary remuneration. It rewards the achievement of strategically important objectives and, as a rule, covers all of our personnel.

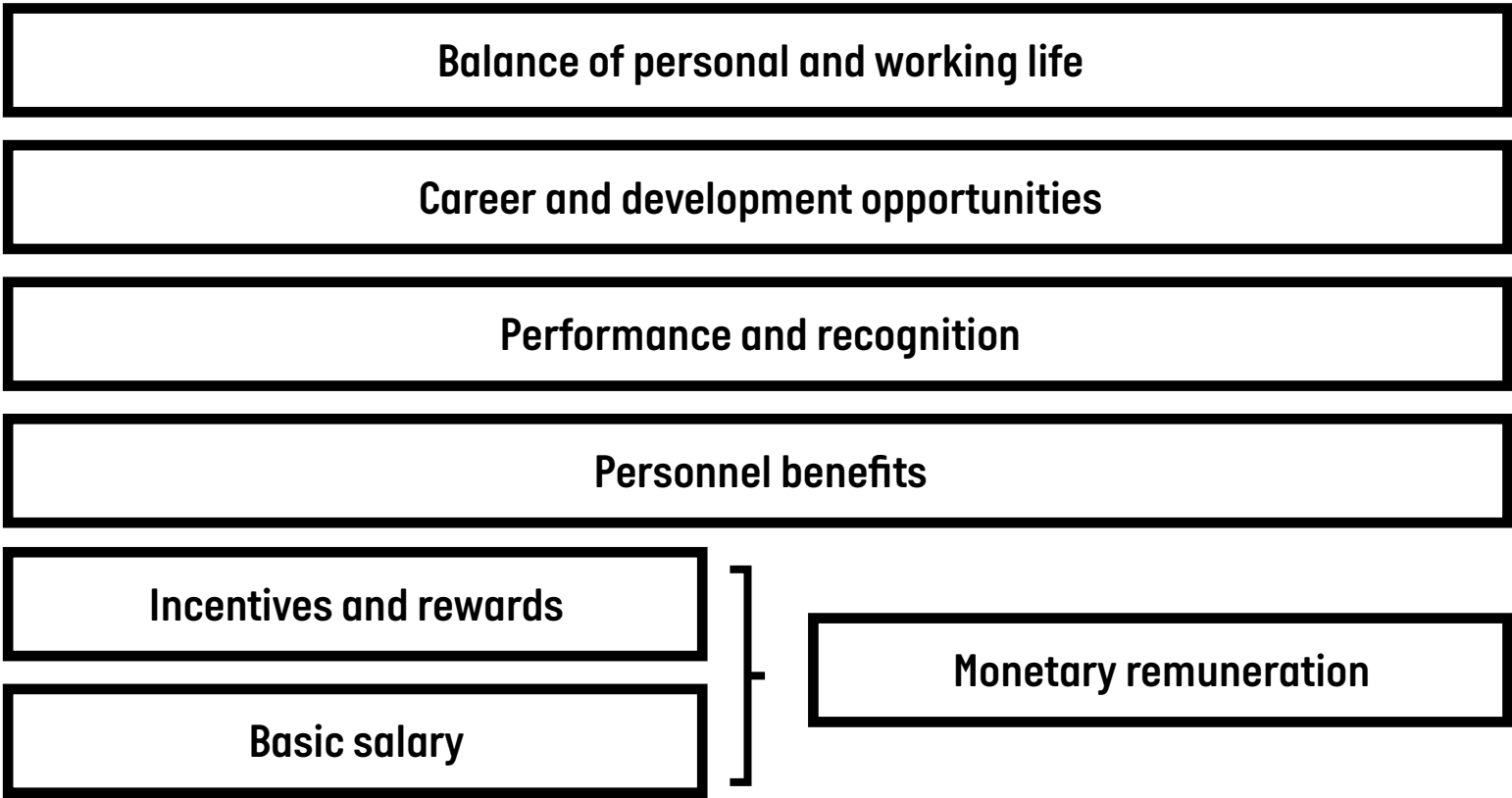
Pay levels at Alko stores are set on the basis of the pay groups and tables in our collective agreements. Salaries for employees in expert and managerial positions are determined on the basis of position-specific competence requirements, general competence, performance and results.

In 2016, we introduced our overhauled remuneration system for store staff, which was drafted by the employer in close cooperation with the ALV Union. In its second year, we have received plenty of good feedback from our employees on the fairness of the system and how it encourages the versatile development of personnel competence.

GEOGRAPHICAL DISTRIBUTION OF STAFF



ELEMENTS OF TOTAL REMUNERATION AT ALKO



In 2018, Alko continued to develop its remuneration systems. In the first half of this year, we introduced a new remuneration system for store group supervisors designed in cooperation with ALV Union, in which the minimum levels of the contractual salaries of these supervisors are determined based on the net sales and customer volumes of the store group. In addition, supervisors can be rewarded for strong expertise and achievement of performance targets.

As personnel benefits, Alko provides not only occupational healthcare, statutory insurance, family leave opportunities and pension benefits, but also support for promoting occupational wellbeing and leisure-time activities.

Collective agreements and cooperation

Alko's cooperation has long been characterised by a culture in which employees and the employer pull together effectively, with personnel representatives playing an active role in the development of the company. This has facilitated the successful implementation of many business-driven changes and the mobilisation of new operating models in the organisation. As an employer, Alko is committed to this proactive, participatory and strategy-oriented cooperation, because we believe that it will be vital to our success in the future, too.

Alko adheres to two collective agreements: The collective agreement for store personnel signed by the ALV Union and Service Sector Employers PALTA, and the collective agreement for salaried personnel signed by Alkoholialan Toimihenkilöt ry and Service Sector Employers PALTA. These collective agreements apply to all Alko employment contracts. The collective agreement for store personnel is valid until 31 January 2019 and the collective agreement for salaried personnel until 31 January 2020. Alko's shop steward system is based on the shop steward agreements appended to the collective agreements.

TRAINING AND DEVELOPMENT

In 2018, Alko continued to expand multi-store work. In order to support the success and mobilisation of multi-store work, we provided supervisors and personnel with coaching and tools for this type of work and its management. In addition, we [modernised access control](#) at stores to support multi-store work.

The focuses of the development of management and supervisory work in 2018 were business management, service management and encountering people. Su-



◀ Multi-store-work, i.e. working in different Alko stores, enables sharing the best practices from a store to another.

pervisors in the stores participated in a development programme in which these topics were tackled using participatory methods. Targeted coaching was also provided to supervisors to support the launch and management of multi-store work, taking these themes into consideration.

A coaching day was held for supervisors at the head office and the Management Team during which the participants worked together on the contents of the strategy. The updated strategy was presented at the joint supervisor days, at which we also took the first steps to mobilise the updated strategy in day-to-day work and to get personnel involved in the strategy. To ensure the implementation of the strategy, we updated the Alko management model. We will provide coaching to put it into practice in 2019.

Training highlights in 2018 concerned the launch of Taste Deposit, and our strong offering of service and product training.

In January 2018, we launched Alko's own online Taste Deposit app. Alko employees use it to share their product expertise, taste testing notes and information, sales arguments, and stories about products and producers that other Alko staff can use

> We launched a new Taste Deposit app for sharing the knowledge of our assortment of 8,000 products between employees and, hence, to our customers.



in both customer service and the development of their own expertise. It enables us to share expertise about our very wide assortment of 8,000 products with optimal effectiveness to all Alko staff and thereby indirectly to our customers as well. We thereby digitally share and enrich product expertise in all our stores around Finland. Each Alko employee shared their product expertise with their colleagues by making at least 20 tasting notes in Taste Deposit during 2018.

We tested new means of induction – we launched an induction store pilot and held a new induction day for seasonal employees at Christmastime. Both were instructive and we gained plenty of good feedback. We will continue to carry out and develop such pilots in 2019.

As in the previous year, we provided new Alko employees with a day of service and product training on five basic themes. The main training days of the year – seasonal training in spring and autumn – reached 75.5 per cent of Alko employees. They learned about seasonal themes, the customer encounter model, and store tools and methods. The themes were selected based on special shop displays. For

example, before the spring season, we studied how to pair our assortment of Australian wines with Easter delicacies and presented it to customers, learned about new sparkling wine taste types, and in the autumn introduced cool Chile and current whisky trends. In addition, 468 salespeople deepened their expertise in advanced training on the food trend of edible insects, sparkling wines and especially the responsible combination of food with beverages. All in all, in 2018 we provided 4.2 days of training to Alko staff, which represents a major outlay on personnel development. Most of the training is provided by in-house trainers.

Our online training and study offering grew with new modules on topics such as Alko’s online shop, responsibility and the induction of new supervisors.

In 2018, we introduced service and assortment masters to support our store service managers and teams. We trained them in both classroom and Skype sessions.

Alko’s communal expertise development and sharing is bolstered by MyAlko sparring partners, who perform this task in addition to their regular duties. For the second year in a row, they sparred with the supervisors of store sales staff, that is, service managers. During the year, sparring partners held 66 sparring sessions with supervisors, and these activities received plenty of thanks from supervisors and sparring partners alike.

Alko employees got to try out an interesting new means of developing and sharing expertise in the early part of the year – store teams played a team expertise game developed by Alko that uses playing cards to share expertise and positive feedback. The team expertise game had an important role in identifying and sharing expertise in teams. Identifying expertise is important so that everyone can recognise their visible activities in different levels of skills hierarchies. Top experts in the skills hierarchies share the most expertise to benefit others and help them improve themselves.

The responsible sale of alcohol is both Alko’s mission and the basis for our customer service. Our customer service revolves around the idea that alcohol must not be sold or handed over to minors or anyone who is intoxicated. This is monitored in two ways: by registering checks in the POS system and by setting store-level guideline values for how many age-limit checks, for instance, should be carried out. Operations are monitored constantly. This guides our [customer service activities](#). Sales supervision forms an important part of the induction and training of Alko employees. Every new Alko employee completes a sales supervision passport. Staff receive regular and very wide-ranging training in responsibility issues.

WELL-BEING AND SAFETY AT WORK

Alko measures employee satisfaction with Pulssi surveys. Two such surveys – with partly different content – were carried out in 2018. A slight decline has been seen in the results, but in our view they are still good, and better than comparative figures from the service sector. Survey results are analysed and reviewed by the Management Team and each unit and team. Joint measures are agreed based on the results and their realisation is monitored. When necessary, supervisors and teams are provided with support for development measures by HR and other partners.

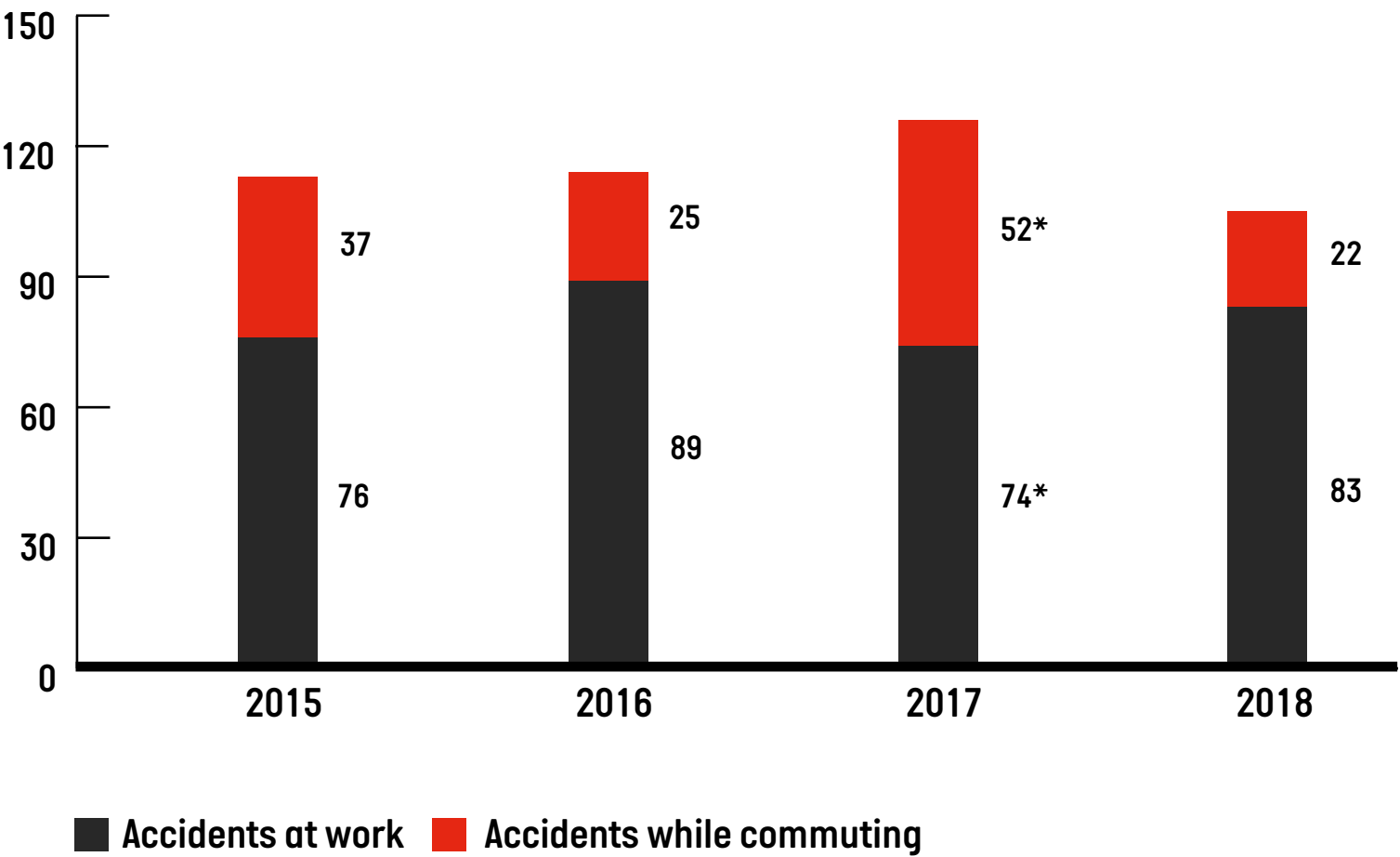
In working capacity management, we developed working capacity reporting in 2018, clarified internal processes and responsibilities, set up online coaching on the theme for supervisors, developed cooperation with occupational healthcare and sought new service models to promote wellbeing and occupational fitness. In particular, we made outlays on ergonomics in close cooperation with occupational healthcare.

We supported the working capacity of individuals by carrying out a health survey in cooperation with occupational healthcare. On the basis of the results, we offered everyone the opportunity to invest in their personal wellbeing and working capacity. Respondents were provided with a variety of targeted long-term coaching to support wellbeing and working capacity. The greater their need for support, the more personalised the coaching path that was offered to them. The impact of coaching was monitored actively.

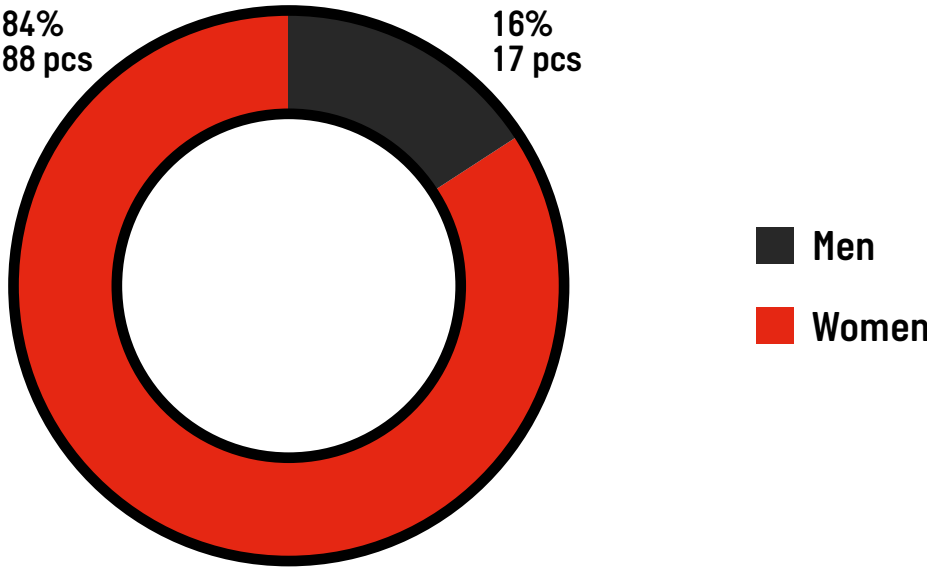
At the beginning of 2018, a new occupational protection organisation started its two-year term. Four new occupational safety representatives started out in the occupational protection organisation. Because of this, the induction programme for occupational safety representatives was thoroughly updated. The induction of new occupational safety representatives has now been taken to the next level. Occupational safety representatives have toured stores in their own area and developed occupational safety in stores together with store staff.

Safety management models were updated, particularly with the sales network management, store location team and store planning staff. Cooperation between the safety manager and units has been developed by creating an annual calendar and regular cooperation forums for safety monitoring and development.

ACCIDENTS AT WORK, 2014–2018



ACCIDENTS BY GENDER



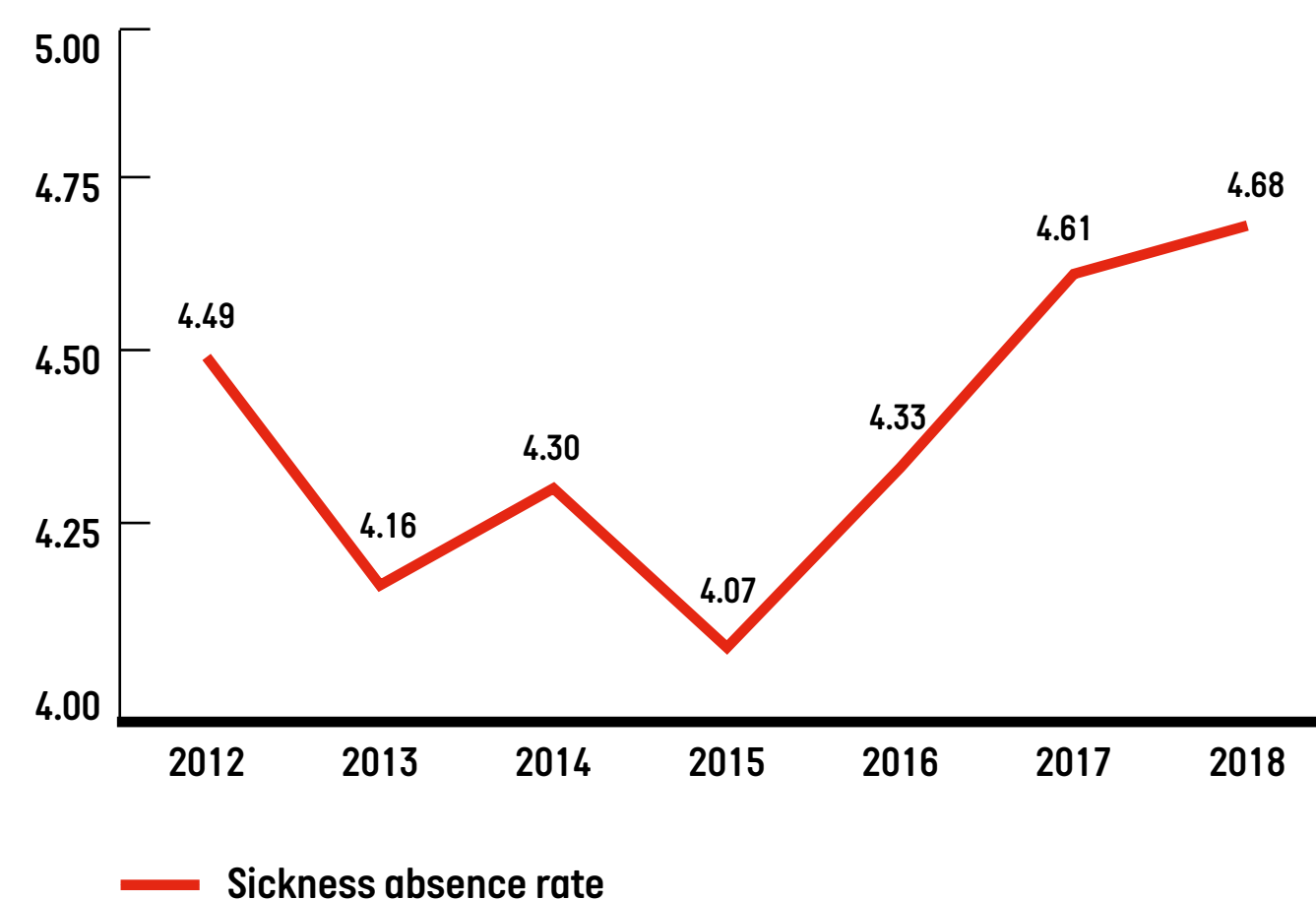
Our customer service revolves around the idea that alcohol must not be sold or handed over to minors or anyone who is intoxicated.



To make it easier for service managers and business management to target safety management and measures, we created a safety work desk for the reporting system, in which the development of the safety status can be monitored from the store level all the way up to Alko level. The reporting system collects all the major indicators of store safety, such as risk assessments, safety tours, accidents, situations involving threats and violence, and guard alerts.

To support multi-store work, we launched the Kulku I and II projects, in which we built electronic access control systems in stores and updated locks. Access control systems facilitate the management of access rights and ensure that employees can flexibly access multiple stores. The projects were targeted at 152 stores. As multi-store work expands, attention will be paid to access control system installation going forward, too.

TRENDS IN ABSENCE DUE TO SICKNESS, %





HUMAN AND LABOUR RIGHTS IN BEVERAGE PRODUCTION

Product traceability and good working conditions in the supply chain are one of Alko’s material responsibility targets. Consumers’ interest in product origins and production conditions is continuing to grow. We want to help our customers make responsible purchase decisions. One of our projects in this strategy period is to ensure product traceability and provide customers with more comprehensive information about the supply chain.

Why is this important to us?

“As Alko employees, we must develop our own competence in how the code of conduct is expected to manifest itself in the everyday lives of wine producers and farms”

We sold 9,578 different beverages in 2018. Alko does not have its own production or bottling facilities. All of the products we sell are purchased from Finnish or foreign suppliers, of which we have 604 in total. Our supply chain is global, extensive and multi-tiered, which poses challenges for transparency. Our vision for responsible procurement is to make the invisible visible. Only by identifying our strengths and weaknesses can we enable change – to copy best practices and correct bad ones.

“We introduced Alko’s operating model for responsible procurement in our Products and Purchases Unit. Product managers play an extremely important role in operational development. I work as a product manager in the wines product group and my area of responsibility includes South Africa, which is one of the high-risk countries in Alko’s supply chain. We product managers work in close cooperation with suppliers in our countries of responsibility, and are also involved in the beverage listing process. These days, responsibility is a natural aspect of a product manager’s work. But this hasn’t always been the case. As Alko employees, we must develop our own competence in how the code of conduct we require our partners to follow is expected to manifest itself in the everyday lives of wine producers and farms.

Anni Malmi
Product Manager
Anni’s area of responsibility includes South Africa, which is one of the high-risk wine-selling countries in Alko’s supply chain. Product managers work in close cooperation with suppliers, and therefore play a key role in realising responsibility in the supply chain.

Working with responsibility is interesting. Company-specific contractual relations are subordinate to responsible operations, which only have one goal: to ensure that all employees are treated fairly throughout the entire supply chain. It's something that unites us and is fundamentally important to everyone. It takes practice to find the right framework and a common language to discuss these issues. You also need good intuition to engage in constructive dialogue in challenging situations – and this is another thing you pick up on the job.

It can sometimes be tough to follow the principle of continual improvement and take appropriate action. Our task is never complete. Yet it is rewarding, when you make progress and see a positive change in employees' rights, status or working conditions. Responsibility is part of our identity as Alko employees. Every one of us works with enthusiasm and a big heart," says Anni Malmi, Product manager at Alko.

Which direction are we heading in?

DEVELOPMENT TO FOCUS ON IMPROVING TRANSPARENCY IN THE SUPPLY CHAIN

During this new strategy period, Alko will continue to pay attention to ensuring transparency in the supply chain. Efficient and systematic data collection, developing partners' competence, and proactive stakeholder relations will make the operating model for responsible procurement more effective and easier to communicate.

In Alko's operating model, it is critical to ensure that beverage suppliers take adequate measures to minimise human rights risks. In Alko's opinion, it is vital to engage in cooperation in which all parties in the supply chain are committed to developing both their own and their partners' competence. Over the long term, this will have a greater impact on improving working conditions than focusing on monitoring measures. Alko's responsible procurement model is based on the 80/20 rule. This rule is a communicational way to tell the stakeholders that the precautionary resources should be greater than the follow-up resources.

In addition to cooperating with our suppliers, discussion with [other stakeholders](#) is also important. Alko regularly meets with civic organisations, employee organisations, responsibility organisations, producer associations, producer representatives, and other Nordic alcohol monopolies.

At Alko, we enhance the responsibility of our supply chain in accordance with the policies of our responsible procurement strategy, which is itself part of Alko's responsibility programme. One of the programme's goals is to generate added value for both Alko's stakeholders and customers with the aid of responsible operating methods. Our responsibility programme is based on Alko's four strategic areas, one of which is Responsibility.

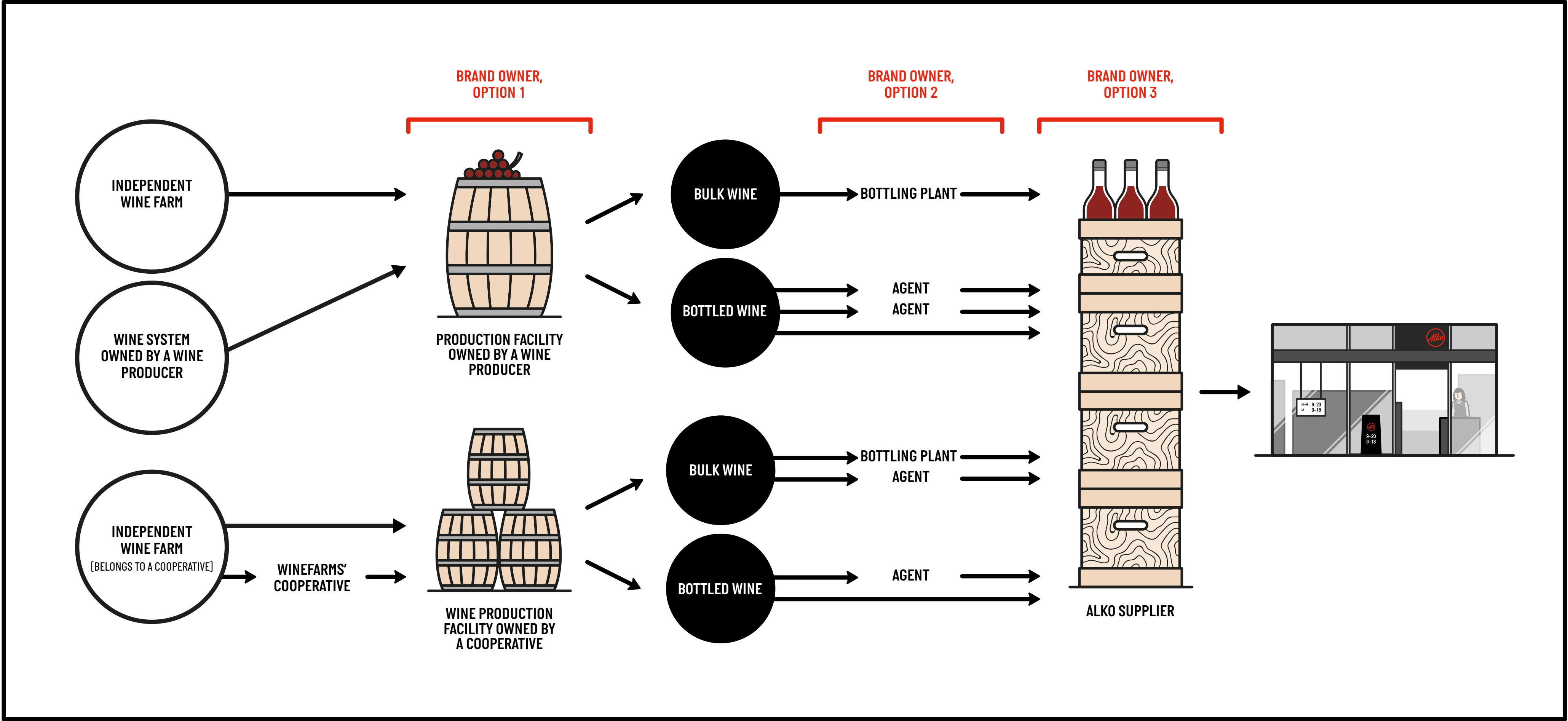
The responsibility steering group handles development policies relating to the responsible procurement model, which are then approved by Alko's Management Team as required. Targets, actions and results relating to responsible procurement are also reported on at meetings of the Alcohol Policy Committee, as an aspect of overall responsibility. A responsible procurement report is sent to Alko's Board of Directors – once a year for their information and as needed for case-specific assessments. The Products and Purchases Unit is responsible for the operative management of responsible procurement. The responsibility team in our communications unit is responsible for maintaining and developing the operating model. All Alko experts who make purchases are responsible for mobilising our responsible procurement principles in practice.

Alko's vision is to provide customers with the information they require to make informed purchase decisions. We collect supply chain data about products that come from high-risk countries. This data is used to target a variety of training and follow-up measures at countries where there is a high risk of human rights violations and/or bad working conditions. When categorising risk levels, we employ the BSCI's Country Risk Classification, which is based on the World Bank's list. Alko will introduce [a new tool to enhance risk assessment](#) in 2019. This tool will provide more detailed sector-specific and geographical risk data.

Alko works with other Nordic alcohol monopolies to promote ethical procurements. Our supply chains are partially overlapping, and it is therefore sensible and more efficient to cooperate on both competence development and monitoring measures.

Alko wants to provide customers with the information they require to make informed purchase decisions.

WINE ROUTES IN THE SUPPLY CHAIN



What have we done?

ALKO SUPPORTS ITS PARTNERS

There are 604 beverage suppliers in Alko's supply chain and about 1,700 other suppliers and service providers. The acquisition cost of for-sale beverages (EUR 935.6 million) accounted for 95 per cent of Alko's total procurements (EUR 988.1 million). We sell beverages from 76 different countries of origin.

We have assessed Alko's human rights impact in the light of the UN's Guiding Principles on Business and Human Rights, and committed to respecting all internationally recognised human rights in all of our activities. Alko's operations have both direct and indirect impacts on the human rights of our staff, our customers, and the people working in our supply chain. We engage our stakeholders in dialogue on human rights, and pay attention to them in everything we do. We require our staff and partners to respect all internationally recognised human rights. We also encourage our partners to make continual improvements in their own operations in this respect.

We support our partners in their efforts to make continual improvements with the aid of [the ethical operating and tools published by Amfori BSCI](#) (an international responsibility organisation). We require all of our beverage suppliers to comply with Amfori BSCI's ethical principles. Our Listing Procedure specifies the principles that Alko suppliers must comply with when cooperating with us, including those for responsible procurement. Alko requires all of its suppliers to be active in implementing the appropriate measures in the supply chain. We challenge our business partners to meet their due diligence obligation by assessing human rights impacts, taking adequate measures to prevent human rights violations, and ensuring compliance with agreed principles in the supply chain.

In addition, all beverage suppliers must also complete Alko's online e-learning of ethical principles. The e-learning seeks to ensure that our business partners sufficiently understand the practical impact of our ethical principles. In January 2018, we launched our revised e-learning, which seeks to increase suppliers' understanding of our ethical principles and thereby also their effectiveness. We wanted all Alko suppliers to have completed the training by the end of the year, and we almost reached this target. On the basis of supply volume, 97.4 per cent of our suppliers



< We sell beverages from 76 different countries of origin.

completed the training by the deadline. We will ensure that the remainder complete the course in early 2019. Proactive cooperation with suppliers and a mutual commitment to operating responsibly are the cornerstones of our responsibility efforts. In 2018, Alko organised 12 events and workshops aimed at suppliers, of which four primarily focused on responsibility topics. These workshop topics were preparing for audits, environmentally friendly packaging, transparent supply chain data, and crisis communications. One of the events was an international supplier event held by Alko in October 2018. 226 people from a total of 16 countries registered for this event, which went through Alko's updated strategy and discussed the direction purchasing would be taking during our new strategy period. One of the main themes of this discussion centred around managing and collecting supply chain data for products, and customer-centric communications about this information.

During the year, suppliers piloted a new self-assessment form of responsibility topics. A form was sent to rum producers and beverage producers who use Finnish berries as ingredients. It sought to analyse transparency in the ingredient supply



chain and producers' own assessments of their compliance with the responsibility principles required by Alko. The form was answered by 21 rum producers and six producers who use berries as ingredients. In addition to self-assessment, the form sought to create awareness of the responsibility topics being evaluated and provoke further thought on these issues.

Traditional management in the rum supply chain

During 2018, Alko continued to plan corrective measures to resolve challenges relating to conditions in sugar production in the rum supply chain. In June, we met with one of Europe's largest rum importers and producers. Our goal was to determine the sector's current operating models and future outlooks, and to better understand the role that responsibility certification plays in this sector. We also sought realistic opportunities to promote responsibility perspectives.

As we suspected, this theme proved to be extremely challenging. The sector does contain some individual international operators that can trace their products all the way back to sugar cane plantations. However, the sector is mainly built

around bulk operators who cannot provide the same level of traceability. The next step is to commission a third-party to determine country-specific risk levels and provide support for competence development

Responsibility efforts continue in South Africa

Another theme that remained highly prominent in Alko's responsibility efforts during 2018 was South Africa. A documentary called Bitter Grapes was aired in Sweden, Norway and Denmark in autumn 2016, and created widespread awareness of the deficiencies in the South African wine industry. Responsible consumers strongly questioned working conditions in the country's wine industry. In addition to sparking off extensive debate, the documentary launched new analyses and follow-up measures among the Nordic alcohol monopolies. Producers have been audited, corrective measures have been identified, and their implementation has been monitored in collaboration with suppliers. Although concrete improvements have been achieved, there is still plenty of work left to do.

This is why Alko launched a South Africa project in autumn 2017. Participation in this project was mandatory for all suppliers that sell South African wines to Alko. The project lasted six months. It sought to standardise suppliers' approaches to their due diligence obligation, and to increase overall competence and understanding of the responsibilities inherent in our business relations. Representatives of 29 suppliers participated in the project. On the basis of discussions held during the project, Alko and the Association of Finnish Alcoholic Beverage Suppliers (SAJK) came up with ideas to make responsibility efforts more systematic. We agreed to introduce the new operating model in January 2019.

Alko held three training events for local trade unions in South Africa as a Nordic project. Maximizing audit participation attracted 42 representatives from different trade unions. This training sought to provide employee organisations with a clear understanding of Amfori's ethical principles, which are used by the Nordic alcohol monopolies, and also to give them practical tools that will help raise employees' perspectives more forcibly, for example, as part of the audit process. We received excellent feedback from this training: participants thought it was both practical and beneficial. On the basis of this positive feedback, we have decided to continue this training in 2019. In June, Alko joined the international Stronger Together initiative, which seeks to

fight modern slavery. During 2018, the initiative organised 45 free training sessions for fruit and wine producers and farmers in South Africa.

In spring 2018, Alko commissioned an independent and voluntary survey of the living wage standard in South Africa. The survey was sent to South African wine producers in April. It sought to determine whether people working in primary production received a wage that would cover local living costs. Although we received only a few responses to the survey, we can say that this work often does not pay enough. There was also a considerable difference in the wages paid to permanent and temporary employees. Those in the weakest position are women who are either seasonal workers or have other fixed-term contracts.

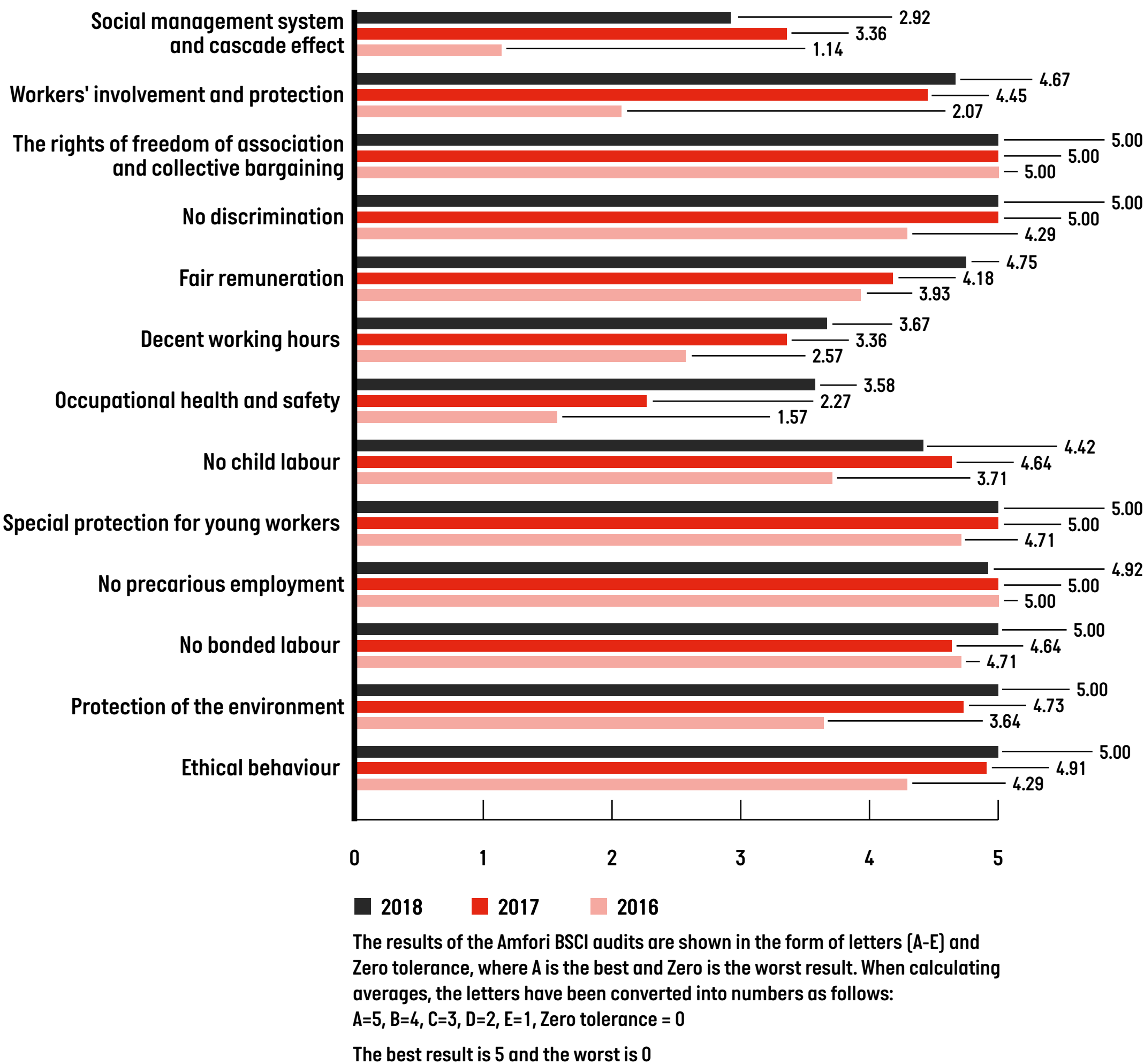
We discussed the results of the survey intensively with beverage suppliers during 2018. While Alko understands the profitability challenges faced by commercial operators, we cannot consider this a sustainable argument for the prevailing circumstances.

Monitoring measures ensure compliance with agreed rules

Primary production carries the most significant risks of neglect of human and labour rights in Alko's supply chain. Agricultural harvests are very labour intensive. There is great demand for human resources, workers do not receive sufficient introduction, safety risks are not highlighted, and seasonal workers are not provided with appropriate PPE (personal protective equipment) and tools. And legislation on working hours is unfortunately too often ignored. The following countries/regions have been identified as high risk in the supply chain: South Africa, Chile, Argentina, Mediterranean coastal regions, and sugar cane cultivation regions for rum.

Alko audited 12 different producers in 2018. These audits also included selected subcontractors of these producers. Audits were performed in Argentina, Chile, South Africa and Italy. Producers performed exceptionally well in the following areas: the rights of freedom of association and collective bargaining, no discrimination, special protection for young workers, no bonded labour, protection of the environment, and ethical business behaviour. Major deficiencies were detected in adhering to decent working hours. During harvest times in particular, more hours were worked than are permitted by law. Many producers also had deviations in occupational health and safety issues, and in implementing a social management system in line with the BSCI Code of Conduct. In Alko's supply chain one zero tolerance

AMFORI BSCI AUDIT RESULTS 2018



case was revealed. The zero tolerances are severe violations of code of conduct. We approach the audit results with a principle of continuous improvement, which is one of the fundamental principles of the BSCI Code of Conduct.

It is our goal to secure sufficient coverage of follow-up activities in all risk countries in our supply chain. During 2019, we will further develop our self-assessment tools and lighter monitoring measures implemented by third parties. These tools will be piloted in Europe.

In addition to monitoring measures, Alko wants feedback on how well ethical principles have been implemented in the supply chain. During 2018, Alko engaged in negotiations with the International Union of Food and Allied Workers (IUF) on a letter of intent. For reasons outside of Alko's control, this agreement has yet to be signed. Alko's goal for 2019 is to create a Nordic model for how international grievance mechanisms could help to improve transparency in the supply chain.

ALKO TREATS ALL SUPPLIERS EQUALLY AND TRANSPARENTLY AND WITHOUT DISCRIMINATION

The Decree on the Operation of the Alcohol Company requires that Alko's decisions on pricing, listing and delisting alcoholic beverages for retail sale must be public and impartial regardless of the producer's or seller's nationality or domicile. Alko does not, therefore, assess partner-specific risks related to human or labour rights in the supply chain before listing a product in our assortment. Once a product is part of Alko's assortment, it becomes subject to the annual risk analyses conducted as part of our due diligence obligation. These risk assessments cover things such as the product's country of origin, the structure of the supply chain, information about the producer (such as international certification) and any risks that have been identified for the beverage group in question.



◀ In Alko's opinion, it is vital to engage in cooperation in which all parties in the supply chain are committed to developing both their own and their partners' competence.

ENVIRONMENTALLY FRIENDLY CHOICES

Alko is committed to curbing climate change and overuse of natural resources by reducing the environmental impact of our operations. We implement the United Nations' Sustainable Development Goals, to which Finland is committed.

Why is this important to us?

Laura Kujansuu
Alko salesperson

Having worked as a salesperson for a long time, Laura has seen how the company has become more environment conscious. As a salesperson she offers responsible choices to customers, and acts as a champion within the work community. The salespersons carry out recycling at stores and give ideas for improving the stores' resource efficiency and other environmental questions.

Responsible and sustainable solutions in all of our operations is one of the material responsibility themes that will help us play our part in mitigating climate change and making it as easy as possible for our customers to make sustainable choices.

"An Alko salesperson serves not only customers but also the environment. We have a surprisingly big opportunity to influence both customers' purchase decisions and our store's emissions. When you have properly internalised a piece of information, you can also offer it to customers in a suitable format. I think of it like this: as a salesperson, I've been given a framework in which to act and it's my responsibility to ensure that I also perform this task in accordance with expectations.

We can influence both big and small things: repairing equipment instead of replacing it, recycling large volumes of packaging cardboard and plastic on a daily basis – and also sorting metal waste, even if we don't produce much of it – not to mention recording data for monitoring and reporting.

Alko's recycling speciality is recycling bag-in-box wine pouches and stores themselves can have a really big impact on how effective these efforts are. At my previous store (Tammisto in Vantaa), we decided to place the recycling bin immediately outside

"We have a surprisingly great influence on both customers' purchase decisions and our stores' emissions."



the glass doors, on the route from the main entrance to the bottle reverse vending machine. Placing the bin in such a visible location had a really big impact on recycling volumes! We also actively advertised recycling at the checkout.

It's often a case of how guidelines are put into practice in stores. Finding the best way to do things requires experimentation. Stores differ, and we try to take the special features of different properties into consideration in all of our environmental efforts. It's great that my colleagues are always ready to think about environmental issues and discuss things in an open and positive way.

We often think 'if only someone would do something' about climate change, and don't feel that the choices we make as consumers are enough to make a difference. And yet we expect major companies to take major action. Alko plays a big role in Finland, and through it we have the chance to take large-scale action all across the country. When it comes to Alko's assortment, it's important to present and sell Green Choices to our customers. Customers are usually surprised at their diversity, as it's not just about organic options – and customers think that's great.

We also advertise the environmental information that's available on the Alko website. Customers are also surprised at how environmentally friendly plastic bottles can be, and I've often had to justify it. Some people want to think it over some more, while others immediately buy a product in a plastic bottle – and plastic is also lighter to carry. Customers have a lot to say about plastic bags, and it often seems they are looking for someone to talk to. These discussions can end up being really long, and can sometimes test my knowledge. Our customers are very aware," says Laura Kujansuu, a salesperson at Alko.

Salespersons often have a surprisingly big influence on customers' purchase decisions. Alko's environmental impact depends on the decisions customers make. Laura actively promotes environmental issues among sales staff.

Which direction are we heading in?

At Alko, we are doing our bit to mitigate climate change and make it as easy as possible for customers to make responsible choices. Ingredient production and beverage production in various natural conditions and climates across the globe have a direct impact not only on their immediate environment and its ecosystems but, via energy consumption and emissions, also on climate change.

We want Alko's assortment to contain a diverse range of global products over the coming decades as well. It is therefore important to manage the direct and indirect environmental impacts of our products, and be able to reduce their harmful effects.

Our goal is to identify and reduce significant environmental impacts in our supply chain. This is why Alko also cooperates with the other Nordic alcohol monopolies (Systembolaget, Vinmonopolet, ÅTVR and Rúsdrekkasölu Landsins). The most significant environmental impacts in our supply chain arise from the manufacture of packaging (glass packaging in particular), the cultivation of ingredients (grapes, grain), and energy consumption from the beverage industry.

Reducing the environmental impacts of our own operations is an important element of curbing emissions. The direct environmental impacts of store premises include heat, electricity and water consumption. Alko actively seeks to reduce the environmental impacts of its store network. During 2019, we will also be working on targets for reducing emissions from product logistics.

Alko's 2020 objectives for environmental responsibility in a nutshell:

- 40 per cent of the products in alko's assortment carry at least some environmental data
- single-use plastic products, including plastic bags, have been replaced with a range of more sustainable auxiliary products. with this commitment, we are as an actor within the retail sector involved in the eu's strategy to limit the use of single-use plastics.
- the volume of packaging waste (cardboard and clear pallet plastic) that is generated by product logistics and accumulates in stores has been reduced by ten per cent compared to 2017
- electricity consumption (kwh/sqm) in stores and at head office has been reduced by ten per cent compared to 2017
- carbon dioxide emissions caused by electricity consumption have been reduced by 50 per cent compared to 2017.

What have we done?

ENVIRONMENTAL RESPONSIBILITY IN THE SUPPLY CHAIN: BEVERAGE PACKAGING WAS OUR THEME FOR THE YEAR

In 2018, beverage packaging was the annual theme for the environmental action taken by the Nordic alcohol monopolies. Alko commissioned Gaia Consulting Oy to calculate the climatic impacts of packaging, that is, their average carbon footprints. In 2018, beverage packaging was the annual theme for the environmental action taken by the Nordic alcohol monopolies. Alko commissioned Gaia Consulting Oy to calculate the climatic impacts of packaging, that is, their average carbon footprints. Gaia Consulting used the results to update the environmental study of wine packaging performed in 2010. Other source data included Alko, Systembolaget and Vinmonopolet's wine sales by packaging type in 2017, and wine-producing countries' national carbon dioxide coefficients for energy production.

The calculations clearly revealed the different climatic impacts of various types of beverage packaging. The per-litre climatic impact of heavy glass bottles is well over six times that of the least environmentally loading option, that is, cardboard packaging.

During the year, the results of the study were used in environmental work with suppliers and in customer communications. We took concrete action to develop our product assortment from a packaging perspective by carrying out our first product searches emphasising innovative and environmentally friendly packaging. The data collected in 2018, both from these product searches and other sources, will also be harnessed over the coming years to further refine our environmentally friendly packaging.

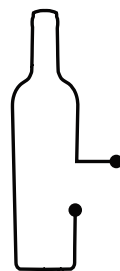
The total emissions caused by different wine packaging materials were calculated for the first time in 2018 with the aid of CO₂e coefficients from the packaging study. There are no coefficients available for aluminium packaging.

Annual emissions were calculated on the basis of average weights and were as follows:

- glass bottles: 17,021 tons
- plastic bottles: 897 tons
- beverage cartons: 379 tons
- wine pouches: 108 tons
- boxed wines: 1,185 tons

CARBON DIOXIDE EMISSIONS OF WINE PACKAGES

GLASS BOTTLE
0.75 L



675
CO₂e/L

LIGHTER GLASS BOTTLES
0.75 L (MAX 420 G)



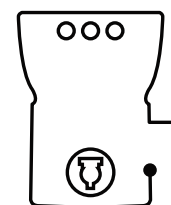
525
CO₂e/L

PLASTIC BOTTLE
0.75 L



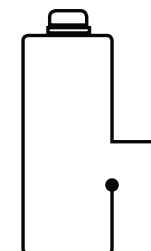
245
CO₂e/L

WINE POUCHES
1.5 L



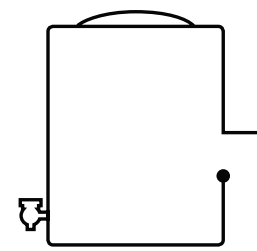
96
CO₂e/L

BEVERAGE CARTON
1 L



85
CO₂e/L

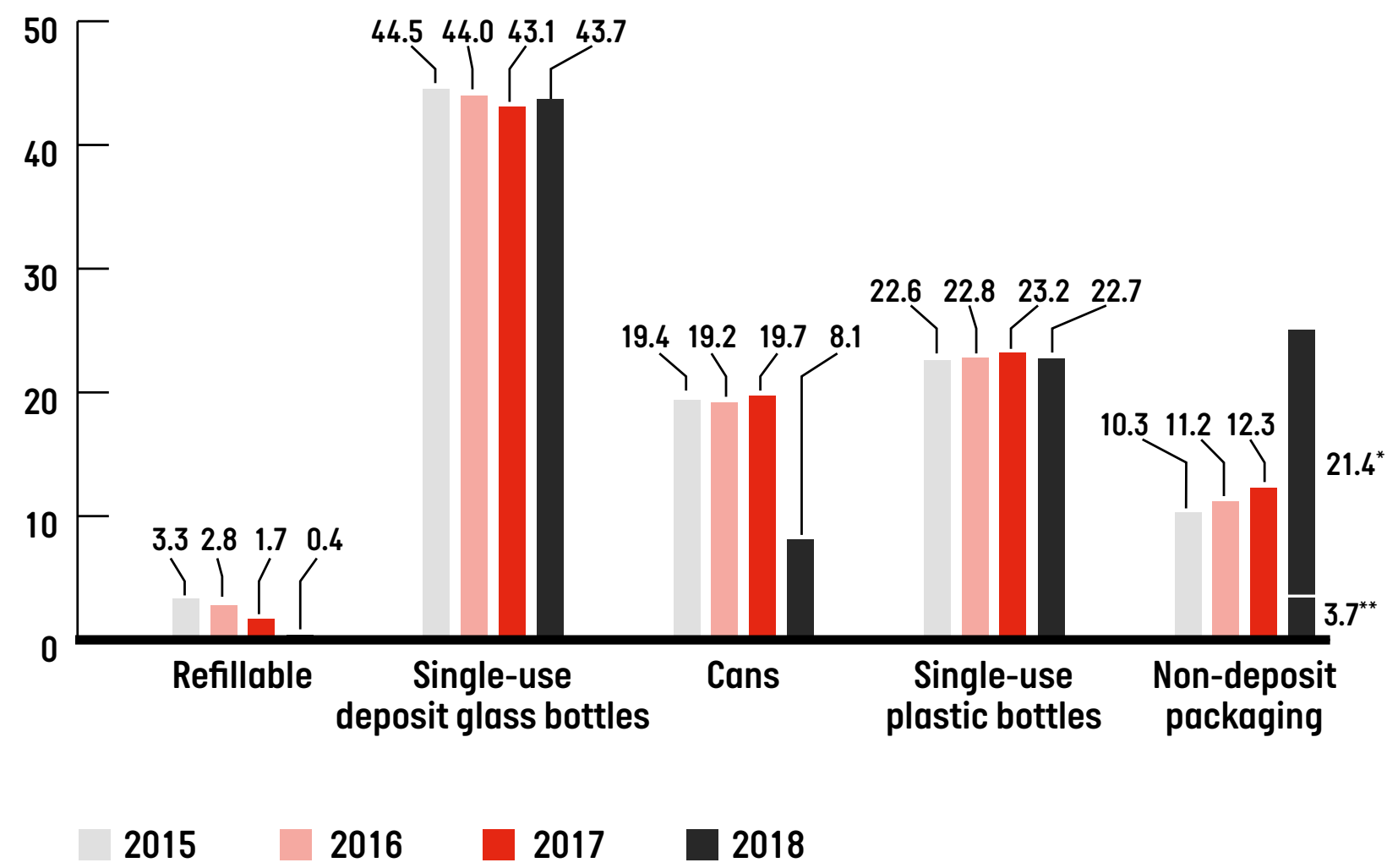
BAG-IN-A-BOX
3 L



70
CO₂e/L

Alko sold 124.2 million beverage packages in 2018 (2017: 137.3; 2016: 137.8):

PACKAGES SOLD, %



*Non-deposit glass and plastic bottles
**Other non-deposit packaging, such as boxed wines and wine pouches

ENVIRONMENTAL PRODUCT INFORMATION FOR BEVERAGES IN OUR ASSORTMENT

Green Choices now encompasses six different attributes about the environmental responsibility of beverage production methods and conditions: vegan, natural wine, certificate of local sustainable development, lightweight glass bottle, organic, and biodynamic. At the end of the year about 15 per cent of the assortment listed one or more of these environmental attributes.



Sales of organic products have long been used as an indicator of interest in products carrying environmental labels. In 2018, the sales of certified organic products saw a year-on-year increase of 9 per cent. In 2018, the total sales of all Green Choices products were 15.7 million litres, and therein the share of organic products was 6.9 million litres.

ALKO JOINS THE CITY OF HELSINKI CLIMATE PARTNERSHIP

Helsinki aims to be carbon-neutral by 2035. Climate partners commit to making Helsinki carbon-neutral and to reduce greenhouse gas emissions by way of their own selected means and targets. Alko has now joined this effort. Our pledge is to remove single-use plastic bags by the end of 2020, and we are also seeking to significantly reduce the sale of plastic bags before then. Alko has also pledged to further improve the recycling of boxed wine packaging and to reduce electricity consumption in our store network in the Helsinki region.

CASE

Plastic Bag Free Kerava

The Plastic Bag Free Kerava project seeks to make the Finnish town of Kerava the first plastic bag-free city in both Finland and Europe. Alko joined the initiative on 4 October. Since then, we have stopped selling plastic bags in our Kerava store and purchases are packed into customers' own reusable bags.

[Read more in Finnish](#)

CASE ➤

Plastic bag-free experiment in Ruka

Alko's Ruka store was free of single-use plastics during the Ruka Nordic games on 23–25 November 2018. The Ruka Nordic games sought to halve the volume of plastic waste.

[Read more in Finnish](#) ➤



THE ENVIRONMENTAL IMPACTS OF OUR STORE NETWORK

That businesses should reduce the environmental impact of their operations is a fundamental consumer expectation, and this goes for Alko as well. The direct environmental impacts of store premises are heat, electricity and water consumption. Consumption figures are only available for electricity consumption. Practical measures are guided by the objectives and responsibilities specified in our [ISO 14001 environmental management system](#). We report on our environmental impacts both on the Alko website and in our Annual Report. The annual control audits for ISO 14001 certification of Alko's store network were performed in November 2018.

Alko actively seeks to reduce the environmental impacts of its store network. In order to enable effective monitoring, Alko introduced a new environmental information system at the beginning of February 2018. This system will enable us to monitor our stores' electricity consumption and intervene in any deviations. It will also allow us to monitor the volumes of cardboard packaging and pallet plastic that are being sent for recycling.

Alko's total electricity consumption in 2018 was 11.5 GWh (2017: about 11.6; 2016: 12 GWh; 2015: 13.0 GWh. The figures are partially based on estimates). Consumption was reduced by about 1 per cent despite the legislative amendment that came

into force on 1 March 2018 and allowed for our stores' total nationwide opening hours to be extended by about 5 per cent on the annual level.

In 2018, Alko purchased a total of 4,777.3 (5,050.7) MWh of renewable energy whose origin has been certified as specified in the Act on Verification and Notification of Origin of Electricity.

Our goal is to halve the carbon dioxide emissions resulting from Alko's electricity consumption by 2020. We will achieve this in a number of ways, including saving electricity and increasing our use of green electricity products.

The majority of Alko's 359 stores operate out of rented premises. A total of 19 stores are located in premises owned by Alko. The average floor area of Alko stores in 2018 was 280.7 m² (2017: 284; 2016: 288; 2015: 296 m²). Our objective is to reduce the average area of our stores by 5 per cent by 2022. In 2018, Alko's electricity consumption per square metre of floor area was 113 kWh/m².

We refurbished a total of 45 stores in 2018. 12 of these were 'facelifts' that were able to reuse existing shelving and fixtures. The reuse rate for fixtures was about 27 per cent. Since we launched the implementation of our new store concept, Alko's fixture reuse rate has temporarily declined, as we are completely refurbishing certain stores. Old display shelving is also reused in stores' storage areas. In 2018, our reuse rate for this purpose was about 44 per cent. Our goal is to enable the reuse of as much surplus furniture as possible, either in our own locations or externally.

Customers can give feedback on environmental efforts in Alko's store network through our customer service or the feedback form on the alko.fi website.

THE ENVIRONMENTAL IMPACTS OF PRODUCT LOGISTICS

We monitor the CO₂ emissions of our import services*. In 2018, import deliveries caused 357 tons of CO₂ emissions (2017: 451; 2016: 707; 2015: 521 tons). In 2018, we have for the first time received a wider scope of emissions data from our logistics partners compared to the earlier practice of only reporting the deliveries from Alko's central warehouse. The CO₂ emissions of the domestic deliveries related to this scope were 411 tons.

CASE

Design competition for a range of reusable bags

During 2018, we launched a project to renew our range of reusable bags.

[Read more in Finnish](#) ➤

The emission figures for domestic transports include products delivered to stores from all Alko's warehouses as well as from the suppliers' warehouses, but not transfers between stores and the return transports. If properties do not provide facilities for recycling, we use return transport to collect recyclable plastic pallets and packaging board from our stores for centralised recycling.

Alko stores sent a variety of materials for recycling or reuse in 2018:

- cardboard waste 1,194.7 tons (2017: 1,115.6; 2016: 1,005; 2015: almost 840 tons). This figure covers 125 stores out of 359.
- pallet plastic 132.8 tons (2017: 146.1; 2016: 132; 2015: 108 tons). This figure covers all 359 stores.
- inner bags from boxed wines 10.4 tons (2017: 3.7; 2016: almost 3.6; 2015: 3 tons)

The volume of cardboard waste from product deliveries has increased by about 7 per cent. The volume of pallet plastic has decreased about 9 per cent.

ENVIRONMENTAL PARTNERSHIPS

Alko was involved in the [Baltic Sea Action Group's Living Baltic Sea project](#) with a commitment to collect used inner bags from boxed wines. We also supported the [Keep Lapland Tidy](#) association to protect Lapland's unique natural environment.

THE ENVIRONMENTAL RISKS OF ALKO'S BUSINESS

Alko has no separately defined business-related environmental risks, and no associated key indicators. The greatest environmental risks in the industry are changes in environmental conditions that stem from climate change and may impact the primary production of ingredients in Alko's supply chain. The most significant of these are increased temperatures during the growing season and worsening droughts in areas already suffering from critical water shortages. These include wine-producing regions such as South Africa, California, southern Spain and southern Italy. Climate change has also increased the unpredictability of weather during the growing season. The industry is also subject to local, producer-specific environmental risks, mainly in relation to the use of pesticides and their indirect – yet long-term – harmful effects on local ecosystems and communities.



◀ The volume of cardboard waste from product deliveries has increased by about 7 per cent. The volume of pallet plastic has decreased about 9 per cent.

Alko complies with legislation on environmental issues, as in all other areas. We monitor changes in legislation and act in accordance with the expectations of our stakeholders and society at large.

*The following emission factors were used in the calculations:

Import deliveries:

Emission factor 1,044.92 g CO₂/km/trailer (by road) and 490.78 g CO₂/TEU/nautical mile (by sea)



TRANSPARENT AND EFFICIENT OPERATIONS

At Alko, we continuously improve and develop our operations. Sustainable financial performance, which forms the basis of our financial responsibility, can be achieved through responsible values and business practices.

Why is this important to us?

“We’re among the first to see what kind of food and drinking culture future generations are adopting.”

Agile and efficient operations guarantee that we can continue to meet future changes in our operating environment and customers’ needs – and thereby create value for Finnish society.

“Alko is an important part of society. When people look at our efficiency, adaptability and also of course our service, we want to be able to stand up favourably against any other specialised company. We’re among the first to see what kind of food and drinking culture future generations are adopting and, if we are agile, we can use this knowledge to benefit the rest of our customer base.

An efficient company has more time for its customers. When we’re aware of the changes in our operating environment, we’ll also be able to meet them in the way our customers desire. And we can boost the

efficiency of our own processes at the same time.

Financial responsibility is therefore an important aspect of Alko’s operations and benefits everyone who lives in Finland. Operational efficiency is a must if we are to achieve a sustainable financial result. Alko’s operations have an extensive financial impact on stakeholders and society. As a Finnish state-owned company, we must also take equal account of all stakeholders and engage in open, transparent financial reporting.

In our technological developments, we invest in delivering well-designed and cost-effective solutions with an agile approach. We want to generate value for both internal and external users as quickly as possible. When choosing technologies, we take

Kaapro Kanto
Chief information officer

Kaapro ensures that Alko’s operations correspond to the ever changing consumer needs and changes in the operating environment - also in the future.

advantage of modern cloud services that provide flexibility. This can be seen in the services we provide to our personnel, which can be used irrespective of time and place – whenever they are involved in the customer interactions that are most important to us,” says Alko’s CIO Kaapro Kanto.

Which direction are we heading in?

Alko’s operating environment is changing. We firmly believe that agility and efficiency will become increasingly important in providing our customers with world-class service and in maintaining our profitability.

We will continue to harness new technologies, partnerships and ecosystems whenever they generate added value for our customers, either in Alko stores or in our support functions. We are mobilising a culture of agile development throughout our organisation, so that we can take efficiency to a new level and quickly provide our customers with visible improvements. We seek efficiency in all of our activities. This enables us to guarantee profitability in an operating environment that is becoming increasingly demanding.

Our three most important principles are: to generate value for our customers by simplifying repetitive tasks, to move quickly from idea to implementation, and to be able to measure our impact. We encourage our personnel to raise any sore points and other obstacles, so that we can be the first to intervene and thereby maintain the high quality of our customer service. We move determinedly towards our objectives, step by step, by keeping an eye on our plans and priorities. We are confident that this approach will generate added value for our customers.

We employ agile development to move quickly from idea to implementation. We have built a basic foundation for our organisation’s processes and technical environment. This foundation provides us with a platform on which we can develop new ways to enhance our customer experience more quickly and more flexibly. We invest in developing a bold and agile culture. We do not fear failure, but rather learn from our mistakes. Our customers and business requirements are the starting point for all of our developments, not technology. Our development work is based on a clear,

shared, high-level target state. Although we employ many different development models, we take a unified approach at company level.

We systematically measure our impacts, which also enables us to optimise our available resources. A variety of different project models help us to make improvements available as quickly as possible, and we continually measure our impacts from this perspective as well. We are continually developing our company from a broad range of perspectives, and we want to stand up favourably against others in our sector.

What have we done?

Boosting efficiency and improving our customer experience were major themes for Alko in 2018. Technology brought more extensive product expertise to customer service situations in Alko stores, and improved enterprise resource planning boosted our operational efficiency.

EFFICIENCY AND AN IMPROVED CUSTOMER EXPERIENCE THROUGH TECHNOLOGY

In 2018, we improved our customer experience by introducing new services for our customers and further expanding product expertise in Alko stores. On the basis of customer wishes, we enabled access to our online store’s extensive assortment at Alko stores and pick-up points. Our selection of more than 8,000 products can now be ordered in-store with the assistance of an expert salesperson. In order to facilitate customer service and increase our sales staff’s product knowledge, we created a new app that will help staff to recommend suitable products for a variety of occasions. A salesperson can use the app to find a colleague’s notes about products that they are not yet so familiar with.

RESPONSIBILITY FOR CUSTOMER DATA

At Alko, we made the processing of personal data more transparent and more responsible in order to meet the requirements of the General Data Protection Regu-

lation (GDPR). We assessed the risks of processing personal data belonging to our customers, personnel and partners, and introduced more effective controls on data processing. When it comes to the processing of personal data, Alko's principle is to collect as little data about our customers as possible, yet enough to enable us to provide effective service.

EFFICIENCY THROUGH ANALYTICS

In order to boost the efficiency of our operations, we modernised our ERP system and our information management platform. These projects enabled improved analytics, and the availability of up-to-date data in turn enabled us to better manage our resources. With the aid of reliable real-time data, we can ensure that our human resources and goods flows can meet demand. We can also better analyse our business locations, so as to provide service in the best possible locations for our customers.

RESPONSIBILITY FOR PRODUCT SAFETY

We developed Alko's laboratory processes and information systems, so that we can continue to provide fast and cost-effective deliveries to a high standard. The previously paper-based process was automated with the help of the new practices, which enables us to improve quality. As a result of the more automated process, the number of samples taken can be increased, which guarantees an even better product quality.

FINANCIAL RESPONSIBILITY

Sustainable financial performance, which forms the basis of our financial responsibility, can be achieved through responsible values and business practices. Our business principles require us to operate openly and honestly, and in compliance with current legislation, regulations and agreements. And we require the same of our business partners. We do not accept bribery or corruption of any kind – we adhere to financially responsible principles. Cash assets are invested to secure invested capital, ensure solvency, and obtain market-based returns on low-risk investments.



📅 2018, we improved our customer experience by introducing new services for our customers and further expanding product expertise in Alko stores.

Customers

We offer our customers safe, premium-quality products and services. In 2018, income from alcoholic beverages totalled EUR 1,148.1 (1,168.4) million. Beverages were sold via Alko's store network and online store.

We provided goods and services to the value of EUR 5.1 (5.7) million. This figure includes EUR 304 (358) thousand in income from analyses performed by the Alcohol Control Laboratory.

Other operating income totalled EUR 2.0 (1.7) million and mainly comprised rental income.

Good suppliers and service providers

Most of Alko's purchases are alcoholic beverages. Purchases from our 604 suppliers and wholesale traders in the alcoholic beverage industry totalled EUR 935.2 (938.9) million in 2018. 200 of these operators are based in Finland. We also purchased alcoholic beverages from 404 international operators to the total of EUR

12.4 (13.8) million in 2018. We make our purchases in euros in order to prevent exchange rate risks.

Alko purchased other products and services costing EUR 23.4 (32.5) million in 2018. A total of EUR 56.8 (57.6) million in procurements from suppliers was also entered under fixed costs. The two biggest groups of expenses were IT services and leasing costs of premises. EUR 11.8 (13.2) million was invested in IT-services and consulting. IT costs covered the IT systems and devices required by Alko, and the maintenance and minor development of our online store. At the end of 2018, 340 of our 359 stores were located in leased premises, for which we paid EUR 17.7 (17.5) million in rent.

Personnel

In 2018, salaries and fees paid to personnel totalled EUR 71.8 (70.1) million. Pension costs totalled EUR 12.6 (13.4) million, and other personnel expenses EUR 3.0 (3.1) million. Due to extended opening hours, the use of personnel at stores slightly increased compared to the previous year.

Society

Alko's business operations accrue tax revenue for society. Our tax affairs are headed by the Executive Vice President, Finance, who reports on significant tax issues to the Board of Directors and its Auditing Committee. In situations subject to interpretation, tax consultation services can be purchased from an external tax expert or the tax authorities can be requested to provide an advance decision. Alko does not engage in tax planning or channel its funds into foreign accounts, but instead pays taxes on all its earnings and product sales in accordance with Finnish law.

The products we sold in 2018 accrued EUR 589.1 (578.3) million in alcoholic beverage tax. Our suppliers pay the majority of the alcoholic beverage tax on products sold by Alko directly to the state. Alko pays alcohol and packaging taxes on products that pass through its central warehouse. We paid EUR 10.7 (10.8) million in alcohol tax on an accrual basis for alcoholic beverages passing through our central warehouse, plus EUR 0.3 (0.3) million in beverage packaging tax. Alko paid EUR 39.1 (40.8) million in VAT and EUR 10.5 (10.5) million in corporate tax, and EUR 13.9 (14.6) million in wage taxes and EUR 0.6 (0.6) million in social security contributions.

Associations and organisations

Alko participates in the In the Company of Children programme with the A-Clinic Foundation, the Mannerheim League for Child Welfare, the Finnish Parents' League, and the National Institute for Health and Welfare (THL). Our partners for campaigns in the Clearly Good Work programme are the A-Clinic Foundation, the Finnish Association for Substance Abuse Prevention (EHYT), KELA, the Finnish Institute of Occupational Health, the National Institute for Health and Welfare (THL), and the Centre for Occupational Safety. Although this cooperation is based on mutual agreements, KELA, the National Institute for Health and Welfare, and the Centre for Occupational Safety acted as experts without compensation in these programmes in 2018. Alko paid organisations a total of EUR 153 (141) thousand in fees for their contributions in 2018.

We are also cooperate with the Youth Academy and Finnish Olympic Committee. With these organisations, the sum of contributions against compensation totalled EUR 69,2 (61,7) thousand. We also contributed EUR 5 (5) thousand in our cooperation with the Finnish Association on Intellectual and Developmental Disabilities on fetal alcohol spectrum disorders (FASD). Gratuitous contributions made to the Junior Chamber International Helsinki's Policeman of the Year nomination and the Finnish Olympic Committee's Grow Up to be an Athlete grant totalled EUR 6,9 (6,7) thousand. Other gratuitous contributions include EUR 5 (2) thousand to the charity organisation Veikko ja Lahja Hurstin Laupeudentyö ry for a Christmas event for persons of limited means.

We also supported the research activities of the Finnish Foundation for Alcohol Studies with a donation of EUR 67,3 (67,3) thousand, and contributed EUR 15 (15) thousand towards the social policy publication Yhteiskuntapolitiikka. In 2018 Alko also supported the University of Helsinki's medical research on addiction and alcohol with EUR 120 (120) thousand.

The impact of these grants and contributions on full-year profit came to EUR 0.5 (0.5) million.

Alko did not give grants or subsidies to political parties.

Our owner

Alko is wholly owned by the Finnish government. We paid our owner a dividend of EUR 32.0 (30.0) million from our revenue for 2017. This dividend was paid in two instalments in 2018: EUR 16.0 million in June and EUR 16.0 million in September. Alko does not receive any financial assistance from the state.

Investments

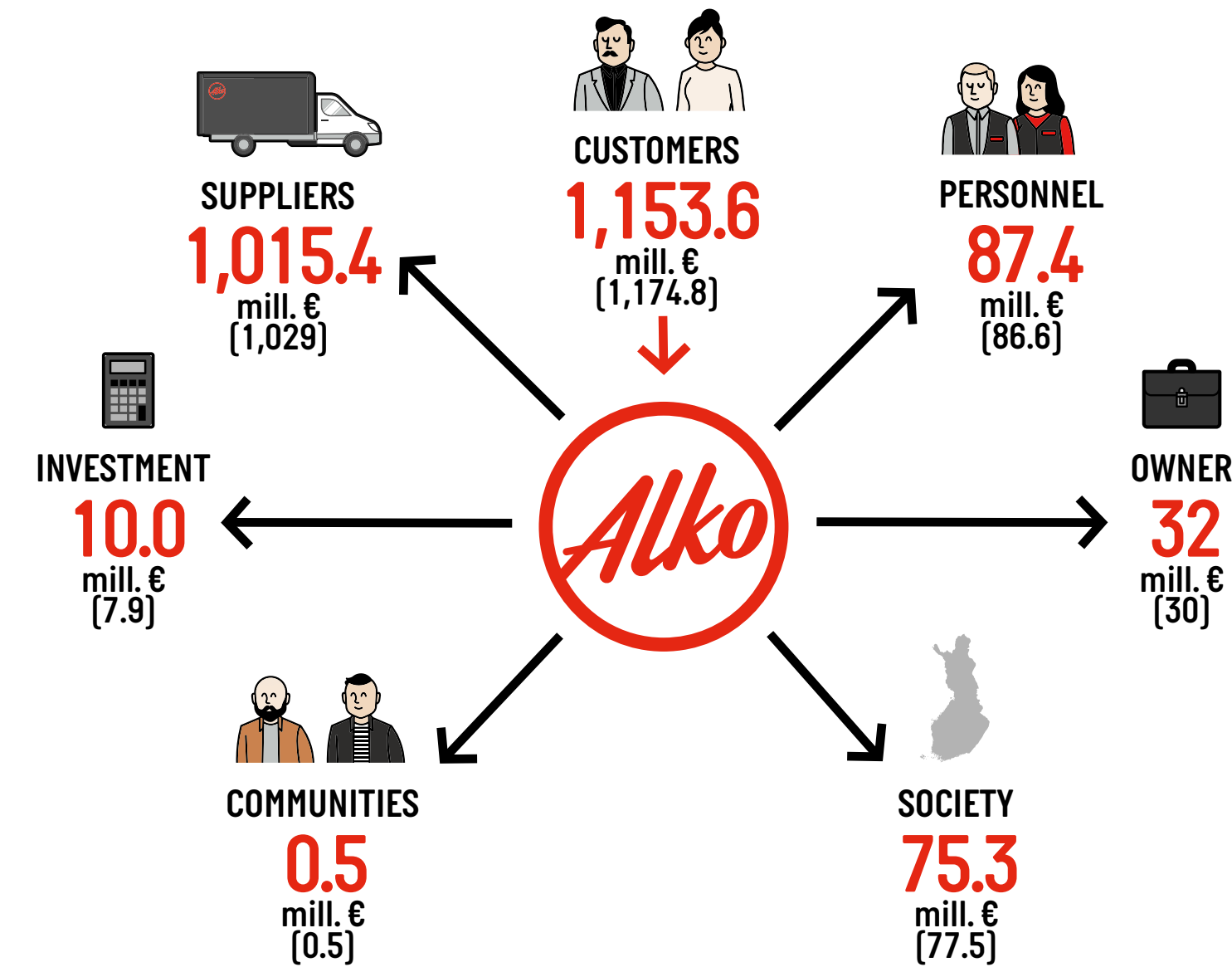
Alko invested in strategic projects and the development of its store network. In 2018, we invested EUR 6.4 million in developing our store network (EUR 5.8 million in 2017). Alko opened four new stores: three in the capital city region and one in Tampere. Ten stores transferred to new locations.

Alko’s new store concept combines a multichannel approach, knowledgeable and personal service, and a learning experience for customers. We have a single, standardised store concept with three different store types. These types define a store’s product assortment, size and location, and the staff’s product expertise. All of our stores have a pick-up point for online orders. By the end of 2018, we had already managed to refurbish 87 stores in line with the new concept, and we have a further 50 refurbishments planned for 2019.

We invested a total of EUR 3.6 million in strategic projects in 2018. The largest investment in monetary terms was updating our IT system with EUR 1.7 million.

We also invested EUR 1.2 million in the development of new services, EUR 0.6 million in security and access control and EUR 0.1 million in some smaller system projects.

ADDED ECONOMIC VALUE FROM ALKO'S OPERATIONS FOR DIFFERENT STAKEHOLDER GROUPS IN 2018



REPORTING PRINCIPLES

Alko's Corporate Social Responsibility Report follows the recommendation for sustainable development drawn up by the Global Reporting Initiative (GRI), the Government Resolutions on State Ownership Policy (2011), and the Guidelines for the Reporting of the Country-Specific Taxes of Majority State-Owned Companies (2014).

We have published an annual report since 2004 based on GRI reporting guidelines. This material references the GRI Standards 2016 versions listed in the GRI Index. The report is published in Finnish and English and is only available in pdf-form. This report has not been externally assured.

ASPECT BOUNDARIES

The Alko Group consists of Alko Inc. (the parent company) and four subsidiaries (joint-stock property companies) that are specified in the Notes to the Financial Statements. 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. The report covers all of Alko's operations.

The information on economic responsibility is based on Alko's financial reports, accounts and adopted financial statements. The indicators for social responsibility are drawn from HR systems, payroll systems, service providers and accounts. The figures for environmental responsibility are largely drawn from our own systems and service providers.

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

MATERIAL ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY

Material aspects for reporting were defined on the basis of stakeholder analysis in 2018. The themes identified in the background data analysis were further developed with Alko's experts in the workshops. The 22 themes selected were included in the online survey, in which respondents were asked to select the 10 most important themes for responsibility for Alko. A total of 680 different stakeholder representatives responded to the online survey, and eight in-depth interviews were conducted.

MATERIAL ASPECT MANAGEMENT

By analysing identified themes, their significance for Alko's current or future operations was determined. At the end of the process, Alko's management confirmed the following material items:

1. Responsible retail sales
2. Excellent customer experience
3. Supporting informed purchase decisions
4. An inspiring and motivating workplace
5. Promoting human and labour rights in beverage production
6. Sustainable beverage packaging materials, material efficiency and recycling
7. The climatic impacts and water consumption of beverage production
8. Enhancing responsibility through partnerships
9. Transparent and efficient operations

In addition to identified key themes, the report also includes other sustainability information that Alko's stakeholders are interested in.

The boundaries of the identified key themes were assessed on the basis of their economic, social and environmental impact on Alko's value chain. We haven't been able to determine the indicators for all new material aspects (e.g. Supporting informed purchase decisions) but this work will go on in year 2019.

Material aspects identified	Aspect boundary
Financial responsibility	
Responsible retail sales	Alko Inc., Society
Transparent and efficient operations	Alko Inc., Society
Environmental responsibility	
Supporting informed purchase decisions	Alko Inc.
Sustainable beverage packaging materials, Material efficiency and recycling	Alko Inc., Goods suppliers
The climatic impact and water consumption in beverage production	Alko Inc., Goods suppliers
Social responsibility	
An inspiring and motivating workplace	Alko Inc.
Promoting human and labour rights in beverage production	Alko Inc., Goods suppliers
Customer experience	
Excellent customer experience	Alko Inc.

CALCULATION PRINCIPLES FOR THE COMPANY’S CORPORATE RESPONSIBILITY INDICATORS

Total electricity consumption of stores

Electricity consumption data is collected as an automated feeder from the electricity vendor or the property system, invoice-by-invoice, or through a questionnaire to landlords/invoicers. No consumption data is available for all items, because the landlord does not invoice consumption or invoices the rent with a fixed monthly amount.

In the case of missing consumption data at the time of reporting, computational consumption based on average electricity consumption of stores is used.

Electricity consumption at the head office

Figures for electricity consumption at the Alko head office are sourced from the annual report of the real estate company.

Packages sold by Alko

The volume of beverage packaging sold in Alko is collected from Alko’s data warehouse (DW), from which the sales data can be broken down by type of packaging.

CO₂ emissions of import deliveries

The data is collected from Alko’s data warehouse (DW), which stores data on deliveries received at Alko’s central warehouse during the year and entered into the GOLD system. The data is consolidated in a pivot table such that the weights of deliveries from each country (origin postcode) are added together. After that, the distances from the origin postcode to Alko’s central warehouse are sourced from data for earlier years (road and sea transport separately). If deliveries have come in from new regions during the period, the distances to these locations are updated. The distances are multiplied by emissions multipliers for land and sea transport (CO₂/tn*km). Their sum indicates the total emissions of import deliveries during the year.

CO₂ emissions of domestic distribution to stores

The figures are based on reports provided by carriers.

Packaging materials collected from Alko stores with the return transport

The indicator data is collected from the GOLD system by outputting all store warehouse events (returns) for packaging materials treated as separate products. The amounts of each packaging material returned are added up and multiplied by the assumed weight (the three last numbers of the product number), and the figures for each material are added together. The company only reports on the material amounts collected with return transport from stores and then directed to recycling. Amounts recycled via the properties or otherwise are not included in the figures.

Environmental product information

Environmental product information (organic, biodynamic, vegan, natural wine, certified local sustainable development and lightweight glass bottle) is based on product information cards from Alko’s product management system. The sales and numbers of these products are can be collected from Alko’s data warehouse (DW).

Checks for suspected cases of intoxication, age limits and handover of alcoholic beverages

Each time a salesperson checks whether the customer is legally allowed to buy alcohol, they enter the check in the POS system with a shortcut key.

Mystery Shopping

Alko measures the success of age-limit checks each year using the Mystery Shopping method, in which age-limit supervision is tested with visits by 18–25–year-old test customers. The study was carried out in 2018 by Kantar TNS.

Amfori BSCI audits of responsible procurements

Alko monitors compliance with ethical operating principles in the supply chain with Amfori BSCI audits. Data on audit results is collected form Amfori BSCI’s database. Figures referring to trainings, workshops or other similar forms of collaboration are collected from Alko’s own systems, service providers and partners.

REPORT STAKEHOLDERS

The major target groups for the report are Alko’s personnel, customers, owner and goods suppliers, and the authorities and media.

REPORTING PERIOD AND CONTACT INFORMATION

This report presents the results of our corporate responsibility efforts in 2018. Our report for 2017 was published in March 2018.

Additional information

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Maritta Iso-Aho, Executive Vice President, Communications, maritta.iso-aho@alko.fi

GRI CONTENT INDEX 2018

This GRI content index refers to the year 2016 GRI standards.

Disclosure	GRI content	Location	Shortcomings and additional information
GRI 102: General disclosure			
Organisational profile			
102-1	Name of the organisation	Alko's mandate	
102-2	Activities, brands, products, and services	Alko's mandate	
102-3	Location of headquarters	Alko in 2018	
102-4	Location of operations	Alko in 2018	
102-5	Ownership and legal form	Alko's mandate	
102-6	Markets served	Alko's mandate	
102-7	Scale of the organisation	Alko's mandate	
102-8	Information on employees and other workers	An inspiring and motivating workplace	
102-9	Supply chain	Human and labour rights in beverage production	
102-10	Significant changes to the organisation and its supply chain	Human and labour rights in beverage production Alko in 2018	
102-11	Precautionary Principle or approach	Environmentally friendly choices	
102-12	External initiatives	Human and labour rights in beverage production	
102-13	Membership of associations	Stakeholders and materiality	
Strategy			
102-14	Statement from senior decision-maker	President and CEO's review	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	Corporate governance	
102-17	Mechanisms for advice and concerns about ethics	Corporate governance	

Disclosure	GRI content	Location	Shortcomings and additional information
Governance structure			
102-18	Governance structure	Corporate governance Responsibility management	
102-22	Composition of the highest governance body and its committees	Board of Directors and committees	
102-35	Remuneration policies	Salary and remuneration report	
102-37	Stakeholders' involvement in remuneration	An inspiring and motivating workplace	
Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholders and materiality	
102-41	Collective bargaining agreements	An inspiring and motivating workplace	
102-42	Identifying and selecting stakeholders	Stakeholders and materiality	
102-43	Approach to stakeholder engagement	Stakeholders and materiality	
102-44	Key topics and concerns raised	Stakeholders and materiality	
Reporting practice			
102-45	Entities included in the consolidated financial statements		Alko Oy and Kiinteistö Oy Arkadiantalo
102-46	Defining report content and topic Boundaries	Stakeholders and materiality Reporting principles	
102-47	List of material topics	Stakeholders and materiality Reporting principles	
102-48	Restatements of information	Reporting principles	
102-49	Changes in reporting	Reporting principles	
102-50	Reporting period	Reporting principles	
102-51	Date of most recent report	Reporting principles	
102-52	Reporting cycle	Reporting principles	
102-53	Contact point for questions regarding the report	Reporting principles	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles	
102-55	GRI content index	GRI index	
102-56	External assurance	Reporting principles	No external assurance has been made for the report.

Disclosure	GRI content	Location	Shortcomings and additional information
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	Reporting principles	
103-2	The management approach and its components	Responsibility management	
103-3	Evaluation of the management approach	Responsibility management	Alko's material aspects were updated in 2018. KPIs have not yet been determined for some of the new material aspects. The aim is to have these indicators set for 2019.
ECONOMIC STANDARDS			
GRI 201: Economic performance			
201-1	Direct economic value generated and distributed	Transparent and efficient operations	
201-2	Financial implications and other risks and opportunities due to climate change	Risk management Environmentally friendly choices	
201-4	Financial assistance received from government		Alko does not receive any financial assistance.
GRI 203: Indirect economic impacts			
203-2	Significant indirect economic impacts	Transparent and efficient operations An inspiring and motivating workplace	
GRI 205: Anti-corruption			
205-3	Confirmed incidents of corruption and actions taken	Corporate governance	No suspicions of abuse or legal cases of corruption have emerged during the year.
GRI 206: Anti-competitive behaviour			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices		No legal actions, fines or other sanctions in the course of the year in relation to competition law.
ENVIRONMENTAL STANDARDS			
	Own aspect: sustainable packaging materials, material efficiency and recycling	Environmentally friendly choices	
	Own aspect: Supporting informed purchase decisions	Environmentally friendly choices Responsible customer service and products Human and labour rights in beverage production	
GRI 302: Energy			
302-1	Energy consumption within the organisation	Environmentally friendly choices	

Disclosure	GRI content	Location	Shortcomings and additional information
GRI 305: Emissions			
305-3	Other indirect (Scope 3) GHG emissions	Environmentally friendly choices	
GRI 306: Effluents and waste			
306-2	Waste by type and disposal method	Environmentally friendly choices	
SOCIAL STANDARDS			
	Own aspect: Responsible retail sales of alcohol	Responsible customer service and products	
GRI 401: Employment			
401-1	New employee hires and employee turnover	An inspiring and motivating workplace	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	An inspiring and motivating workplace	
401-3	Parental leave	An inspiring and motivating workplace	
GRI 403: Occupational health and safety			
403-1	Workers representation in formal joint management–worker health and safety committees	An inspiring and motivating workplace	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	An inspiring and motivating workplace	
403-4	Health and safety topics covered in formal agreements with trade unions	An inspiring and motivating workplace	
GRI 404: Training and education			
404-1	Average hours of training per year per employee	An inspiring and motivating workplace	There are no data available on gender and employee category considering the training days.
404-2	Programs for upgrading employee skills and transition assistance programs	An inspiring and motivating workplace	
404-3	Percentage of employees receiving regular performance and career development reviews	An inspiring and motivating workplace	
GRI 405: Diversity and equal opportunity			
405-1	Diversity of governance bodies and employees	An inspiring and motivating workplace	

Disclosure	GRI content	Location	Shortcomings and additional information
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	Human and labour rights in beverage production An inspiring and motivating workplace	
GRI 407: Freedom of association and collective bargaining			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Human and labour rights in beverage production	
GRI 414: Supplier social assessment			
414-1	New suppliers that were screened using social criteria	Human and labour rights in beverage production	All Alko's suppliers sign the Code of Conduct as they offer products to the assortment. Producers are audited on a risk basis. The company has not reported a percentage of the total range of audits.
GRI 415: Public policy			
415-1	Political contributions	Transparent and efficient operations	Alko does not share financial support with political parties.
GRI 416: Customer health and safety			
416-1	Assessment of the health and safety impacts of product and service categories	Responsible customer service and products	Each of the standard assortment, seasonal selection and specialty products are evaluated organoleptically supported by laboratory tests. All products in the assortment are subjected to laboratory testing. In addition, quality is monitored through a risk-based quality control program and based on customer feedback. The measurement is being revised in 2019.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Responsible customer service and products	In 2018, one of the vendor's product was withdrawn from sale. During the year, there were no fines for the health and safety of the products.
GRI 417: Marketing and labelling			
417-1	Requirements for product and service information and labeling	Responsible customer service and products	Product change samples will be taken from the store in the future, so it is appropriate to go through the labels. In the present model, the products are tested on samples sent by suppliers that, due to the incomplete nature of the sample, may not have all the same label entries as in the upcoming version.
GRI 419: Socioeconomic compliance			
419-1	Non-compliance with laws and regulations in the social and economic area		In 2018 there were no violations of social and economic factors.

FINANCIAL STATEMENTS

1. REPORT OF THE BOARD OF
DIRECTORS

2. CONSOLIDATED INCOME
STATEMENT AND BALANCE SHEET

3. CONSOLIDATED CASH FLOW
STATEMENT

4. ALKO INC. INCOME STATEMENT
AND BALANCE SHEET

5. ALKO INC. CASH FLOW STATEMENT

6. NOTES

7. KEY FIGURES

8. THE BOARD OF DIRECTORS'
PROPOSAL

9. AUDITOR'S REPORT

10. SUPERVISORY BOARD STATEMENT

REPORT OF THE BOARD OF DIRECTORS

BOARD REVIEW

Alko aims to promote the wellbeing of Finns. The company’s operations are based on social and health policy goals to reduce the harmful societal effects of alcohol. The new Alcohol Act entered into force gradually as from the beginning of 2018. The reform of the Alcohol Act ushered in numerous changes for Alko. The maximum percentage of alcohol available in daily consumer goods stores increased to 5.5, and restrictions based on production methods were removed. Alko thus has the sole right to engage in the retail sales of drinks containing more than 5.5 per cent alcohol by volume.

Converted to 100 per cent alcohol, total alcohol consumption swung to growth of 0.6 per cent after a decline of several years. Alko’s sales in litres were down 5.1 per cent while sales in daily consumer goods stores were up 4.6 per cent. Imports by travellers increased by 3.8 per cent year-on-year.

The changes in our operating environment challenge us to continuously develop our operations. Responsibility and wellbeing are becoming more and more important, and the limits of what nature can endure make us consider our impact on the environment in everything we do. In addition, population in the capital area and other big cities is growing while numbers are decreasing in the countryside. This has an influence on labour force availability in different areas, among others.

Key Figures

	2018	2017	2016
Net sales, EUR million	1,153.6	1,174.8	1,162.7
Net sales excluding alcohol tax, EUR million	564.3	596.5	582.6
Operating profit, EUR million	46	52.6	46.6
Extraordinary items, EUR million	0.0	0.0	0.0
Income tax on ordinary operations, EUR million	-9.3	-10.5	-9.5
Income tax on extraordinary items, EUR million	0.0	0.0	0.0
Profit for financial year, EUR million	37	40.7	38.3
Income from ordinary operations, EUR million	37	40.7	38.3
Return on equity, %	41.8	50.4	49.6
Equity ratio, %	34.8	31.9	29.6
Balance sheet total, EUR million	261.8	271.2	256.3
Gross investments in fixed assets, EUR million	10.1	7.9	7.4
Average number of personnel during the financial year	2,452	2,401	2,385

In addition, new technologies are transforming ways of working across all industries. The new alcohol act has also reshaped the market. Consumers have raised their expectations regarding service, variety of choices and multichannel service.

Due to these shifts, the company’s strategy was updated in 2018. The new strategy, launched at the beginning of 2019, takes Alko’s responsibility work towards a more ambitious direction.

The updated strategy sets even higher aims for customer experience and responsibility. The company’s mission, vision, customer promise and strategic objectives are updated respectively. With respect to Alko’s mandate, responsible operations are in the centre of Alko’s work also in the future. Alko’s mission is *The most responsible way to sell alcohol in the world*. In the new strategy, Alko’s vision is to be *Esteemed by customers*.

Since 2011, customers have seen Alko’s service as the best in the Finnish service sector. Alko wants to offer an even better customer experience. Alko’s customer promise in the updated strategy is *World-class service*. The company’s strategic objectives are *World-class service*, *Responsible enjoyment*, *Success through enthusiasm*, and *Agile and efficient*.

66 (62) per cent of Finns consider the restrictions imposed by alcohol policy to be suitable or would like to see tighter restrictions, while 28 (32) per cent would like to relax the restrictions. Women are in favour of stricter restrictions than men. 59 (60) per cent of Finns think that Alko is a good method of limiting the harmful effects of alcohol consumption. 81 (78) per cent of Finns think Alko has been highly or quite successful in its customer service. When it comes to responsibility, 82 (83) per cent are of the opinion that Alko has achieved its objectives very or quite well. This information comes from Kantar TNS Oy and the National Institute for Health and Welfare’s annual Opinions on Alcohol Policy survey, which has been carried out since 1984. The results were published in February 2019.

Alko’s net sales including alcohol tax totalled EUR 1,153.6 (1,174.8) million. Net sales excluding alcohol tax were EUR 564.3 (596.5) million. One of the reasons behind the decline in net sales was that the sale of 5.5 per cent ABV drinks was permitted in daily consumer goods stores. Operating profit came to EUR 46.0 (52.6) million, representing 4.0 (4.5) per cent of net sales including alcohol tax. Fixed costs totalled EUR 150.6 (152.1) million. Fixed costs declined primarily in other business expenses and impairments of investments in fixed assets. Alko’s result weakened on the previous year due to the decline in net sales. However, the result was better than budgeted.

Financial income and expenses totalled EUR 0.4 (-1.4) million in 2018. Profit for the financial year was EUR 37.0 (40.7) million. The balance sheet total came to EUR 261.8 (271.2) million, which was down on the previous year, mainly due to a decline in cash and cash receivables. The equity ratio came to 34.8 (31.9) per cent. The

company's total investments amounted to EUR 10.1 (7.9) million. Investments mainly focused on strategic projects and developing our shop network. Alko continued to invest in the development of its store network and multichannel customer service.

SALES TREND

Taxation and prices

The excise tax on alcoholic beverages was raised by an average of 10 per cent at the beginning of 2018.

Alko's retail sales prices rose by 1.2 per cent during the year in response to price increases made by our suppliers. Prices were changed in February, March, June and October.

Best customer experience

At the end of 2018, Alko had a total of 359 (355) stores and a webshop. Our store network was supplemented by 65 (60) collection points. 55.3 (57.3) million customer visits were made to Alko stores.

Alko's service quality is measured with the national customer service feedback survey (KAP) carried out by Taloustutkimus.

In three rounds of the KAP survey in 2018, Alko received the best results in the Finnish retail sector. In the year's last survey round, customers gave Alko's service a grade of 8.57. In the second round, the grade was 8.58 and in the first round of the year it was 8.57.

Alko's service has been assessed using the same method since 1998. Since 2011, Finns have evaluated Alko's service as the best in the Finnish retail sector. Alko's service ranks second among all service companies.

Alko continued to develop its digital customer experience in 2018. Our online store had a total of 65,300 registered customers at the end of 2018.

Products

Alko's product range featured drinks from 76 (70) countries. We buy beverages from 604 suppliers.

A total of 9,578 (8,615) different products were sold by Alko during 2018.

Alko lists new products for sale on a weekly basis. In 2018, we listed 1,034 (1,195) new products in our standard selection (including seasonal products and special editions) and 1,471 (1,449) in our sale-to-order selection. Alko also sells 139 (120) alcohol-free beverages and a range of accessories.

MAJOR RESPONSIBILITY OBJECTIVES AND RESULTS

In 2018, the most important subareas of responsibility at Alko were responsible alcohol sales, environmental responsibility, responsibility in the supply chain and personnel.

Based on research evidence, alcohol pricing and restricting access through an alcohol monopoly are the most effective ways to prevent the harmful effects of alcohol. Alko sells alcohol responsibly, communicates about the harmful effects of alcohol on society and health, and cooperates with research institutes and associations in the social and healthcare sector.

The company implements the United Nations' Sustainable Development Goals, to which Finland is committed. The primary objectives of Alko's environmental responsibility are to reduce energy consumption and waste generation by 2020.

All of Alko's suppliers in its supply chain have committed to compliance with amfori BCSI's ethical operating principles. We provide our partners with training, workshops and events to develop competence, and also audit producers and carry out other monitoring measures in countries of origin.

Committed and competent staff are a critical success factor in Alko's responsible and excellent customer service.

Alko's updated strategy was published in late 2018. Responsibility is at the core of our operations and in accordance with the new strategy the company's mission is: The most responsible way to sell alcohol in the world. For our customers, we promise to provide World-class service and our vision is to be Esteemed by customers. The aim of the strategic objective, Responsible enjoyment, is to be a pioneer in responsibility. Alko's responsibility was set out in seven divisions: Fair friend to everyone, quality choices for customers, for wellbeing, against being marginalized, uncompromisingly responsible customer service, from invisible to visible, and environmentally friendly choices. Responsibility is an important value for all Alko employees, and its actualisation is ensured in everyone's work and decision making.

Responsibility management

Responsibility is one of Alko's strategic focus areas in addition to customers, personnel, and finances. We set annual targets for both responsible operations and their development, and also measure our success in achieving them. We implement responsible operating methods in all of our operations.

The responsibility steering group handled responsibility development projects and measures. The Executive Vice President, Communication chaired this steering group, and made progress and action reports to Alko's Management Team. The leader of each business unit and support function bears responsibility for operative management.

The Board of Directors regularly reviews responsibility issues that are prepared by the Board's Alcohol Policy Committee. The Supervisory Board approves an action plan for preventing the harmful effects of alcohol and a plan for other responsibility measures for one calendar year at a time. The President & CEO reports on overall responsibility management to Alko's General Meeting.

Alko engages in close cooperation in environmental issues and both the traceability and ethicality of the supply chain with the alcohol monopolies of Sweden, Norway, Iceland and the Faroe Islands.

Company-level objectives and results

Alko evaluates its success in carrying out its alcohol policy mission annually with the Opinions on Alcohol Policy survey carried out by the National Institute for Health and Welfare and Kantar TNS Oy. Alko’s approval rating in 2018 was at the same level as in the previous year, even though the new Alcohol Act sparked general discussion about alcohol policy.

Alko’s responsibility performance is measured among the general public with the responsibility score of T-Media Oy’s Confidence and Reputation survey. The 2018 result saw a year-on-year decline and fell short of the target. Alko conducted a more in-depth survey of the factors influencing perceptions of Alko’s responsibility in 2018. According to the survey, Alko’s role in preventing the harmful effects of alcohol consumption and promoting culinary and drink culture provides an opportunity to bolster its image as a responsible company. Ensuring that our responsibility efforts are visible is one of the focus areas of our new strategy period.

Alko’s Approval Rating

Indicator	2015	2016	2017	2018 target	2018
In your opinion, is Alko's sole right to engage in the retail sale of alcoholic beverages as a state-owned alcohol monopoly an effective way of restricting the harmful effects of alcohol consumption? (TNS Kantar, THL)	60%	62%	60%	60%	59%
Confidence and Reputation survey, responsibility factor (T-Media)	3.51	3.42	3.31	3.42	3.28

PREVENTION OF THE HARMFUL EFFECTS OF ALCOHOL

Checking age limits, suspected cases of intoxication and suspected handovers of alcohol to minors form part of Alko's responsible customer service and tangible means of preventing the harmful effects of alcohol at the individual level. Alko measures the success of these checks using a Mystery Shopping survey. Mystery shopping is a research method based on observation, in which professional test customers do business with a company as ordinary customers requiring service.

Targets and results

In age-limit checks, 4.6 (4.6) million customers showed proof of their legal age; 577 (670) thousand checks of suspected intoxication and more than 359 (390) thousand checks of suspected handovers were also carried out.

The Mystery Shopping result was 95 per cent, exceeding the target (the target is 93%). The result was slightly lower at pick-up points, with 86.2 (90) per cent being checked.

Alko cooperates with a variety of organisations and associations to prevent the harmful effects of alcohol. Alko continued its Clearly Good Work and In the Company of Children programmes in 2018. With the support of the Clearly Good Work programme, A-Clinic Foundation published the Let’s Talk about Intoxicants in the Workplace tool and the Finnish Association for Substance Abuse Prevention (EHYT) published a report on the financial impact of preventative care for intoxicant abusers. One of the programme’s main events was the responsibility seminar Not Just One Drink, which delved into alcohol-related problems in working life. One of the highlights of the In the Company of Children programme was the A Child’s Burden campaign, carried out in collaboration with the Finnish Olympic Committee, which seeks to spark off debate about whether even moderate alcohol consumption is appropriate in children’s hobbies. Alko is also the main cooperation partner in the Finnish Olympic Committee’s Give a Young Person Wings campaign, which started in late 2018.

In September 2018, Alko published a free Finnish-language version of the Lydia mobile game developed by Platonik Partnership. The Friends of Temperance honoured the mobile version of the game at its annual temperance awards. A new art workshop concept based on the Fragile play was piloted with the Youth Academy’s Mahis groups during autumn 2018. Performances of Fragile, which depicts alcoholism in the family, also continued in schools round Finland. These programmes will also continue in 2019. Alko also engages in alcohol research cooperation, such as by contributing to the financing of a professor of practice at the University of Helsinki for five years.

Indicator	2015	2016	2017	2018 target	2018
Age-limit mystery shopping (Kantar TNS)	90%	91%	95%	93%	95%
Self-supervision age-limit checks	3.7 million	3.8 million	4.6 million		4.6 million
Self-supervision intoxication checks	0.6 million	0.6 million	0.6 million		0.5 million
Self-supervision checks for suspected handovers	0.3 million	0.3 million	0.4 million		0.3 million

ENVIRONMENT

Environmental risks

Alko has no separately defined business-related environmental risks. The greatest environmental risks in the industry are changes in environmental conditions that stem from climate change and may impact the primary production of ingredients in Alko's supply chain. The most significant of these are increased temperatures during the growing season and worsening droughts in areas already suffering from critical water shortages. These include wine-producing regions such as South Africa, California, southern Spain, southern Italy and Australia. Climate change has also increased the unpredictability of weather during the growing season. The industry is also subject to local, producer-specific environmental risks, mainly in relation to the use of pesticides and their indirect – yet long-term – harmful effects on local ecosystems and communities.

Alko complies with legislation on environmental issues, as in all other areas. We monitor changes in legislation and act in accordance with the expectations of our stakeholders and society at large.

Targets and results

Alko is committed to curbing climate change by reducing the environmental impact of our operations and the overuse of natural resources. We implement the United Nations’ Sustainable Development Goals, to which Finland is committed. Alko’s environmental work is based on our strategy and environmental policy.

The most significant environmental impacts in our supply chain arise from the manufacture of packaging (glass packaging in particular), the cultivation of ingredients (grapes, grain), and energy consumption in the beverage industry.

Alko’s 2020 objectives for environmental responsibility:

- Forty per cent of the products in Alko’s selection carry at least some Green Choice environmental data
- Single-use plastic products, including plastic bags, have been replaced with a range of more sustainable auxiliary products
- The volume of packaging waste (cardboard and clear shrink plastic) that is generated by product logistics and accumulates in stores has been reduced by ten per cent compared to 2017
- Electricity consumption (kWh/m2) in stores and at head office has been reduced by ten per cent compared to 2017
- Carbon dioxide emissions caused by electricity consumption have been reduced by 50 per cent compared to 2017.

Indicator	2015	2016	2017	2018 target	2018
Total power consumption (Total power consumption of Alko shops, regional offices and the head office. Partially based on estimates.)	13 GWh	12 GWh	11.6 GWh	10.7 GWh	-10% compared with 2017, that is, 10.44 GWh
Material delivered from Alko stores for recycling or reuse:					
Cardboard waste (This figure covers 125 stores, from which cardboard waste is sent for recycling via Alko’s own return transport)	840 tons	1005 tons	1115.6 tons	1194.7 tons	-10% compared with 2017, that is, 1004 tons
Pallet plastic (This figure covers all stores)	108 tons	132 tons	146.1 tons	132.8 tons	-10% compared with 2017, that is, 131.5 tons
Inner bags from boxed wines	3 tons	3.6 tons	3.7 tons	10.4 tons	

At the end of the year, 15 per cent of the assortment featured Green Choice product information.

The theme of environmental measures in 2018 was beverage packaging. Alko commissioned a study of the climatic impacts of packaging, that is, the calculation of average carbon footprints. The calculations clearly revealed the different climatic impacts of various types of beverage packaging. The per-litre climatic impact of heavy glass bottles is well over six times that of the least environmentally loading option, that is, cardboard packaging. We started using the results immediately in both environmental efforts with goods suppliers and customer communications. This will continue in the years ahead.

In order to enable more effective monitoring of the environmental effects of the store network, Alko introduced a new environmental information system at the beginning of February 2018. This system will enable us to monitor our stores’ electricity consumption and intervene in any deviations. It will also allow us to monitor the volumes of cardboard packaging and shrink plastic that are being sent for recycling.

BEST WORK

In 2018, we continued with the previous year’s theme of strong development, focusing on the development of agreed modernisation projects that were started up in 2017 and their mobilisation in the organisation. Development efforts were carried out in strong cooperation with employees and personnel representatives.

In 2018, Alko had an average of 2,452 (2,401) employees. Staff working hours are planned on the basis of customer flows and are mainly weighted towards seasons and other customer flow peaks. For this reason, the number of personnel fluctuates greatly during the year. To ensure a high level of service for our customers during peak seasons, we also hire plenty of temporary employees for these seasons. In terms of computational work-years, the total for full-time and part-time work was 1,924 (1,870) work-years.

Alko focuses strongly on maintaining and developing personnel expertise. We use a variety of means to ensure strong knowledge of the assortment and both product and service expertise. We develop expertise through not only training events, but also online courses and on-the-job learning. We also offer job and career development opportunities through responsible roles for employees in addition to their main job tasks.

Alko encourages all its employees to perform successfully at work with a strategic incentive scheme. The scheme uses targets and indicators for responsibility, customers, personnel and efficiency to guide employees to successfully implement Alko’s strategy through teamwork. In 2018, salaries and incentives paid to staff totalled EUR 71.8 (70.1) million. Staff and management will be paid EUR 3.1 (2.3) million in incentives for 2018, inclusive of personnel-related expenses. This represents 3.5 (2.7) per cent of personnel costs.

Alko has a strong emphasis on occupational safety, anticipating risks and occupational healthcare. Preventative occupational healthcare was a particular focus in 2018. We developed the working capacity management capabilities of supervisors with a special online coaching programme. The targeting of occupational safety management and measures has been improved with the introduction of safety reporting for business management. We

actively monitor dangerous situations and the number of accidents, including any subsequent sick leave. We use health and safety data to draw up measures that will enable us to support our staff’s wellbeing to the best of our ability and above all proactively.

Indicator	2015	2016	2017	2018 target	2018
Personnel Motivation Index	4.16	4.09	4.08	4.1	3.99
Voluntary turnover	5.90%	8.72%	10.1%	<10%	19%
Total absences due to sickness	4.07	4.33	4.61	4.5	4.68
Accidents at work	113	113	112	111	83
TyEL paygrade	5	5	3		2
Retirement age (retirement pensions)	59.8	61	60.7	60.0	61.6
No. of personnel / No. of supervisors (stores)					
all	-	-	17.5	16–18	18.8
permanent	8.3	8.8	12.8	12–15	15.3

RESPECTING HUMAN RIGHTS

Alko is committed to respecting all internationally recognised human rights. We published a human rights commitment in December 2017. We assess our activities in relation to the UN’s Guiding Principles on Business and Human Rights.

All Alko beverage suppliers must sign a covenant in which they agree to comply with amfori BSCI’s ethical operating principles for supply chains. These ethical principles are based on international agreements and covenants, and include the following: the right to freedom of association and collective bargaining, fair and legal remuneration, occupational health and safety, protection for young workers, banning bonded labour, ethical business, banning discrimination, decent working hours, banning child labour, promoting steady employment, and environmental protection.

Human rights risks

The most significant human rights risks identified in the alcoholic beverage industry’s international supply chain relate to the primary production of ingredients and seasonal labour. Agricultural harvests are very labour intensive, and the use of leased labour is very common in certain regions. Problems identified in the industry include ambiguous management practices, exceeding statutory working hours, and compromising on occupational health and safety. Seasonal workers in particular are subject to violations of human rights and labour rights. With regard to Alko’s operations, the high risk regions for wine production are South Africa, Chile, Argentina, and Mediterranean coastal regions. For other product groups, the human rights violations identified in sugar cane culti-

vation are currently one of Alko’s focal points. Human rights risk assessment is part of Alko’s operating model for indirect procurements.

Targets and results

In 2018, Alko focused on expertise development. The company offered – both on its own and through external partners – a variety of training at different levels of the supply chain. These outlays will continue in 2019. Expertise development aims to ensure the realisation of ethical operating principles in practice.

In 2018, inspection visits – that is, audits – commissioned by Alko were carried out at 12 production plants and 21 farms, covering 1,632 employees. Alko and the other Nordic alcohol monopolies use some of the same goods suppliers, and thus audits by the other monopolies support efforts to ensure and develop responsibility in Alko’s supply chain. The most common areas for development detected in the conducted audits were deficiencies in occupational health and safety. Overtime work exceeding the legal maximums is also regrettably common, especially during harvesting. One zero-tolerance case (as specified in amfori BSCI’s protocol) came to light in Alko’s supply chain in 2018. Zero-tolerance cases are by nature flagrant violations or negligence that require immediate intervention. These are handled with regular follow-up measures but to an accelerated schedule.

Alko seeks to increase the transparency of the supply chain for customers by the end of 2021. Background information on our products enables our customers to make more informed responsible purchase decisions.

Indicator	2015	2016	2017	2018	2020 target
					2/3 of procurements in high-risk countries (litres) have been amfori-audited or otherwise ethically certified
Amfori BSCI audits	21	17	16	12	

ANTI-BRIBERY AND CORRUPTION

Alko has business principles that have been approved by the Board of Directors and which are included in the induction programme. Our business principles guide each and every Alko employee in accordance with the current values and principles for responsible operations that have been approved by Alko’s management. Any changes to the business principles are approved by Alko’s Board of Directors.

In accordance with its business principles, Alko personnel may not accept or give any direct or indirect gifts or benefits that could be considered as bribery or corruption. Alko requires every employee to comply with and promote its business practices. Personnel should report any instances of non-compliance to their own supervisor, the supervisor’s immediate supervisor, or the internal audit function. The company does not have a separate system for reporting non-compliance.

In order to safeguard equality in our cooperation with suppliers, a set of rules has been drawn up for dealings between procurement personnel and suppliers, and likewise for dealings between Alko stores and suppliers.

In 2018, there were no ongoing legal cases or investigations into non-competitive behaviour involving Alko.

SHARES AND SHAREHOLDERS

The Government owns Alko's entire share capital (10,000,000 shares).

GOVERNANCE

On 26 April 2018, Alko's Annual General Meeting elected Harri Sailas, M.Sc. (Econ.), as Chair of the Board and Director General Kirsi Varhila, M.Sc. (Pol.Sc.), as Vice-Chair of the Board. The Annual General Meeting also elected the following members: Director General Juhani Eskola, MD, PhD; Kuisma Niemelä, MA; CEO Kirsi Paakkari, M.Sc. (Econ.); Pekka Perttula, PhD (Political Science); and Ulrika Romantschuk, EVP, Communications & Branding, BA (Political Science).

Personnel representatives Mikko Eronen (until 24 November 2018), Sini Heikkinen (as from 24 November 2018) and Riina Väntsi attended the meetings of the Board of Directors without the right to vote.

The Board of Directors has three committees, namely the Audit, Staff and Alcohol Policy Committees.

The auditors appointed for the company are the Authorised Accounting Firm KPMG Oy.

The chief auditor is Lasse Holopainen, Authorised Public Accountant.

RISK MANAGEMENT

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 is, with the assistance of the Management Team, responsible for risk management policy and its enforcement, and also for ensuring that risk management is appropriately arranged. Alko's risk management is based on systematically and proactively analysing and managing the threats and opportunities related to its activities. These risks are classified as strategic and operational risks.

The Management Team regularly assesses risks that may impact on its future development and profitability. Named persons are then assigned to manage these risks by defining preventative measures and ensuring their implementation.

The most critical risks are:

- Changes in alcohol tax may have a significant impact on the company.
- Changes in alcohol tax may affect both travellers' private imports of alcoholic beverages and Alko's sales trends and profitability.
- Responsible customer service is a central aspect of Alko's operations – for example, not selling alcohol to minors or clearly intoxicated people. Any exceptions to this pose a reputation risk for the company.
- The company's business is based on efficient and reliable information systems. Any malfunctions in these information systems or their incompatibility with business demands can cause business interruptions.
- Environmental and social responsibility risks in the procurement chain for alcoholic beverages may damage the company's reputation as a responsible player.

EVENTS AFTER THE END OF THE FINANCIAL PERIOD

The alcohol tax was increased by 2,5 per cent on average in January 2019.

CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET

ALKO GROUP

INCOME STATEMENT, FAS*	MEUR	Note	1 JAN–31 DEC 2018	1 JAN–31 DEC 2017
NET SALES			1,153.7	1,174.8
Other operating income		2.1	2.0	1.7
Materials and services		2.2	-959.0	-971,8
Personnel costs		2.4	-87.4	-86,6
Depreciation and write-downs		2.6	-6.9	-8,3
Other operating expenses		2.8	-56.3	-56,9
OPERATING PROFIT			46.0	53.0
Financial income and expenses		2.9, 2.10	0.4	-1.4
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES			46.4	51.6
Income taxes		2.11	-9.3	-10.6
PROFIT/LOSS FOR FINANCIAL YEAR			37.1	41.0

*FAS=Finnish Accounting Standards

BALANCE SHEET, FAS	MEUR	Note	31 DEC 2018	31 DEC 2017
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		3.1, 3.4	5.2	5.2
Tangible assets		3.2, 3.5	43.9	40.5
Investments		3.3, 3.6	4.0	4.1
NON-CURRENT ASSETS			53.2	49.8
CURRENT ASSETS				
Inventories		4.3	76.5	71.3
Non-current receivables		4.4	1.7	1.7
Deferred tax assets			0.7	0.7
Current receivables		4.6	15.2	23.1
Cash and cash equivalents		4.1	116.9	127.0
CURRENT ASSETS			211.0	223.8
ASSETS			264.2	273.7
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital			16.8	16.8
Other funds			1.5	1.8
Retained profit			36.6	27.3
Profit/loss for financial year			37.1	41.0
SHAREHOLDERS' EQUITY		5.1	92.0	87.0
OBLIGATORY PROVISIONS		6.1	0.0	0.0
LIABILITIES				
Deferred tax liability			1.4	1.4
Current non-interest-bearing liabilities		7.2	170.8	185.3
LIABILITIES			172.2	186.7
SHAREHOLDERS' EQUITY AND LIABILITIES			264.2	273.7

CASH FLOW STATEMENT

ALKO GROUP			
CASH FLOW STATEMENT, FAS	MEUR	2018	2017
CASH FLOW FROM OPERATIONS			
Profit/loss for financial year		37.1	41.1
ADJUSTMENTS:			
Depreciation and write-downs		6.9	8.3
Capital gains (-) and losses (+) on non-current assets		0.0	0.2
Financial income and expenses		-0.4	1.4
Income taxes		10.5	10.5
Cash flow before change in working capital		54.1	61.5
CHANGE IN WORKING CAPITAL:			
Increase(-)/decrease(+) in inventories		-5.2	1.9
Increase (-) /decrease (+) in current non-interest-bearing accounts receivable		6.9	-2.7
Increase (+) /decrease (-) in current non-interest-bearing liabilities		-14.6	4.2
Change in provisions		0.0	0.0
Cash flow from operations before financial items and taxes		41.2	64.9
Interest paid on operations		0.0	-0.1
Cash flow from operations before financial items and taxes		41.1	64.6
Dividends received from operations			0.0
Interest received from operations		0.2	0.3
Other financial items from operations		0.0	0.0
Direct taxes paid		-9.3	-9.2
CASH FLOW FROM OPERATIONS		32.0	55.9

ALKO GROUP			
CASH FLOW STATEMENT, FAS	MEUR	2018	2017
CASH FLOW FROM INVESTMENTS			
Investments in tangible and intangible assets		-10.5	-8.1
Income from the surrender of tangible and intangible assets			0.1
Acquisition of subsidiaries			
Divested shares in associated companies			0.1
Other investments		0.2	
Income from the surrender of other investments		0.1	0.0
CASH FLOW FROM INVESTMENTS		-10.2	-8.0
CASH FLOW FROM FINANCIAL OPERATIONS			
Dividends paid		-32.0	-30.0
CASH FLOW FROM FINANCIAL OPERATIONS		-32.0	-30.0
CHANGE IN FINANCIAL POSITION			
Financial resources at the beginning of the year		127.0	109.1
Change in financial position		-10.2	18.0
Financial resources at the end of the year		116.9	127.0

CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET

ALKO INC.				
INCOME STATEMENT, FAS		MEUR	Note	
			1 JAN-31 DEC 2018	1 JAN-31 DEC 2017
NET SALES			1,153.6	1,174.8
Other operating income		2.1	2.0	1.7
Materials and services		2.2	-959.0	-971.8
Personnel costs		2.4	-87.4	-86.6
Depreciation and write-downs		2.6	-6.9	-8.3
Other operating expenses		2.8	-56.3	-57.2
OPERATING PROFIT			46.0	52.6
Financial income and expenses		2.9, 2.10	0.4	-1.4
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES			46.4	51.2
Income taxes		2.11	-9.3	-10.5
PROFIT/LOSS FOR FINANCIAL YEAR			37.0	40.7

BALANCE SHEET, FAS		MEUR	Note	
			31 DEC 2018	31 DEC 2017
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	3.1, 3.4		5.2	5.2
Tangible assets	3.2, 3.5		15.1	11.9
Investments	3.3, 3.6		31.2	31.2
NON-CURRENT ASSETS			51.5	48.4
CURRENT ASSETS				
Inventories	4.3		76.5	71.3
Non-current receivables	4.4		1.7	1.7
Current receivables	4.6		15.2	23.0
Cash and cash equivalents	4.1		116.8	126.9
CURRENT ASSETS			210.3	222.9
ASSETS			261.8	271.2
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital			16.8	16.8
Other funds			1.5	1.8
Retained profit			35.8	26.8
Profit/loss for financial year			37.0	40.7
SHAREHOLDERS' EQUITY		5.1	91.2	86.1
OBLIGATORY PROVISIONS		6.1	0.00	
LIABILITIES				
Current non-interest-bearing liabilities	7.2		170.7	185.1
LIABILITIES			170.7	185.1
SHAREHOLDERS' EQUITY AND LIABILITIES			261.8	271.2

CASH FLOW STATEMENT

ALKO INC. CASH FLOW STATEMENT, FAS	MEUR	2018	2017
CASH FLOW FROM OPERATIONS			
Profit/loss for financial year		37.0	40.7
Adjustments:			
Depreciation and write-downs		6.9	8.3
Capital gains (-) and losses (+) on non-current assets		0.0	0.2
Financial income and expenses		-0.4	1.4
Income taxes		10.5	10.5
Cash flow before change in working capital		54.1	61.1
CHANGE IN WORKING CAPITAL:			
Increase(-)/decrease(+) in inventories		-5.2	1.9
Increase (-) /decrease (+) in current non-interest-bearing accounts receivable		6.7	-2.6
Increase (+) /decrease (-) in current non-interest-bearing liabilities		-14.5	4.2
Change in provisions		0.0	0.0
Cash flow from operations before financial items and taxes		41.1	64.6
Interest paid on operations		0.0	-0.1
Dividends received from operations			0.0
Interest received from operations		0.2	0.3
Other financial items from operations		0.0	0.0
Direct taxes paid		-9.3	-9.2
Cash flow from operations		32.0	55.6

CASH FLOW STATEMENT, FAS	MEUR	2018	2017
CASH FLOW FROM INVESTMENTS			
Investments in tangible and intangible assets		-10.1	-7.9
Income from the surrender of tangible and intangible assets			0.1
Divested shares in associated companies			0.1
Other investments		0.0	
Income from the surrender of other investments		0.1	0.0
CASH FLOW FROM INVESTMENTS		-10.0	-7.8
CASH FLOW FROM FINANCIAL OPERATIONS			
Dividends paid		-32.0	-30.0
Cash flow from financial operations		-32.0	-30.0
CHANGE IN FINANCIAL POSITION			
Financial resources at the beginning of the year		126.9	109.0
Change in financial position		-10.0	17.9
Financial resources at the end of the year		116.8	126.9

NOTES TO THE ACCOUNTING PRINCIPLES USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES AND SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Alko Group consists of the parent company ALKO INC. (Business ID: 1505551-4) and four subsidiaries in the form of real estate companies: Puolangan Keskus (50.48%), Raahen Asemakatu 12 (57.9%), Vuoksenniskan Harjulanrinne (100%) and Kiinteistö Oy Arkadiantalo (100%).

The Consolidated Financial Statements include Kiinteistö Oy Arkadiantalo. The other subsidiaries and associated companies have no material effect on the Group's result or financial position.

INTERNAL SHAREHOLDINGS

The Consolidated Financial Statements have been prepared using the purchase method. Depreciation is carried out according to the depreciation plan for non-current assets.

INTER-COMPANY TRANSACTIONS AND MARGINS

The Group's internal transactions, unrealised margins on internal deliveries, inter-company receivables and payables, and internal profit distribution 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 include excise taxes.

Fixed asset valuation

Fixed assets are stated at cost minus accumulated planned depreciation. Planned depreciation has been calculated on a straight-line basis over the useful life of the item in question. Depreciation begins from the month when the item was first used. The depreciation plan is the same as in the previous year. Depreciation periods:

	years
Buildings	25–40
Structures	20
Machinery and equipment	7
Machinery and equipment	5
Transport equipment,	5
Computer hardware	3
Computer software	3–5
Renovation of store premises	5

Valuation of inventories

Inventories have been valued at their average price. Store inventories include excise duty. Inventories for the central warehouse in Voutila, Vantaa exclude excise duty.

Valuation of financial assets

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

Items denominated in foreign currencies

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, FAS

	ALKO GROUP		ALKO INC	
MEUR	1 JAN–31 DEC 2018	1 JAN–31 DEC 2017	1 JAN–31 DEC 2018	1 JAN–31 DEC 2017
2.1 OTHER OPERATING INCOME				
Rental income	1.3	1.4	1.3	1.4
Other operating income	0.6	0.4	0.6	0.4
Profit on the sale of fixed assets	0.0	0.0	0.0	0.0
Total other operating income	2.0	1.7	2.0	1.7
2.2 MATERIALS AND SERVICES				
Purchases during the financial period	-960.1	-965.0	-960.1	-965.0
Increase/decrease in inventories	5.3	-2.2	5.3	-2.2
Materials, consumables and supplies	-954.8	-967.2	-954.8	-967.2
Outsourced services	-4.3	-4.6	-4.3	-4.6
Total materials and services	-959.0	-971.8	-959.0	-971.8
2.3 AVERAGE NUMBER OF PERSONNEL DURING THE FINANCIAL YEAR	1,924	1,870	1,924	1,870
2.4 PERSONNEL COSTS				
Wages, salaries and remuneration	-71.8	-70.1	-71.8	-70.1
Pension expenses	-12.6	-13.3	-12.6	-13.3
Other personnel-related expenses	-3.0	-3.2	-3.0	-3.2
Total personnel costs	-87.4	-86.6	-87.4	-86.6

Alko personnel 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.

On 31 Dec 2018, the OP-Life group pension insurance taken out by the parent company had an additional insurance fund of EUR 20.9 million (EUR 20.5 million). This fund can be used as insurance against supplementary pension index increases and other obligations.

	ALKO GROUP		ALKO INC.	
MEUR	1 JAN–31 DEC 2018	1 JAN–31 DEC 2017	1 JAN–31 DEC 2018	1 JAN–31 DEC 2017
2.5 SALARIES, REMUNERATION AND BENEFITS PAID TO MANAGEMENT				
President & CEO	0.4	0.4	0.4	0.4
Members of the Board of Directors	0.2	0.2	0.2	0.2
Supervisory Board wages, salaries and remuneration	0.0	0.0	0.0	0.0
Total salaries, remuneration and benefits paid to Management	0.6	0.6	0.6	0.6

Incentive bonuses are included in salaries on an accrual basis.

At the end of 2018, some Management Team members belonged to the supplementary pension benefit scheme. One member of the Management Team had a defined-benefit group pension arrangement with a retirement age of about 61 years, depending on years of service, and a pension amounting to 66 per cent of salary. Two members of the Management Team had defined-contribution group pension arrangements with an annual payment of 10 per cent of the annual salary. Their retirement age is in line with the Employees Pensions Act (TyEL). The pensions of three Management Team members are determined by TyEL and they do not belong to the supplementary pension fund.

2.6 DEPRECIATION AND WRITE-DOWNS				
Depreciation according to plan	-6.9	-8.3	-6.9	-8.3
Depreciation according to plan on non-current assets and goodwill	-6.9	-8.3	-6.9	-8.3
Reversed impairment on non-current asset items	0.0	0.0	0.0	0.0
Total depreciation and write-downs	-6.9	-8.3	-6.9	-8.3

2.7 AUDITOR'S FEES				
KPMG Oy Ab				
Auditing	0.0	0.0	0.0	0.0
Other fees	0.0	0.0	0.0	0.0
Total auditor's fees	0.1	0.1	0.1	0.1

NOTES TO THE INCOME STATEMENT, FAS

	ALKO GROUP		ALKO INC.	
MEUR	1 JAN-31 DEC 2018	1 JAN-31 DEC 2017	1 JAN-31 DEC 2018	1 JAN-31 DEC 2017
2.8 OTHER OPERATING EXPENSES				
Rents	-20.2	-19.4	-20.8	-20.3
Voluntary personnel-related expenses	-1.5	-1.2	-1.5	-1.2
Capital losses on non-current assets	0.0	-0.2	0.0	-0.2
Support given	-0.2	-0.1	-0.2	-0.1
Energy	-1.1	-1.1	-1.1	-1.2
Work outfits and equipment	-2.4	-2.6	-2.4	-2.6
Construction and repair services	-0.6	-0.9	-0.6	-0.9
IT services	-11.8	-13.2	-11.8	-13.2
Transport	0.0	0.0	0.0	0.0
Other outsourced services	-6.5	-6.1	-6.5	-6.1
Communications and marketing	-3.0	-3.0	-3.0	-3.0
Telecommunications	-1.5	-1.7	-1.5	-1.7
Credit card commissions and cash handling	-4.2	-4.1	-4.2	-4.1
Other expenses	-3.4	-3.2	-2.8	-2.5
Total other operating expenses	-56.3	-56.9	-56.3	-57.2

	ALKO GROUP		ALKO INC.	
MEUR	1 JAN-31 DEC 2018	1 JAN-31 DEC 2017	1 JAN-31 DEC 2018	1 JAN-31 DEC 2017
2.9 FINANCIAL INCOME AND EXPENSES				
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	0.4	0.3	0.4	0.2
Other financial income	0.4	0.3	0.4	0.2
Total financial income	0.4	0.3	0.4	0.3
2.10 FINANCIAL EXPENSES				
Impairment on investments in non-current assets	0.0	-1.5	0.0	-1.5
Other financial expenses	0.0	-0.1	0.0	-0.1
Total other interest and financial expenses	0.0	-1.6	0.0	-1.6
Total financial expenses	0.0	-1.6	0.0	-1.6
Total financial income and expenses	0.4	-1.3	0.4	-1.3
Profit/loss from exchange rates	0.0	0.0	0.0	0.0
Total profit/loss from exchange rates	0.0	0.0	0.0	0.0
2.11 DIRECT TAXES				
Income tax on operations	-9.3	-10.5	-9.3	-10.5
Changes in deferred tax liabilities and assets	0.0	0.0		
Income tax on operations	-9.3	-10.6	-9.3	-10.5

NOTES TO THE BALANCE SHEET

3 Non-current assets

	ALKO GROUP		ALKO INC.	
MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
3.1 INTANGIBLE ASSETS				
Other capitalised expenditures	4.8	3.9	4.8	3.9
Advance payments on intangible assets	0.4	1.3	0.4	1.3
Total intangible assets	5.2	5.2	5.2	5.2
3.2 TANGIBLE ASSETS				
Land and water areas	13.9	13.9	0.0	0.0
Buildings and structures	14.9	14.5	0.0	0.0
Machinery and equipment	15.1	11.9	15.1	11.9
Other tangible assets	0.0	0.0	0.0	0.0
Advance payments for ongoing acquisitions	0.0	0.2	0.0	0.0
Total tangible assets	43.9	40.5	15.1	11.9
3.3 INVESTMENTS				
Holdings in Group companies	0.1	0.1	27.2	27.2
Holdings in associated companies	0.9	0.9	0.9	0.9
Other shares and holdings	3.1	3.1	3.1	3.1
Total investments	4.0	4.1	31.2	31.2
Total non-current assets	53.2	49.8	51.5	48.4

NOTES TO THE BALANCE SHEETS

3.4 INTANGIBLE ASSETS

ALKO GROUP

Intangible assets 2017	MEUR	Other capitalised expenditures	Advance payments	Total
Acquisition cost, 1 January		19.2	4.4	23.5
Increase		0.3	1.7	2.0
Decrease		0.0	-0.1	-0.1
Transfers between items		4.6	-4.7	-0.1
Acquisition cost, 31 December		24.1	1.3	25.4
Accumulated depreciation, 1 January		-16.1	0.0	-16.1
Depreciation for the financial year		-4.1	0.0	-4.1
Accumulated depreciation, 31 December		-20.2	0.0	-20.2
Book value, 31 December		3.9	1.3	5.2

Intangible assets 2018	MEUR	Other capitalised expenditures	Advance payments	Total
Acquisition cost, 1 January		24.1	1.3	25.4
Increase		0.0	2.0	2.0
Decrease				
Transfers between items		2.9	-2.9	0.0
Acquisition cost, 31 December		27.0	0.4	27.4
Accumulated depreciation, 1 January		-20.2	0.0	-20.2
Depreciation for the financial year		-2.0	0.0	-2.0
Accumulated depreciation, 31 December		-22.2	0.0	-22.2
Book value, 31 December		4.8	0.4	5.2

ALKO INC.

Intangible assets 2017	MEUR	Other capitalised expenditures	Advance payments	Total
Acquisition cost, 1 January		19.2	4.4	23.5
Increase		0.3	1.7	2.0
Decrease			-0.1	-0.1
Transfers between items		4.6	-4.7	-0.1
Acquisition cost, 31 December		24.1	1.3	25.4
Accumulated depreciation, 1 January		-16.1	0.0	-16.1
Depreciation for the financial year		-4.1	0.0	-4.1
Accumulated depreciation, 31 December		-20.2	0.0	-20.2
			0.0	
Book value, 31 December		3.9	1.3	5.2

Intangible assets 2018	MEUR	Other capitalised expenditures	Advance payments	Total
Acquisition cost, 1 January		24.1	1.3	25.4
Increase		0.0	2.0	2.0
Transfers between items		2.9	-2.9	0.0
Acquisition cost, 31 December		27.0	0.4	27.4
Accumulated depreciation, 1 January		-20.2	0.0	-20.2
Depreciation for the financial year		-2.0	0.0	-2.0
Accumulated depreciation, 31 December		-22.2	0.0	-22.2
Book value, 31 December		4.8	0.4	5.2

NOTES TO THE BALANCE SHEET

3.5 TANGIBLE ASSETS

ALKO GROUP

Tangible assets 2017 MEUR	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 January	13.9	16.3	70.0	0.2	100.4
Increase	0.0	0.0	5.9	0.0	5.9
Decrease	0.0	0.0	0.0	-0.2	-0.3
Advance payments	0.0	0.0	0.0	0.2	0.2
Transfers between items	0.0	0.0	0.1	0.0	0.1
Acquisition cost, 31 December*	13.9	16.3	75.9	0.2	106.3
Accumulated depreciation, 1 January	0.0	-1.7	-59.9	0.0	-61.6
Accumulated depreciation on decreases and transfers	0.0	0.0	0.0	0.0	0.0
Depreciation for the financial year	0.0	0.0	-4.1	0.0	-4.1
Accumulated depreciation, 31 December	0.0	-1.7	-64.0	0.0	-65.7
Book value, 31 December	13.9	14.5	11.9	0.2	40.5

*Acquisition cost does not include upward value adjustments

Tangible assets 2018 MEUR	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 January	13.9	16.3	75.9	0.0	106.1
Increase	0.0	0.4	8.1	0.0	8.5
Decrease	0.0	0.0	0.0	-0.2	-0.2
Advance payments	0.0	0.0	0.0	0.2	0.2
Transfers between items	0.0	0.0	0.0	0.0	0.0
Acquisition cost, 31 December *	13.9	16.6	84.0	0.0	114.6
Accumulated depreciation, 1 January	0.0	-1.7	-64.0	0.0	-65.8
Accumulated depreciation on decreases and transfers	0.0	0.0	0.0	0.0	0.0
Depreciation for the financial year	0.0	0.0	-4.9	0.0	-4.9
Accumulated depreciation, 31 December	0.0	-1.7	-68.9	0.0	-70.6
Book value, 31 December	13.9	14.9	15.1	0.0	43.9

NOTES TO THE BALANCE SHEET

3.5 TANGIBLE ASSETS

ALKO INC.

Tangible assets 2017 MEUR	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 January	0.0	0.1	70.0	0.2	70.3
Increase	0.0	0.0	5.9	0.0	5.9
Decrease	0.0	0.0	0.0	-0.2	-0.3
Transfers between items	0.0	0.0	0.1	0.0	0.1
Acquisition cost, 31 December *	0.0	0.1	75.9	0.0	76.0
Accumulated depreciation, 1 January	0.0	-0.1	-59.9	0.0	-60.0
Accumulated depreciation on decreases and transfers	0.0	0.0	0.0	0.0	0.0
Depreciation for the financial year	0.0	0.0	-4.1	0.0	-4.1
Accumulated depreciation, 31 December	0.0	-0.1	-64.0	0.0	-64.1
Book value, 31 December	0.0	0.0	11.9	0.0	11.9

*Acquisition cost does not include upward value adjustments

Tangible assets 2018 MEUR	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 January	0.0	0.1	75.9	0.0	76.0
Increase	0.0	0.0	8.1	0.0	8.1
Decrease	0.0	0.0	0.0	0.0	0.0
Transfers between items	0.0	0.0	0.0	0.0	0.0
Acquisition cost, 31 December*	0.0	0.1	84.0	0.0	84.1
Accumulated depreciation, 1 January	0.0	-0.1	-64.0	0.0	-64.1
Accumulated depreciation on decreases and transfers	0.0	0.0	0.0	0.0	0.0
Depreciation for the financial year	0.0	0.0	-4.9	0.0	-4.9
Accumulated depreciation, 31 December	0.0	-0.1	-68.9	0.0	-69.0
Book value, 31 December	0.0	0.0	15.1	0.0	15.1

NOTES TO THE BALANCE SHEET

3.6 INVESTMENTS

ALKO GROUP

Investments 2017 MEUR	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Total
Acquisition cost, 1 January	0.9	2.1	3.6	6.6
Increase	0.0	0.0	0.0	0.0
Decrease	0.0	-0.2	0.0	-0.2
Acquisition cost, 31 December	0.9	1.9	3.6	6.4
Accumulated write-downs and capital adjustments, 1 January	-0.5	-0.3	-0.2	-0.9
Accumulated write-downs on decreases and transfers	0.0	0.1	0.0	0.1
Accumulated depreciation	-0.3	-0.8	-0.4	-1.5
Accumulated depreciation, 31 December	-0.8	-1.0	-0.5	-2.3
Book value, 31 December	0.1	0.9	3.1	4.1

Investments 2018 MEUR	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Total
Acquisition cost, 1 January	0.9	1.9	3.6	6.4
Increase	0.0	0.0	0.0	0.0
Decrease	0.0	0.0	-0.1	-0.1
Acquisition cost, 31 December	0.9	1.9	3.5	6.3
Accumulated write-downs and capital adjustments, 1 January	-0.8	-1.0	-0.5	-2.3
Accumulated write-downs on decreases and transfers	0.0	0.0	0.1	0.1
Accumulated depreciation	0.0	0.0	0.0	0.0
Accumulated depreciation, 31 December	-0.8	-1.0	-0.4	-2.3
Book value, 31 December	0.1	0.9	3.1	4.0

NOTES TO THE BALANCE SHEET

3.6 INVESTMENTS

ALKO INC.

Investments 2017 MEUR	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Total
Acquisition cost, 1 January	28.0	2.1	3.6	33.7
Increase	0.0	0.0	0.0	0.0
Decrease	0.0	-0.2	0.0	-0.2
Acquisition cost, 31 December	28.0	1.9	3.6	33.6
Accumulated write-downs and capital adjustments, 1 January	-0.5	-0.3	-0.2	-0.9
Accumulated write-downs on decreases and transfers	0.0	0.1	0.0	0.1
Accumulated depreciation	-0.3	-0.8	-0.4	-1.5
Accumulated depreciation, 31 December	-0.8	-1.0	-0.5	-2.3
Book value, 31 December	27.2	0.9	3.1	31.2

Investments 2018 MEUR	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Total
Acquisition cost, 1 January	28.0	1.9	3.6	33.6
Increase	0.0	0.0	0.0	0.0
Decrease	0.0	0.0	-0.1	-0.1
Acquisition cost, 31 December	28.0	1.9	3.5	33.4
Accumulated write-downs and capital adjustments, 1 January	-0.8	-1.0	-0.5	-2.3
Accumulated write-downs on decreases and transfers	0.0	0.0	0.1	0.1
Accumulated depreciation	0.0	0.0	0.0	0.0
Accumulated depreciation, 31 December	-0.8	-1.0	-0.4	-2.3
Book value, 31 December	27.2	0.9	3.1	31.2

NOTES TO THE BALANCE SHEET

3.7 SHARES

ALKO INC.

	Parent company holding, %	Percentage of shareholders' equity EUR 1,000	Shareholders' equity	Number of shares	Nominal value EUR/share	Shares/holdings Nominal value 31/12/2018 EUR 1,000, total	Book value 31/12/2018 EUR 1,000	Profit/loss according to the latest Financial Statements EUR 1,000
HOLDINGS IN GROUP COMPANIES								
Kiinteistö Oy Arkadiantalo, Helsinki	100.00		19,941,144.75				27141	29
Kiinteistö Oy Puolangan Keskus, Puolanka	50.48	188	372,150.36	275	56.00	15	25	0
Kiinteistö Oy Raahen Asemakatu 12, Raahе	57.90	253	436,678.44	14,476	17.00	246	80	0
Kiinteistö Oy Vuoksenniskan Harjulanrinne, Imatra	100.00	-49	-49,016.15	7,308	0.30	2	0	-988
TOTAL HOLDINGS IN GROUP COMPANIES		392					27,246	
HOLDINGS IN PARTICIPATING INTEREST COMPANIES								
Kiinteistö Oy Enon Kauppakeskus, Eno	37.00	167	451,898.12	259	5.05	1	28	-6
Asunto Oy Juvan Myllynkerä, Juva	31.50	152	481,888.67	3,150	0.25	1	50	-1
Kaavin Yrittäjätalo Oy, Kaavi	23.20	85	367,132.24	348	16.82	6	36	31
Kiinteistö Oy Kaivolankulma, Puumala	36.37	118	325,767.08	2,515	67.28	169	35	0
Kiinteistö Oy Kannuksen Torinkulma, Kannus	46.03	332	720,804.98	2,900	1.68	5	70	2
Kiinteistö Oy Mantsintie 1-3, Ilomantsi	28.19	110	389,004.42	311	50.46	16	50	1
Kiinteistö Oy Nilsianportti, Nilsia	31.49	449	1 425,676.98	1,606	16.82	27	90	0
Asunto-osakeyhtiö Pieksälä, Pieksämäki	26.82	179	668,923.26	54,800	1.68	92	50	12
Kiinteistö Oy Saarijärven Paavonaukio, Saarijärvi	29.58	221	746,175.42	392	168.19	66	70	-13
Asunto Oy Sandelsinkatu 4, Helsinki	24.85	28	112,896.65	6,835	0.34	2	251	-9
Kiinteistö Oy Savitaipaleen Torinkulma, Savitaipale	23.00	188	816,058.45	2,300	0.34	1	45	18
Kiinteistö Oy Urpala, Rantasalmi	36.88	295	799,022.96	2,950	0.34	1	50	4
Kiinteistö Oy Äänekosken Torikatu 5, Äänekoski	36.29	314	864,218.73	450	16.82	8	40	0
TOTAL HOLDINGS IN PARTICIPATING INTEREST COMPANIES		2,631					865	

NOTES TO THE BALANCE SHEET

	Parent company holding, %	Percentage of shareholders' equity EUR 1,000	Shareholders' equity	Number of shares	Nominal value EUR/share	Shares/holdings Nominal value 31/12/2018 EUR 1,000, total	Book value 31/12/2018 EUR 1,000	Profit/loss according to the latest Financial Statements EUR 1,000
OTHER SHARES AND HOLDINGS								
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	
Kiinteistö Oy Keritori, Kerimäki	9.76			332	1.68	1	63	
Kiinteistö Oy Kolarin Ylläs Chalets VII				122			244	
Kontulan Ostoskeskus Oy, Helsinki	9.46			745	68.62	51	673	
Asunto Oy Nilsiän Tahkovuori 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	35	
Kiinteistö Oy Pyhäsalmen Liiketalo, Pyhäsalmi	16.00			288	1.68		60	
Savonlinnan Linja-autoasema Oy, Savonlinna	10.47			1,540	168.19	259	50	
Kiinteistö Oy Siilinjärven Torikalla, Siilinjärvi	19.22			36,520	0.17	6	135	
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	
Asunto Oy Vuorimiehenkatu 33, Helsinki	15.41			4,445	16.82	75	228	
Kiinteistö Oy Ämmänkievari, 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		3	
Luottokunta				1			0	
Suomen Palautuspakkaus Oy	12.50			150			25	
Palpa							8	
Total other shares and holdings							3,051	
Other non-itemised shares and holdings (in telephone companies)							0	
TOTAL OTHER SHARES AND HOLDINGS							3,051	
TOTAL SHARES							31,162	

NOTES TO THE BALANCE SHEET

4 Current assets

	ALKO GROUP		ALKO INC.	
MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
4.1 Cash and cash equivalents				
Store cash registers	11.8	13.0	11.8	13.0
Commercial papers				
Bonds	18.9	22.4	18.9	22.4
Funds	54.9	31.9	54.9	31.9
Bank accounts	31.3	59.7	31.2	59.5
Total cash and cash equivalents	116.9	127.0	116.8	126.9
4.2 Difference in the market and book values of bonds				
Market value of financial securities	18.5	22.7	18.5	22.7
Book value of financial securities	18.9	22.4	18.9	22.4
Difference	-0.4	0.3	-0.4	0.3
4.3 Inventories				
Finished products and goods	75.6	70.4	75.6	70.4
Advance payments on inventories	0.8	0.9	0.8	0.9
Total inventories	76.5	71.3	76.5	71.3
4.4 Other non-current receivables				
Other	1.7	1.7	1.7	1.7
Total other non-current receivables	1.7	1.7	1.7	1.7
4.5 Current receivables from Group companies				
Current prepaid expenses and accrued income			0.1	
Total current receivables from Group companies	0.0	0.0	0.1	0.0

	ALKO GROUP		ALKO INC.	
MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
4.6 Non-current receivables				
Accounts receivable	12.4	19.7	12.4	19.7
Current receivables (from others)	2.6	2.1	2.6	2.0
Other	0.2	1.3	0.1	1.3
Total current receivables	15.2	23.1	15.2	23.0
CURRENT RECEIVABLES	15.2	23.1	15.2	23.0
4.7 Major items in prepaid expenses and accrued income				
Income tax receivables	1.2		1.2	
KELA compensation for occupational health care	0.6	0.6	0.6	0.6
Employer insurance contributions	0.3	0.8	0.3	0.8
Interest receivables	0.3	0.2	0.3	0.2
License and maintenance fees for 2018		0.1		0.1
Other prepaid expenses and accrued income	0.2	0.4	0.2	0.4
Total	2.6	2.1	2.6	2.0

NOTES TO THE BALANCE SHEET

5 Shareholders' equity

5.1 STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

ALKO GROUP

Change in shareholders' equity 2017 MEUR	Share capital	Other funds	Profit funds	Total
EQUITY, 1 JAN	16.8	2.2	57.0	75.9
Distribution of dividend			-30.0	-30.0
Transfers between items, fund for wellbeing at work		-0.4	0.4	0.0
Profit for financial year			41.0	41.0
TOTAL EQUITY, 31 DEC	16.8	1.8	68.4	87.0

Change in shareholders' equity 2018 MEUR	Share capital	Other funds	Profit funds	Total
EQUITY, 1 JAN	16.8	1.8	68.4	87.0
Distribution of dividend			-32.0	-32.0
Transfers between items, fund for wellbeing at work		-0.3	0.3	0.0
Profit for financial year			37.1	37.1
TOTAL EQUITY, 31 DEC	16.8	1.5	73.7	92.0

ALKO INC.

Change in shareholders' equity 2017 MEUR	Share capital	Other funds	Profit funds	Total
EQUITY, 1 JAN	16.8	2.2	56.4	75.4
Distribution of dividend			-30.0	-30.0
Transfers between items, fund for wellbeing at work		-0.4	0.4	0.0
Profit for financial year			40.7	40.7
TOTAL EQUITY, 31 DEC	16.8	1.8	67.5	86.1

Change in shareholders' equity 2017 MEUR	Share capital	Other funds	Profit funds	Total
EQUITY, 1 JAN	16.8	1.8	67.5	86.1
Distribution of dividend			-32.0	-32.0
Transfers between items, fund for wellbeing at work		-0.3	0.3	0.0
Profit for financial year			37.0	37.0
TOTAL EQUITY, 31 DEC	16.8	1.8	72.8	91.2

5.2 DISTRIBUTABLE EARNINGS

	ALKO GROUP		ALKO INC.	
MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
Retained profit			35.5	26.4
Profit/loss for financial year			37.0	40.7
Transfer from other funds			0.3	0.4
Total adjustments			0.3	0.4
Distributable earnings			72.8	67.5

NOTES TO THE BALANCE SHEET

6 Obligatory provisions

	ALKO GROUP		ALKO INC.	
MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
Rent liability for vacant premises				
Total	0.0	0.0	0.0	0.0

7 Liabilities

	ALKO GROUP		ALKO INC.	
MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
7.1 Current liabilities to Group companies				
Accounts payable to Group companies				0.1
	0.0	0.0	0.0	0.1
7.2 Current liabilities				
Accounts payable	141.9	154.9	141.9	154.8
Accrued expenses and deferred income	19.0	19.1	18.9	19.0
Other liabilities	9.9	11.3	9.9	11.2
Advances received				
Total	170.8	185.3	170.7	185.1
CURRENT LIABILITIES	170.8	185.3	170.7	185.1
7.3 Major items in accrued expenses and deferred income				
Accrual of salaries, including social insurance costs	18.3	18.0	18.3	18.0
Accrual of employer insurance contributions	0.2	0.0	0.2	
Accrual of income tax		0.1		0.1
Accrual of bank charges and credit card commissions	0.1	0.6	0.1	0.6
Deliveries from abroad	0.3	0.2	0.3	0.2
Invoices to be recognised in next financial period		0.1		0.1
Other current accrued expenses and deferred income		0.2		0.1
Total	19.0	19.1	18.9	19.0

NOTES TO THE BALANCE SHEET

8 Other notes

ALKO GROUP				ALKO INC.	
8.1 Leasing liabilities	MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
Payable the following year		0.7	0.9	0.7	0.9
Payable later		0.7	1.3	0.7	1.3
Total		1.5	2.2	1.5	2.2

ALKO GROUP				ALKO INC.	
8.2 Rent liabilities	MEUR	31 DEC 2018	31 DEC 2017	31 DEC 2018	31 DEC 2017
Payable the following year		13.8	13.3	13.8	13.3
Payable later		2.3	1.3	2.3	1.3
Total		16.1	14.6	16.1	14.6

KEY FIGURES

	ALKO GROUP					ALKO INC.				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Net sales, EUR million	1,153.7	1,174.8	1,162.8	1,159.0	1,180.0	1153.6	1,174.8	1,162.7	1,158.9	1,179.8
Operating profit, EUR million	46.0	53	47.3	48.8	50.4	46.0	52.6	46.6	49.7	50.5
Proportion of net sales, %	4.0	4.5	4.1	4.2	4.3	4.0	4.5	4.0	4.3	4.3
Profit before appropriations and taxes	46.4	51.6	48.6	49.5	51.2	46.4	51.2	47.8	50.4	51.3
Proportion of net sales, %	4	4.4	4.2	4.3	4.3	4	4.4	4.1	4.3	4.3
Return on equity, %	41.4	50.4	51.0	51	53.7	41.8	50.4	49.6	51.7	53.8
Return on investment, %	51.1	64.2	63.5	64.1	67.2	52.3	65.4	62.1	64.8	67.3
Equity ratio, %	34.9	31.8	29.4	29.8	30.3	34.8	31.9	29.6	30.3	30.5
Current ratio	1.2	1.2	1.1	1.2	1.1	1.2	1.2	1.1	1.2	1.1
Gross investments in fixed assets, EUR million	10.5	8.1	8.5	4.8	6.1	10.1	7.9	7.4	4.7	6
Proportion of net sales, %	0.9	0.7	0.7	0.4	0.5	0.9	0.7	0.6	0.4	0.5
Average number of personnel during the financial year	2,452	2,401	2,385	2,415	2,527	2,452	2,401	2,385	2,415	2,527

FORMULAS FOR THE KEY FIGURES

Return on equity, %	$\frac{(\text{Profit before appropriations and taxes} - \text{income tax on ordinary operations})}{\text{Equity (average*)}}$
Return on investment, %	$\frac{(\text{Profit before appropriations and taxes} + \text{financial expenses for current liabilities}) \times 100}{\text{Balance sheet total (average*)} - \text{non-interest-bearing liabilities (average*)}}$
Equity ratio, %	$\frac{\text{Equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$
Current ratio	$\frac{\text{Inventories} + \text{Financial assets}}{\text{Current liabilities}}$

*) average figures have been calculated as averages for the beginning and end of the period

THE BOARD OF DIRECTORS' PROPOSAL ON THE DISTRIBUTION OF PROFIT

The proposal is to transfer EUR 259,406.64 from the other equity fund to the unrestricted equity fund to cover the costs of improving wellbeing at work.

The parent company's distributable funds at 31 December 2018 totalled EUR 72,806,189.15 (EUR 67,501,120.96), of which EUR 37,045,661.55 (EUR 40,702,477.42) is profit for the financial year.

The Board proposes that the company's distributable funds be used as follows:

Distributed as a dividend	30,000,000.00
<u>To be retained under equity</u>	<u>42,806,189.15</u>
	72,806,189.15

No substantial changes have occurred in the company's financial position since the end of the financial year. The company's liquidity is good and, in the Board's opinion, will not be jeopardised by the proposed distribution of profits.

SIGNATURES TO THE FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS

Helsinki, 12 March 2019
Board of Directors

Harri Sailas Chair	Kirsi Paakkari
Juhani Eskola	Ulrika Romantschuk
Kuisma Niemelä	Kirsi Varhila
Pekka Perttula	Leena Laitinen President & CEO

AUDITOR'S REPORT

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

Helsinki, 12 March 2019

KPMG Oy Ab
Firm of Authorised Public Accountants

Lasse Holopainen
Authorised Public Accountant

SUPERVISORY BOARD STATEMENT

The Supervisory Board of Alko Inc. has studied the company’s financial statements and auditors’ report for 2018 and proposes to the 2019 Annual General Meeting that the company income statement and balance sheets for the 2018 financial year be approved. The Supervisory Board agrees with the Board of Directors’ proposal for disposal of the profits.

Helsinki, 14th of March, 2019

Vesa-Matti Saarakkala
Chairman

Anna-Maja Henriksson
Vice Chairman

Tuula Haatainen
Member

Susanna Huovinen
Member

Osmo Kokko
Member

Pauli Kiuru
Member

Ulla Parviainen
Member

Aino-Kaisa Pekonen
Member

Pekka Puska
Member

Juha Rehula
Member

Päivi Räsänen
Member

Sari Sarkomaa
Member



CONTACT

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mon-fri 8am-4pm