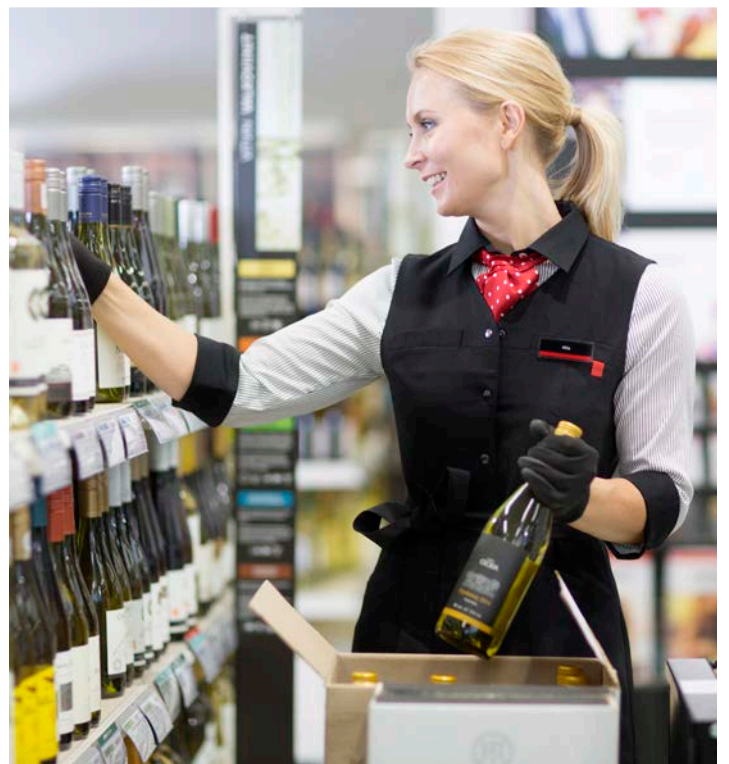


ALKO INC.

ANNUAL REPORT 2016



CONTENT

ALKO INC.

Assignment and operating environment	4
Strategy	6
Monopoly position	9
Customer experience	13
Business development	16
Sales and consumption of beverages	16
Selection planning	25
Product quality	28

RESPONSIBLE BUSINESS

Responsibility programme	30
Interest groups and relevance	32
Prevention of the harmful effects of alcohol	33
Responsible supply chain	39
Financial responsibility	T43
Environmental responsibility	46

ALKO AS AN EMPLOYER

Best workplace	51
Personel in figures	53
Remuneration	57
Collective agreements and cooperation	59
Training and development	60
Well-being and safety at work	63

MANAGEMENT

Corporate Governance	66
Board of Directors and committees	68
Management Team	72
Management remuneration	74
Risk management	77

GRI

Report parameters	79
GRI index	82
GRI G4 Supplements	90

FINANCIAL STATEMENT

Year 2016 in brief	94
Report by the Board of Directors	95
Statement by the Supervisory Board	100



ALKO INC.

Assignment and operating environment

Alko wants to offer its customers the best personal service in Finland. This is why Alko listens to its customers and adapts its selection and operating environment to match customer behaviour and wishes. The webshop we opened in late 2016 was a major step towards more comprehensive service for our customers, but our enthusiasm for renewal doesn't stop there. This year, Alko will be adapting to meet the requirements of its operating environment in four areas: individualism, amendments to the Alcohol Act, customer reachability, and responsibility.

Alko in brief

Our mission is the retail sale of alcoholic beverages while accounting for the harmful effects of such products. Our operations and sole right to engage in retail sales of drinks containing more than 4.7 per cent alcohol by volume are primarily 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 task assigned to Alko in law.

About 2,385 staff provide in-store customer service. Our product portfolio includes beverages from about 60 countries. Our head office is in Helsinki and we have four regional offices around Finland. Alko had 353 stores at the end of 2016. During the year, we opened three new stores and closed one. New stores were opened in Puuvilla (Pori), Kilpisjärvi, and Taivallahti (Helsinki). The downtown store in Kouvola was closed.

The best customer service requires Alko to adapt to changes in its operating environment



Customers' individualism is evident in their focus on quality and wellbeing

Alko's customers are individuals who are interested in what they are pouring into their glasses. Our customers want more choice – products that meet their own specific needs – and also want to know what they are buying. This is why we have expanded our range to cover over 5,000 products. It is also possible to place special orders for products that are not in our standard selection. Individualism will be steering growth in our product range over the next three years: no less than 10,000 products will be available through Alko by 2020.

A focus on health and wellbeing continues to be a clear trend among consumers. A general trend for overall wellbeing can be seen in the way consumers want to buy fewer items of higher quality. The average price of beverages sold at Alko rose by about 3.8 per cent (or 21 cents) in the previous year.

The wellbeing trend has increased consumers' interest in moderate alcohol consumption and combining food and drink. For example, we expanded our range of smaller bottles to better meet consumer demand. We have also increased the number of alcohol-free and low-alcohol products that we stock.

New service models required by Alcohol Act amendments

The potential amendments to the Alcohol Act will have a significant impact on Alko's operations. The proposed legislation would lead to a fall of EUR 100 million in Alko's net sales. This is why Alko is investing in customer service, developing its service network, and further improving efficiency.

However, the Alcohol Act aside, Alko will continue to develop its operations in line with its strategy, that is, to offer the best and the most knowledgeable customer service in Finland. Alko's future service network will consist of a diverse range of stores, collection points, a webshop, and new service models. In our constantly changing operating environment, it is vital for us to brainstorm new types of service models.

Responsible consumers are interested in a product's origin and procurement chain

Responsibility is becoming an increasingly important factor in our customers' purchasing decisions. Consumers want to know where products are from and how they have been acquired and produced. Product traceability is important to us, and we also want to be pioneers in keeping our customers informed, so they can enjoy beverages that have been produced ethically and to high standards. We are transparent in our communications about the responsibility of our operations and products, including any issues that are under development or require correction. In 2016, Alko launched the #nofilter campaign, which seeks to keep people openly informed about challenges arising in the field of responsibility.

Alko is undertaking many responsibility-related measures. By 2020, we will have audited 150 producers and their sub-suppliers in collaboration with other Nordic monopolies. We also seek responsibility in logistics. Transportation to stores is planned to be as efficient as possible and transport companies' CO2 emissions are monitored. In 2017, Alko will also be launching its EcoLabel range, which considers a variety of environmental perspectives.

Closer than ever to customers – 'multichannel' is our keyword

Urbanisation is altering customer flows and will impact workforce availability. Population growth will increasingly focus on the capital city region, southern Finland, and regional growth centres – 15,000 new inhabitants move to the capital centre region every year. Alko wants to be found in the places where its customers most naturally shop.

Customer flows are shifting not only towards regional growth centres, but also from brick-and-mortar shops to online stores. This is why the importance of multichannel customer service is increasing all the time. Alko's webshop opened in November 2016 and will continue its strong growth and challenge the traditional market, as customers want to do their shopping when it suits them – from their sofas.

Alko's webshop is the first but by no means the last step towards digital service. At Alko, we are working with our customers to build the digital customer service of the future. Together, our stores, collection points and webshop form a comprehensive service concept that enables customers to choose the most suitable way of shopping and consulting Alko's experts. Our future service network will consist of several mutually supportive service channels: our webshop, a network of collection points, our customer service centre, and specialised stores.

Alko in figures

- 2,385 employees (on average)
- 353 stores and 66 collection points
- 6,451 alcoholic beverages
- 197 Finnish suppliers and producers, and 276 foreign suppliers
- 57.7 million customer visits
- Net sales: EUR 1,162.7 million
- Operating profit: EUR 46.6 million
- Equity ratio: 29.6%
- Wholly owned by the State
- Established: 1932
- President & CEO: Hille Korhonen
- Head office: Helsinki

Alko provides personal and responsible service

Alko's goal is to provide the best customer experience and the best work, to exert an active influence in the community, and be an efficient company.

Expert, personal service

Alko wants to provide the most expert and personal customer experience possible at every stage of the customer service path. During 2016, our network of stores and collection points has been supplemented and seamlessly supported by a webshop and customer service centre in which Alko's professional sales staff answer customer enquiries via live chat.

We will be revising our store concept during the strategy period. Based on customer needs, our stores will become more diverse in terms of their size, atmosphere and operating models. We will likewise be adding to our online services.

Our selection is also being continually developed on the basis of customer demand and trends. Alko's selection contains almost 6,000 products and our goal is to increase this to 10,000 by 2020.

Expertise and flexibility leads to the best work

Digitisation requires our personnel to internalise new working methods and master new tools. This change also offers the chance to renew our working culture. Learning is increasingly becoming self-study – expertise is actively shared and staff are seeking answers to customer queries through internal networks.

During the strategy period, we are aiming to increase the flexibility of our organisational structure. Our operations will be managed as increasingly larger entities, that is, as groups of stores, and personnel will work in employment areas. This will also enable us to meet demand and provide a better range of work opportunities. Self-leadership will become increasingly important in our new working culture.

A pioneer in responsibility

Alko wants to be an active player in the community, a pioneer in responsibility, and stand out in areas that interest stakeholders: customers, personnel, the media, political decision-makers, and goods suppliers.

We want to support alcohol research and raise awareness of the harmful effects of alcohol consumption on health and wellbeing. An uncompromising stance on age-limit checks in our webshop and at our stores and collection points remains one of our key objectives. We will be placing an even greater focus on ethics and product traceability in our supply chain.

Effective chain management and processes to support our customer experience

Alko's goal is to operate efficiently when compared to either foreign companies with a special mandate or commercial service-sector companies. Our digital services and store network require smooth business processes and an appropriate IT system structure.

ALKO'S MISSION AND VISION FOR THE STRATEGY PERIOD 2017–2019



The MyAlko game – an inspiring way to mobilise strategy

During spring 2016 and early 2017, all Alko personnel took part in MyAlko training to support the creation of a multichannel company with a real sense of community. This training made the company's strategy a part of everyone's everyday work. Through the discussions held at these training events, employees gained a greater understanding of future changes to everyone's work.

Personnel, shop stewards and our HR department worked together to design the game and write the questions. Nineteen Alko employees working in our network of stores around the country were trained as MyAlko coaches.

2016 OBJECTIVES AND ACCOMPLISHMENTS

Strategic objective	2016 accomplishments
Best customer experience	<p>National Customer Service Feedback survey: our best ever score (8.55), best in the retail trade, second among service-sector companies</p> <p>The successful opening of our webshop</p> <p>The opening of our flagship store, and our new store concept</p>
A responsible player in the community	<p>Finland's best retail store in terms of reputation and responsibility (Kantar TNS)</p> <p>3.8 million age-limit checks</p> <p>Implementing the #nofilter campaign</p> <p>Online training in operating principles for responsible procurements; completing our analysis of the environmental impacts of our supply chain</p>
Best work	<p>Renewing our remuneration system for sales staff</p> <p>MyAlko training to get all personnel involved in the company's strategy</p> <p>Customer experience at a good level</p> <p>Increased flexibility in our store network through, for example, a pilot of staff working shifts at multiple stores</p>
An efficient chain of speciality stores	<p>Efficiency and service level good</p> <p>Cost-effectiveness retained in spite of development investments and a decrease in volume</p> <p>Dividend payment ability retained</p>

Customers and staff feel more at home in our new-style stores

Alko's new store concept combines a multichannel approach with knowledgeable and personal service. Our Arkadia store was the first to be revamped in line with our new concept.

Alko wants to be a pioneer in creating an outstanding customer experience. Our new store concept combines a multichannel approach, knowledgeable and personal service, and a learning experience for customers.

We interviewed customers, personnel and other stakeholders when designing our new store concept. The Arkadia store that opened in September 2016 is a pilot store that will also act as a test lab for new ideas. Our new concept will gradually spread to all other Alko stores.



Multichannel approach visible in stores

Service will be provided through an increasing number of channels as digital services appear alongside brick-and-mortar stores. Alko's goal is to ensure an identical customer experience and personal service in all channels. In order for brick-and-mortar stores to retain their customer appeal, they need to have a strong personality that brings out the characteristics of different brands.

Our new store concept supports the webshop opened in 2016. As part of the new concept, stores have been equipped with mobile tools, storage solutions for online orders, and a system for handling order collections.

A spotlight on lighting

The look and feel of our new-concept stores has been designed on

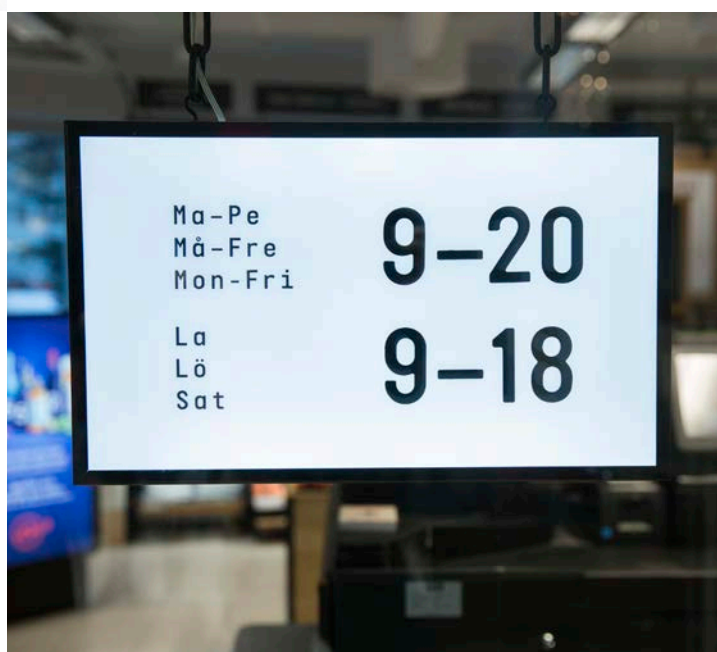
the basis of feedback from both customers and personnel. Alko stores are now much livelier and appealing than they used to be.

We have completely changed the furnishings and paid particular attention to the finer points of interior décor. Stylish signage also adds to the atmosphere. Our goal was a fresh new style in which the Alko brand is still recognisable.

The new concept also pays particular attention to lighting. We wanted to create modular furnishing solutions that can be scaled to fit different stores and seasons. Graphic designs and in-store materials put the finishing touches to this inspiring package.

Alko had 353 stores at the end of 2016

In 2016, Alko opened three new stores and closed one. New stores were opened in Puuvilla (Pori), Kilpisjärvi, and Taivallahti (Helsinki). The store in central Kouvola was closed. Fourteen Alko stores were renovated and 12 were relocated.



Alko's position supported by Finns

Finns consider the restrictions imposed by alcohol policy to be suitable.

60 per cent of Finns consider the restrictions imposed by alcohol policy to be suitable or would like to see tighter restrictions. Last year, this figure was 58 per cent. 32 per cent wanted to relax the restrictions. The percentage of Finns seeking a more liberal alcohol policy has therefore fallen, as this figure was 35 per cent a year ago.

62 (60) per cent of Finns think that Alko is a good method of limiting the harmful effects of alcohol consumption. 82 per cent of Finns think Alko has been highly or quite successful in its customer service. When it comes to responsibility, 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 2017.

Suitable age limits for buying alcohol in Finland

In Finland, the age limit for buying beer and wine is 18. This was considered suitable or too low by 98 (98) per cent of respondents. The age limit for buying spirits is 20. This was considered suitable or too low by 88 (91) per cent of respondents

This information came from the Opinions on Alcohol Policy survey.

Alcohol policy measures

Research indicates that the most effective methods of reducing the harmful impacts of alcohol include:

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

Reference: Ministry of social affairs and health

“What would happen to wine culture if you could buy wine from every petrol station?”

The amendments to the Alcohol Act will release restrictions on the sale of strong beer and mixed drinks, but wines and spirits will still only be available from Alko. However, many people also wanted wines to be available in grocery stores. Alko's Product Information Manager Taina Vilkkuna and Samuil Angelov, Chairman of Finland's sommelier association, are sitting around the table discussing the derestriction of wine sales. Would Finnish drinking culture go sharply downhill or would it provide better service for wine enthusiasts?

SA:

When it comes to lifting restrictions on wine sales, we need to find a golden mean. Alcohol is a hot potato in Finland – no one dares to catch it.

As a restaurateur, I would like permission to sell wines and conduct my business in a way that would provide a broader range of service to my customers. That would generate the desired volume in on-trade sales. And, as volumes rise, restaurants' wine pricing could be brought more in line with European levels.

One model could involve licensed restaurants acquiring an additional permit to conduct off-trade sales. However, it would be very difficult to draw the line on who could and could not sell alcohol, especially as the grocery trade is controlled by two cooperatives.

TV:

Yes, we would then lose the monopoly to two giant powers. Soon the only thing you'd be able to buy would be Rainbow and Pirkka wines. When it comes to developing wine culture, lifting restrictions would not be a bright option. Customer service would also collapse, as there would hardly be enough staff in supermarkets to help people choose wine.

SA:

On the other hand, people are already doing most of their alcohol shopping online or in Estonia. And all of that tax revenue is being lost. If stores could sell alcohol, that revenue would stay in Finland. More specialised wines could also be sold off-trade by restaurants, and the tax could even be slightly higher.

TV:

Alko customers can be certain that taxes are being paid and that, for example, tax constitutes half of the price of a bottle of wine. If a product is not available in our selection, our customer service is ready to locate it.

Could we maintain regional equality?

If you could buy wine at your local supermarket, would the overall selection contract and would there be great regional variations? What would be available to wine enthusiasts in Helsinki – and what in, say, Northern Karelia or Rovaniemi?

SA:

Knowledge about wine varies quite a lot between regions. People in downtown Helsinki want different product ranges to those elsewhere in Finland.

TV:

Alko has a comprehensive network of stores and, thanks to the opening of our new webshop, our extremely extensive selection is available to everyone. We currently have about 5,000 products in our webshop, and are aiming to increase this to 10,000. Small producers also have the opportunity to list their products in Alko's webshop, at whatever price they wish. This has greatly diversified the range of available products.

At Alko, we are seeking ways to serve all of our customers. The webshop is playing its part in this. Our webshop also enables people to chat with an Alko sales assistant. Webshop staff receive the same regular training as our in-store personnel.

SA:

I agree that Alko provides excellent service. Alko's sales staff are both professional and highly knowledgeable.

But is a monopoly really appropriate for contemporary Europe?

Finland has had a monopoly on alcohol sales for a long time, and this has been based on, for example, preventing the harmful effects of alcohol. But are there any good alternatives?

SA:

Our drinking culture is not European. Does our drinking culture maybe explain the need for a monopoly? Having a state-run alcohol trade seems to be a Nordic phenomenon.

TV:

Although Southern Europe doesn't really employ this system, monopolies aren't rare globally. Canada has a monopoly in almost every state, and the United States in twenty states. However, we don't want to hear this in Finland – we just want to blindly rush in and tear down the norms.

Besides, all other countries in Europe are tightening their alcohol policies. In Sweden, for example, the vast majority supports Systembolaget (the monopoly) and people aren't even demanding the introduction of medium-strength beer into grocery stores.

SA:

Maybe our drinking culture is closer to Russia's rather than Europe's. Has Finland's resistance to the monopoly increased due to, for example, free alcohol sales in our neighbouring country of Estonia?

TV:

The Estonian government has decided on a significant rise in alcohol taxation – the beer tax will double within a year.

Who would safeguard the quality and responsibility of products?

TV:

Quality assurance is one of the best aspects of having a monopoly. Candidates have to beat off tough competition before new products are listed in our standard selection. At Alko, we ensure that the quality of our products is both high and consistent. A call for new products may result in offers of 50 wines, of which only one will be selected. When choosing products, we treat all suppliers equally and transparently.

SA:

I support lifting restrictions on the sales of alcohol, but it must be thoroughly considered. I work in the restaurant industry, so I'm well aware of the problems caused by alcohol. Lifting restrictions shouldn't mean that 'professional drinkers' are fetching their daily bottle from Lidl at 8 am.

TV:

Alcohol isn't a commodity like bread or sausages – it generates considerable social costs. If wines were sold in corner stores, this would mean that spirits would also be available – no in-between format would pass through EU legislation. Besides, it wouldn't be financially viable for Alko to sell only spirits.

Every euro spent by Alko customers goes back to the State and can be used to combat the harmful effects of alcohol. This is by far a better alternative to that same euro going into the pockets of two cooperatives. If anyone could sell strong alcoholic beverages, who would pay for the costs of alcohol's harmful effects and what would happen to responsibility?

Amendments to the Alcohol Act

- Amendments to the Alcohol Act will enable grocery stores, service stations and kiosks to sell beer and mixed drinks of up to 5.5 per cent alcohol per volume.
- Restaurants and microbreweries will also be allowed to engage in off-trade sales of beverages of up to 5.5 per cent alcohol per volume. The new Act will also lift restrictions on on-trade and off-trade (Alko's) opening hours.
- The Act will still seek to prevent the harmful effects of alcohol.
- Its principles include the retention of Alko's retail monopoly and existing permit systems. The Act will also be repealing unnecessary, outdated and inflexible norms contained in existing legislation. Such norms have burdened the restaurant sector in particular.

I would say that it is easier for Alko staff to refuse to serve inebriated or under-age customers. An employee working alone at a kiosk or a corner shop may find it challenging to be responsible in the same situation.

Finnish wine culture is blossoming

SA:

Finns' relationship with wine culture is getting increasingly refined. My sommelier colleagues in the Nordic countries have said that Finland has a chain of stores that can offer wines from anywhere in the world. Finland doesn't produce wine itself, but maybe that's exactly why we can take such an objective global view.

What would happen to wine culture if you could buy wine from every petrol station? It would lead to the dumbing down of consumption and a 'quantity over quality' approach. Now quite the opposite is true – the average price of wine being bought in Finland is rising. Let's keep on buying quality.

TV:

Sales have contracted for all other product categories, but have risen for wines and sparkling wines. I hope that customers are willing to choose products that cost a couple of euros more. I don't mean twice the price, but paying 13–15 euros instead of ten. It's then that you notice how a wine's nuances can enhance dining.



If anyone could sell strong alcoholic beverages, what would happen to responsibility?



When it comes to developing wine culture, lifting restrictions would not be a bright option.

Customer experience

Alko updated its store concept and opened a webshop for consumers. We received a recordbreaking score for customer satisfaction.

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.

The best customer experience means easy shopping and an outstanding customer experience in all channels. Alko's customer experience is managed through several subareas, namely: product range, service network, in-store and online customer service, additional services for customers, and our 'brand experience'.

Our customers themselves lie at the heart of our customer experience development. We believe that the best results will be achieved when we listen to our customers' wishes, treat our customers as individuals, and have the confidence to offer them desirable products and valuable information and inspiration for daily life and celebrations.

Alko was the second-best service-sector company in 2016

Alko regularly measures its customer experience using a variety of methods. In 2016, we received our best ever score (8.55) in a survey measuring ease of shopping and customer satisfaction. Our score for 2015 was 8.50 on a scale of four to ten.

According to the Finland Today national customer service feedback survey conducted by Taloustutkimus, respondents thought that Alko's service and Net Promoter Index (40) were the best in the retail sector. In the service sector, Alko came second (to Finnish libraries) out of about 30 Finnish service companies.

The survey results indicate that Alko's strengths are a highly service-minded attitude and knowledgeability. Customers get an excellent first impression when visiting stores, and the checkout experience is smooth.

Areas for development included the pleasantness of our premises and service flexibility. Our customers' impression of the price-quality ratio received the lowest score of all. We believe that the renewals carried out during 2016 will enable us to make a positive impression on our customers' opinions of the pleasantness of our premises and service flexibility in particular.

Lively service in stores and online

In 2016, we made two major investments in developing our customer experience by opening a webshop for consumers and revamping our store concept.

This concept is based on new store profiling that seeks to provide every customer with a store and range that better meets their needs. These new-concept stores focus on their product range and creating a lively and pleasant atmosphere. They offer a pleasing backdrop for a variety of product groups and worlds, and invite customers to spend time browsing the stories behind the products.

By the end of the year, Alko had brought a total of eleven stores in line with the new concept. These include stores in Arkadia, Lauttasaari and Pitäjänmäki (Helsinki), Iso-omena (Espoo), Haapaniemi (Kuopio) and Salo. The new concept will be rolled out as new stores are opened and existing stores are refurbished. Our goal is to renew our entire service network over the coming years.

Thanks to the webshop that we opened for consumers in November, Alko's entire selection is now available throughout Finland.

The webshop has strengthened Alko's service network and provides a platform for offering new services, such as training and information about food and drink. The webshop has been well-received by customers. In 2017, we will continue to develop our webshop and digital services on the basis of our customers' wishes.

The best customer experience will take us a long way

Digitalisation, along with the technological revolution it will usher in, will blur the geographical boundaries of markets and have a significant impact on consumer habits. Looking ahead, customers' expectations of Alko can only grow. We are continuing our determined efforts to ensure that every customer continues to feel that Alko offers appealing products, inspiration and services both in stores and online.

One of our priorities for the near future is developing our service network so that our stores, collection points and webshop better support each other. We have engaged many of our customer service professionals from all across Finland in this work.

We also have the ambitious goal of increasing our current product range from approximately 5,500 to 10,000 products by 2020. We are also seeking to stock some new products quickly, for example, in the form of special batches that will appeal to smaller customer groups.

When measuring our customer experience, we supplement the Finland Today national customer service feedback survey with shop exit interviews at all Alko stores.

- The result of these interviews is the Customer Experience Index, which increased notably on 2015: 4.15 compared to 4.07.
- Shop exit interviews indicate that customers are extremely willing to recommend Alko. Our key strength is our service-minded attitude.
- Areas for development include the appeal and attention value of auxiliary products and seasonal displays.

Shop exit interviews were last conducted in 2016. During 2017, we will be enhancing our customer understanding with the aid of online customer surveys to ensure that data is collected from all of our service channels.

Alko is now meeting customers online – our new webshop was our largest store in December

Alko expanded into a new sales channel in November 2016, when we opened our webshop for consumers. It was inspired by a desire to serve customers in a place where they increasingly want to shop – online.

The webshop offers customers all across Finland an equal opportunity to browse and purchase products from Alko's range of 5,000 products. Customers can shop in peace when it best suits them, and can order products in whatever volume they require, from a single bottle upwards. They can then collect their products from an Alko store or collection point.



"We want to serve our customers better and in a more contemporary manner. We are not seeking sales growth – we want to develop our customer service to meet consumer requirements," says Paula Kujansivu, Vice President, Online and Supply Chain.

An expert in your pocket

Alko's expertise in both beverages and combining food and drink is at our customers' disposal. During store opening hours, Alko's experts personally respond to customer questions by chat, phone or email. Customers can also search for suitable food and drink combinations on our website (alko.fi) using our 'combine and succeed' service. "We help customers find suitable beverages for spring parties or picnics," says Kujansivu.

Services developed with customers

Alko is continually enhancing its customer experience and services. Our webshop is the first but by no means the last step towards digital service. We listen to our customers' feedback and are continually developing our webshop.

Alko has spent several years developing its digital services in collaboration with its customers and sales staff. Feedback has helped us to improve our webshop's search functions and expand the product information available online. The concrete results of workshops with customers and personnel can also be seen in our webshop as a diverse range of services and functions.



Downswing in sales of alcoholic beverages levelled off in 2016

Wines, sparkling wines and rosé wines rose in popularity in 2016. Organic and ethical trade products also saw significant sales growth.

Mild wines (including red, white and sparkling wines) form the largest of Alko's alcoholic beverage categories. In terms of litres, their sales account for 57.6 per cent of all sales of alcoholic beverages. 2016 sales of mild wines were on a par with the previous year, with sales of mild wines totalling 53.9 million litres in 2016.

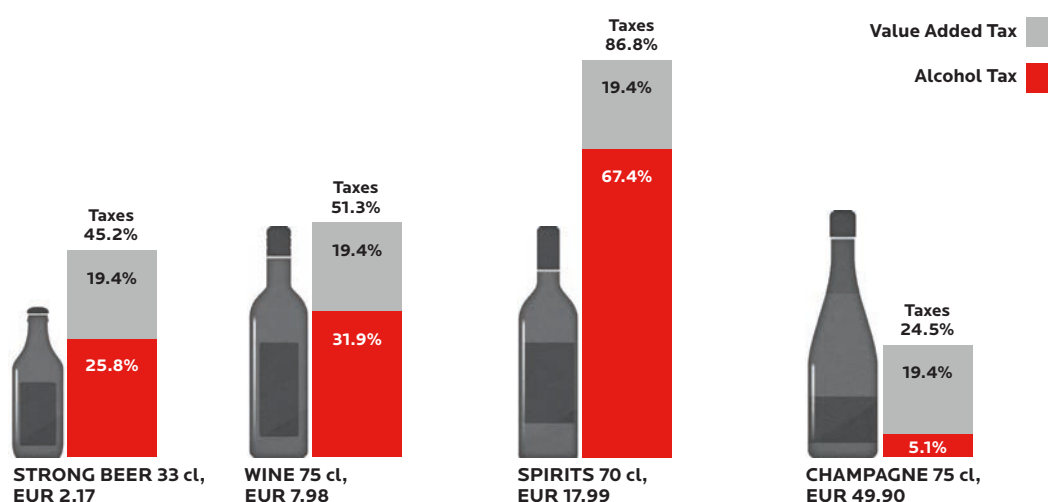
Reds accounted for the majority of wine sales (24.5 million litres) and 45.4 per cent of all mild wines. However, sales of red wines were down by 1.6 per cent on 2015. Almost 30 per cent of the red wines we sold were from Chile. The next most popular countries for red wine were Spain, Italy and Australia. Bottled wines retailing at under EUR 10 accounted for about 69.3 per cent of red wine sales. There was a 5 per cent year-on-year increase in the proportion of sales accounted for by bottled wines retailing at over EUR 10.

Sales of white wines totalled 21.2 million litres. This was about 100,000 litres more than in 2015, and whites accounted for 39.2 per cent of all mild wines. The most popular whites came from Chile, South Africa, Germany and Italy. Bottled wines retailing at under EUR 10 accounted for about 80.4 per cent of white wine sales.

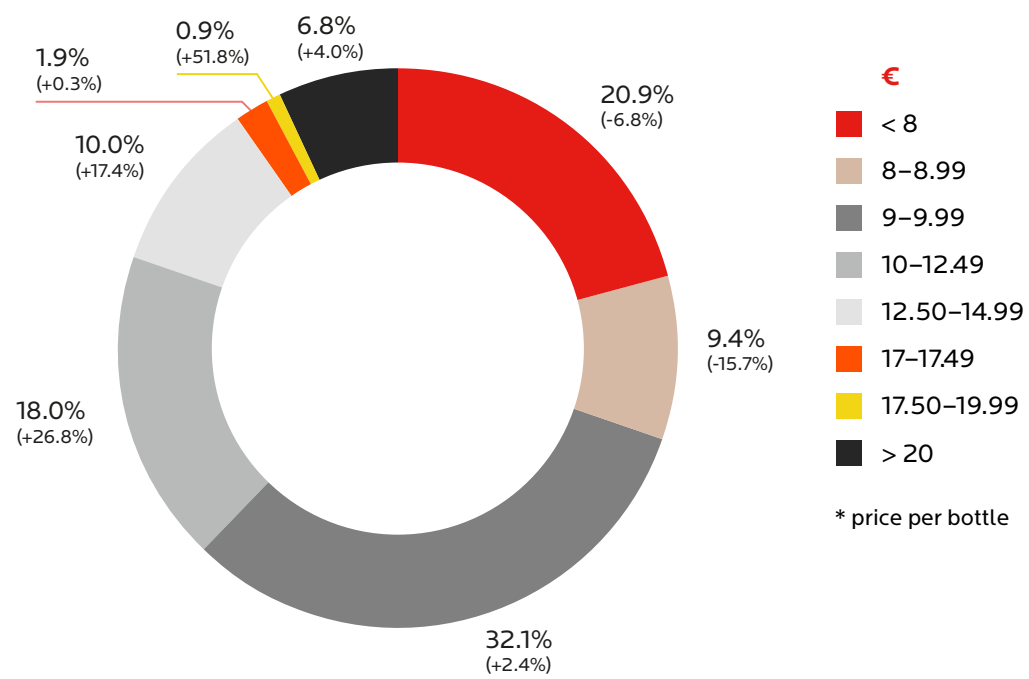
Sparkling wines remained popular. Their sales increased by 3.5 per cent with total sales of about 5.4 million litres. 37.1 per cent of the sparkling wines bought from Alko were Spanish – a slight increase on 2015. Italian sparkling wines were also popular and saw a significant increase in sales.

The warm early summer favoured rosé wines. Sales of rosé wines continued to increase steadily in 2016. Although summer is the best sales season for rosé wines, they have also forged a permanent place for themselves in our range outside the season.

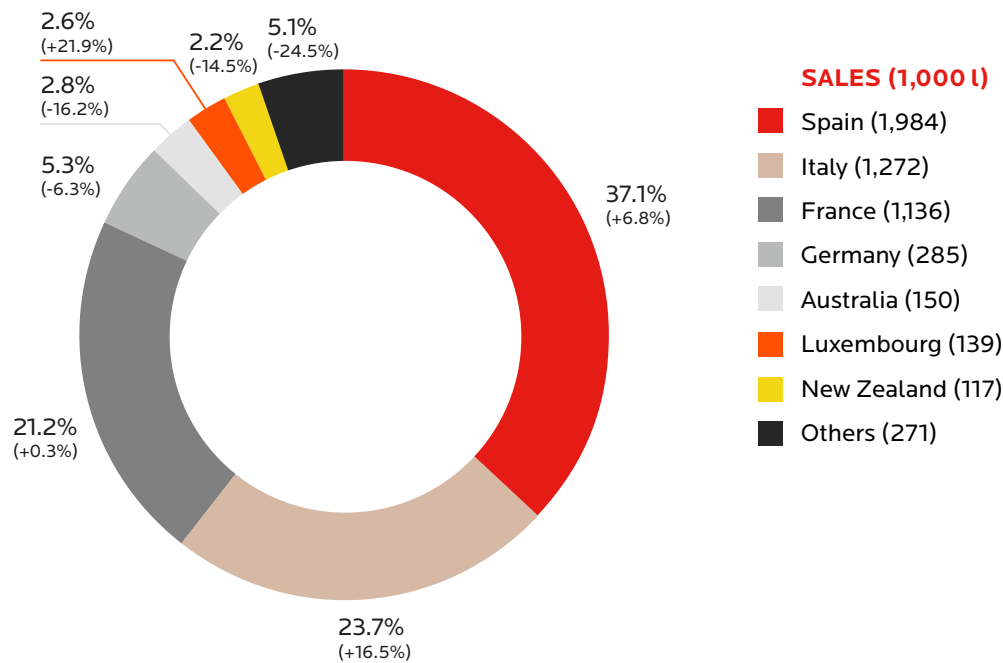
AMOUNT OF TAX IN VARIOUS PRODUCTS



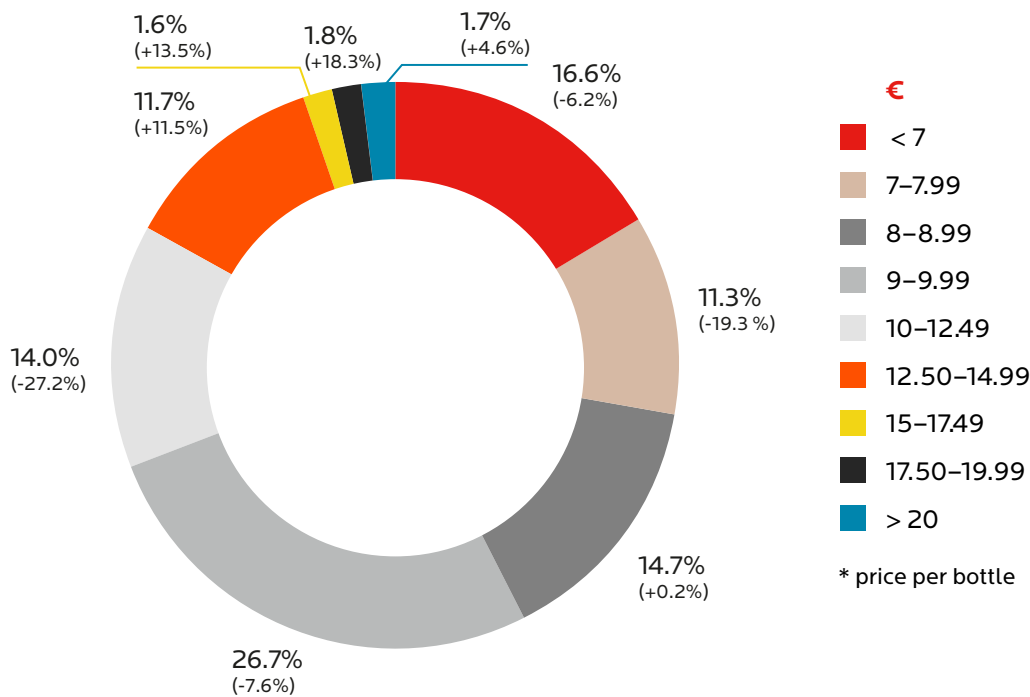
SPARKLING WINE SALES BREAKDOWN BY PRICE CATEGORY



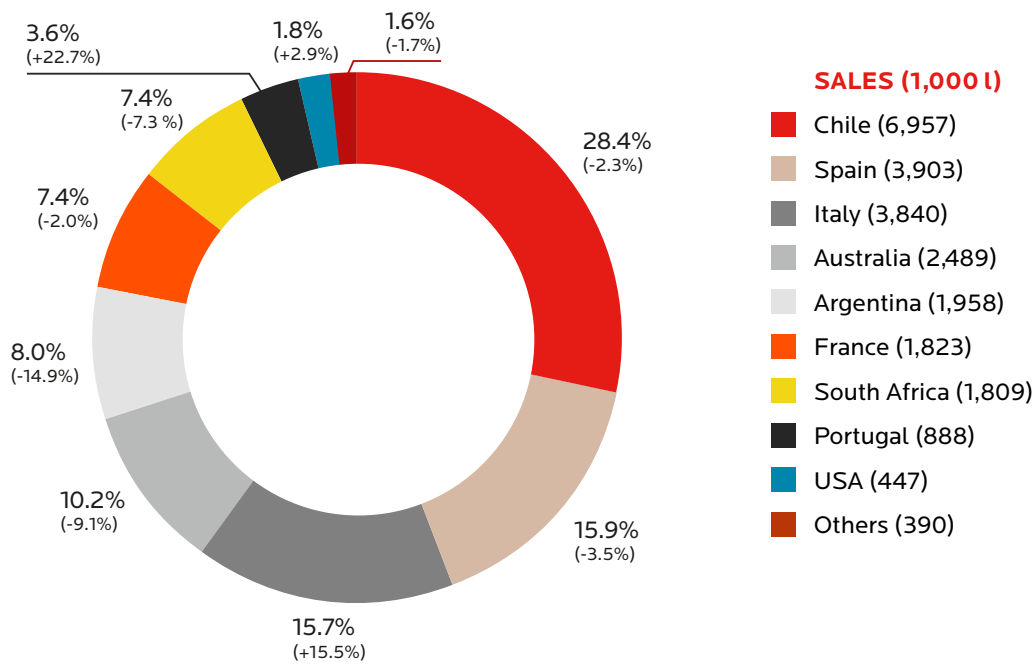
SPARKLING WINE SALES BY COUNTRY OF ORIGIN



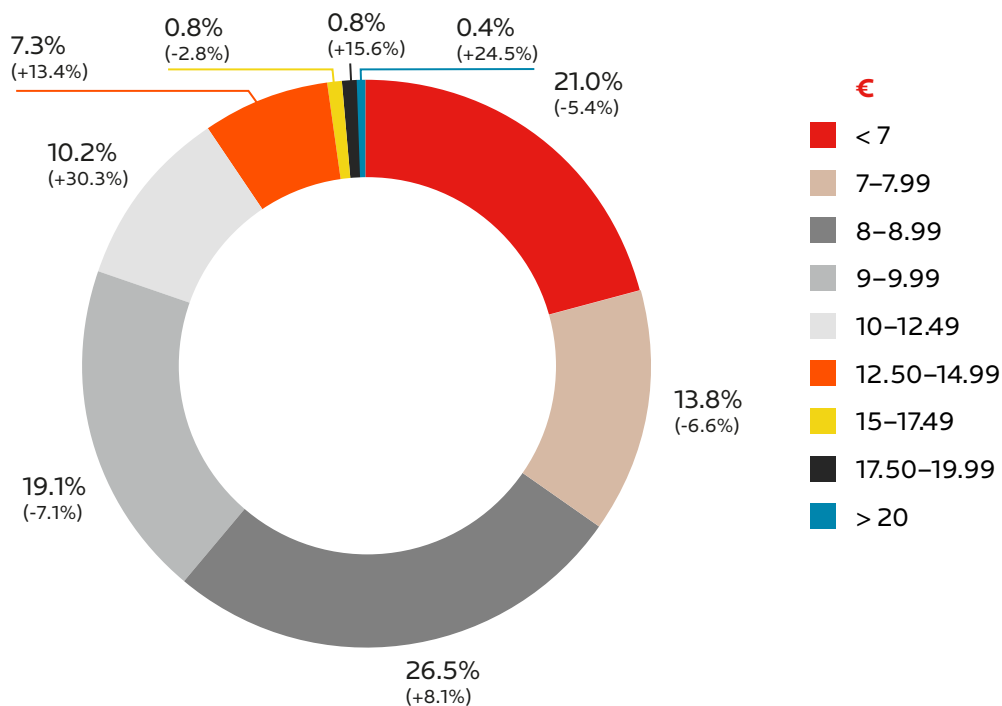
RED WINE SALES BREAKDOWN BY PRICE CATEGORY



RED WINE SALES BY COUNTRY OF ORIGIN

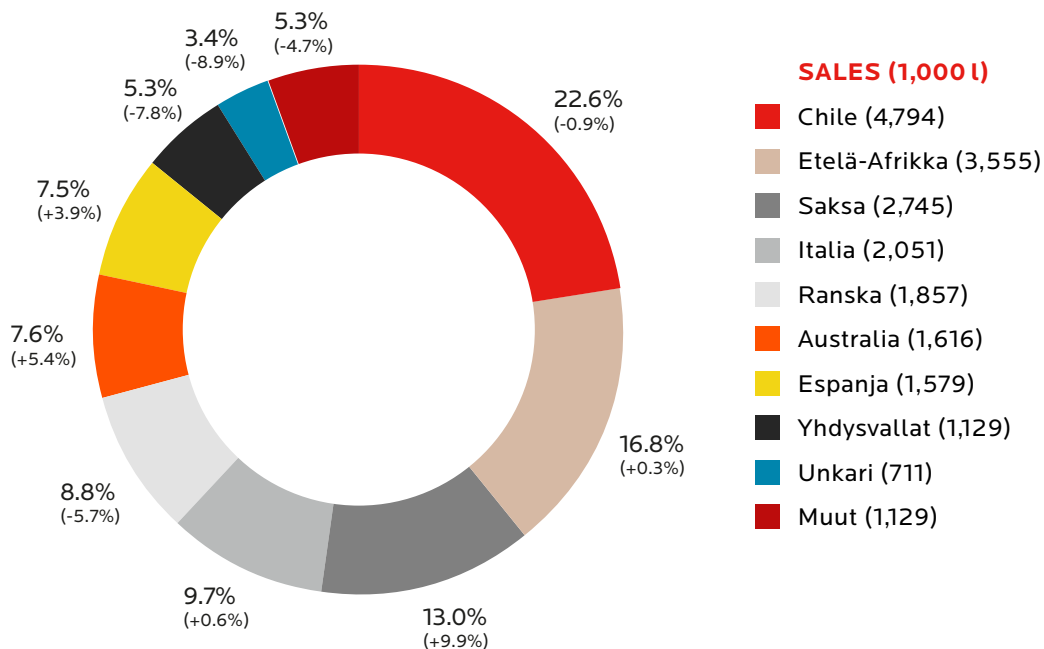


WHITE WINE SALES BREAKDOWN BY PRICE CATEGORY

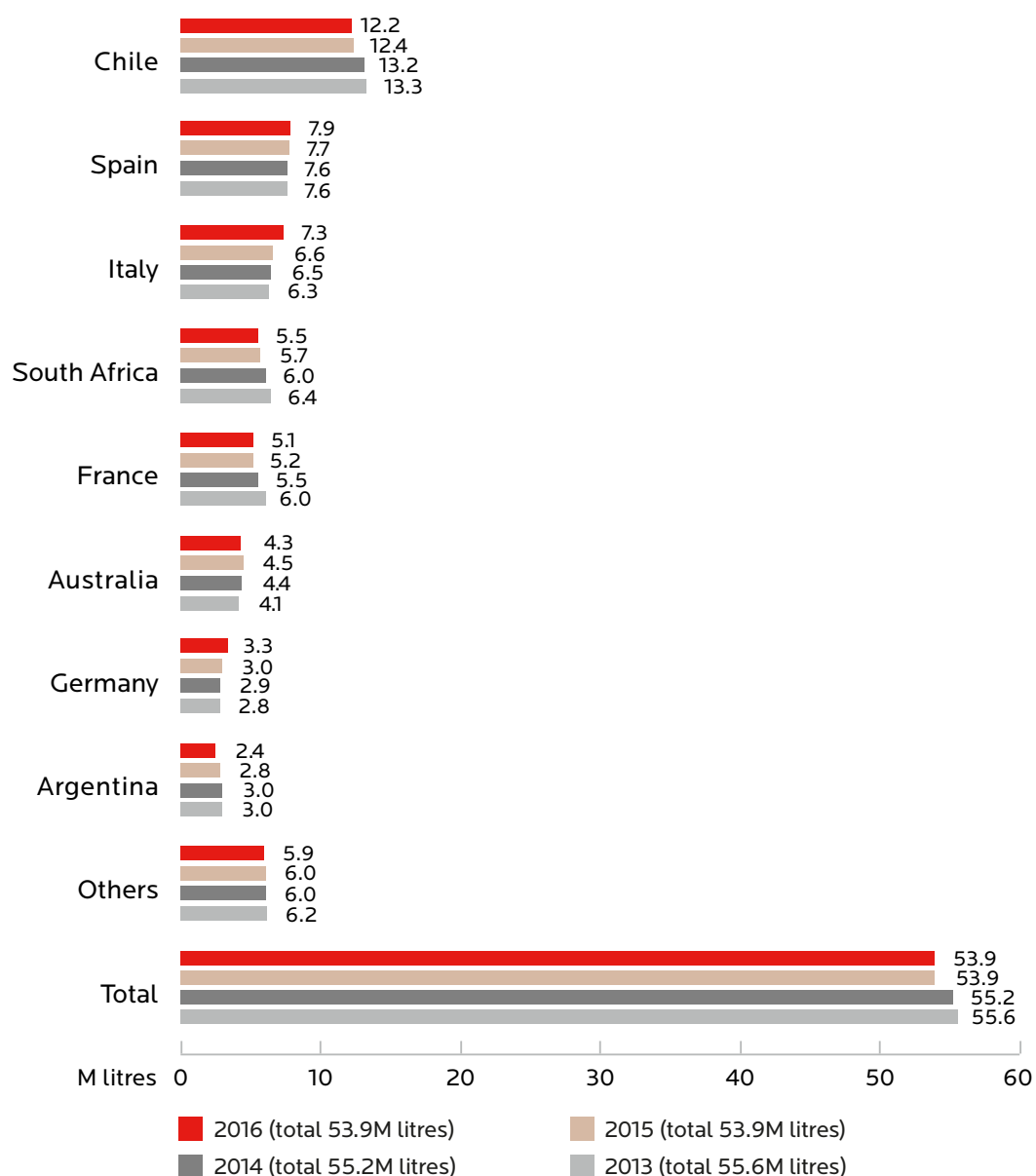


In addition to white wines, the figures also include rosé and other mild wines.

WHITE WINE SALES BY COUNTRY OF ORIGIN



WINE SALES BY COUNTRY OF ORIGIN

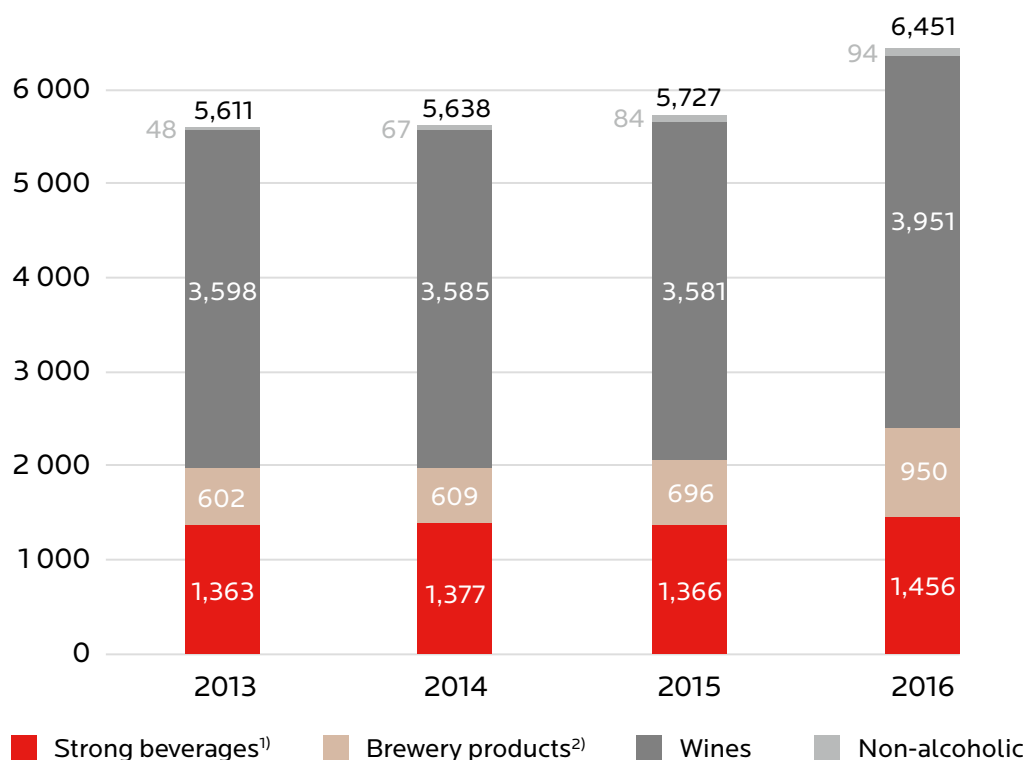


Downswing in sales of spirits levels off

The fall in sales of spirits levelled off compared to the sharp downswing of previous years. Total sales fell by just over one per cent in terms of litres (excluding fortified wines). Sales by volume of vodkas and clear spirits fell by 1.7 per cent (13.9 million litres), while sales of other spirits remained at the same level as in the previous year (7.6 million litres). Total sales of fortified wines continued to fall, but not as sharply as in previous years. The three million litres of fortified wines sold in 2016 was 4 per cent less than in 2015.

The spirits that saw the greatest increase in sales were gins (by 11.5 per cent) and flavoured spirits (by 8.7 per cent). Rum also experienced an increase in sales by volume. Dark rums in particular sold well, with year-on-year growth of 7.7 per cent.

SALES BY PRODUCT GROUP



1) Vodkas and unflavoured spirits, other spirits and fortified wines 2) Beers, ciders and long drinks
 These figures include all bottle sizes and the special products sold at the Arkadia store in Helsinki.

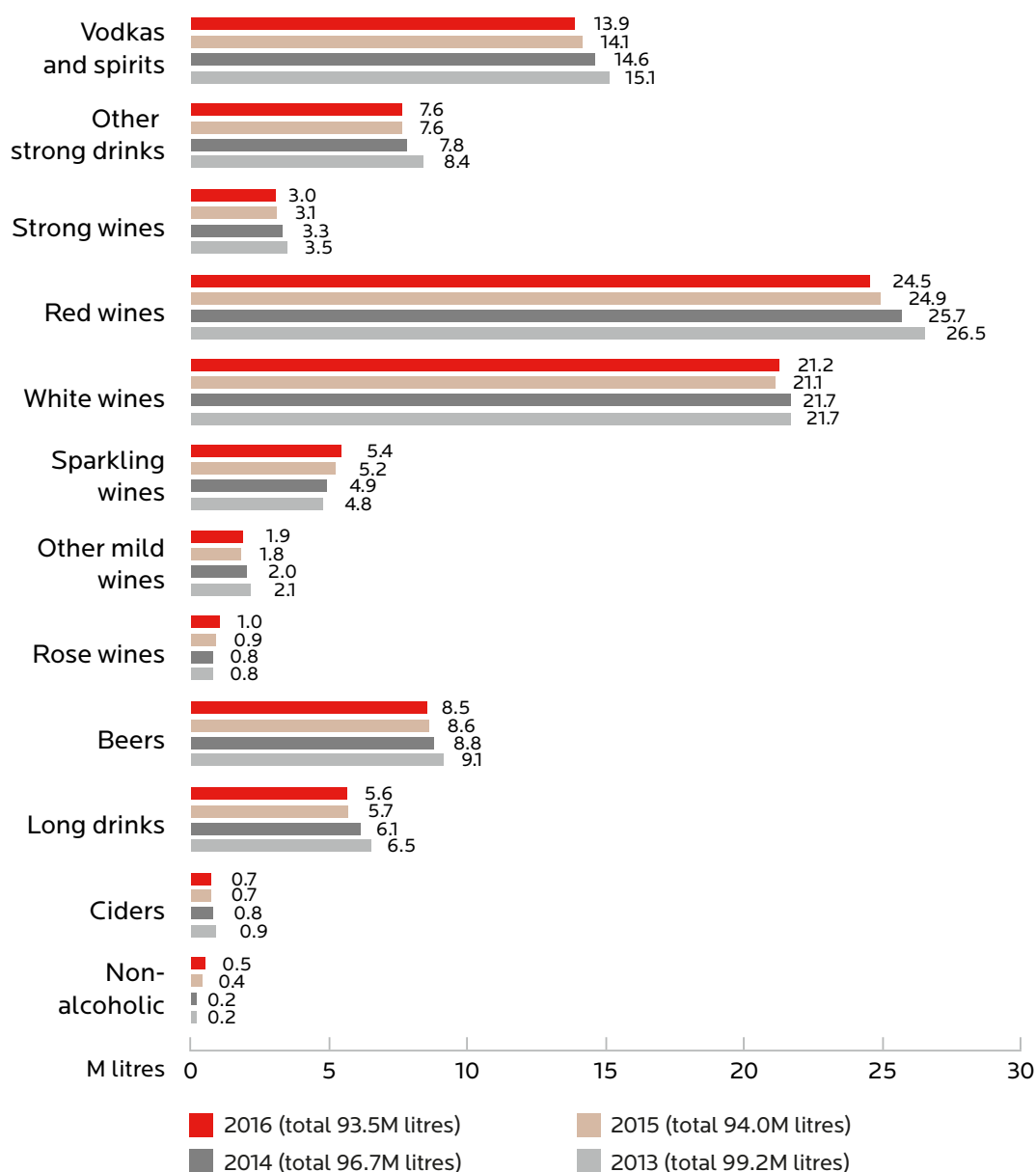
Enthusiasm for speciality brewery products

In 2016, Alko sold 8.5 million litres of beer, which was 1.6 per cent less than in 2015. Beer accounted for about 9 per cent of all sales of alcoholic beverages. Our customers mostly bought lagers and strong lagers, which accounted for about 72 per cent of all beer sales. However, increasing interest in microbreweries can be seen in the popularity of speciality beers. Sales of ales, stouts, porters and other speciality beers have risen, driven by both Finnish brewery products and the international trend for craft beers. Sales of ciders remained at the same level as in the previous year, while the decline in sales of long drinks halted at slightly more than one per cent.

Alcohol-free beverages retain their popularity

The sudden upswing in sales of alcohol-free beverages, which doubled in 2015, has now levelled off. However, their continued steady growth indicates that there is still demand for alcohol-free products. Sales of alcohol-free products rose by 26.9 per cent in 2016. We continued to invest in our range of alcohol-free products, which now totals 94.

ALKO SALES BY PRODUCT CATEGORY



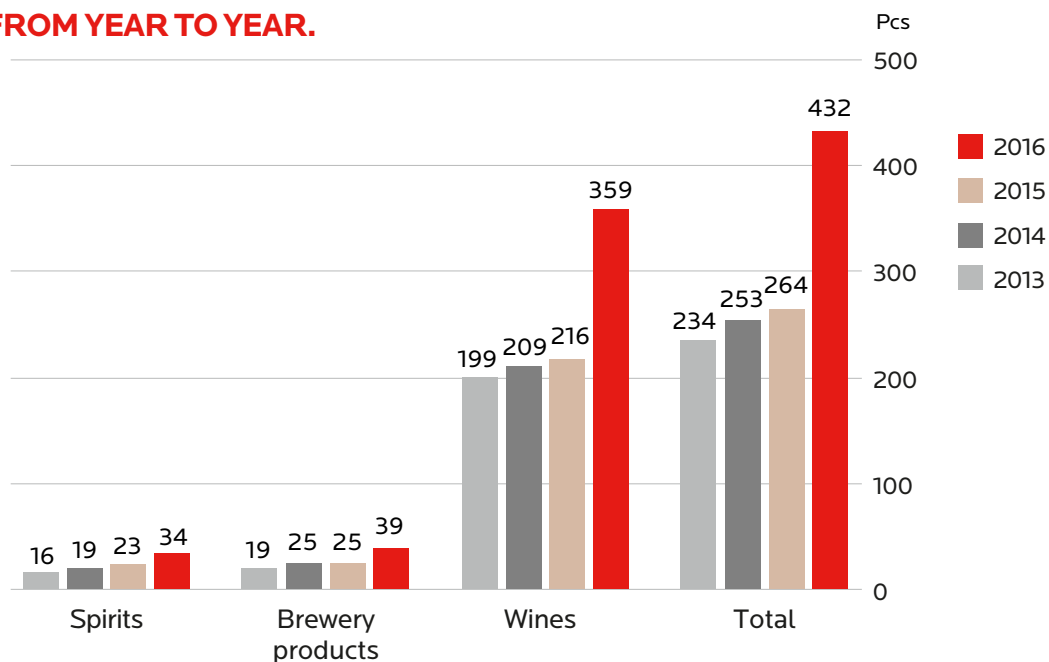
Organic and ethical trade products highly popular

Alko sold 5.6 million litres of organic products in 2016, representing significant year-on-year growth (+18.5 per cent). The majority of these organic products were mild wines. Thanks to an increase in sales by volume, the proportion of total sales accounted for by organic products rose by one percentage point to six per cent. Alko has been stocking organic products since 1994. Organic alcoholic beverages are made from organically cultivated ingredients in accordance with the EU Regulation on Organic Production. The organic products sold at Alko are certified by local organic organisations and authorities.

Sales of ethical trade products totalled 1.3 million litres (+6.2 per cent). Alko has been stocking ethical trade products since 2007. Ethical trade is based on the principle that farmers and workers should receive fair compensation for their work, which should also be done in appropriate conditions. All of the ethical trade products in our range (such as Fair Trade and Fair for Life) have received product-specific international certificates.

We will continue to develop our range of both organic and ethical trade products.

THE NUMBER OF ORGANIC PRODUCTS IS GROWING FROM YEAR TO YEAR.



The 2016 figures include Alko's entire selection of products, including those available for order and those in stock.

Consumption of alcoholic beverages

According to preliminary statistics published by the National Institute for Health and Welfare (THL), the total consumption of alcoholic beverages in Finland was 10.8 litres of pure alcohol per person aged 15 years and over. Total alcohol consumption remained at the same level as in 2015. The statistically recorded consumption of alcoholic beverages fell by 0.6 per cent, but non-statistically recorded consumption rose by 3.8 per cent.

Source: National Institute for Health and Welfare (THL).

Diversity the key to classic regions' success

In 2016, renowned historic wine producing regions once again enjoyed the recognition they deserve. Alko's Classics campaign sought to familiarise customers with a wider range of iconic wine producers and support responsible wine culture.

Esteemed Bordeaux, the nuances of Mosel and Rheingau, Ribera del Duero's bouquet, and Toscana's complexity delighted customers all year round. These classic wines exhibited their broad spectrum of flavours and revealed their diverse natures.

The prevailing trend for combining food and drink further highlighted the status of classic wines as an accompaniment to food. These truly are the cream of the crop when it comes to fine-dining wines, but they also



work well to spice up everyday occasions with their refined yet easily approachable nature.

Purchases from classic regions turned out to be a success. Our selection of new wines from classic regions grew and personnel were also caught up in the enthusiasm. In early 2016, we increased our volume from the Bordeaux region by more than 33,000 litres. As colder temperatures started to move in later in the year, more people chose Toscana's complex flavours, leading to growth in product sales from that region. Customers were charmed by the real diversity of classic wines, and new discoveries brightened up both their everyday lives and celebrations.

Selection planning

Alko aims to offer a diverse and representative range of products from all across the globe. Our range is based on a core offering – our standard selection – that is enriched with numerous seasonal products, one-off batches, and our sale-to-order products. We have a network of 353 stores that provide local service to our customers with their wide selections of high-quality products. Alko's selection of over 5,000 products is also available nationwide and year-round through our webshop.

Number of new products rises to 1,855 in 2016

Alko's selection is based on systematic planning. We primarily seek new products for our selection through our purchasing plan, which is published twice a year. We also conduct seasonal and other calls for new products as necessary.

There are precise product criteria attached to these calls. An independent expert jury conducts a sensory evaluation of any products offered to Alko, and the most successful ones will be added to our selection. Products are added to our selection every week. Before we make a final decision to purchase a product, it must also pass our Alcohol Control Laboratory's tests for safety and legality. These tests also check other important criteria for consumers, such as sugar content or the concentration of bitters in beer.

During 2016, Alko was offered a total of 8,889 beverages, of which 1,855 products were listed (1,090 in the standard selection and 765 in the sale-to-order selection). Special deliveries of 264 products were also made at our customers' request.

The main principles that guide purchasing at Alko are transparency and the equal treatment of all tenderers. Producers, importers and agents may offer Alko either their own products or products they represent, in line with the purchasing plan available on our website. They may also freely offer products for our sale-to-order selection.

The whole world in a glass: aiming for 10,000 products by 2020

We are continually developing our selection. Alko is aiming to offer a range of 10,000 products by 2020. Our customers are increasingly eager to try new things, which is why new products and a wide selection are becoming increasingly important for customer satisfaction.

Our selection is based on a diverse and representative range of products. Product knowledge and expertise will ensure that we can meet customer demand with carefully selected, high-quality products from around the world. Seasonal products and one-off batches supplement our standard selection and adapt it to each season. We can also quickly react to customer requirements by issuing additional calls for products.

Our standard selection has been growing steadily. We have been adding even more seasonal products and one-off batches to our selection: over 40 per cent more last year than in 2015. We will continue to increase the number of seasonal products and one-off batches to meet the wishes of our increasingly experimental and diverse customer base.

Our sale-to-order selection supplements our standard selection, making a rich variety of options available to customers. We have accelerated our listing process so that products can be added to our sale-to-order selection more agilely. Products can now be listed as quickly as two weeks after being offered. This change led to a significant rise in sale-to-order products in late 2016, with the number of sale-to-order products available during the year almost doubling on 2015. Our 2016 sale-to-order selection contained a total of 765 new products. The new process created a fast channel for making products available to customers, and will continue to generate strong growth in our selection.

The webshop we opened in late 2016 offers Alko's entire range of more than 5,000 products to customers all across Finland. This selection will evolve, change and grow to meet demand and diversifying customer requirements.

WE WANT TO OFFER A SELECTION OF 10,000 PRODUCTS BY 2020.



Supplier of the Year 2016

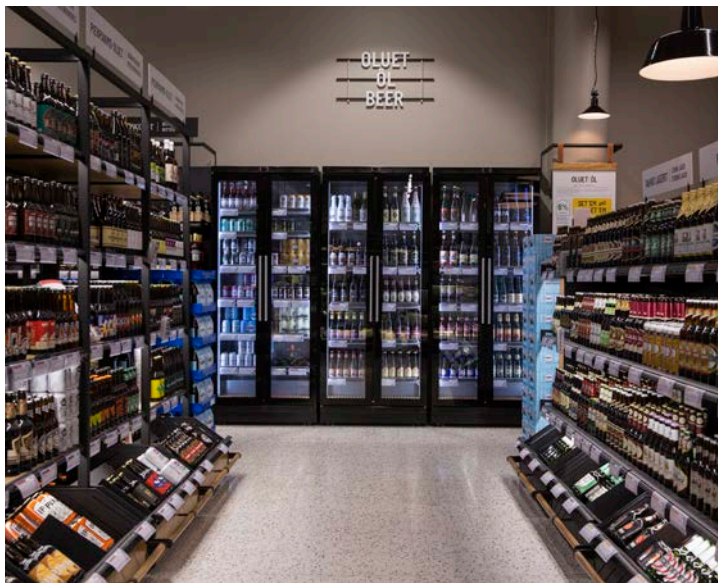
Alko has been presenting a Supplier of the Year award since 2010. Moët Hennessy Suomi Oy was chosen as our Supplier of the Year 2016 for the second year in a row. A total of 29 direct suppliers that met the selection criteria were included in the comparison.

Steady growth continues for alcohol-free and higher-than-average-price products

People are becoming increasingly interested in food and drink, and likewise in products with a higher-than-average price. As in previous years, 2016 also saw growth in alcohol-free and milder alcoholic beverages.

The upswing in sales of alcohol-free beverages stabilised into strong, steady growth during 2016. We added a total of 27 new alcohol-free products from different product groups to our standard selection during 2016.

Consumers' interest in moderate alcohol consumption and combining food and drink can also be seen in demand for smaller package sizes. Alko introduced more smaller bottle sizes into its range in 2016.



In particular, we significantly increased the number of mild wines available in 0.375-litre bottles. 17 more of these products were added to our standard selection in 2016 – ten more than in 2015. More smaller bottle sizes were also introduced in other product categories.

The average price of beverages sold at Alko rose by about 3.8 per cent (or 21 cents) on the previous year. This rise in the average price communicates an increasing interest in higher-quality products. The gin trend boosted sales of more expensive products in the spirits category. Higher-quality matured distilled beverages, in particular rums and malt whiskies, are also becoming increasingly popular. In brewery beverages, the greatest rise in demand has been for pricier speciality beers. The desire to invest in quality can also be seen in wines. During the year, there has been an increase in the average price and a steep rise in interest in higher-quality products from classic regions.

Product quality

Alko Quality Control assures the safety of the products in our selection in cooperation with our goods suppliers. Product quality is tested through sensory evaluation and supported by laboratory tests performed at our Alcohol Control Laboratory. Alko also ensures that the markings on product packaging fulfil legal requirements.

We assess the quality of both potential new products and beverages that are already in our selection. All products offered to us are tested through sensory evaluation by a team of trained tasters. This team includes members from our head office's expert unit and stores in the capital city region. The quality of potential new products is individually evaluated from the customer's perspective. The safety and legality of those products that best meet our requirements will then be tested. Our own accredited Alcohol Control Laboratory (ACL) analyses all products before they are listed. Each product group has a predefined set of characteristics that are laboratory tested to ensure product safety and obtain product information for customers.

The number of samples increased from previous year

Our suppliers sent us 7,832 (7,579) beverage samples in 2016. Our Alcohol Control Laboratory analysed a total of 4,300 (4,700) samples, on which 67,000 (63,000) analyses were performed. 3,000 (2,600) of these were Alko's beverage samples, on which 40,000 (36,000) analyses were performed. The laboratory's other customers were Finnish and foreign actors and authorities in the alcohol industry.

Listed products are reanalysed in accordance with our quality control programme, which is based on risk assessment. We primarily monitor the sensory quality of products and the accuracy and legality of the product descriptions on their packaging. For example, the quality of each new vintage of a particular wine in the standard selection will be tested both in the laboratory and through sensory evaluation. When taste-testing a new vintage, we also update the characteristics and taste type provided in our customer materials.

Customer feedback is vital for quality assurance. Every customer return is registered in a system that enabled information about the exceptionally large number of faulty products discovered in 2016 to be sent directly to our suppliers. We also monitor the product quality and operational standards of our suppliers using the Best Supplier indicator. Our best beverage supplier of 2016 was Moët Hennessy Finland. Smooth cooperation with suppliers and other Nordic monopolies ensures that we receive important information about product quality.

Wines account for the majority of product returns

The number of customer returns continued to fall. 88 per cent of all returns were mild wines. In 2016, customers returned 14,111 (14,428) products to Alko stores due to perceived faults. This figure was low in comparison to total sales. Our customers mainly returned red wines sealed with natural cork – an average of about one bottle in three thousand was returned. The most typical reason for returning a product was corking. This accounted for 35 per cent of all product returns.

71 faulty product batches were detected. Only one product was withdrawn for quality reasons, as the supplier was unable to provide faultless products despite several attempts. The sulphur dioxide concentration of the product in question exceeded the legal limit. The fault was detected before the product was sold to any customers. Other typical faults were deficiencies in package markings or harmless issues with aroma.



RESPONSIBLE BUSINESS

Responsibility programme

Alko wants to have a responsible and active influence in the community. Alko follows not only societal debate but also the latest research, developments in environmental and social responsibility, and the creation and adoption of pioneering trends.

The first trend that will have a heavy impact on our responsibility/sustainability strategy is valuing health and wellbeing, and real-time health monitoring with the aid of technology. This trend is also strongly related to Alko's corporate responsibility and mission in the community. Young adults in particular are continually seeking new and better ways of taking care of their health through dietary, exercise, work and other lifestyle choices.

Consumers are increasingly concerned about the state of the environment, decreasing biodiversity, and climate change. They also have a better understanding of how all these factors are linked to, for example, agricultural practices. Producers of alcoholic beverages are taking an increasingly holistic view of how their chosen agricultural methods affect environmental conditions both in cultivated areas and their immediate surroundings. Water management is also critical to local environmental conditions. There is growing concern over water purity and whether there will be sufficient water to meet the needs of both agriculture and communities in the surrounding area. Both of these concerns are highly interdependent on climate change. During 2016, understanding and combating – or inevitably, also adapting to – climate change finally became a permanent discussion topic of debate within the beverage sector as well.

Transparent product histories

The third key consumer trend is the concept of 'guilt-free' consumption. When Alko decides to buy a product, we want to know what conditions it was produced under, and be confident that there are no environmental or ethical problems associated with its production. Today's consumers expect companies to operate responsibly, openly and transparently. Through social media, information can travel to all corners of the globe in seconds. Consumers assume they can discover the history of any product and company they want. If this information is not available, or a company appears unwilling to provide it, consumer activists will usually not hesitate to raise questions about the ethicality of the company's operating methods as visibly and publicly as possible.

Alko's vision is for our customers to perceive responsibility to be both an important quality factor and one of our fundamental strengths. We want our online and brick-and-mortar stores to be some of the most reliable retail outlets for consumers.

In order to achieve this, we have raised our targets in all areas of our responsibility programmes. We are seeking innovative solutions that will also generate added value in the area of alcohol policy responsibility. By combining alcohol research and medical science with, for example, expertise in mobile technology, we can discover new ways of managing the harmful effects of alcohol use on an individual level. Alko seeks to complete at least one brand-new solution every year.

A reduction in our store network's energy consumption

Alko's environmental strategy for 2020 is divided into two main objectives, which were given numerical indicators in early 2017. The first goal is to reduce our store network's energy consumption. The second is to make available to our customers a growing range of products that have a favourable impact on the environment compared to customary production methods and conditions. This favourable impact could be a reduction in water consumption, the use of renewable energy, or organic production methods. Our goal is for this range – working title 'EcoLabel' – to account for a significant percentage of our selection by 2020.

Alko and the other Nordic alcohol monopolies are working together on several projects whose social responsibility goal is for all BSCI-audited producers from high-risk countries to obtain at least a C grade ("acceptable") on a scale of A-E by 2020.

Our responsibility programme is steered via four subareas:

- Reducing the harmful effects of alcohol
- Getting responsibility measures into customer paths
- A pioneer in product and procurement chain responsibility
- Effective and transparent communications between customers and stakeholders.

Impact through stakeholder work

In addition to customers, personnel, suppliers and the Government, Alko's stakeholders include a number of actors with whom we can cooperate to have a greater impact than we would alone. With regard to responsible sales and reducing the harmful effects of alcohol consumption, our most important partners are the A-Clinic Foundation, Mannerheim League for Child Welfare, Finnish Parents' League, Finnish Association for Substance Abuse Prevention (EHTY), National Institute for Health and Welfare (THL), and Finnish Institute of Occupational Health.

During the year, Alko also worked with Fair Trade Finland to strengthen perspectives on social responsibility in our supply chain. We offered an overview about organic agriculture by inviting an expert from the Finnish Organic Food Association (Pro Luomu) to speak at our supplier event in October.

When developing our responsible purchases, we coordinate our ways of working with other Nordic alcohol monopolies and engage in close cooperation with our own suppliers. These two stakeholders are also essential with regard to Alko's environmental efforts.

Social responsibility management

Social responsibility management is organised as follows: 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.

The Board's Alcohol Policy Committee prepares alcohol policy-related issues for presentation to the Board of Directors. The Supervisory Board approves the company's alcohol policy on an annual basis. Responsibility themes highlight the significance of responsibility in everyone's everyday work. Action taken to promote responsibility in our everyday work influences Alko's customer experience via its effect on stakeholders. The leader of each business unit and support function is in charge of operative management in responsibility issues as well.



Our goal is for this range – working title 'EcoLabel' – to account for a significant percentage of our selection by 2020.

Interest groups and relevance

Alko's key stakeholders are our customers, personnel, goods suppliers, the media, the authorities, and political decision-makers.

Continual dialogue with stakeholders

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. Their expectations are taken into consideration when we develop our business and responsibility activities. One of the most significant pieces of feedback we received in 2016 was from TNS Gallup's Corporate Reputation and Responsibility survey, in which Alko's reputation and responsibility were assessed as the best in the Finnish retail trade.

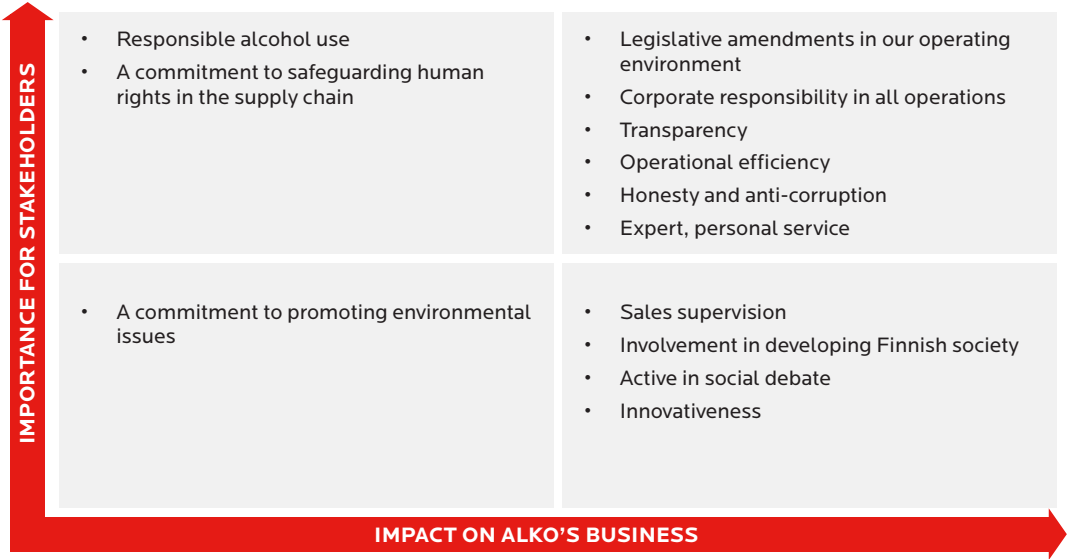
In addition to key stakeholder groups, there are a number of other actors with whom we can cooperate to have a greater impact than we would alone. With regard to responsible sales and reducing the harmful effects of alcohol consumption, our most important partners are the A-Clinic Foundation, Mannerheim League for Child Welfare, Finnish Parents' League, Finnish Association for Substance Abuse Prevention (EHYT), National Institute for Health and Welfare (THL), and Finnish Institute of Occupational Health.

When developing responsible procurements, we create best practices in collaboration with other Nordic alcohol monopolies and engage in close cooperation with our own goods suppliers. These two stakeholders are also essential with regard to Alko's environmental efforts.

Relevance

Alko actively monitors changes in its operating environment. Our stakeholders' expectations steer our development, and expectations concerning Alko's business activities have continued to grow in recent years. The materiality aspects presented here have been defined on the basis of available research data, themes arising in public debate, and discussions with stakeholders. Alko will conduct another stakeholder survey in 2017.

THE MATERIALITY MATRIX 2016



Prevention of the harmful effects of alcohol

Alcohol is not only an individual's problem – the harmful effects of alcohol consumption impact society as a whole. Alko works to reduce these harmful effects in a variety of ways.

Preventing harmful effects is Alko's mission

Alcohol is not a regular commodity – it is a legal intoxicant that can cause strong physical and mental addiction. Copious and long-term alcohol use is associated with many health and social problems. Alcohol abuse often casts a shadow over the lives of the drinker's relatives, particularly children and young people.

Alcohol also has a considerable financial impact – it costs society an estimated EUR 2 billion every 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.

Total alcohol consumption and its harmful effects go hand in hand: the more that is drunk, the greater the harmful effects. Research indicates that high taxation and restricting the availability of alcohol are the most effective ways of controlling alcohol consumption. Alcohol policy seeks to prevent the harmful effects of alcohol consumption and control alcohol consumption. (Source: National Institute for Health and Welfare THL)

Supporting moderate alcohol consumption

Alko is a wholly state-owned limited company whose mission is to undertake the retail sale of alcoholic beverages with the sole right granted to it by the Alcohol Act. Alko's operations are based on social and healthcare policy objectives to reduce the harmful effects of alcohol consumption. Alcohol policy refers to the measures undertaken by the public authorities to prevent the harmful effects of alcohol in terms of social aspects, health, and society in general. Alko does not define alcohol policy – it is just one of the tools used in preventing harmful effects.

Alko works to reduce these harmful effects in a variety of ways. We promote the moderate use of alcohol and a responsible food and drink culture. Alko neither advertises its products nor engages in sales promotion. Alko's selection includes alcohol-free and low-alcohol products, as well as small-sized packages. We do not open many new stores, and always take our neighbours' wishes into consideration when doing so. Our knowledgeable personnel ensure that alcohol is not sold to those who are under age or clearly intoxicated, or handed over to such people. Alko regularly supervises its age-limit controls with Mystery Shoppers and a monitoring system installed in cash registers.

AN ACTIVE PLAYER IN THE COMMUNITY – A PIONEER IN RESPONSIBILITY

STRONG AND CONTINUAL COMMUNICATIONS ON ALCOHOL POLICY RESPONSIBILITY

CONSUMERS

- Availability (number of stores and opening hours, collection of webshop orders from stores and collection points) and pricing
- Alcohol-free and low-alcohol products, small package sizes
- Responsible customer service: sales supervision, purchase ban agreements, product displays
- Communications on alcohol and health
- No sales promotion
- Promoting food and drink culture

SOCIETY

Alcohol at different stages of life

- 'In the Company of Children' programme
- 'Sober Work' programme

Other cooperation projects

- Finnish Olympic Committee, Sinettiseura of the Year (juniors), Sports Club of the Year (adults) and the Finnish Gymnastics Federation
- Junior Chamber International, Helsinki: Police Officer of the Year
- Youth Academy: Mahis
- Research collaboration: ITLA, University of Helsinki, Finnish Foundation for Alcohol Studies

Sales supervision an aspect of responsibility

Sales supervision is one of the cornerstones of Alko's responsibility. It is also an important element in our stores' high-standard and friendly customer service. In addition to supervising age limits, we make sure not to sell alcohol to an intoxicated person or someone behaving in a disruptive manner, or if we suspect that the alcohol will be handed over to a minor or intoxicated person.

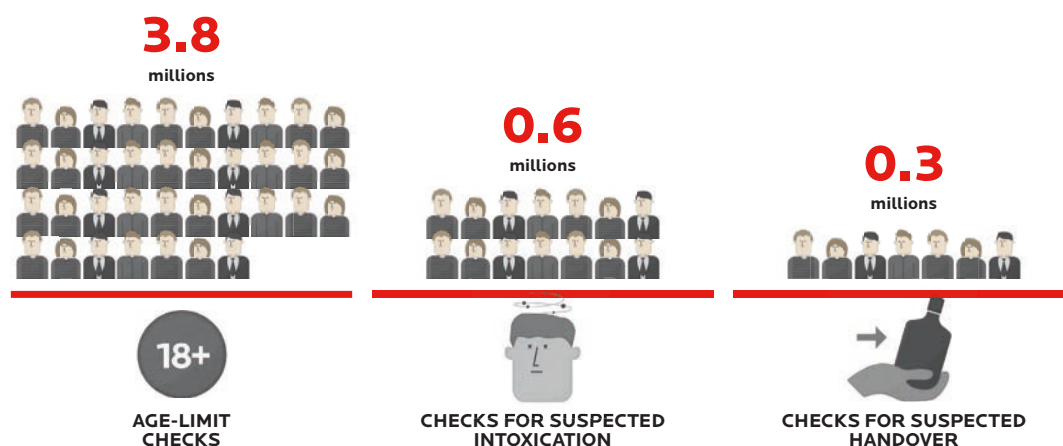
Sales of alcoholic beverages are governed by the Alcohol Act. Alko's in-house supervision rules are based on the Alcohol Act and Decree, and the instructions issued by the National Supervisory Authority for Welfare and Health (Valvira).

Measuring our success

Every new Alko employee receives induction in the supervision of age limits, suspected intoxication, and suspected handovers. After induction, they take a sales supervision test that they must pass before their first shift at the cash register. On-the-job training is the best way to gain competence in sales supervision.

Alko oversees its sales supervision with the aid of a monitoring system installed in cash registers. In 2016, we performed over 3.8 million age-limit checks, and checked over 345 thousand cases of suspected handovers and over 635 thousand cases of suspected intoxication.

MEASURING SUCCESS IN RESPONSIBLE OPERATIONS



Our performance in age-limit supervision is also measured using the Mystery Shopping detection method. A total of three mystery shops were performed in every one of Alko's stores in 2016, a total of 1,059 purchases. During the Mystery Shopping survey, age-limit checks were performed on 91 per cent of customers. Nine per cent of customers were not checked.

New tools to support stores

As of 2017, Alko is checking the ID of all customers who appear to be under the age of 30. Our target is to raise our Mystery Shopping success rate from its current score of 91 to 95 per cent by 2020. All Alko personnel will complete our updated online training during 2017. We are also developing new tools to support sales work in challenging situations, and particularly interactions with customers who are elderly or suffering from dementia. In 2017, we will conduct four mystery visits at every store instead of three, as well as pilot visits to Alko collection points.

Age-limit checks are supported by in-store customer communications, particularly before the end of the spring term and before school starts up again in the autumn. In 2017, we will be focusing on themes related to the prevention of handovers. By far the most favoured way of acquiring alcohol is via friends or siblings. We will run a campaign to spread awareness and ways of refusing to handover alcohol.

Cooperation to prevent harmful effects

We have numerous partners and projects with whom we cooperate to reduce the harmful effects of alcohol consumption. These projects vary in nature, but they all centre around preventing the harmful effects of alcohol consumption in one way or another.

Fragile is the In the Company of Children programme's top project

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. It challenges us to think about how even moderate alcohol use by parents and adults can affect children's lives. Our cooperation partners in the programme include the A-Clinic Foundation, Mannerheim League for Child Welfare, Finnish Parents' League, and National Institute for Health and Welfare (THL). The programme has an expert team that includes both partner organisations and representatives from the Ministry of Social Affairs and Health.

A group of artists from different fields collaborated to produce *Fragile*, a stage play that became the In the Company of Children programme's top project of 2016. It tells the story of alcohol abuse within a family from a young girl's perspective. The play's main message is that no one needs to be left alone and you don't have to keep quiet about things. The play premiered in May 2016 at the Finnish National Theatre, with performances continuing at the Oulu, Turku and Kaajani City Theatres during the autumn. In addition to public performances, students and teachers from secondary schools, high schools and vocational schools were invited to attend daytime performances. In early autumn, a shorter version of the show, *MiniFragile*, also toured schools and two child protection departments in the Kainuu and capital city regions. After the performances, the *Fragile* working group also offered audience members the chance to participate in discussions at which members of the In the Company of Children programme were also present.

The Clearly Good Work programme discusses the harmful effects of alcohol in working life

We launched our Clearly Good Work programme in 2015. Some of Finland's leading occupational wellbeing experts are involved: 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.

Cooperation seeks to spark off debate about the harmful effects of alcohol in working life and generate new data on the subject. The idea is to combine the tools already available to various actors in a shared package.

Alko turned the Clearly Good Work programme into a project that was launched in early 2016. The project seeks to involve all Alko employees in a controlled manner by including both supervisors and staff ([link to the case](#)).

FASD day 9 September 2016

Alko once again took part in International Foetal Alcohol Spectrum Disorders (FASD) Awareness Day on Wednesday 9 September 2016 by opening Alko stores at 9:09 am. The Finnish Association on Intellectual and Developmental Disabilities (FAIDD) was the campaign expert.

The developmental disorders caused by alcohol consumption during pregnancy are completely avoidable. It is therefore worthwhile abstaining from alcohol completely during pregnancy, as the safe limits are not known.

We told our customers about FASD Awareness Day online and provided links to our partner's website – the Finnish Association on Intellectual and Developmental Disabilities – where they could read more about the topic.

Mahis – activities to help young people

Alko has been supporting the Mahis project, which was launched by the Youth Academy in 1998. Mahis seeks to prevent young people at a vulnerable stage in life from becoming socially excluded by offering them a variety of interesting and inspiring project activities.

In Mahis groups run by trained leaders, young people can work together on planning and carrying out activities that will help them develop their life management skills. In these joint projects, young people get to practice self-awareness, accepting themselves and others, commitment, taking responsibility, social skills, solving problems, and many other everyday life skills. For many young people, a Mahis group has been their first encouraging community experience, and has steered their lives in a better direction. Over the last year, Mahis groups have completed a variety of projects supported by Alko and the Youth Academy, such as an interview documentary, a short film, an art event, a restaurant day, empowering photography, and numerous trips, clubs, events and excursions to try out new hobbies.

Alko supports 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 journal that publishes articles on topics related to substance abuse. Alko also supports the assistant professorship of addiction medicine at the University of Helsinki.

Alko supports Finnish sports with the Finnish Olympic Committee

Every year, Alko awards the Grow Up to Be an Athlete grant to a Sinettiseura club that has promoted an exemplary holistic lifestyle for young sports people. Our cooperation with the Finnish Olympic Committee seeks to increase the skills of leaders, coaches and parents in promoting healthy lifestyles and encouraging children and young people to abstain from alcohol and drugs. The 2016 grant was awarded to Pieksän Kuutit.

In addition to supporting junior sports, Alko also gives an annual grant of EUR 10,000 to a sports club that promotes the same goals in adult sports and exercise. The grant is awarded once a year at the Finnish Sports Gala, to the club that wins Sports Club of the Year. In 2016, this honour went to Maaselän Latu.

Hannu Kangas Police Officer of the Year

Alko is one of the Police Officer of the Year award's longest-standing partners. The Police Officer of the Year is selected by the Helsinki Junior Chamber of Commerce, Finnish Police Federation and National Police Board.

Detective Senior Sergeant Hannu Kangas from the Western Uusimaa Police Department was chosen as Police Officer of the Year 2016. Kangas spends his time solving everyday crimes in his position as a team leader in routine detective work at the Kirkkonummi police station. For the police's 200th-anniversary year, the recipient was selected to underline the value of routine police work in the police's activities as a whole.

Sata lasissa – Growing up in Finnish Alcohol Culture

As part of the In the Company of Children programme, Alko has been supporting a research project that is studying alcohol consumption habits across the generations. The repercussions of alcohol use do not affect merely future alcohol use. In families with alcohol problems, health, employment, income and education are usually weakened all the way down to the third generation. The Sata lasissa project is part of an ITLA research and awareness programme called A century of children, youth and families in Finland. This programme is seeking ways to promote equality in living conditions for children.

In 2016, the Sata lasissa project published a book called Sukupolvien sillat ja kasvamisen karikot (Generational bridges and the pitfalls of parenting), which handles growing up and parenting in Finnish alcohol culture. This book focuses on the favourable aspects of dialogue between parents and children, and examines the issues from the perspective of the future and having a good life. It seeks to promote open discussion about difficult subjects both within families and between professionals working with young people.



As of 2017, Alko is checking the ID of all customers who appear to be under the age of 30.



For many young people, a Mahis group has been their first encouraging community experience, and has steered their lives in a better direction.

Clearly Good Work – collaborating to better control the adverse effects of alcohol in working life

In 2015, Alko launched the ‘Working Life and the harmful effects of alcohol consumption’ programme to make workplaces aware of existing methods of handling substance abuse, and to generate new data through analyses and research. The programme also identifies and shares best practices with companies.

The participants 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), the Centre for Occupational Safety, and Alko.

Alko has a long history of working to prevent the harmful effects of substance abuse, but there is still plenty of work left to do. We surveyed Alko employees’ knowledge base and opinions in early 2016. On the basis of the results, we highlighted the theme throughout the rest of the year, linking it to a variety of events and daily interactions between personnel. The MyAlko game is a brand-new kind of change management tool that we are using to support the creation of a sense of community. One of the game’s tasks is to react to a colleague’s substance abuse. About half of our personnel played the game during 2016 and the rest in early 2017.

A series of five videos was also produced to support internal communications and training. Monologues by a professional actor highlighted ways to help colleagues with alcohol-related problems at various stages, but preferably as early as possible. The videos are available on Alko’s YouTube channel.

In 2017, the ‘Clearly Good Work’ project will focus on launching preventative efforts at the recruitment stage, including information about the risks associated with tasks in our sector, and providing new employees with induction training on Alko’s operating model. Other measures will include the introduction of an updated early care model, a revised anti-substance abuse programme and rule set, and closer cooperation with occupational healthcare. It is also important to enhance supervisory work by giving supervisors the confidence to raise challenging issues.

Action taken by our partners within the framework of this programme in 2016 included:

- The A-Clinic Foundation conducted a survey on preventing the harmful effects of substance abuse, intervening in and handling abuse, and referring people for treatment. The Foundation has also been developing a tool for collating information from a variety of actors, and this work had reached the test stage by the end of 2016.
- The Finnish Association for Substance Abuse Prevention (EHYT) analysed the use of alcohol simultaneous with using legal prescription and over-the-counter medication. It also published a guide called ‘Did you know this about medicine and alcohol?’ and launched an upgrade project for the OttoMitta app.
- The Finnish Institute of Occupational Health arranged two two-day training events on how to introduce the organisation’s tools at workplaces and occupational healthcare centres.
- The National Institute for Health and Welfare (THL) put together a mini intervention guide that will be distributed at educational institutions during 2017.

Fragile: the story of a child living in the shadow of alcohol abuse

'Fragile' depicts the vulnerability and fragility of youth. The show tells the story of a girl trying to live in a family over which alcohol abuse has cast a grim shadow.

'Fragile', which premiered at the Finnish National Theatre in Helsinki in May 2016, examines the consequences of alcohol abuse within a family. The show reveals everything that children have to hide when alcohol use has become a problem at home.

No one should be left alone

Almost all members of the Fragile working group have experienced the harmful effects of alcohol abuse. It is an important issue, which is why they wanted to talk about it. Even though the show handles a heavy sub-



ject, it has a fundamentally hopeful feel – help is available, and no one needs to be left alone. After the show, audience members are offered both conversational support and a chance to discuss ways of escaping from a challenging situation. Local participants in the 'In the Company of Children' programme are also invited to join the discussion.

Alko and the Finnish Cultural Foundation have supported 'Fragile', which was produced through a collaborative effort between the Fragile working group, Kajaani City Theatre, Finnish National Theatre, and 'In the Company of Children' programme. After premiering at the Finnish National Theatre, the show also visited the Turku, Oulu and Kajaani City Theatres. A smaller group also brought the show to schools and child protection departments in the Greater Helsinki Area. 'Fragile' will continue to tour theatres and schools around Finland in 2017.

Alko's 'In the Company of Children' programme seeks to reduce the damaging effects of parents' and adults' alcohol abuse on children and young people.

Responsible supply chain

Alko has an extensive and extremely international supply chain. Alko requires all of its beverage suppliers to commit to ethical code of conduct.

Long international supply chains pose the greatest challenges in responsibility. Particularly when beverages cannot be traced back to primary production, we remain in the dark with regard to prevailing working conditions and environmental protection standards. A product's primary producer may be extremely difficult to trace, particularly if there are many intermediate tiers between the primary producer and the product's final brand.

Responsible purchases are becoming increasingly important to consumers and, to some extent, also to political decision-makers. The majority of consumers expect companies to operate responsibly, regardless of their sector.

As is typical in our industry, Alko has an international supply chain that is also highly multi-staged for many products. In 2016, we purchased 93.5 million litres of alcoholic beverages from the alcoholic beverage industry and wholesale traders. These beverages came from 71 countries of origin via a total of 486 Finnish or foreign goods suppliers. Alko has no brands or production of its own.

As a member of the Business Social Compliance Initiative (BSCI), Alko is committed to upholding ethical principles and requires its existing and prospective beverage suppliers to do likewise. All Alko beverage suppliers have signed a commitment of compliance.



No precarious employment



No bonded labour



The rights of freedom of association and collective bargaining



Fair remuneration



Occupational health and safety



Special protection for young workers



Ethical business behavior



No discrimination



Decent working hours



No child labour



Protection of the environment

Ensuring the responsibility of suppliers from high-risk countries 2016

The products selected for auditing came from 50 high-risk countries jointly agreed on by the Nordic monopolies on the basis of a BSCI and industry-specific risk analysis. 272 beverage production facilities in Alko's supply chain are located in these high-risk countries.

The standard-selection products to be audited in 2016 were chosen from the 775 beverages that are produced in high-risk countries, on the basis of volume and category. Products from high-risk countries account for just under 22 per cent of Alko's total sales.

Alko commissioned a social audit of six producers and eleven primary producers on the basis of this risk assessment process. One audit was moved to 2017, and one was cancelled when a company that had been registered for Alko as a producer turned out to be only a bottler.

The audits examined the working conditions of a total of 1,167 workers.

The results were as follows:

A (excellent): one production facility and two of the primary producers supplying it

B (good): -

C (satisfactory): one production facility

D (unsatisfactory): four production facilities and nine primary producers

E (unacceptable): -

Grade C is the lowest acceptable level for the Nordic monopolies. A lower grade means that producers must implement a plan to remediate the observed deficiencies, and their compliance will be verified with a follow-up audit in a year's time.

The seasonal nature of harvests, combined with the cost pressures faced by primary producers, poses the greatest challenges to safeguarding human and labour rights in the alcoholic beverage industry. The results of Alko's audits also reflect these challenges. The most common deficiencies were found in wages, overtime, and monitoring the amount of overtime worked. One of the South African vineyard audits found that workers were being treated in a demeaning manner, which the BSCI classifies as a serious violation of ethical principles. This discovery launched a zero-tolerance process, which means that the parties will cooperate to jointly monitor and rectify the situation to an expedited schedule.

After the audits, Systembolaget, Vinmonopolet and Alko visited South Africa in April. The trip included visits to wine producers that were audited in February and March, as well as meetings with local industry organisations. These visits generated a deeper understanding of the effectiveness of BSCI audits in an agricultural environment, the opinions of audited producers were heard, and helped formulate a general picture of how well-prepared the South African wine industry is to improve its operating methods with regard to social responsibility.

In conjunction with supplier events, Alko organised briefings for importers on BSCI and environmental issues. With the assistance of a Finnish expert speaker, the briefings covered the BSCI's principles and went through topics such as audit results and principles of organic agriculture. The briefings had an average of about 50-60 attendees. There were also workshops focusing on the environmental perspectives of products and the related communication. In January, we launched an online training course in Ethical Operating Principles for our importers and producers. 212 representatives of our importers had completed the training by the end of December. All importers must complete this online training by the end of June 2017.

Continued development of the responsible Nordic procurement strategy

Development of the updated joint responsibility strategy approved by the Nordic monopolies in 2015 continued last year.

In the spring, the monopolies agreed on a new list of high-risk countries. Of the 99 countries assessed during the process, 50 were placed on the high-risk list. Of these, about 20 countries are currently represented in the selection of at least one monopoly.

After a comparison of different certificates by an external expert, the monopolies jointly agreed on the acceptance of certain responsibility certificates either as they were or with certain additional requirements. Social audits of producers or farms with those certificates will not be prioritised.

These certificates are:

- Bonsucro
- Fair for Life*
- Fairtrade
- Sedex (SMETA)
- WIETA
- Anheuser-Busch InBev: Global Human Rights Policy
- Walmart
- Sustainable Wines of Chile

** Alko also accepts For Life certification*

A new form of cooperation has also been developed with the BSCI, which operates under the Foreign Trade Association (FTA). Systembolaget and Alko decided to join the Sustainable Wine Programme, a wine producers' responsibility development programme launched by the BSCI. The objective of this pilot programme, which will run in 2016–2018, is to invite producers from high-risk countries to participate in the creation of a joint responsibility development model that would serve actors of different levels and cover elements of both social and environmental responsibility.

Supply chain transparency a new focus area

Alko requires its suppliers to maintain up-to-date producer information for the products they represent. In spite of this requirement, our 2016 audits discovered deficiencies in producer information. As a result, during the spring and summer, we implemented a producer survey concerning products from rum-producing countries and the most significant high-risk countries in terms of volume (Argentina, Chile and South Africa). Importers had to supply more extensive product-specific information for every tier in the supply chain, including any product origin certificates. The same update will be performed on a yearly basis.

Origin-certified and alcohol-free products in our selection

At the end of 2016, Alko stocked 64 certified ethical trade products, 324 organic wines, and 31 organic beers and ciders. Another 23 organic products were to be found in the spirits category.

All of the ethical trade products in our range are internationally certified. At present, our range includes products with Fair Trade, Fair for Life, or For Life certification. A generally accepted auditing system is in place for these products, and Alko has not commissioned separate audits. Alko has been stocking ethical trade products since 2007.

Organic production methods are here to stay in the cultivation of our products' ingredients. They seek to leave the lowest possible traces of foreign substances in the final product, but their primary goal is to improve the condition and biodiversity of agricultural areas and the surrounding natural environment. The criteria for organic wine production also require, for example, lower than average sulphide volumes in the final product. In addition to organic products, Alko's range also contains biodynamically produced red and white wines and champagnes. Biodynamic cultivation is a rising trend in France in particular, but we also purchase some of these products from Spain, Italy, Austria, Germany and the State of California.

We had 122 very low-alcohol products, typically wines, in our selection at the end of the year.

We also expanded our range of small bottle sizes during 2016.

Continued growth was seen in the alcohol-free beverage category. At the end of the year, we stocked about 79 alcohol-free beers, ciders, wines and sparkling wines.

Impartiality and non-discrimination part of Alko's ethical principles and monopoly status

Decisions on product listing, pricing, and delisting are made on impartial and non-discriminatory grounds – the supplier's nationality and domicile do not factor into these decisions. We comply with these principles in our responsible procurement model as well. Alko also measures the overall satisfaction of its suppliers on an annual basis. In the 2016 survey, suppliers gave Alko's procurement and logistics unit an overall score of 8.20 (on a scale of 4–10), which represents an improvement of about 0.6 per cent on the previous year (2015: 8.15).

#nofilter – is responsibility real or just a gloss?

We are experiencing a revolution in consumer habits, and consumers are placing greater demands on companies than they were ten years ago. People are seeking bold honesty instead of glossy image marketing – they want companies to communicate their values and even show their imperfections. Alko's responsibility team seized on these trends and launched a campaign called #nofilter. The campaign also sought to enhance Alko's responsibility image after the drop seen in TNS Gallup's 2015 Reputation and Responsibility survey.

The idea for the #nofilter campaign was born during the AdProfit competition, which was organised by the Association of Finnish Advertisers. Alko provided the task in the Junior category. Competitors were challenged to think up new ways of communicating responsibility with a task called "Taking Alko's responsibility work to a new level in a new way – raising recognition and consumer participation."



forming customers about vegan wines to pay and benefits issues on farms in risk countries.

Alko also invited consumers to discuss issues on social media such as Facebook, Instagram and Twitter. And we challenged other companies in the sector to engage in dialogue from their own perspectives.

Producers to get involved in 2017

Alko will also invite its producers to join the discussion during 2017. Before the campaign began, we informed our suppliers of our intention to increase transparency in the supply chain with regard to challenging responsibility issues, product traceability, and sustainable development. The campaign's articles have been published on Alko's English-language website, so that suppliers can familiarise themselves with the #nofilter campaign.

During 2017, we will be expanding the scope of the #nofilter campaign to cover topics outside purchasing and our product range, such as problem drinking.

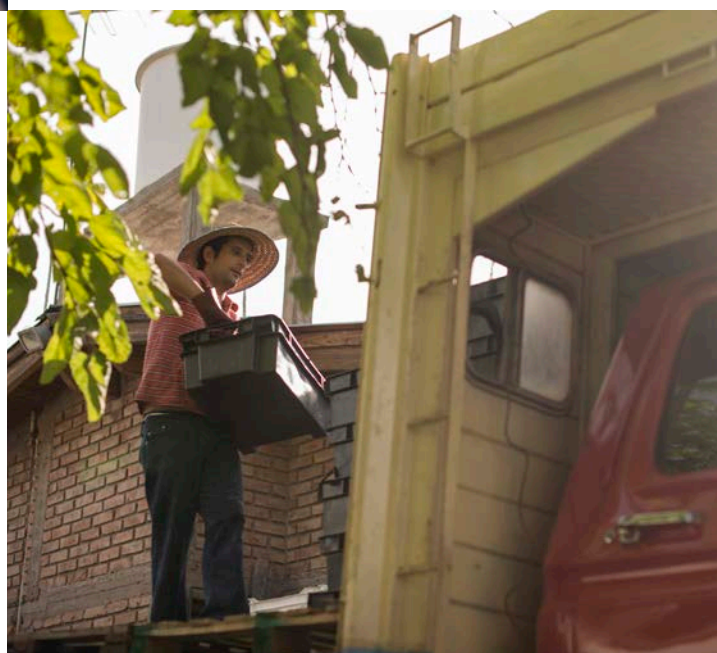


The winner from the 31 entries was called "#nofilter – placing transparency at the heart of what we do." The idea was as follows, summarised in the participants' own words: "Alko's #nofilter messages challenge you to expose the truth behind the perfect image. Instead of projecting a fairytale image of life, we share the true stories and situations behind the pictures. The core idea is, would this be the time to stop and think how a filtered reality impacts the world and how much we allow it to guide our attitudes, behaviour or choices?"

Bloggers to spread the word

In October 2016, the campaign also invited ten Finnish bloggers to write on the theme of transparency in their own lives.

At the same time, Alko also launched a new series of responsibility articles on its website. We explored several social and environmental responsibility topics with articles ranging from the difficulty of in-



Financial responsibility

Sustainable financial performance, which forms the basis of our financial responsibility, can be achieved through responsible values and business practices.

Alko's operations have an extensive financial impact on stakeholders and society. Operational efficiency is a must if we are to achieve a sustainable financial result. We must also take equal account of all stakeholders and engage in open, transparent financial reporting.

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 gain returns on low-risk investments.

Customers EUR 1,163.1 million

We offer our customers safe, premium-quality products and services. In 2016, income from alcoholic beverages totalled EUR 1,156.9 (1,151.7) million.

We provided goods and services to the value of EUR 5.8 (5.4) million. This figure includes EUR 331 (307) thousand in income from analyses performed by the Alcohol Control Laboratory.

Alko opened its new webshop to corporate customers in August 2016 and to consumers in November 2016. Our order points were then turned into collection points at which customers can collect their online orders. The webshop and collection points supplement our stores to create a multichannel service network and support local business and commerce in scarcely populated regions.

Other operating income totalled EUR 2.1 (2.6) million and mainly comprised rental income and capital gains from the sale of fixed assets. In November 2016, Alko organised pop-up sales events at which we sold Finnish artworks from our head office and regional offices.

Suppliers of goods and services EUR 1,029.8 million

A commitment to ethical principles is integral to our procurement process, in which we consider indirect impacts in addition to the direct purchase price. We apply the responsible purchasing processes developed by the BSCI organisation to our procurement of alcoholic beverages, and also require our suppliers to adhere to ethical business practices. Ethical trading principles are included in our general terms and conditions of purchase. When purchasing alcoholic beverages, we follow legislative instructions (Decree on the Operation of the Alcohol Company 243/2000) on the equal and transparent treatment of suppliers. We have provided our suppliers with online training in Ethical Operating Principles to ensure that suppliers understand the principles of ethical procurement and their practical impact. We require all of our alcoholic beverage suppliers and agents to take the training by the end of June 2017. Alko also publishes a guide on the retail sale and listing of alcoholic beverages, which describes the product listing process for alcoholic beverages.

Most of our purchases are alcoholic beverages. Purchases from the alcoholic beverage industry and wholesale traders amounted to EUR 934.1 (920.7) million in 2016. Most of these operators are based in Finland, but we also made purchases of alcoholic beverages from international operators totalling EUR 13.8 (12.6) million in 2016. Alko makes its purchases in euros in order to avoid exchange rate risks.

We purchased other products and services costing EUR 36.0 (42.1) million in 2016. In addition, suppliers registered EUR 59.7 (59.1) million in fixed costs for procurement. These purchases enabled, among other things, the following:

- We invested EUR 10.0 (7.9) million in IT services and consulting. We opened our new webshop to corporate customers in August 2016 and to consumers in November 2016. IT expenses increased due to the creation, introduction and maintenance of the webshop. Software licensing and maintenance support accounted for the majority of our IT costs.

- Alko's head office moved into our Arkadia property in August 2016. At the same time, the Arkadia store was renovated in line with our new store concept. Five stores had been given this new look-and-feel by the end of 2016.
- At the end of 2016, 334 of our 355 stores were located in leased premises, for which we paid EUR 17.0 (17.2) million in rent. Our rental costs were partly reduced by stores relocating to new premises. When relocating, we chose smaller and more compact commercial premises. Due to general economic trends, rent index increases have been moderate.
- In order to create a multichannel customer experience, we invested in the acquisition of mobile devices for every store. Mobile devices can be used not only for customer service but also when receiving and handing over online orders. The displays of our new cash registers were updated in early 2016.

Through our goods and service suppliers, our purchases also have indirect impacts on external actors throughout the supply chain. Although we consider indirect impacts in our ethical trading principles, we have not assessed their monetary value here.

Personnel EUR 87.6 million

In 2016, salaries and fees paid to personnel totalled EUR 70.5 (67.4) million. Pension costs totalled EUR 12.5 (14.5) million, and other personnel expenses EUR 4.6 (3.7) million in 2016. We employed slightly more people in our stores than in 2015.

Pensions

In addition to the statutory earnings-related pension scheme, we have a supplementary pension scheme for some Alko employees. Additional pension cover is managed by private pension companies, including the Alko Pension Fund (Division A) supplementary pension. At the end of 2016, the Alko Pension Fund (Division A) supplementary pension covered 280 employees, and the Vistalco supplementary pension covered four.

The President & CEO and four members of the Management Team have no supplementary pension scheme, but at the end of 2016, two Management Team members belonged to the supplementary defined-contribution pension fund. The retirement age for the supplementary pension is determined by the Employees Pensions Act (TyEL) and the annual benefit paid is 10 per cent of annual income excluding incentive pay.

One member of the Management Team is covered by the Alko Pension Fund (Division A) supplementary pension, with a retirement age of 61 and a payment equating to 66 per cent of salary.

The retirement age for the Alko Pension Fund (Division A) supplementary pension is from 58 to 63, depending on the person's position and years of service. The pension pays 66 per cent of salary.

In 2016, we paid a total of EUR 0.1 (2.8) million in supplementary pension insurance payments, which represents 0.1 (4.2) per cent of the company's total payroll. The size of the pension payments was affected by fund rebates.

Society EUR 80.2 million

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. Our tax payments are channelled through the state budget to finance general government spending. They are an important source of revenue for the state, in financing social welfare and healthcare services, for example.

The products we sold in 2016 accrued EUR 580.0 (586.0) 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. Alko paid EUR 15.0 (21.8) million in alcohol tax on an accrual basis for alcoholic beverages passing through our central warehouse, plus EUR 0.3 (0.2) million in beverage packaging tax.

We paid EUR 37.5 (40.5) million in VAT and EUR 10.5 (10.1) million in corporate tax. We paid EUR 15.5 (15.6) million in wage taxes and EUR 1.5 (1.4) million in social security contributions.

According to calculations by the National Institute for Health and Welfare, the alcohol-related costs incurred by Finnish society are approximately EUR 1.3 to 1.4 billion per year.

Organisations EUR 0.9 million

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). In 2015, we also launched the Working life and the harmful effects of alcohol consumption programme in collaboration with the A-Clinic Foundation, Finnish Association for Substance Abuse Prevention (EHYT), KELA, the National Institute for Health and Welfare, Finnish Institute of Occupational Health, and 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 2016. We paid organisations EUR 163,256 in fees for their contributions in 2016 (EUR 137,500 in 2015).

Alko also engages in cooperation with the Youth Academy and the Finnish Olympic Committee (previously Valo). The sum of contributions against compensation with these organisations totalled EUR 61,000 (47,600). Gratuitous contributions made to the Junior Chamber International Helsinki's Policeman of the Year nomination and Finnish Olympic Committee's grant for young athletes totalled EUR 6,700. Other gratuitous contributions include EUR 2,000 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 67,300, and contributed EUR 15,000 towards the social policy publication 'Yhteiskuntapolitiikka'. Alko also supported the University of Helsinki's medical research on addiction and alcohol with EUR 120,000; the National Institute for Health and Welfare's Drinking Habits Survey with EUR 300,000; and the Finland 100 Children's Fund Foundation (ITLA) with EUR 100,000.

The effects of these grants on full-year profit came to 0.9 (0.3) million.

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

Our owner EUR 40.0 million

Alko is wholly owned by the Finnish government. We paid our owner a dividend of EUR 40.0 million from our revenue for 2015 (EUR 40.0 million from our revenue for 2014). This dividend was paid in two instalments in 2016: EUR 20.0 million in June and EUR 20 million in September.

Alko does not receive any financial assistance from the state.

Investments EUR 7.4 million

Alko's invested in strategic projects and the development of its store network. In 2016, we invested EUR 2.6 million in developing our store network (EUR 2.3 million in 2015), opening three new stores and relocating 12. One store was closed. Renovations were carried out at 14 stores, including a complete revamp of our flagship store in Arkadia, Helsinki. Our investments in store development rose by about 13 per cent on 2015.

We invested a total of EUR 4.8 million in strategic projects in 2016. Our larger investments (in monetary terms) included the creation of our webshop (EUR 2.7 million), refurnishing and redecorating working areas at head office to facilitate flexible working methods (EUR 0.8 million), defining our new store concept (EUR 0.4 million), and developing our HR system (EUR 0.3 million). Other smaller-scale investments were made to a total of EUR 0.6 million.

Environmental efforts in our stores and supply chain

Alko actively seeks to reduce the environmental impacts of its operations. One of the main objectives of our responsibility strategy for 2020 is to reduce energy consumption in our store network.

We want to be a pioneer in product and supply chain responsibility. This requires proactive efforts to reduce the environmental impact of our own operations and product range. The top three goals in our responsibility strategy for 2020 are: an environmentally friendly range of beverages, ecological packaging, and reducing the environmental impact of stores.

Alko cooperates with the other Nordic alcohol monopolies (Systembolaget, Vinmonopolet, ÅTVR and Rúsdrekkasölu Landsins) to reduce the environmental impact of the alcoholic beverage supply chain. According to a study of the supply chain's environmental impacts, the most significant impacts stem from:

- The manufacture of packaging (particularly glass)
- The cultivation of ingredients (grapes, grains)
- Fuel emissions from the beverage industry

The results of this study now form the basis for updates to our environmental targets and objectives, and also our cooperation with goods suppliers. We are also seeking new operating methods and tools to reduce the environmental impact of our supply chain and provide our customers with more information about the environmental impact of products.

Environmental management system steers practical efforts

Our environmental efforts are based on our strategy, our environmental policy, and the Decree on the Operation of the Alcohol Company (243/2000). Practical measures are guided by the objectives and responsibilities specified in our ISO 14001 environmental management system. Alko was granted ISO 14001:2015 certification in January 2017. We report environmental impacts on our website and, once a year, also in our Annual Report and Corporate Social Responsibility Report.

We are also involved in the Baltic Sea Action Group's Living Baltic Sea project with a commitment to collect used inner bags from boxed wines. Alko also supports the Keep Lapland Tidy association to protect Lapland's unique natural environment.

Organic and biodynamic alternatives

Our first certified organic wine went on sale back in 1994. Our organic range has been steadily growing since then, and we already have several hundred certified organic products.

The primary goal of organic production methods is to improve the condition and biodiversity of agricultural areas and the surrounding natural environment.

In addition to organic products, Alko's range also contains biodynamically produced red and white wines and champagnes. Biodynamic production is largely similar to organic production, but also monitors the phases of the moon and employs homeopathic-like growing methods. Read more at alko.fi.

A reduction in store energy consumption

One of the main objectives of our responsibility strategy for 2020 is to reduce energy consumption in our store network. The majority of our electricity consumption, 93 per cent, results from store lighting and the remainder from cash registers and refrigeration units. We reduce our electricity consumption in a number of ways, for example, by using motion detectors in the non-sales areas of our shops, using LED lights, and instructing our staff to save energy. All advertising signs have been implemented with LED technology and, when renovating our stores, we replace old spotlights with energy-saving LED lights. The new environmental system that we will be introducing in 2017 will make it even easier to monitor our own energy consumption and quickly intervene in any problem areas.

The estimated total electricity consumption at our stores, regional offices and head office in 2016 was about 12 GWh (13.0 GWh in 2015). This figure is partially based on estimates, as precise data is not available for all locations. The electricity we acquire from Turku Energia is generated from renewable energy sources. Its origin is certified as specified in the Act on Verification and Notification of Origin of Electricity.

Recycling store waste

When choosing store premises, we also consider environmental perspectives: good waste management, a diverse range of recycling possibilities, environmentally friendly forms of heating, and a bottle return system shared with other companies operating in the property. The majority of our stores and the regional offices operate in leased premises: 332 (31 December 2016). A total of 21 stores are located in premises owned by Alko. The average area of our stores is 288 square metres (296 in 2015). The direct environmental impacts of store premises include heat, electricity and water consumption.

In 2016, we sent 1 005 tons (almost 840 tons in 2015) of cardboard, 132 (108) tons of pallet plastic, and nearly 3,600 (3,000) kilos of inner bags from boxed wines to be recycled. Pallet plastic is used in the manufacture of a number of things, such as Alko's plastic carrier bags, and cardboard in the manufacture of recycled boards. The inner bags from wine boxes are used as recycled fuels to replace coal in the manufacture of cement. Read more at alko.fi.

Our stores sort and recycle the bio, metal, glass, energy and paper waste they generate using the waste management system of the premises in question. Our head office, stores and regional offices follow not only their own in-house waste-sorting guidelines, but also municipal guidelines and regulations. Specific environmental guidelines apply to the handling of hazardous waste, and Alko's Alcohol Control Laboratory (ACL) sends all harmful chemicals to Ekokem Oy.

All wastewater generated by our operations is fed into the municipal sewer network. Most Alko stores use district heating. We favour environmentally friendly heating and refrigeration solutions in our properties whenever possible – for example, renewable energy sources, recovering the cold condensate heat emitted by cooling equipment, and using exhaust air in the underfloor heating of business premises. Heating, water and waste management are mainly included in the rent for the premises. However, this means that precise consumption data is not fully available.

Durable, recyclable and reusable furniture materials are selected for stores and office premises. The renovation and furnishing of stores is handled centrally. Our goal is to enable the reuse of as much surplus furniture as possible, either in our own locations or externally.

New working methods reduce environmental loading

In August 2016, Alko's head office in Helsinki moved from Salmisaari to refurbished downtown premises. The building, which was built in 1913, was fully renovated into a multifunctional space for Alko's approximately 130 employees. We naturally respected the building's history while harnessing modern technology. By moving our head office into the same property as our flagship Arkadia store, we will be able to engage in even closer contact with both our customers and employees working in customer service.

Environmental perspectives were considered in the design of our premises. One of our core objectives was to encourage the use of public transport. Space efficiency has also improved, even though we have approximately one-fifth less space in terms of square metres. Employees no longer have their own rooms or workstations, and we have also optimised the number of conference rooms. Thanks to our clean desk policy, paper consumption has also decreased at head office.

During the renovation, we also updated our head office's lighting solutions with energy-efficient LED lights and motion sensors. A reduction in water consumption is being achieved with the aid of touchless taps. Modern technology now enables us to monitor consumption more easily and accurately.

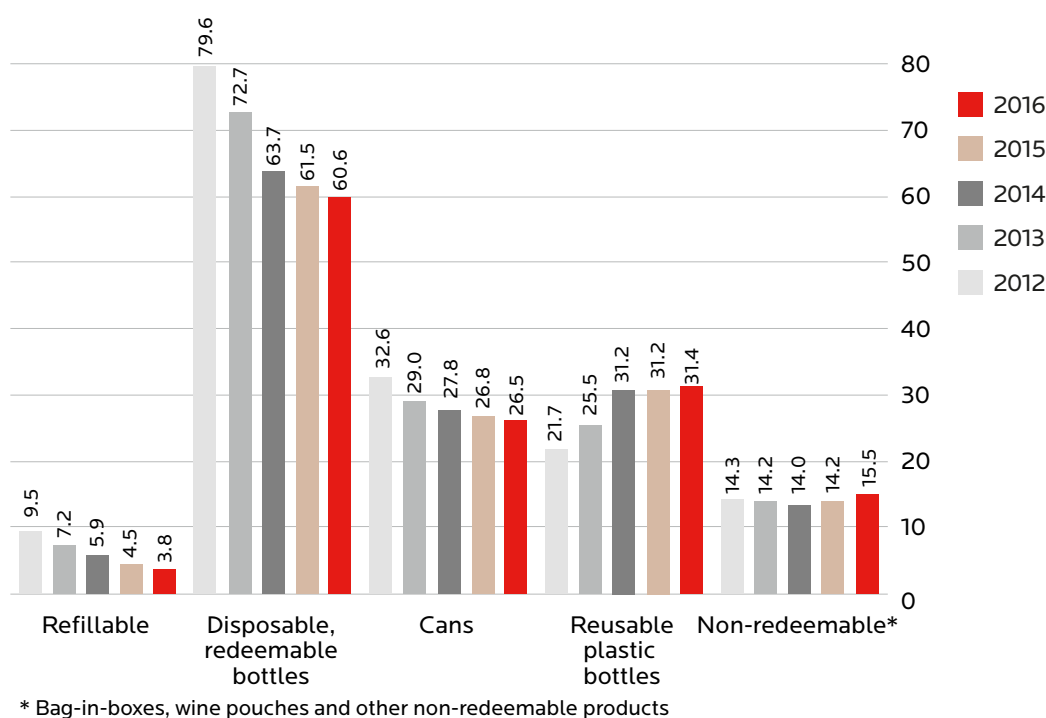
The multifunctional space will usher in new ways of working. Commuting and business trips can be significantly reduced through remote working and the use of instant messaging services (Skype, Yammer), which will both save time and reduce emissions. In personnel training, we are also increasingly able to harness new technologies to replace on-site courses.

World-class return rate for beverage containers

All deposit cans and bottles bought from Alko can be returned to over 4,500 collection points around Finland, and this promotes recycling. Alko recycles empty beverage containers in close cooperation with other retail chains. Consumers can also return empty beverage containers at more than 310 joint machines located at supermarkets or shopping centres. Alko is one of the owners of Suomen Palautuspakkaus Oy (PALPA), which manages deposit beverage containers.

There is also an efficient recycling system for non-deposit containers, and this was upgraded in 2016 to meet the requirements of the new Waste Act. A network of 1,850 recycling points was completed in summer 2016 to fulfil legislative requirements, making it even easier to recycle non-deposit bottles and paperboard packaging. The upgrade also gave consumers the opportunity to recycle plastic packaging at over 500 recycling points. Suomen Pakkauskierrätys RINKI Oy administers Finland's network of recycling points. Alko is a member of Suomen Keräyslasiyhdistys ry, the association responsible for recycling non-deposit glass containers.

PACKAGES SOLD IN ALKO



Combined deliveries reduce emissions

Alko plans store deliveries as efficiently as possible, thereby saving both money and nature. We employ a joint distribution model in which transport companies combine as many loads from different warehouses as possible in one delivery. These loads are combined at transport company terminals. This means that one full truck will pull up outside our stores instead of several half-full ones, thus avoiding needless kilometres.

Alko purchases transport and warehousing services from external partners, and we require them to engage in sustainable operations. The two biggest companies transporting Alko's products in Finland use environmental systems. All deliveries through Alko's import service are made by companies with ISO 14001 environmental certificates. Alko's central warehouse services are operated by the ISO 14001 certified Vantaa logistics centre, run by Posti Group Corporation.

We monitor the CO2 emissions of our deliveries. In 2016, our CO2 emissions totalled 707 (521) tonnes from import deliveries and 61 (73) tonnes from domestic deliveries. These figures include products delivered to stores via Alko's central warehouse, but not return transport. The main reason for this reduction in emissions is a decrease in the volume of products passing through Alko's central warehouse. However, the volume of imports has increased, which explains the rise in CO2 emissions.



Wine bag collection off to a flying start

In summer 2016, the Easy Recycling campaign dramatically boosted the recycling of plastic wine bags from bagged and boxed wines. The return rate almost quadrupled on the previous year, and during June-September just over 30,000 bags were used as raw materials for cement manufacture.

Wine bags are collected all year round in the majority of Alko stores in Helsinki, Uusimaa and South-West Finland.



The new environmental system that we will be introducing in 2017 will make it even easier to monitor our own energy consumption and quickly intervene in any problem areas.

In 2016, we sold over 137.8 million beverage containers of various kinds:

- 0.6 million single-use deposit glass bottles
- 3.8 million refillable glass bottles
- 26.5 million cans
- 31.4 million recyclable plastic bottles with a redeemable deposit
- 6.9 million bag-in-boxes
- 3.6 million paperboard containers
- 5.0 million non-deposit glass and plastic bottles.



ALKO AS AN EMPLOYER

Best workplace

Proactivity, flexibility and a sense of community lie at the core of Alko's new working culture. In 2016, we made considerable investments in organisational functionality, so that Alko can continue to provide excellent customer and personnel experiences.

In 2016, we began creating the new Alko – a multichannel company with a real sense of community. Alko is now embarking on the second major change in its recent history. The last big change occurred when we switched from counter-service to self-service. This was a great success story resulting in an outstanding experience for customers and personnel alike. Becoming a multichannel company with a real sense of community has required every employee to improve their digital skills and master the new operating models required by the webshop that opened in autumn 2016. We have supported our employees during this time of change with, for example, online training and internal 'digital ambassadors'. Multichannel sales and forging a sense of community guided learning – in addition to new content, we learned new ways of serving customers and collecting data, and revised the fundamentals for succeeding as a team.

Our HR strategy for this year goes by the name 'Best Work', and this has guided our renewal with the aid of flexible working models and leadership. Proactivity, flexibility and a sense of community lie at the core of Alko's new working culture. In order to forge a genuine sense of community, we have updated our training to be more participatory and place a greater emphasis on knowledge sharing. Self-leadership has been both discussed and put into practice. It has brought a participatory and proactive approach to each employee's own work and the working community as a whole, thereby further strengthening our ability to meet our customers' needs. We also ran an important pilot in which sales staff worked shifts at multiple stores, thereby promoting flexibility and our internal job market. This practice became standard in just under 20 stores at the end of the year. A concrete change was also seen at head office with the introduction of a multi-functional office space that supports a more flexible working culture.

Old juxtapositions have been replaced by cooperation in which we build the future together. If we are to create shared goals and make productive developments within our organisation, we need smooth cooperation between employer and personnel representatives. This is necessary in order for us, as a company, to continually develop in line with our strategy and future requirements. One excellent example of good collaboration is the retail trade's first competence-based remuneration model, which was created in cooperation with sales staff representatives. Remuneration based on a competence assessment also encourages everyone to work towards the objectives of our evolving company.

In late 2016, we restructured our regional organisation, resulting in a store network consisting of six geographical areas instead of the former ten. Our store network organisation and management model will become even more flexible in the future, enabling us to better adapt to any changes in our operating environment and provide a professional and personal customer experience.

Alko employees continued to be more committed and satisfied than those in other service-sector companies. In 2016, we made considerable investments in organisational functionality, so that Alko can continue to provide excellent customer and personnel experiences.

Multiple-store pilots pave the way for the future

In order to offer more hours to sales personnel and increase the flexibility of shift planning and HR resourcing, Alko piloted a system of working shifts in multiple stores in the downtown areas of Rovaniemi, Helsinki and Oulu during 2016. Rather than working at only a single 'home' store, shifts for sales staff and store managers were planned within a pre-defined group of several stores. Alongside this multiple-store pilot, Alko also collected experiences of a brand-new kind of system that would enable shift planning at store group level. A total of 150 sales staff and store managers from 17 different stores took part in the pilot.

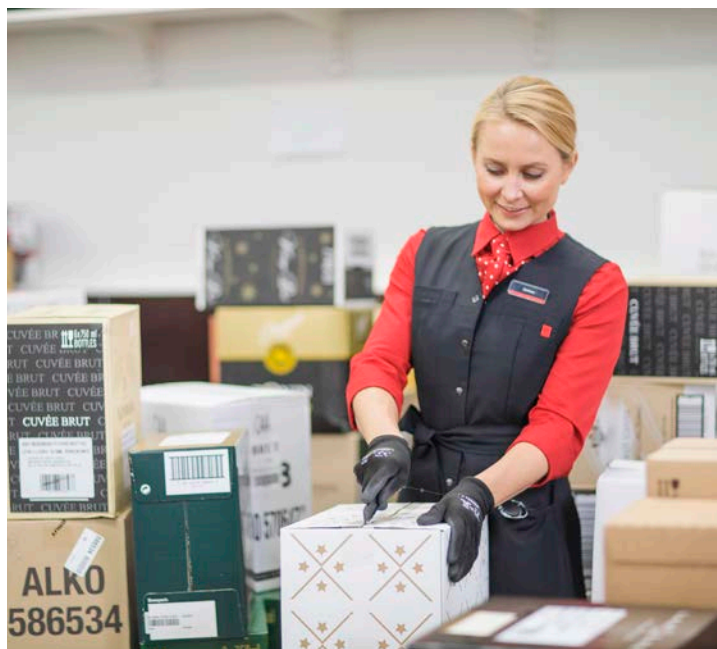
Although it was a major change to our working culture, employees quickly adapted to shifts at multiple stores. It took some time to create standardised working methods for all the stores and for staff to acquaint themselves with new stores and people.



This will enable us to react more quickly to challenges in our operating environment and do our best to ensure sufficient employment for our current sales staff. This goal was also achieved, as the results of the pilot indicate that working at multiple stores brought the desired flexibility to shift planning and made life easier for store managers.

The multiple-store approach is well suited to Alko's multichannel and communal working culture, and greatly supports our Best Work strategy.

The store groups created during the pilot permanently switched over to the new system from the beginning of 2017. The next stage is to determine where else the system can be introduced, that is, in how many Alko stores and in what type of store groups. Negotiations on this will be conducted between Alko and employee organisations during 2017.



However, once they had settled into their new routines, the benefits far outweighed any initial difficulties. Special thanks goes to sales staff at our pilot stores, who actively worked to resolve everyday problems and develop the system in small groups.

Alko successfully achieved the key objectives of our multiple-store pilot: an increase in planned and unplanned working hours for sales staff during the pilot. At the same time, working in several stores boosted competence development and helped to foster a sense of community. The results of the personnel survey were also favourable at stores in multiple-store groups.

Another important goal of the pilot was to make shift planning more flexible by moving the focus from a single 'home' store to a group of stores.



Personnel in figures

Long-term employment relationships at Alko are an indication of the high level of employee loyalty. In 2016, we invested in seasonal HR resourcing in particular.

Changes in the number of employees

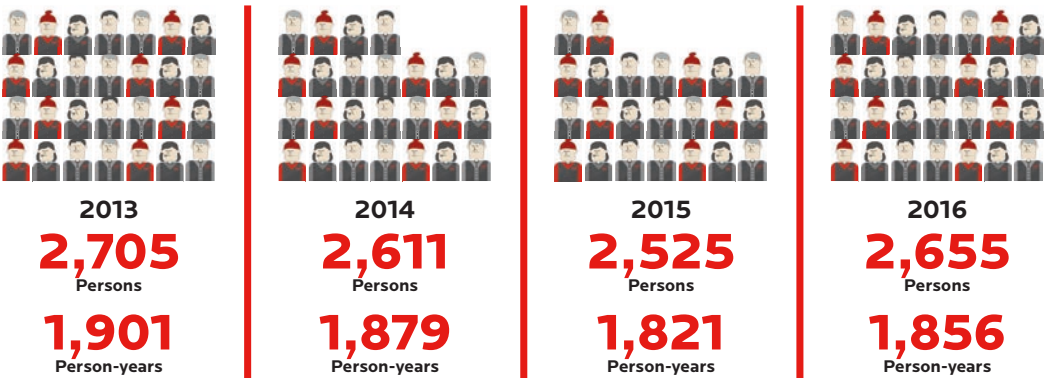
We had 2,655 (2,525) employees at the end of 2016, which was about 5 per cent more than in the previous year. This growth stemmed from recruiting for the Christmas season, which resulted in 598 (437) part-time employees at the end of the year. The majority of these employees were hired to work in stores over the Christmas period. We had 2,057 (2,108) permanent employees at the end of 2016.

Alko had an average of 2,385 (2,415) employees during 2016, totalling 1,856 (1,821) person-workyears when converted into calculated person-workyears. This slight rise in person workyears also stemmed from a higher level of seasonal recruitment than in the previous year.

Did you know?

1 person-workyear =
the full labour input of one
full-time employee over a
period of one year

NUMBER OF PERSONNEL AT THE END OF THE YEAR



Almost all the experts at the head office are employed on a full-time, permanent basis. Part-time employees accounted for roughly 69.1 (68.6) per cent of all permanent employees, which is slightly more than in 2015. The majority of those on part-time contracts are sales assistants, as Alko's sales are both highly seasonal and weighted towards the end of the week. Good HR planning helps us to ensure that we offer as many working hours as possible to in-house staff. Any vacancies and vacant shifts are first offered to Alko's part-time employees. Standardised practices enable good shift planning. Our aim is to combine the requirements for both high efficiency and a good customer and employee experience.

Geographical distribution of personnel

Alko restructured the regional organisation of its store network in late 2016, resulting in six regional managers responsible for six geographical areas. Personnel are evenly distributed across these geographical areas, with an average of about 15 per cent located in each area. The capital city region is the largest area and Northern Finland the smallest. Alko's head office functions are located in Helsinki.

PERSONNEL

ALL



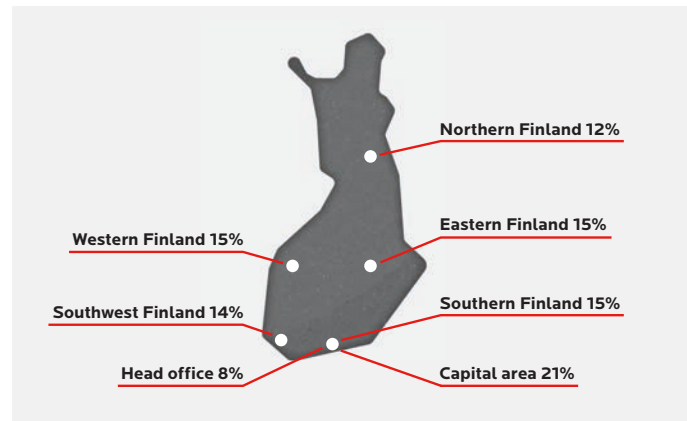
SHOP MANAGERS



MANAGERS



GEOGRAPHICAL DISTRIBUTION OF STAFF



Duration of employment and turnover

Long-term employment relationships at Alko are an indication of the high level of employee loyalty. About 66 per cent (71 per cent) of our permanent employees have been with Alko for more than 5 years. 53 employees retired from Alko during 2016.

Two new people joined Alko's Management Team in 2016. Paula Kujansivu was appointed Vice President, Online and Supply Chain as of 8 February 2016. Kujansivu previously led Alko's e-commerce project. Pekka Litmanen was appointed Vice President, Customer Experience as of 5 May 2016. Litmanen joined Alko from his former position as Director of Customer Experience Development at Elisa Corporation.

At the end of 2016, the average duration of employment was 10.8 years compared to 11.3 years in 2015. The average duration of employment was 13.2 years for men and 9.9 years for women. With an average of 15.6 years, office staff have the longest employment relationships of all personnel groups.

In 2016, we made greater investments in seasonal recruiting than in the previous year. During 2016, Alko signed 1,008 (733) new employment contracts with 883 people. 156 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. 327 of the aforementioned employees had previously worked for Alko (sometimes also earlier in the same year), while 556 people were working for us for the first time. Of our new employees, 73 per cent were women and 27 per cent men.

We want to support a diverse working community and take this into consideration when hiring new personnel. However, the job description for our largest employee group – shop staff – involves a number of tasks requiring good physical condition (for example, unloading product deliveries). Fluent Finnish-language skills are also important in customer service.

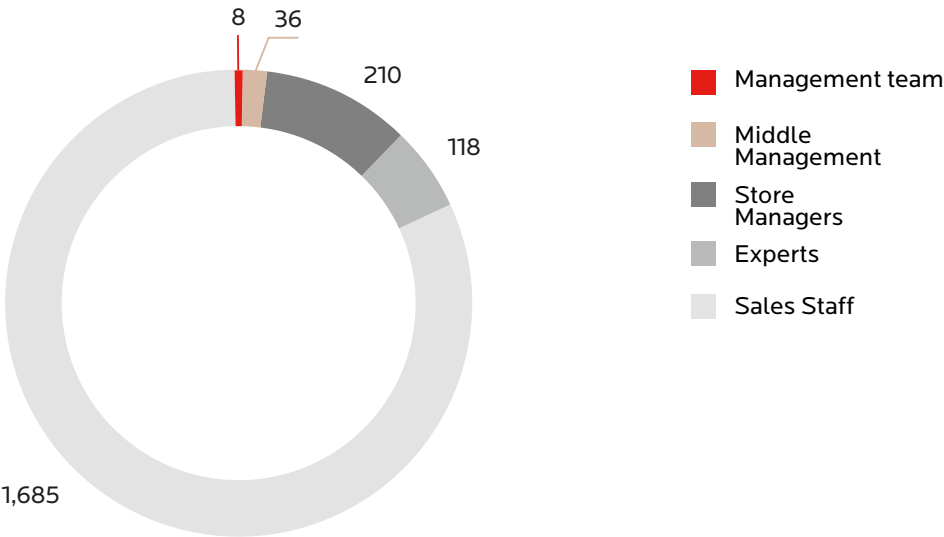
In 2016, 823 (562) employment contracts were terminated, 72.5 per cent of which were with women and 27.5 per cent with men. The majority of employment contracts for the Christmas season ended in January 2017, which is why the number of new contracts appears greater than the number of terminated contracts. It should also be noted that 223 fixed-term employment contracts, mainly for the Christmas season, ended in 2016 compared to 24 in 2015. Voluntary turnover also increased. 180 people resigned from Alko during 2016 compared to 125 in the previous year. In 2016, the total number of personnel fell by an average of 1.2 per cent on the previous year.

A total of 53 (57) employees retired from Alko during 2016. Two employees also went on a disability pension. We invest in activities to maintain the working capacity of our employees, and engage in close cooperation with our pension company and occupational healthcare provider. The average retirement age (including disability pensions) was 60.1 (59.8).

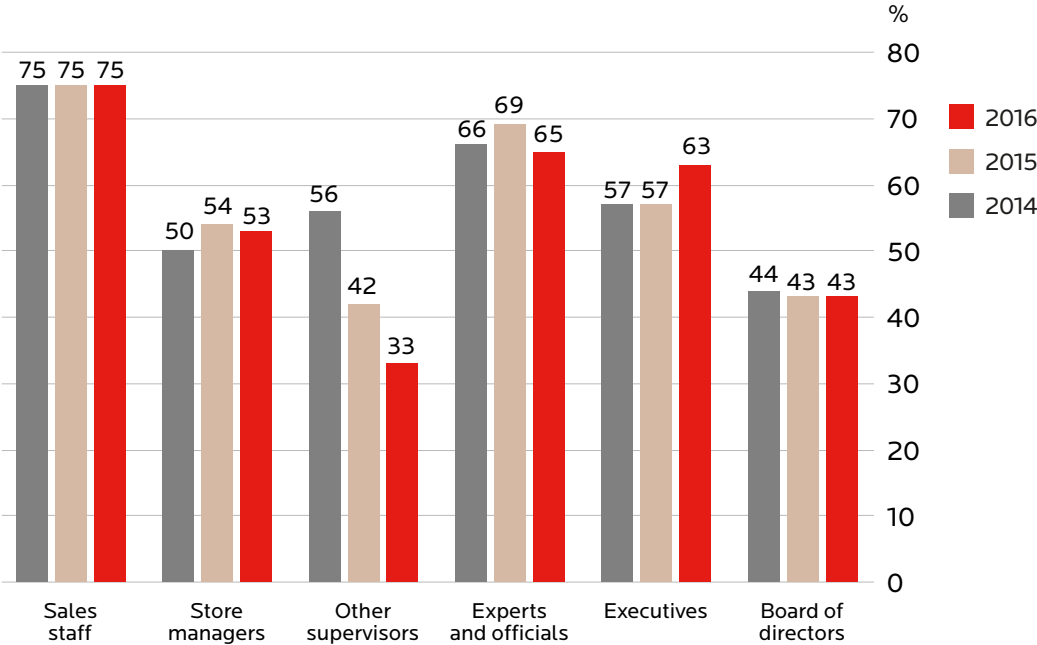
Gender distribution

Alko staff are predominantly female: 73 (72) per cent of our employees are women. Five of Alko's eight-person Management Team are women. The number of men and women is almost equal among supervisors at head office, in regional offices, and among store managers (48 per cent men and 52 per cent women). 58 per cent of employees in expert positions are women, and 76 per cent in sales. Men only outnumber women in demanding expert tasks and middle management (60 per cent). This is due to the predominance of women in the retail trade and the fact that most applicants for sales positions at Alko are women.

PERSONNEL IN VARIOUS DUTIES



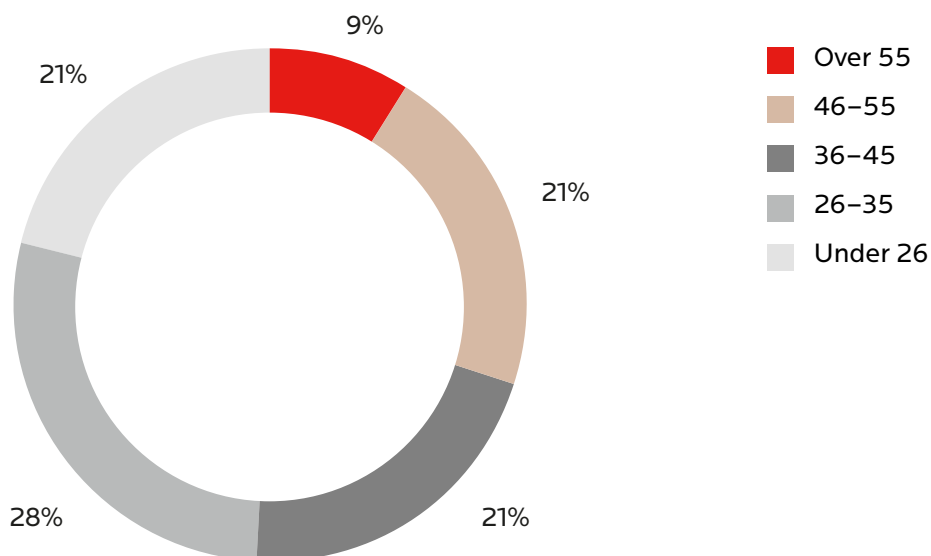
PROPORTION OF WOMEN BY TYPE OF POSITION



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. The average age of permanent employees is 41.1 for men and 40.7 for women. The average age of employees is 40.8 for those with permanent contracts and 37.7 for all types of employment contracts as a whole. This is because seasonal employees tend to be younger than our permanent staff. Eight per cent of permanent employees (excluding seasonal workers) were under 26.

AGE DISTRIBUTION ALL EMPLOYMENT CONTRACTS



Family leave

The percentage of employees starting new periods of family leave fell by 26 per cent on the previous year. There was only a 2 per cent decline in the amount of parental leave taken by men, but a 35 per cent fall in new periods of family leave taken by 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. No statistics are available on the actual ratio of returns or employee retention, 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. 87 employees were on family leave at the end of 2016. Of these, three were men and the remainder women.

Remuneration

We offer our personnel a remuneration system that supports our strategy, comprising a basic salary, benefits, and a strategic incentive scheme that links strategy and remuneration in a concrete manner for all employees.

Alko's personnel costs totalled EUR 85.7 (85.6) million. A total of EUR 69.5 (67.4) million was paid in salaries and fees. In 2016, the average annual pay (including any benefits and incentives) for Alko employees as a whole was EUR 32,846 (30,027). This figure is directly correlated to fluctuations in the hours worked by our largest personnel group, sales assistants, who worked more hours in 2016. The average annual earnings of employees is 7.2 per cent of the CEO's total annual earnings. This figure includes all current employment contracts for 2016, irrespective of contract type or working hours.

Task-specific salaries for sales staff and store managers are paid in accordance with pay groups and tables based on collective agreements. Other factors that influence remuneration are also agreed upon in the collective agreement and apply to all employees within its scope. These factors include increments, years of experience, and cost-of-living classifications for different municipalities. Salaries for employees in expert and managerial positions at head office and regional offices are determined on the basis of position-specific competence requirements, general competence, experience, performance and results. We employ the commonly used HAY methodology to evaluate the competence classification of positions for office personnel.

New remuneration system for sales staff

Alko is working with its various personnel groups to become a service company based around an outstanding customer experience and a sense of community. Alko personnel are proactive and productive, and support their colleagues through extensive cooperation. Therefore, the expectations attached to every role change in line with the requirements of our operating environment.

Alko (as the employer) and Alkon Liikeväki ALV ry (as our sales personnel's representative) reached a decision on the revision of our remuneration system. The new remuneration system came into force on 1 September 2016 and is based on the following categories: product expertise, service expertise, store expertise, efficient working methods, and interpersonal skills. Employees' competence in these areas is evaluated annually.

The remuneration system is based on the assessment of a salesperson's visible expertise. Although the previous system, in which pay was determined on the basis of years of service, was unambiguous, it did not encourage continual competence and other development.

This is a major change that will be reflected throughout our strategic objectives. Alko is keeping abreast of the times and wants to meet its customers' diverse needs both now and in the future.

Ratio of basic salary – men and women

Most Alko employees are paid on the basis of tables drawn up in collective agreements. Equal pay is one of the items we examine when drawing up our biennial equality plan. The last check was carried out in 2015 on the basis of remuneration for the previous year. Gender does not affect remuneration at Alko and no significant differences have been identified between comparable positions.

Personnel benefits

Alko provides occupational healthcare services, statutory insurance for accidents and occupational diseases, family leave opportunities, and pension benefits to both fixed-term and permanent employees. Alko also supports wellbeing at work and leisure-time activities. These benefits are primarily available to all Alko employees (excluding company phones and cars, which are provided for certain positions only).

Remuneration for the Board of Directors and senior executives

Alko's Annual General Meeting makes an annual decision on the fees and other financial benefits paid to the members of the Supervisory Board, and to the Board of Directors and its committees. Fees are paid in monetary form. In accordance with the decision made at the Annual General Meeting on 19 May 2016, 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

The Supervisory Board convened six times in 2016.

The Annual General Meeting decided on the following fees for the Board of Directors in 2016:

- 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 11 times. The attendance rate at meetings of committees appointed by the Board of Directors was 98 per cent.

Based on the Personnel Committee's proposal, the Board of Directors decides on remuneration for the President & CEO and the Management Team. 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.

Collective agreements and cooperation

There is a long history of employer-employee cooperation at Alko. As an employer, we are committed to participatory, proactive and strategy-oriented cooperation.

Alko adheres to two collective agreements: the collective agreement between the Federation of Finnish Commerce FFC and Alkon Liikeväki ALV ry (the trade union for the alcohol trade, which represents sales staff) and the collective agreement between the Federation of Finnish Commerce FFC and Alkoholialan Toimihenkilöt ry (the trade union for office personnel in the alcohol trade). Company-specific collective agreements are supplemented by the trade sector's collective agreement. The aforementioned collective agreements apply to all Alko employees and are valid until 31 January 2017. Collective bargaining takes place at union level. Alkon Liikeväki ALV ry belongs to Service Union United (PAM) and Alkoholialan Toimihenkilöt ry to the Federation of Salaried Employees (Pardia).

It is important for the strategy of Alko's representative association to be in line with the company's strategy. Alko's operating environment is changing all the time, and we must be able to respond to this. In December 2016, Alko decided to resign from the Federation of Finnish Commerce FFC, which we have belonged to since 1997. We were previously a member of the Employers' Association of Special Branches, which is now part of Service Sector Employers Palta (established in 2011). Alko will be applying for membership of Service Sector Employers Palta as of 1 July 2017. Palta's strategy underlines digitalisation and its associated opportunities, work development requirements, and the importance of having competitive labour markets. This communicates a desire to keep abreast of the times and the ability to evolve, which is why Alko believes that Palta will be a good partner during our renewal phase.

Alko's shop steward system is defined in collective agreements. Our consultative committee, which is comprised of representatives of the employer and both employee organisations, convened eleven times in 2016. In any cases of restructuring, Alko adheres to the statutory minimum notification period.

Alko had two employment disputes during 2016, both of which are still ongoing: one at the district court and the other at the supreme court.

Alko's highly collaborative culture has generated new perspectives on corporate development. This is indeed a requirement for success, as Alko will be taking a more multichannel approach to serving our customers' increasingly diverse needs. Cooperation at Alko involves handling issues in a comprehensive manner, and the consultative committee therefore discusses not only the present situation but also the future objectives required by our strategy.

Training and development

Long-term competence development guarantees a successful customer experience. Every employee receives an average of four days training per year.

2016 was a year of learning for Alko employees. Multichannel sales and forging a sense of community also guided learning. In addition to new content, Alko provided training in new tools, taught new ways of serving customers and collecting data, and revised the fundamentals for succeeding as a team. Alko introduced the concept of self-leadership as part of both everyday work and competence development. Self-leadership means that everyone is responsible for enhancing their own skills and sharing their knowledge with colleagues.

MyAlko training was the clearest example of a fresh approach to learning and mastering new things. A total of 17 salespersons and store managers were trained as MyAlko coaches to teach people about the new Alko: a multichannel company with a real sense of community. They led 40 events where a total of 1,200 employees came together to learn, share their thoughts, and launch initiatives on the everyday themes that will play a key part in Alko's future. These training sessions will continue for all personnel in 2017, to further enhance everyone's ability to handle and evolve in line with changes. During training sessions, Alko has already created new ways of developing product expertise, discovered fresh perspectives on competence assessment, and found ways of increasing flexibility at work.

Alko made considerable investments in developing digital skills during 2016. Alko trained 25 digital ambassadors who, in addition to their regular duties, visited teams to provide both training on how to use new devices and an introduction to the digital world as a whole. Together with our MyAlko coaches, this team of digital ambassadors successfully generated genuine enthusiasm for renewal throughout the company.

Service and product training also broke new ground. Mobile devices became a standard element of classroom training sessions. Participants engaged in more group work, used tablets and phones to search for information, and presented their results to other small groups. Learning together generated numerous aha-moments: participants familiarised themselves with Bordeaux's wine growing regions by sketching them, collated numerous sources to elucidate how and when to use different beverages, and resolved even the trickiest of customer issues by discussing them together in groups of people from different stores. Training focused less on learning about individual products and more on seasons, product groups, wine growing regions and the special features of food and drink cultures. This bore fruit: although there was a moderate fall in the number of product training days, our customers' experience of Alko employees' knowledgeability remained as strong as ever, and staff themselves felt that the training had increased their confidence in customer service.

In previous years, an external consultant has led training in customer interaction skills. In spite of this valuable cooperation, we decided to take charge of customer interaction training ourselves in 2016. A team of proactive and development-minded salespersons were trained for the task, and they successfully led customer service days for new Alko employees during autumn 2016. Similar courage was required when stores were challenged to practice online customer service by making a video on the topic. Our employees exhibited a far broader range of skills than expected: they showed how the webshop worked through singing, dancing and acting – and even with hand puppets.

In addition to online courses, Skype training and traditional classroom sessions, about 70 teams received training in their own stores. These training sessions focused on the themes that the teams themselves found to be most necessary. During in-store training, participants studied theory in the backroom and then put it into practice among real customers in their store.

Competence discussions and performance reviews

Target and competence discussions are a key element in Alko's management practices, both in terms of performance management and personal development. Every employee attends a target and competence discussion twice a year. Team target discussions were launched in January 2016 to support this. Both personal and team targets for performance and competence development are set during these discussions. Performance, development and wellbeing are also reviewed. Supervisors and their team members regularly discuss their own

situation and work status. Depending on the nature of the employee's work, the frequency of these discussions varies from once every several months to weekly.

Every salesperson will discuss their competence with the aid of the skills compass and skills hierarchy launched in 2015. These tools provide personal feedback by comparing the salesperson's skills to both their job description and the average level of competence at the store where they work.

Discussions with other Alko employees will be supported by our new set of Alko Skills. Alko Skills describe the concrete skills that every Alko employee is expected to master. Discussions also run through any professional expertise that is required by specific positions.

Personnel surveys

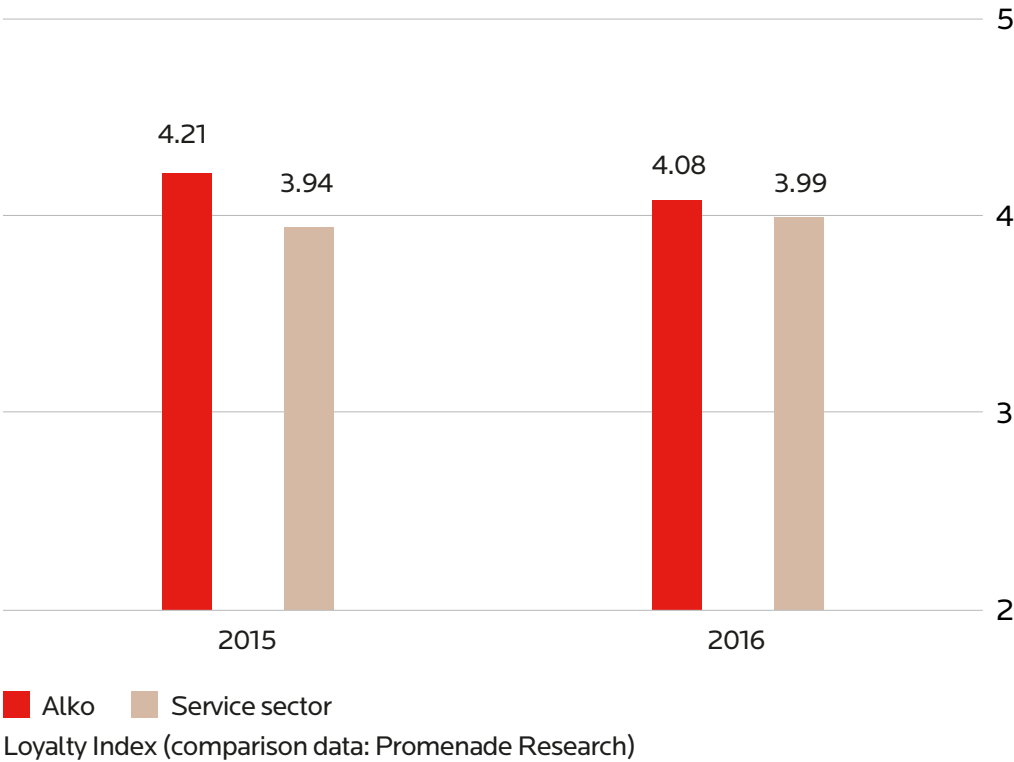
Personnel surveys provide feedback on personnel's experiences, supervisory work and leadership, the working community, personal involvement and motivation, tools, and other enablers.

The 2016 personnel survey was mostly identical in content to the 2015 survey, and was particularly useful in measuring progress towards our updated Best Work objective. Some questions pertaining to change were added to the personnel survey, in order to provide support to those teams that require most assistance during the mobilisation of our new strategy.

The response rate was very high. The results were slightly lower than last year, which was expected due to several ongoing changes. We have changed our Loyalty Index to a Motivation Index, which has also been selected as a strategic indicator for our Best Work strategy area.

Using the former Loyalty Index as a comparison, Alko's result once again clearly exceeds the average for the service sector.

ALKO'S EMPLOYEE LOYALTY IN COMPARISON TO THE SERVICE SECTOR OVERALL



Gaming to support strategy – MyAlko brings strategy into real-life work situations

MyAlko training has been using a well-rounded board game to make Alko's strategy a part of everyone's daily work, that is, to create a multichannel company with a real sense of community. At training events held in spring 2016 and early 2017, Alko employees gained a greater understanding of future changes to everyone's work by playing the MyAlko game together.

During the MyAlko training sessions, experts, store managers, sales staff and coaches used the game to link strategy to everyday tasks. The game was a collaborative effort, designed by personnel, shop stewards and our HR department.



A participatory game to guide discussion

The MyAlko game promotes participation and involvement in the company's strategy and evolution with the aid of well-known gaming mechanisms. The training begins with participants being divided into teams and some background information from CEO Hille Korhonen. The cards taken during the game steer teams towards discussion of work-related situations, such as multichannel customer service and flexible working methods.

The game has received positive feedback from participants, as it livened up the training. The game also revealed that answers and solutions can often be found from others in the working community, as long as everyone's diverse strengths and knowledge are brought to the fore. "Playing the MyAlko game was fun – it made you forget you were at a training session. The game was a good way to learn about

Alko's strategy. The best part was hearing other players' answers to difficult questions and thereby learning new things," says sales assistant Seija Antus from Vaasa.

"The most inspiring aspect of the MyAlko training was its innovative approach: what a brilliant way of putting theoretical content into a format that makes it easier to master! Strategic targets can sometimes seem quite distant, but the strategy game developers really succeeded in linking them to everyday sales work, and the concrete examples were perfect for sparking off active debate amongst the players. The game paid particular attention to Alko's new webshop and multi-channel approach, which are highly relevant to our company's current strategic targets. Personally, I learnt a great deal from discussing the kind of questions that required a lot of deep thought and were open to interpretation, so that they didn't have a single right answer."

Mona Mäkelä, sales assistant, Tampere



Well-being and safety at work

Alko has always made considerable investments in wellbeing. Wellbeing is not a separate activity – it is a natural part of everyday work at Alko. Wellbeing also plays a part in achieving our strategic objectives.

During 2016, Alko introduced new models for target and competence discussions. Alko also piloted a system in which sales staff work shifts at multiple stores, and this also enabled competence to be developed and shared more extensively throughout the working community.

All Alko employees attended MyAlko training, which employed gamification techniques. The MyAlko game uses everyday situations to spark off participatory discussion of Alko's strategy, gain insights into our strategic renewal themes and bring them into our daily work.

When it comes to health and working capacity, we updated our early care model and anti-substance abuse programme. Both models were simplified, so they will provide even better support whenever challenging situations arise. They focus on intervention at the earliest possible stage to ensure the receipt of timely assistance during challenging situations. The revisions to our anti-substance abuse programme were linked to the *Selvästi hyvää työtä* (Clearly Good Work) project, which was launched last year and included the release of several videos. Alko also launched a brand-new and even more effective form of occupational healthcare cooperation. This included an online health survey and the creation of personal health-promotion paths based on its results.

Supervisory work plays an important role in wellbeing, which is why Alko is making continual investments in this area both on a company and individual level. In 2016, Alko launched a variety of development programmes to find standardised operating methods and best practices to support and enhance leadership and supervisory work.

Alko supports its personnel throughout the different stages of their lives and careers. To this end, Alko piloted two training programmes to support personnel during the final years of their careers and into retirement: "Eläköitymisen tuki" and "Draivia työelämään."

Occupational safety

Alko has a company-level occupational safety committee for organising cooperation on safety at work. Sales staff have four representatives, office workers two, and the employer two. Occupational healthcare representatives also attend meetings as required. The occupational safety committee's tasks are defined in occupational health and safety legislation, and also in agreements between the employer and both employee organisations.

The occupational safety committee convened five times in 2016. The occupational safety organisation also met for two full-day seminars to develop its activities. Alko highlighted healthy working habits; increasing awareness of the occupational safety organisation; building a healthy and effective working environment and community; and ensuring that everyone is aware of their own responsibilities with regards to safety measures and reporting.

Accidents and occupational diseases

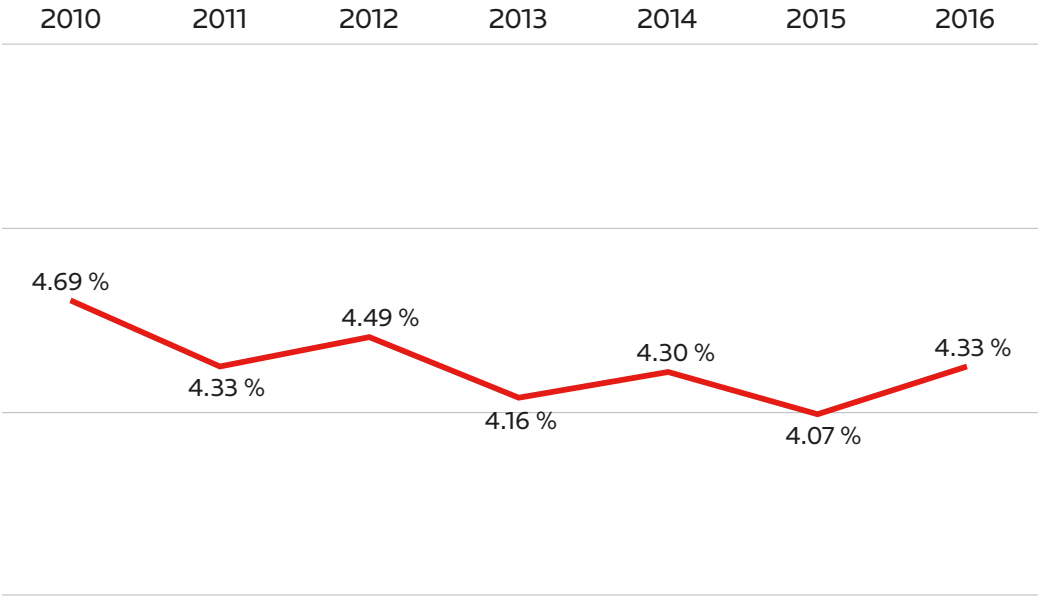
Alko placed a strong focus on guidance for employees and preventing work-related risks. There were a total of 99 (113) occupational accidents at Alko in 2016, 20 (37) of which occurred whilst commuting. This significant reduction in accidents, both at work and whilst commuting, was due to more effective awareness communications and the introduction of a new procedure for investigating accidents. The aforementioned accidents led to an average of 4 (5) days of leave. No occupational diseases were reported during 2016. No work-related fatalities occurred at Alko either during 2016.

The most common accidents at Alko involve lifting-related musculoskeletal injuries that are incurred when unloading product deliveries. Slipping and falling are the most common accidents that occur whilst commuting.

Absence due to sickness

There are no tasks at Alko in which employees would be exposed to a major risk or high incidence of disease. Sickness absences rose slightly on the previous year, with a sickness absence rate of 4.33 pro cent (4.07%). The number of sickness absence days per person-workyear was 10.7 (9.9).

TRENDS IN ABSENCE DUE TO SICKNESS



Sickness absence rate

Short absences of less than 30 days accounted for the majority of sickness absences, with approximately 4.4 (6.7) per cent totalling 30 days or more. The occurrence of long absences due to sickness has decreased year-on-year, as has their average duration.

Musculoskeletal injuries were once again the most common reason for sickness absence in 2016, although they were down on the previous year. We will continue our systematic efforts to prevent musculoskeletal injuries through, for example, ergonomics.

During 2016, Alko continued to support working capacity management by introducing new occupational health-care models that place an even greater focus on preventative and effective occupational healthcare. In 2017, Alko will further develop working capacity-related operating models and ensure the full mobilisation of our up-dated early care model by, for example, introducing a new system to support supervisors in this area.



Corporate Governance

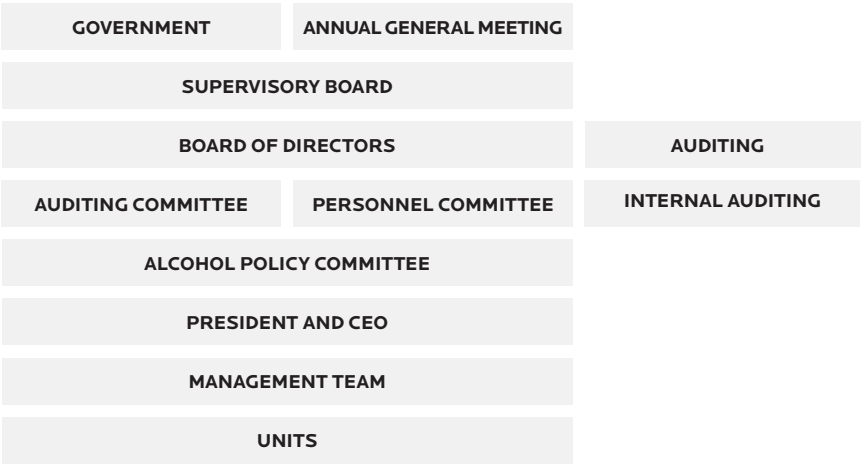
Alko Inc. is a limited company owned by the Finnish Government. Alko Inc.'s business activities are based on the Alcohol Act (1143/1994), the Decree on the Operation of the Alcohol Company (243/2000), the Companies Act, and the company's Articles of Association.

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

The Corporate Governance document approved on 15 June 2016 does not contain all the disclosures required for reporting in accordance with GRI G4 Guidelines. Some of these additional clarifications can be found in our Corporate Social Responsibility Report under the topic in question (social responsibility issues, for example), either in the GRI Content Index or in our separate G4 Statement.

ORGANIZATION



Annual General Meeting 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. 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 twelve 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 confirm the action plan aimed at preventing the adverse effects of alcohol in accordance with Section 1 of the Decree on the Operation of the Alcohol Company (243/2000)
- to provide the report referred to in Section 36 Paragraph 1 Subparagraph 2 of the Alcohol Act on the development of the company's retail sales and the measures that the company has initiated in the manner required by the Act
- 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, Osmo Kokko, Pauli Kiuru, Ulla Parviainen, Aino-Kaisa Pekonen, Tuomo Puumala, Päivi Räsänen and Sari Sarkomaa. Director Kari Paaso represents the Ministry of Social Affairs and Health. Representation of the Ministry of Social Affairs and Health on the Supervisory Board is decreed by Section 38 of the Alcohol Act. The Supervisory Board meets approximately six 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 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 and ratify 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 ratify the principles of internal monitoring and supervise their implementation and adequacy
- to ratify risk management principles
- to ratify the internal audit instructions 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, the report of the Board of Directors and the 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 19 May 2016, the Annual General Meeting elected Harri Sailas as Chair of Alko's Board of Directors and Kirsi Varhila as Vice-Chair. Sari Aalto-Matturi, Juhani Eskola, Leila Kostiainen, Kuisma Niemelä and Jarmo Väisänen were elected as Members of the Board. Personnel representatives Riina Väntsi and Mikko Eronen attend the Board of Directors' meetings without the right to vote.

The Board of Directors convenes about eleven times per year. The members of the Board of Directors are independent of the company. Kirsi Vahila 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 Hille Korhonen, Executive Vice President (Finance) Anton Westermarck and Legal Counsel Jonna Björklund (as Secretary) attend Board meetings.

Committees of the Board of Directors

Alko Inc.'s Board of Directors has three committees: the Auditing, Personnel and Alcohol Policy Committees. The Board appoints the Chair and members of each committee. 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.

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 were the committee's presiding officers, with the Auditing Director (and Auditing Manager as of 1 April 2016) as secretary. The Auditing Committee meets approximately five times a year.

The Auditing Committee consists of Kuisma Niemelä (Chair), Leila Kostinen and Jarmo Väisänen. Its Presiding Officers are Hille Korhonen and Anton Westermarck. Heli Riivari was Secretary until 31 March 2016 and Sirkku Karjalainen as of 1 April 2016.

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 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 convenes approximately five times a year.

The Personnel Committee consists of Harri Sailas (Chair), Leila Kostinen and Jarmo Väisänen. Its Presiding Officer is Hille Korhonen and its Secretary Tytti Bergman.

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 related legislation. The committee consists of three-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 Kirsi Varhila (Chair), Sari Aalto-Matturi, Juhani Eskola and Kuisma Niemelä. Ismo Tuominen (Ministry of Social Affairs and Health) attends by invitation. Hille Korhonen is the Presiding Officer and Maritta Iso-Aho the Secretary.

Members of the Board



Harri Sailas

b. 1951
Chair of the Board
Master of Economics and Business
Administration
Member of the Board since 2014

Positions of trust:

Finavia Corporation, Chair of the Board (2015–)
Finnvera Corporation, Board Member (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–)



Sari Aalto-Matturi

b. 1966
Member of the Board, Licentiate in Political Science
The Finnish Association for Mental Health, Executive Director
Member of the Board since 2012

Positions of trust:

SOSTE Finnish Federation for Social Affairs and Health, Vice-Chair (2015–), Board Member (2012–)
A-Clinic Foundation, Supervising Commission, Member (2013–)
Sosped Säätiö (Foundation), Board Member (2012–)
Suomen Kansanterveysyhdistys ry, Board Member (2016–)
Kantele Oy, Board Member (2016–)
Kanresta Oy, Board Member (2016–)
Mental Health Europe, Board Member (2016–)



Juhani Eskola

b. 1951
Member of the Board
Doctor of Medicine and Surgery
Director General, National Institute for Health and Welfare (2015–)



Leila Kostiainen

b. 1950
Member of the Board Master of Laws
Member of the Board since 2012

Positions of trust:

Väinö Tanner Foundation, Board Member (2009–)
Lexman Oy, Board Member (1995–)
Member of the Legislation Assessment Council (2016–)



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:

Oriola KD Oyj, Board Member (2014–)
Joutsen Finland Oy, Board Member (2014–)
Puls Nutrition Oy, Chair of the Board (2014–)
Fresto Group Oy, Chair of the Board (2015–)
Partiosäätiö-Scoutstiftelsen rs, Member of the Board of Trustees (2013–)

Members of the Board



Jarmo Väisänen

b. 1951

Member of the Board, Licentiate in
Political Science
Senior Financial Counsellor, Prime
Minister's Office
Member of the Board since 2014

Positions of trust:

Finrail Oy, Board Member (2015–)
Suomen Erillisverkot Oy, Chair of the
Board (2011–)
Gasum Oy, Board Member (2016–)



Mikko Eronen

b. 1978

Personnel representative
Acting Chair, Vice-Chair of the ALV
Union (Chair as of 20 November 2016)



Riina Väntsi

b. 1973

Personnel representative
Chair of Alkoholialan Toimihenkilöt ry

Management Team

Alko has a Management Team consisting of eight members.

The Management Team's activities

Alko has a Management Team consisting of eight members. 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 implementing 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.

The company's Management Team consists of Hille Korhonen (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), Maritta Iso-Aho (Executive Vice President, Communication), Paula Kujansivu (Vice President, Online and Supply Chain), Pekka Litmanen (Vice President, Customer Experience) and Anton Westermarck (Executive Vice President, Finance). The Management Team meets regularly, on average twice a month.

All the members of Alko's Management Team and other key personnel provide an annual declaration of their business interests. 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 President & CEO Hille Korhonen's service are specified in a written service contract approved by the Board of Directors.

Her 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. In addition to her salary for the notice period, she must be paid dismissal compensation corresponding to six month's salary if her contract is terminated through no fault of her own.

Management Team members



Hille Korhonen

b. 1961
Licentiate in Technology
President & CEO
In the company's service since 2013



Minna Alitalo

b. 1962
Master of Economics and Business
Administration
Executive Vice President, Purchases
In the company's service since 2009



Tytti Bergman

b. 1969
Master of Economics and Business
Administration
Executive Vice President, Personnel
In the company's service since 2013



Maritta Iso-Aho

b. 1964
Master of Administrative Sciences,
eMBA
Executive Vice President,
Communication
In the company's service since 2008



Paula Kujansivu

b. 1976
Adjunct Professor, DSc. (Tech.), MSc.
Vice President, Online and Supply
Chain
In the company's service since 2012



Pekka Litmanen

b. 1980
BBA, MBA
Vice President, Customer Experience
In the company's service since 2016



Kari Pennanen

b. 1964
Master of Social Sciences, eMBA
Executive Vice President, Stores and
Facilities
In the company's service since 1989



Anton Westermarck

b. 1968
Master of Economics and Business
Administration
Executive Vice President, Finance and IT
In the company's service since 2014

Management remuneration

Alko's remuneration system supports the attainment of the company's strategic objectives.

Salary and remuneration report 2016

In accordance with the decision made at the Annual General Meeting on 19 May 2016, 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

The Supervisory Board convened six times during 2016 and the attendance rate of its members was as follows:

Member of the Supervisory Board	Attendance at meetings, %	Fees, EUR
Vesa-Matti Saarakkala, Chair	100%	6,000
Anna-Maja Henriksson, Vice-Chair	100%	4,800
Tuula Haatainen, member	83%	3,500
Susanna Huovinen, member	50%	2,100
Antti Kaikkonen, member	83%	3,500
Pauli Kiuru, member	100%	4,200
Osmo Kokko, member	50%	2,100
Ulla Parviainen, member	83%	3,500
Aino-Kaisa Pekonen, member	67%	2,800
Tuomo Puumala, member	100%	4,200
Päivi Räsänen, member	83%	3,500
Sari Sarkomaa, member	100%	4,200
Total	83%	44,400

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

Fees are reported in accordance with fees for the Board of Directors in 2016:

- 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 11 times and the attendance rate of its members 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	6,600	2,400	42,000
Kirsi Varhila, Vice-Chair	100%	15,600	6,600	1,800	24,000
Sari Aalto-Matturi, member	100%	13,200	6,600	2,400	22,200
Juhani Eskola, member	100%	13,200	6,600	2,400	22,200
Leila Kostiainen, member	100%	13,200	6,600	5,400	25,200
Kuisma Niemelä, member	100%	13,200	6,600	5,400	25,200
Jarmo Väisänen, member	100%	13,200	6,600	5,400	25,200
Total	100%	114,600	46,200	25,200	186,000

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

The attendance rate at meetings of committees appointed by the Board of Directors was 98 per cent.

Strategic incentive scheme for the Management Team and personnel

Alko's remuneration system supports the attainment of the company's strategic objectives. 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 the Management Team. The Board approves the remuneration paid on an annual basis.

The strategic incentive scheme for staff seeks to encourage all employees to achieve Alko's strategic objectives (customer experience, responsibility, best work, operational efficiency). 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 2016 totalled a maximum of 6–12 per cent of annual salary, depending on the recipient's job description.

The Management Team's incentive scheme is based on selected objectives from the company's strategy (customer experience, responsibility, best work, operational efficiency) and indicators for monitoring their attainment. Incentives for 2016 totalled a maximum of 15 per cent of annual salary.

Remuneration for the President & CEO and 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.

	Total pay, EUR (monetary pay)		Short-term incentive, paid annually, EUR		Benefits in kind		Total, EUR (monetary salary + incentive + benefits in kind)	
	2016	2015	2016	2015	2016	2015	2016	2015
President & CEO	383,391	381,939	52,946	31,314	17,490	18,835	453,827	432,088
Other members of the Management Team	1,164,026	1,002,966	120,212	82,748	46,712	48,904	1,330,950	1,134,618
Total	1,547,417	1,384,905	173,158	114,062	64,202	67,739	1,784,777	1,566,706

	Retirement age	Pension benefits	Period of notice	Severance pay in addition to pay for the period of notice
President & CEO	Retirement age in line with earnings-related pension scheme legislation (TyEL)	Pension in line with earnings-related pension scheme legislation	By the President & CEO 6 months, and by the company 6 months	6 months' salary
Other members of the Management Team	One member age 61	Pension equivalent to 66% of annual wages TyEL insurance and additional pension based on 10% of annual salary	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)	Pension in line with earnings-related pension scheme legislation		
	Four members Retirement age in line with earnings-related pension scheme legislation (TyEL)			

Annual payments of additional pensions:

	2016, EUR	2015, EUR
President & CEO	In line with earnings-related pension scheme legislation (TyEL)	In line with earnings-related pension scheme legislation (TyEL)
Other members of the Management Team	44,487	82,955
Total	44,487	82,955

Risk management

Alko's risk management is based on systematically and proactively analysing and managing the threats and opportunities related to its activities.

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) monitors Alko'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 supervision are: corporate governance and organisational culture, reporting and internal communications, and monitoring and supervision.

Reporting and internal auditing

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. Alko's corporate governance and cooperation with key stakeholders are based on the company's business principles, impartiality guidelines, and instructions on retail sales and the stocking of alcoholic beverages.

Alko's Board of Directors approves the company's risk management policy and supervises the adequacy and effectiveness of its 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, operational, economic and accident risks.

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 2016, 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



GRI

Reporting principles

Alko's Corporate Social Responsibility Report follows the recommendation for sustainable development drawn up by the Global Reporting Initiative (GRI G4), 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 in accordance with Global Reporting Initiative (GRI) guidelines since 2004. The report complies with GRI G4 guidelines and covers the key areas of not only social, economic and environmental responsibility, but also alcohol policy. We apply the Core guidelines of GRI G4. The report includes the General Standard Disclosures specified in the guidelines as well as certain Specific Standard Disclosures. A comparison of the contents of the report with the GRI G4 guidelines is presented in the GRI Index. The report is published in Finnish and English, and is only available online. The 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 in 2014 in accordance with the requirements of the new GRI G4 reporting guidelines. The responsibility aspects identified on the basis of the stakeholder survey in spring 2014 were assessed and their materiality was determined. The Materiality Matrix has been updated on the basis of available research data, themes arising in public debate, and discussions with stakeholders. Alko will conduct another stakeholder survey in 2017.

Material aspect management

MATERIAL ASPECTS	ASPECT BOUNDARY
Financial responsibility	
Economic performance	Alko Inc
Indirect economic impacts	Alko Inc, society
Procurement practices	Alko Inc, goods suppliers
Preserving the alcohol trade in Finland (Alko's own aspect)	Alko Inc, society
Environmental responsibility	
Materials	Alko Inc, Palpa Oy
Energy	Alko Inc, head office and stores
Effluents and waste	Alko Inc
Products and services	Goods suppliers
Transport	Transport companies
Environmental assessment of goods suppliers	Goods suppliers, BSCI high-risk country suppliers
Deficiencies in environmental issues Grievance mechanisms	Customers, personnel
Social responsibility	
Employment	Alko Inc
Employer-employee relations	Alko Inc
Occupational health and safety	Alko Inc
Training and education	Alko Inc
Diversity and equal opportunities	Alko Inc
Equal pay	Alko Inc
Supplier working conditions assessment suppliers	BSCI high-risk country
Grievance mechanisms regarding working conditions suppliers	Personnel, goods
Supplier human rights assessment	BSCI high-risk country suppliers
Grievance mechanisms for human rights issues	Goods suppliers, personnel
Anti-bribery and corruption	Alko Inc
Exerting political influence	Alko Inc
Restrictions on competition	Alko Inc
Compliance	Alko Inc
Preventing the harmful effects of alcohol consumption in society (Alko's own aspect)	Customers and society
Product responsibility	
Customer health and safety	Goods suppliers, customers
Product/service information suppliers	Alko Inc, goods
Marketing communications	Alko Inc
Customer privacy	Alko Inc
Compliance	Alko Inc

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 2016. Our report for 2015 was published in March 2016.

Additional information

Alko's Communications Unit

- Elina Tompuri, Communication Specialist, elina.tompuri@alko.fi
- Virpi Valtonen, CSR Specialist, virpi.valtonen@alko.fi
- Maritta Iso-Aho, Executive Vice President, Communications, maritta.iso-aho@alko.fi

GRI index

We use the Global Reporting Initiative's (GRI) G4 guidelines for voluntary reporting of sustainable development. The guidelines include financial, environmental and social dimensions relating to the company's activities, products and services.

COMPARISON WITH THE GRI GUIDELINES' RECOMMENDATIONS		LINK	INCLUDED: YES/NO	COMMENTS
GENERAL STANDARD DISCLOSURES				
STRATEGY AND ANALYSIS				
G4-1	Statement from the most senior decision-maker of the organisation	President and CEO's review	Yes	
G4-2	Key impacts, risks and possibilities	Risk management	Partly	
		Responsibility programme		
		Interest groups and relevance		
ORGANISATIONAL PROFILE				
G4-3	Name of the organisation	Assignment and operating environment	Yes	
G4-4	Primary brands, products and services	Assignment and operating environment	Yes	
G4-5	Location of the organisation's headquarters	Assignment and operating environment	Yes	
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	Responsible supply chain	Yes	
G4-7	Nature of ownership and legal form	Assignment and operating environment	Yes	
G4-8	Markets served	Assignment and operating environment	Yes	
G4-9	Scale of the organisation	Assignment and operating environment	Yes	
G4-10	Total number of employees by employment type, employment contract, and region, broken down by gender	Personnel in figures	Yes	
G4-11	Percentage of total employees covered by collective bargaining agreements	Collective agreements and cooperation	Yes	
G4-12	Supply chain of the organisation	Responsible supply chain	Yes	
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership or supply chain	Responsible supply chain	Yes	
G4-14	Whether and how the precautionary approach or principle is addressed	Responsible supply chain	Partly	
		Risk management		
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Responsible supply chain	Partly	
G4-16	Memberships of associations and advocacy organisations	Responsible supply chain	Partly	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARY OF CORPORATE RESPONSIBILITY				
G4-17	Entities included in the organisation's consolidated financial statements	Report parameters	Yes	
G4-18	Process for defining report content and the aspect boundaries	Report parameters	Yes	
G4-19	Material aspects	Report parameters	Yes	
		Stakeholders		
G4-20	Aspect boundary within the organisation	Report parameters	Yes	

G4-21	Aspect boundary outside the organisation	Report parameters	Yes	
G4-22	The effect of any restatements of information provided in previous reports	Report parameters	Yes	
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	Report parameters	Yes	
STAKEHOLDER ENGAGEMENT				
G4-24	Stakeholder groups engaged by the organisation	Interest groups and relevance	Yes	
G4-25	Basis for identification and selection of stakeholders with whom to engage	Interest groups and relevance	Yes	
G4-26	Approach to stakeholder engagement	Interest groups and relevance	Yes	
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Interest groups and relevance	Yes	
REPORT PROFILE				
G4-28	Reporting period	Report parameters	Yes	
G4-29	Date of most recent previous report	Report parameters	Yes	
G4-30	Reporting cycle	Report parameters	Yes	
G4-31	Contact point for questions regarding the report or its contents	Report parameters	Yes	
G4-32	The 'in accordance' option the organisation has chosen	GRI-index	Yes	
G4-33	Policy and current practice with regard to seeking external assurance for the report	Report parameters	Yes	The report has not been assured
GOVERNANCE				
GOVERNANCE STRUCTURE AND COMPOSITION				
G4-34	Governance structure of the organisation, including committees of the highest governance body	Board of directors and committees	Yes	
		Corporate governance	Yes	
G4-35	Process for delegating authority for sustainability topics	Responsibility programme	Partly	
		GRI-G4 supplements		
G4-36	Executive-level positions with responsibility for sustainability topics	Responsibility programme	Yes	
G4-37	Processes for consultation between stakeholders and the highest governance body	Interest groups and relevance	Partly	
G4-38	Composition of the highest governance body	GRI-G4 supplements	Yes	
		Corporate governance		
G4-39	Position of the Chairman of the Board	Board of directors and committees	Yes	
G4-40	Selection processes for the highest governance body	GRI-G4 supplements	Partly	
		Corporate governance		
G4-41	Processes in place to avoid conflicts of interest	Board of directors and committees	Partly	
		Corporate governance		
HIGHEST GOVERNANCE BODY'S ROLE IN SETTING THE PURPOSE, VALUES AND STRATEGY OF THE ORGANISATION				
G4-42	Highest governance body's role in setting purpose, values, and strategy	Corporate governance	Partly	
		GRI-G4 supplements		
EVALUATION OF THE KNOWLEDGE AND PERFORMANCE OF THE HIGHEST GOVERNANCE BODY				
G4-43	Highest governance body's collective knowledge	GRI-G4 supplements	Partly	
G4-44	Evaluation of the highest governance body's performance	GRI-G4 supplements	Partly	
ROLE OF THE HIGHEST GOVERNANCE BODY IN RISK MANAGEMENT				
G4-45	Role of the highest governance body in the identification and management of risks	Risk management	Partly	

G4-46	Role of the highest governance body in reviewing risk management processes	Risk management	Partly	
G4-47	Frequency of risk reviews	Risk management	Partly	
ROLE OF THE HIGHEST GOVERNANCE BODY IN SOCIAL RESPONSIBILITY REPORTING				
G4-48	Approval of the social responsibility report	GRI-G4 supplements	Partly	
BOARD'S ROLE IN EVALUATING ECONOMIC, ENVIRONMENTAL AND SOCIAL PERFORMANCE				
G4-49	Process for communicating critical concerns	GRI-G4 supplements	Partly	
G4-50	Critical concerns communicated to the highest governance body	GRI-G4 supplements	Partly	
REMUNERATION AND INCENTIVES				
G4-51	Remuneration policies for the highest governance body and executives	Management remuneration	Yes	
		GRI-G4 supplements		
G4-52	Process for determining remuneration	GRI-G4 supplements	Yes	
		Management remuneration	Yes	
G4-53	Process for seeking stakeholder views regarding remuneration	GRI-G4 supplements	Partly	
		Remuneration		
G4-54	Ratio of the annual total compensation for the organisation's highest-paid individual to the median annual total compensation for all employees in each country	Remuneration	Partly	
G4-55	Ratio of percentage increase in annual total compensation for the organisation's highest-paid individual to the median percentage increase in annual total compensation for all employees in each country	Remuneration	Partly	
ETHICS AND INTEGRITY				
G4-56	Values, principles, standards and norms of behaviour of the reporting organisation	Corporate governance	Partly	
		GRI-G4 supplements		
G4-57	Mechanisms for seeking advice on ethical and lawful behaviour	GRI-G4 supplements	Partly	
G4-58	Mechanisms for reporting concerns about ethical and lawful behaviour	GRI-G4 supplements	Partly	No mechanism available for seeking advice on ethical and lawful behaviour
DISCLOSURES ON MANAGEMENT APPROACH				
DISCLOSURES ON MANAGEMENT APPROACH (DMA)				
ECONOMIC RESPONSIBILITY				
Economic performance				
G4-EC1	Direct economic value generated and distributed	Financial responsibility	Yes	
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Responsibility programme	Partly	
G4-EC3	Coverage of defined benefit plan obligations	Financial responsibility	Yes	
G4-EC4	Financial assistance from government	Financial responsibility	Yes	Alko gets no financial assistance from government
Market presence				
G4-EC5	Ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Responsible supply chain	Partly	
		Remuneration		
G4-EC6	Proportion of senior management hired from the local community	Personnel in figures	Partly	
Indirect economic impacts				
G4-EC7	Development and impact of infrastructure investments and services supported	Financial responsibility	Partly	
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Financial responsibility	Partly	

Procurement practices			
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Financial responsibility	Yes
	Own Aspect: Keeping the alcohol trade in Finland	Assignment and operating environment	Yes
ENVIRONMENTAL RESPONSIBILITY			
Materials			
G4-EN1	Materials used by weight or volume	Environmental responsibility	Partly
G4-EN2	Percentage of materials used that are recycled input materials	Environmental responsibility	Partly
Energy			
G4-EN3	Energy consumption within the organisation	Environmental responsibility	Partly
G4-EN4	Energy consumption outside of the organisation	No	Accurate data is not available
G4-EN5	Energy intensity	No	Accurate data is not available
G4-EN6	Reduction of energy consumption	Environmental responsibility	Partly
G4-EN7	Reductions in energy requirements of products and services	Environmental responsibility	Partly
Water			
G4-EN8	Total water withdrawal by source	No	Accurate data is not available
G4-EN9	Water sources significantly affected by withdrawal	No	Not an integral part of Alko's functions, Alko does not have production
G4-EN10	Total volume of water recycled and reused as a percentage of the total water withdrawal	No	Not an integral part of Alko's functions, Alko does not have production
Biodiversity			
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	No	Not an integral part of Alko's functions, Alko does not own land
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Environmental responsibility	Partly
G4-EN13	Habitats protected or restored	No	Not an integral part of Alko's functions, Alko does not own land
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organisation, by level of extinction risk	No	Not an integral part of Alko's functions, Alko does not own land
Emissions			
G4-EN15	Direct greenhouse gas emissions (scope 1)	No	Alko does not have production
G4-EN16	Energy indirect greenhouse gas emissions (scope 2)	No	No accurate data available
G4-EN17	Other indirect greenhouse gas emissions (scope 3)	Environmental responsibility	Partly
G4-EN18	Greenhouse gas emissions intensity	No	No accurate data available
G4-EN19	Reduction of greenhouse gas emissions	Environmental responsibility	Partly
G4-EN20	Emissions of ozone-depleting substances	No	No accurate data available
G4-EN21	NOx, SOx, and other significant air emissions	No	No accurate data available
Effluents and waste			
G4-EN22	Total water discharge by quality and destination	No	All waste water goes into the municipal sewer system
G4-EN23	Total weight of waste by type and disposal method	Environmental responsibility	Partly
G4-EN24	Total number and volume of significant spills	No	Not an integral part of Alko's functions. Alko does not have production
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention (Annex I, II, III, and VIII), and percentage of transported waste shipped internationally	No	

G4-EN26	Size, protected status and biodiversity value of water bodies and related habitats significantly affected by discharges of water and run-off		No	Not an integral part of Alko's functions, Alko does not have production
	Products and services			
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	Environmental responsibility	Partly	
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed	Environmental responsibility	Partly	
	Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		No	Alko has not been fined or sanctioned on environmental matters
	Transport			
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce	Environmental responsibility	Partly	
	Overall			
G4-EN31	Total environmental protection expenditures and investments by type		No	Not an integral part of Alko's functions
	Supplier environmental assessment			
G4-EN32	Percentage of new suppliers screened using environmental criteria	Responsible supply chain	Partly	
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Responsible supply chain	Partly	
		Environmental responsibility		
	Environmental grievance mechanisms			
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms		No	Alko does not have a complaint mechanism
	SOCIAL RESPONSIBILITY			
	Labour practices and decent work			
	<i>Employment</i>			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Personnel in figures	Yes	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Remuneration	Yes	
G4-LA3	Return to work and retention rates after parental leave, by gender	Personnel in figures	Yes	
	Labour/management relations			
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Collective agreements and cooperation	Yes	
	<i>Occupational health and safety</i>			
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Well-being and safety at work	Yes	
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Well-being and safety at work	Yes	
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	Well-being and safety at work	Yes	
G4-LA8	Health and safety topics covered in formal agreements with trade unions	Well-being and safety at work	Yes	
	<i>Training and education</i>			
G4-LA9	Average hours of training per year per employee by gender and by employee category	Training and competence development	Yes	
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Training and competence development	Yes	

G4-LA11	Percentage of employees receiving regular performance and career development reviews	Training and competence development	Yes
	<i>Diversity and equal opportunity</i>		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Personnel in figures	Yes
	<i>Equal remuneration for women and men</i>		
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Remuneration	Yes
	<i>Supplier assessment for labour practices</i>		
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	Responsible supply chain	Yes
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	Responsible supply chain	Partly
	<i>Labour practices grievance mechanisms</i>		
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Responsible supply chain	Partly
	Human rights		
	<i>Investments</i>		
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Responsible supply chain	Partly
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Responsible supply chain	Partly
	<i>Non-discrimination</i>		Yes
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Collective agreements and cooperation	Yes
	<i>Freedom of association and collective bargaining</i>		
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	Responsible supply chain	Partly
	<i>Child labour</i>		
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	Responsible supply chain	Partly
	<i>Forced or compulsory labour</i>		
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	Responsible supply chain	Partly
	<i>Security practices</i>		
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations		No
	<i>Indigenous rights</i>		
G4-HR8	Total number of incidents of violations involving rights of indigenous people and actions taken		No
	Human rights		
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Responsible supply chain	Partly
	<i>Supplier human rights assessment</i>		
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	Responsible supply chain	Partly
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Responsible supply chain	Partly

<i>Human rights grievance mechanisms</i>			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	No	Alko does not have a complaint mechanism for evaluating human rights impacts in the supply chain
Society			
<i>Local communities</i>			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Responsible supply chain	Partly
G4-SO2	Operations with significant actual and potential negative impacts on local communities	Responsible supply chain	Partly
<i>Anti-corruption</i>			
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Partly	Alko's Business Conduct Guidelines are trained to the whole personnel. The Guidelines include areas such as mutual respect, honesty, legality, anti-corruption, conflict of interest, confidentiality and integrity.
G4-SO4	Communication and training on anti-corruption policies and procedures	Partly	Alko's Business Conduct Guidelines are trained to the whole personnel. The Guidelines include areas such as mutual respect, honesty, legality, anti-corruption, conflict of interest, confidentiality and integrity.
G4-SO5	Confirmed incidents of corruption and actions taken	No	No cases of corruption have been detected in Alko
<i>Public policy</i>			
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Financial responsibility	Yes
<i>Anti-competitive behaviour</i>			
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	No	No such violations as indicated by the GRI guidelines
<i>Compliance</i>			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	No	No such violations as indicated by the GRI guidelines
<i>Supplier assessment for impacts on society</i>			
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	No	
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	Financial responsibility	Partly
<i>Grievance mechanisms for impacts on society</i>			
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	No	Alko does not have a complaint mechanism
	<i>Own Aspect: Preventing the harmful effects of alcohol consumption in society</i>	Prevention of the harmful effects of alcohol	Yes
Product responsibility			
<i>Customer health and safety</i>			
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Product quality	Partly
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	No	No such violations as indicated by the GRI guidelines
<i>Product and service labelling</i>			
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Listing instructions	Partly

G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	No	No such violations as indicated by the GRI guidelines
G4-PR5	Results of surveys measuring customer satisfaction	Yes	
	<i>Marketing communications</i>		
G4-PR6	Sale of banned or disputed products	Yes	No disputed products in the assortment
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Yes	No such violations as indicated by the GRI guidelines
	<i>Customer privacy</i>		
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Yes	No such violations as indicated by the GRI guidelines
	<i>Compliance</i>		
	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and service	Yes	No such violations as indicated by the GRI guidelines

Corporate responsibility reporting in line with GRI guidelines

The Corporate Governance document approved on 15 June 2016 does not contain all the disclosures required for reporting in accordance with GRI G4 Guidelines. Part of these disclosures are included in this G4 Statement.

Governance

G4-35 Delegating authority

How the Board of Directors handles corporate responsibility issues

Alko Inc.'s Annual General Meeting and, as the State's representative, the Minister of Family Affairs and Social Services appoint the Chair, Vice-Chair and from three to six members to the Board of Directors. The composition of the Board of Directors pays particular attention to the company's special position as a monopoly and its responsibilities with regard to alcohol policy.

Matters considered and approved at meetings of the Board of Directors in 2016 included:

- the company's strategy. One strategic goal from our four focal areas is to be 'a responsible player in the community'.
- budget and action plan. Responsibility programmes and projects for the following year must be presented at least at executive level.
- key HR issues
- the company's alcohol policy-related projects and their monitoring
- the content and principles of the Corporate Social Responsibility Report

G4-37 Consultation with stakeholders

The consultation process between the Board of Directors and stakeholders with regard to corporate responsibility issues

Alko Inc.'s Supervisory Board consists of twelve members, which the Government appoints for four calendar years at a time. The Supervisory Board is one of our most important stakeholders.

The Supervisory Board's tasks include:

- 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 confirm the action plan aimed at preventing the adverse effects of alcohol in accordance with Section 1 of the Decree on the Operation of the Alcohol Company (243/2000)
- to provide the report referred to in Section 36 Paragraph 1 Subparagraph 2 of the Alcohol Act on the development of the company's retail sales and the measures that the company has initiated in the manner required by the Act
- to give the Annual General Meeting a statement concerning the company's financial statements and auditors' report.

G4-38 Composition of the Board of Directors

Presenting the members of the Board of Directors and its various committees

- members' independence: The members of the Board of Directors are independent of the company.
- term of office: The term of office for Board members lasts from their election until the end of the following Annual General Meeting.

- members' other significant positions and ties: Kirsi Vahila works for the Ministry of Social Affairs and Health, Jarmo Väisänen for the Ownership Steering Department of the Prime Minister's Office, and Juhani Eskola for the National Institute for Health and Welfare. Leila Kostiainen is Chair of the Legislation Assessment Council (a member as of 2016 and Chair as of 1 January 2017). Board members have obtained competence through their position and/or experience, particularly in areas relating to alcohol policy and the harmful effects of alcohol consumption
- personnel (stakeholder) representatives: Two personnel representatives take part in Board meetings.

G4-40 Selecting the Board of Directors

Corporate responsibility competence is taken into consideration when forming the Board of Directors

The Ministry of Social Affairs and Health is responsible for Alko Inc.'s ownership steering. The Minister of Family Affairs and Social Services represents the company's entire share capital at Annual General Meetings, which appoint the Chair and Vice-Chair of the Board once per year. The composition of the Board of Directors pays particular attention to the company's special position as a monopoly, its task with regard to alcohol policy, and the weight of its corporate responsibilities.

G4-42 The Board of Directors' role in defining the organisation's purpose, values, and strategy

The Board of Directors' role in corporate responsibility

Alko Inc.'s management draws up the company's strategy, action plan and policies, and determines its annually revised financial, social and environmental targets. The Board's committees handle presentations related to the aforementioned, which are sent to the Board for approval. The company's corporate governance and internal steering policies are discussed and revised by the Board on an annual basis.

Responsibility-related strategic steering groups:

- A responsible player in the community, chaired by the Executive Vice President, Communications
- Best work, chaired by the Executive Vice President, Human Resources
- An efficient chain of speciality stores, chaired by the Executive Vice President, Finance
- Best customer experience, chaired by the CEO and, as of 5 May 2016, the Vice President, Customer Experience.

The Communications Unit's Responsibility Team is in charge of responsibility measures and their development.

G4-43 Board Competency

The significance of corporate responsibility issues in defining the competence required by the Board of Directors

The Board regularly handles responsibility measures and their results in its meetings

G4-44 Evaluating the Board's performance

In accordance with its rules of procedure, the Board of Directors performs an annual self-evaluation. Exceptionally, the Board did not perform a self-evaluation in 2016.

G4-48 Approving the corporate social responsibility report

The Communications Unit prepares and produces Alko's Corporate Social Responsibility Report in collaboration with other units. The Communications Unit is responsible for ensuring that all material aspects are considered in the report. The 'a responsible player in the community' steering group handles the structure of the Corporate Social Responsibility Report. The Board and its Auditing Committee discuss the report's structure before publication.

G4-49-50 Communicating critical concerns, and critical concerns that have been communicated to the Board of Directors

Communicating critical concerns relating to corporate responsibility

Any concerns that arise should be communicated to the Board of Directors. There were no such concerns in 2016.

G4-51 Remuneration for the Board of Directors and senior executives

New items to be reported with regard to linking remuneration to the company's capacity for sustainable development

Board members receive both monthly and meeting attendance fees, which are determined by the Annual General Meeting. The maximum fees for Management Team members amount to 15 per cent of their annual earnings.

All Management Team members have the same targets, which are as follows:

- Best customer experience: Customer Experience Index = weighted at 30%
- A responsible player in the community: The reputation and responsibility survey's ReputationTRI*M index = weighted at 10% and ResponsibilityTRI*M index = weighted at 10%
- Best work: An assessment of performance and competence by the CEO and Board = weighted at 30%
- An efficient chain of speciality stores: Customers/pwh (compared to the target) = weighted at 20%

G4-52 Determining remuneration The significance of corporate responsibility in remuneration

Description of the company's incentive scheme

The 2016 indicators for the incentive scheme are based on targets in our four strategic areas: customers, responsibility, personnel and efficiency. Responsibility indicators cover all personnel groups

and an appropriate indicator has been chosen in accordance with each group's tasks:

- regional managers, regional coordinators, store managers, sales assistants = alcohol policy responsibility: age-limit and intoxication supervision targets
- regional managers, regional coordinators, store managers, sales assistants = alcohol policy responsibility: mystery shopping
- supervisors, experts and personnel at head office: the reputation and responsibility survey's ResponsibilityTRI*M Index.

Our incentive scheme has been devised internally and no external remuneration consultants have been used.

G4-53 Considering stakeholders' views

Considering stakeholders' views when determining remuneration practices

The ResponsibilityTRI*M Index is one of the criteria used in the incentive scheme for the Management Team and head office personnel. 500 Finns responded to the section of TNS Gallup's survey concerning Alko, rating the company on a variety of different aspects of responsibility. The sample for the survey took age, gender and region into account.

G4-56 Values and business principles

Describing the Code of Conduct

Business principles: All personnel have received training in the company's business principles, which have been approved by the Board of Directors. These principles cover the following areas: honesty and legality, anti-bribery and corruption, conflicts of interest, good governance, business relations, a functional working community, confidentiality, and compliance with the company's business principles.

The BSCI's ethical principles:

- All Alko suppliers must sign a covenant in which they agree to comply with the 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 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.
- Suppliers must also complete Alko's online training in responsibility and the BSCI
- Our rules for cooperation with suppliers: In order to safeguard equality in our cooperation with suppliers, a set of rules have been drawn up for dealings between procurement personnel and suppliers, and likewise for dealings between Alko stores and suppliers.

G4-57 Mechanisms for seeking advice on ethical and lawful behaviour

Describing the Code of Conduct

The Communications Unit and the General Consul provide advice on issues relating to the ethicality and legality of operations

G4-58 Reporting unethical or unlawful behaviour

- Describing the Code of Conduct
- The BSCI's grievance mechanism

A group of people are gathered around a long wooden table outdoors at night. They are holding wine glasses and appear to be in the middle of a toast. The table is set with plates of food, including bread and vegetables, and several bottles of wine. In the foreground, there is a large vase of colorful flowers and a small bowl of fruit. The scene is illuminated by warm string lights and several large, white, paper lanterns hanging from the trees above. The background is filled with dark green foliage.

FINANCIAL STATEMENT

Year 2016 in brief

Alko's strategic objectives are to provide the best customer experience and best work, be a responsible player in the community, and operate efficiently. During 2016, we implemented projects to create the new Alko – a multi-channel company with a real sense of community.

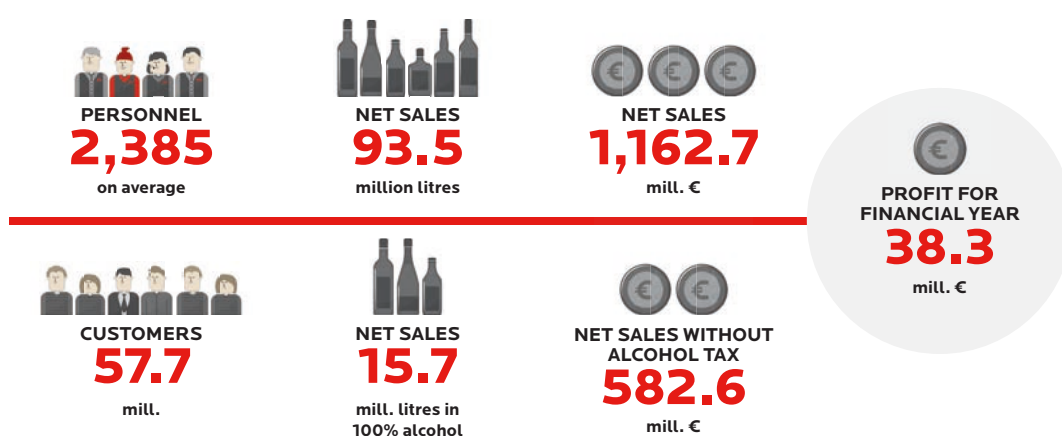
Total sales by volume in Alko stores fell to 93.5 (94.0) million litres, representing a year-on-year decrease of 0.6 per cent.

Alko's net sales including alcohol tax totalled EUR 1,162.7 (1,158.9) million. Net sales excluding alcohol tax were EUR 582.6 (572.7) million. Growth in sales of higher-quality products and a moderate rise in the general price level contributed to this slight rise in net sales.

Profit for the financial year was EUR 38.3 (40.2) million.

Although Alko's result was down on the previous year, it was significantly better than the budgeted figure. We made considerable investments in developing our multichannel customer service. The Arkadia flagship store was renovated in line with our new concept, and the Alko webshop opened in late 2016, offering customers an even broader selection of products.

KEY FIGURES



Report of the Board of Directors

Alko's mission is to undertake the retail sale of alcoholic beverages of more than 4.7 per cent alc/vol and, through this role, to reduce the harmful effect of alcohol consumption. Our strategic objectives are to provide the best customer experience and best work, be a responsible player in the community, and operate efficiently. During 2016, we implemented projects to create the new Alko – a multi-channel company with a real sense of community.

60 (58) per cent of Finns consider the restrictions imposed by alcohol policy to be suitable or would like to see tighter restrictions, while 32 per cent would like to relax the restrictions. The percentage of Finns seeking a more liberal alcohol policy has fallen.

62 (60) per cent of Finns think that Alko is a good method of limiting the harmful effects of alcohol consumption. 82 per cent of Finns think Alko has been highly or quite successful in its customer service. When it comes to responsibility, 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 2017.

KEY FIGURES

	2016	2015	2014
Net sales, EUR million	1,162.7	1,158.9	1,179.8
Net sales excluding alcohol tax, EUR million	582.6	572.7	575.7
Operating profit, EUR million	46.6	49.7	50.5
Income tax on ordinary operations, EUR million	-9.5	-10.1	-10.5
Profit for financial year, EUR million	38.3	40.2	40.8
Income from ordinary operations, EUR million	38.3	40.2	40.8
Return on equity, %	49.6	51.7	53.8
Equity ratio, %	29.6	30.3	30.5
Balance sheet total, EUR million	256.3	256.4	253.7
Gross investments in fixed assets, EUR million	7.4	4.7	6.0
Average number of personnel during the financial year	2,385	2,415	2,527
Salaries and fees for the financial year, EUR million	70.5	67.4	68.0

Alko's net sales including alcohol tax totalled EUR 1,162.7 (1,158.9) million. Net sales excluding alcohol tax were EUR 582.6 (572.7) million. Growth in sales of higher-quality products and a moderate rise in the general price level contributed to this slight rise in net sales.

Operating profit came to EUR 46.6 (49.7) million, representing 4.0 (4.3) per cent of net sales including alcohol tax. Fixed costs totalled EUR 155.1 (152.7) million.

Although Alko's result was down on the previous year, it was significantly better than the budgeted figure. We made considerable investments in developing our multichannel customer service. The Arkadia flagship store was renovated in line with our new concept, and the Alko webshop opened in late 2016, offering customers an even broader selection of products.

Financial income totalled EUR 1.2 (0.7) million in 2016. Profit for the financial year was EUR 38.3 (40.2) million, which was better than budgeted.

The balance sheet total came to EUR 256.3 million, remaining on par with the previous year (EUR 256.4 million).

Our equity ratio stood at 29.6 (30.3) per cent.

The company's total investments amounted to EUR 7.4 (4.7) million. Investments mainly focused on strategic projects and developing our shop network.

Taxation and prices

There were no changes in the excise tax on alcoholic beverages in 2016.

Alko's retail sales prices rose by 0.4 per cent during the year in response to price increases made by our suppliers. Prices were changed in February, June and October.

Sales trend

According to a TNS Gallup survey, travellers' private imports of alcohol rose by 4.9 per cent on 2015 when translated into pure alcohol. The National Institute for Health and Welfare will publish alcohol consumption statistics on its website (www.thl.fi) in April 2017.

Total sales by volume in Alko stores fell to 93.5 (94.0) million litres, representing a year-on-year decrease of 0.6 per cent.

The sales by volume of spirits decreased by 1.6 per cent and brewery products by 1.4 per cent. Sales by volume of mild wines remained at the same level.

Product group	Sales in 2016, millions of litres	Sales in 2015, millions of litres	Year-on-year change, millions of litres	Year-on-year change, per cent
Vodkas and spirits	13.9	14.1	-0.2	-1.7
Other spirits	7.6	7.6	-0.0	-0.5
Fortified wines	3.0	3.1	-0.1	-4.0
Red wines	24.5	24.9	-0.4	-1.6
White wines	21.2	21.1	0.0	0.2
Sparkling wines	5.4	5.2	0.2	3.5
Rosé wines	1.0	0.9	0.1	16.0
Other mild wines	1.9	1.8	0.0	1.4
Ciders	0.7	0.7	-0.0	-2.5
Long Drinks	5.6	5.7	-0.1	-1.1
Beers	8.5	8.6	-0.1	-1.6
Alcohol-free beverages	0.5	0.4	0.1	26.9
Total	93.5	94.0	-0.5	-0.6
Total, converted to pure alcohol	15.7	15.8	-0.1	-0.8

Best customer experience

At the end of 2016, Alko had a total of 353 (351) stores and a webshop. Our store network was supplemented by 66 (94) collection points. 57.7 (57.7) million customer visits were made to Alko stores.

Customer satisfaction further improved on the previous year. Our score in the Finland Today National Customer Feedback survey rose to a record-breaking 8.55 (8.50). According to the survey, Alko ranked number one for customer experience among retail chains for the fifth year in a row. The survey compared Alko not only to retail chains but also to 30 Finnish service companies. In this group, comprising all surveyed companies, Alko had the second most satisfied customers after libraries.

Alko opened its new webshop to corporate customers in August 2016 and to consumers in November 2016. The opening of our webshop seeks to provide even better service by offering multichannel services and meeting points for customers. In November and December, customers made over 10,000 orders in our webshop, which was our largest sales point during this period. We will continue to develop our digital services in the future. Our multichannel approach can also be seen in Alko's new store concept. Our first new-concept store was the Arkadia flagship store, which opened in September 2016.

Products

Alko's product range featured beverages from 69 (64) countries. Beverages were purchased from 197 (161) domestic importers or manufacturers, and from 276 (263) foreign suppliers.

A total of 6,451 (5,705) different products were sold by Alko during 2016.

Alko lists new products for sale on a weekly basis. In 2016, we listed 1,090 (754) new products in our standard selection and 765 (415) in our sale-to-order selection. Alko also sells 94 (49) alcohol-free beverage and a range of accessories.

Best work

Alko had 2,655 (2,525) employees at the end of 2016. In terms of computational work-years, the work done by full-time and part-time employees totalled 1,856 (1,821) work-years. Alko had an average of 2,385 (2,415) employees during 2016. Staff working hours are planned on the basis of customer flows and are mainly weighted towards seasons and other customer flow peaks.

There were an average of 4.0 (3.5) training days per employee. Training sought to give sales personnel up-to-date information about our products and service concept, thereby supporting the development of an even better customer experience.

2016 was a year of renewal and learning in our Best Work strategic area. Our key themes were community spirit and a multichannel approach, and these were visible in all areas of development from training and remuneration to supervisory work. These themes were also supported by the MyAlko coaching programme, which is aimed at creating the new Alko – a multichannel store with a real sense of community.

All personnel are covered by a strategic incentive scheme. The scheme has indicators to measure a number of perspectives – responsibility, customers, personnel and efficiency – and guides the successful implementation of Alko's strategy through teamwork.

Salaries and incentives paid to staff totalled EUR 70.5 (67.4) million. Staff and management will be paid EUR 2.8 (3.4) million in incentives for 2016, inclusive of personnel-related expenses. This represents 3.2 (4.0) per cent of personnel costs.

Alcohol policy responsibility

Checking age limits, suspected cases of intoxication and suspected handovers of alcohol to minors form part of Alko's responsible customer service. In 2016, 3.8 (3.7) million Alko customers showed proof of their legal age. 0.63 (0.63) million checks of suspected intoxication and 0.34 (0.31) million checks of suspected handovers were also carried out. The success of age-limit checks was measured using a Mystery Shopping survey, which indicated a success rate of 91 (90) per cent.

The In the Company of Children programme's main project for 2016 was Fragile, a stage play that toured theatres and schools around Finland. We also continued our Clearly Good Work programme and the Sata lasissa project. These programmes will also continue in 2017.

Environmental responsibility and responsible procurement

In order to ensure responsible procurements, Alko continued to conduct inspections of production conditions in high-risk countries. Audits of six wine producers and eleven vineyards were carried out. The seasonal nature of harvests, combined with the cost pressures faced by primary producers, pose the greatest challenges to safeguarding human and labour rights in the production of alcoholic beverages. One of the audits of a South-African vineyard found that workers were being treated in a demeaning manner. This discovery launched a zero-tolerance process in which the parties agreed on immediate corrective measures.

In the spring, Systembolaget, Vinmonopolet and Alko went to South Africa, where they visited previously audited wine producers and met with local industry organisations. Alko organised briefings for importers on BSCI and environmental issues. These briefings went through the BSCI's principles and topics such as audit results and organic cultivation methods. In January, we launched an online training course in Ethical Operating Principles for our importers and producers. 212 representatives of our importers had completed the training by the end of December. All importers must complete this online training by the end of June 2017.

Alko's environmental management system received the new ISO 14001:2015 certificate. External audits of six stores, three regional offices and head office were carried out under the environmental management system. 17 internal environmental audits were carried out at stores. The Nordic alcohol monopolies' joint environmental study progressed and was completed in January 2017.

Shares and shareholders

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

Governance

On 19 May 2016, 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: Executive Director Sari Aalto-Matturi, Lic.Soc.Sc.; Director General Juhani Eskola, MD, PhD; Leila Kostiainen, LL.M.; Kuisma Niemelä, M.A.; and Jarmo Väisänen, Lic.Soc.Sc.

Personnel representatives Mikko Eronen 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 Auditing, Personnel and Alcohol Policy Committees.

KPMG Oy, a firm of Authorised Public Accountants, was appointed as the company's auditor, with Lasse Holopainen, Authorised Public Accountant, as chief auditor.

Risk management

Alko's Board of Directors is responsible for the company's risk management policy and monitors its implementation. The President & CEO, together with the Management Team, ensures compliance with Alko's risk management policy and the appropriate organisation of risk management.

At Alko, risk management means analysing and managing threats related to its activities in a systematic and anticipatory way. Risks have been classified into strategic, operational, economic and accident 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 the Alcohol Act may have a significant impact on the company's operations.
- Changes in alcohol tax may affect travellers' private imports of alcoholic beverages, thereby impacting on Alko's sales trend and profitability.
- Responsible customer service is a core element of Alko's operations, for example, not selling alcohol to minors or intoxicated people. Any deviations from this policy will result in a temporary closure of the store in question.
- 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.
- If realised, environmental and social responsibility risks in the procurement chain for alcoholic beverages may damage the company's reputation as a responsible player.

Near-term outlook

The prevailing health and wellbeing trends, consumers' confidence in their own finances, and travellers' private imports all affect alcohol sales in Finland. Travellers' private imports from Estonia will decline over the coming years, as the Estonian government has decided to implement a significant rise in alcohol taxation.

Alko will continue to develop its stores to meet a variety of customer needs. In 2017, we will further develop our digital services and renovate stores in line with our new concept.

Parliament is also scheduled to discuss a new Alcohol Act during 2017, and this may affect Alko's operations.

The Board of Directors' proposal for the distribution of profits

The Board proposes that EUR 446,631.82 be transferred 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 2016 totalled EUR 56,415,591.23 (EUR 57,660,014.44), of which EUR 38,308,944.97 (EUR 40,247,544.66) is profit for the financial year.

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

EUR

- | | |
|-------------------------------|---------------|
| • distributed as a dividend | 30,000,000.00 |
| • to be retained under equity | 26 415 591,23 |

Distributable funds, 31 December 2016	56,415,591.23
---------------------------------------	---------------

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

Helsinki, 17 March 2017

Board of Directors

Statement by the Supervisory Board

The Supervisory Board of Alko Inc. has studied the company's financial statements and auditors' report for 2016 and proposes to the 2017 Annual General Meeting that the company income statement and balance sheets for the 2016 financial year be approved. The Supervisory Board agrees with the Board of Directors' proposal for disposal of the profits.

Helsinki, 23rd of March, 2017

Vesa-Matti Saarakkala
Chairman

Anna-Maja Henriksson
Vice Chairman

Tuula Haatainen
member

Susanna Huovinen
member

Antti Kaikkonen
member

Osmo Kokko
member

Pauli Kiuru
member

Ulla Parviainen
member

Aino-Kaisa Pekonen
member

Tuomo Puumala
member

Päivi Räsänen
member

Sari Sarkomaa
member



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