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OBJECTIVES AND RESULTS



“In 2017, we wanted to further strengthen our customers’ satisfaction with Alko’s recognised good service.”

Leena Laitinen

President and CEO’s review

Our strategy is built on four cornerstones. We want to provide the best customer experience and the best work, to be a proactive player in the community, and be an efficient company.

Our social mission is to reduce the harmful effects of alcohol consumption in society. This is why responsibility is not handled as separate projects, but is instead the foundation of all our operations. In practice, our responsible role involves ensuring that we buy and sell products responsibly, ensuring that our operations are environmentally sustainable, and safeguarding the skills and wellbeing of our staff.

Finns think that we have succeeded in our responsible role, as 60 (62) per cent of Finns consider Alko to be a good way of limiting the harmful effects of alcohol consumption.

Last year was a turning point for Alko – a year of renewal in which the most significant change in our operating environment was the reformed Alcohol Act ratified by Parliament in December. This change will have an impact on Alko in the future, but the actual consequences of the legislation will only become apparent later, once the Act has been in force for some time.

RESPONSIBILITY LIES AT THE HEART OF ALL WE DO

Alcohol is not a regular commodity – it is a legally sold intoxicant that can cause strong physical and mental addiction. Alcohol consumption causes annual expenses of at least EUR 500 million – and possibly even as much as EUR 1 billion – in Finnish workplaces.

Communications on the social and health-related impacts of alcohol are part of Alko’s responsible operating model. Last year, we furthered this work with our partners with the aid of seminars, campaigns, blogs and more. Our programmes In the Company of Children and Clearly Good Work also challenged people to think about their own alcohol use and its effect on those around them in a variety of situations. This year, we want to encourage parents and coaches to take a zero tolerance approach to alcohol consumption in junior activities with the A Child’s Burden campaign.

Consumers are increasingly interested in the origin and traceability of products. We share this concern, and want to ensure that there are no issues with the backgrounds of our products and no unethical practices in their supply chain. All of Alko's goods suppliers have committed to compliance with Amfori BCSI's ethical operating principles. One continued topic for discussion in 2018 is unsustainable working conditions in South Africa.

In autumn 2017, we launched a new set of measures aimed at improving responsibility in the supply chain. As part of this, we launched a project with our suppliers with the aim of promoting human rights in the supply chain. During spring 2018, we will be providing our partners with concrete tools to aid them in this work.

Last year, we published our own statement of commitment to human rights. Alko supports and respects all internationally recognised human rights. We also require our personnel and partners to respect all internationally recognised human rights, and encourage our partners to continually improve their own activities in this respect.

We put our responsibility mission into practice by ensuring that alcohol is not sold or handed over to minors, or sold to anyone who is intoxicated. Last year, we exceeded our target in this area. In our mystery shopping survey of age-limit checks, we had a success rate of 95 per cent in these test visits (target 92%, top target 95%). Last year, we performed a total of 4.6 million age-limit checks.

Major responsible acts of the year

- The Learn to Say No sales supervision campaign.
- Measures in the programmes In the Company of Children and Clearly Good Work, such as performances of the theatre show Fragile all across Finland, and creating e-tools for employers.
- The completion of Alko's online training course in responsible procurement v2.0.

PRAISEWORTHY CUSTOMER INTERACTIONS

In 2017, we wanted to further strengthen our customers' satisfaction with Alko's recognised good service. We continued expanding our new store concept to more stores in our network, to make shopping at Alko an even easier and more pleasant experience. We made our online store even more user friendly, and invested in digital customer contacts. We deepened our customer understanding through new customer surveys and more thorough studies of the wishes and requirements of different types of customers.

Alko's strategic target is to be Finland's best service-sector company and a pioneer in providing the best customer experience in our online store, brick-and-mortar stores, and other customer service channels. The Best Customer Experience is also an indicator that guides everything we do at Alko. Alko provided the best customer service in the retail trade for the sixth year running. In spite of this great achievement, we still take a humble and agile approach to service development. We want to learn new things and continue developing together with our customers.

Alko's entire service network is being rapidly renewed in line with our new concept. We will carry out over 40 refurbishments in 2018, 13 of which are already scheduled for the first quarter.

Success in developing our customer experience

- For the sixth year running, customers rated Alko's customer service as the best in the retail trade in the national customer service feedback survey.
- In 2017, we refurbished almost 40 stores in line with our new concept.
- A new service channel – a customer service chat – was also launched.
- Our online store project won IT Project of the Year at Management Events CIO 2017, and also Finland's Best Online Store in Magenta Advisory's competition Digital Leaders in Finland 2018.

BEST WORK

A successful customer experience requires a good employee experience. We regularly measure our performance in providing the best work. We have already maintained high standards in our employee experience for ten years. Alko is also strongly placed in comparison to other service-sector companies. Feedback from personnel highlighted 'learning new things' and 'experiencing success'.

2017 was a year of renewal and learning within our organisation. In early 2017, we restructured our sales organisation so that stores now work together in store groups. At the same time, we changed the roles of our store supervisors. Store managers are now service managers, and each manager is responsible for 1–5 stores.

Service and product expertise are the cornerstones of Alko's success, as it is these that enable our employees to provide customers with outstanding experiences every day. Proactivity, flexibility and a sense of community lie at the heart of Alko's working culture.

And we want to continue providing the best work for our new and existing employees in the future.

Success in our Best Work objective

- Although our Pulse and Personnel Motivation Index (which covers all personnel) was slightly lower than last year, we still maintained a good level at 4.05–4.12 on a scale of 1 to 5.
- We updated our management system and reorganised our store network.



“In autumn 2017, we launched a new set of measures aimed at improving responsibility in the supply chain.”

- The launch of voluntary store group work got off to a good start.
- We developed our new Taste Deposit tool to support staff's product expertise and share knowledge.

OPERATIONAL EFFICIENCY

Alko does not attempt to increase alcohol consumption or maximise profits – instead we seek operational efficiency. Last year, we further developed our digital services and renewed our store network in spite of these investments, we maintained our cost-effectiveness.

We have also been seeking greater space efficiency in our new store concept. Alko has succeeded in offering a greater number of products in a more compact area by optimising the space efficiency of Alko stores. Our store area decreased by 1.3 per cent last year. Space efficiency also reduces our environmental impact, helping us progress towards our target of a 10 per cent reduction in the energy consumption of our store network.

- We also maintained our cost-effectiveness in spite of our development investments.
- Delivery promise in our online store 99 per cent.
- Dividend payment ability maintained.
- We have an extensive store network, and three quarters of Finns live within four kilometres of Alko's services.

LOOKING TO THE FUTURE

Alko is drawing up its strategy for 2018–2021. Customer needs, providing the best possible work for our staff, operational efficiency and responsibility will also form the core of our future activities.

Increased responsibility and transparency will continue to be priorities at Alko. We want to better identify the factors impacting our own responsibility, and also help our partners to develop their own operations by following a principle of continual improvement. Alko has been engaging in social responsibility efforts as a member of Amfori BSCI since 2011. The beverage industry still has a lot of work to do in promoting ethical operations and transparency in the supply chain.

Parliament decided on the new Alcohol Act in late 2017. The Act came partly into force at the beginning of 2018. It will enable extended opening hours for Alko stores and the further development of order pick-up points. We will continue to provide local services to our customers all across Finland.

Leena Laitinen
President and CEO



Basic mission

Alko exists to reduce the harmful effects of alcohol consumption in and on society.

ALKO ENGAGES IN DAILY EFFORTS TO PREVENT THE HARMFUL EFFECTS OF ALCOHOL



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

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

ALKO ANNUALLY EVALUATES SUCCESS IN ITS SPECIAL MANDATE

Alko's social approval is measured using the Opinions on Alcohol Policy survey commissioned by the National Institute for Health and Welfare. Alko's approval rating stood at 60 per cent in 2017 (2016: 62%). Our approval rating target was 63 per cent.

At Alko, we develop our operations on the basis of feedback from stakeholders. We work with an extensive stakeholder network to prevent the harmful effects of alcohol consumption. The National Institute for Health and Welfare (THL), A-Clinic Foundation, Finnish Association for Substance Abuse Prevention (EHYT), Mannerheim League for Child Welfare, and Finnish Parents' League are all involved in cooperation projects with Alko. Our other partners include the Finnish Olympic Committee, Youth Academy and Police.

We engage in proactive discussion with all of our partners on ways to prevent the harmful effects of alcohol consumption, and their effectiveness. Alko's various customer service channels actively forward feedback that helps us to further develop our operations.

ALKO IN FIGURES

About 2,401 Alko staff provide in-store customer service. Our product portfolio includes beverages from about 70 countries. Alko's head office is in Helsinki and we have four regional offices around Finland. Alko had 355 stores at the end of 2017. During the year, we opened one new store in Kamppi, Helsinki. No stores were closed in 2017.

- 2,401 employees (on average)
- 355 stores and 66 order pick-up points
- 8,615 alcoholic beverages
- 195 Finnish suppliers and producers, and 276 foreign suppliers
- 57.3 million customer visits
- Net sales: EUR 1,174.8 million
- Operating profit: EUR 52.6 million
- Equity ratio: 31.7%
- Wholly owned by the Finnish State
- Established: 1932
- President & CEO: Leena Laitinen
- Head office: Helsinki



Operating environment

Alko wants to offer its customers the best personal service in Finland. This is why we listen to our customers and adapt our selection and operations to match consumer behaviour and wishes.

MEGATRENDS IN OUR OPERATING ENVIRONMENT

	Alkon tahtotila	Toimenpiteet vuonna 2017	Tulevat toimenpiteet
Digitalisation	Alko wants to provide Finland's best customer service in multiple channels.	Developing our multichannel service network. Deepening our customer understanding through customer research. Conceptualising and piloting new service models. Enhancing our selection with a customer-oriented approach based on feedback.	Developing features in our online store. Conceptualising and piloting new service models. Customer-oriented development of our selection.
Climate change	Alko wants to offer responsibly produced products from all around the world.	Discussions with suppliers. Nordic cooperation to reduce environmental impacts. More customer communications, such as information about lightweight glass bottles that reduce environmental loading from transportation.	Energy consumption and reducing emissions are the themes for supply chain work in the Nordic alcohol monopolies' 2019 strategic environmental plan. In 2020, this work will focus on water consumption and planned measures include an analysis of at-risk areas in the global supply chain.
Responsibility and sustainable development	Responsibility is the cornerstone of Alko's operations.	Reducing the harmful effects of alcohol consumption in society through responsible sales and cooperation with stakeholders. Assessing the environmental impacts of both Alko's own operations and our supply chain. Amfori BSCI audits of high-risk countries in our supply chain. Discussion and training events with suppliers and local communities. Our responsible procurement project South Africa.	Responsibly developing the supply chain in cooperation with our partners to ensure continual improvement. Cooperation projects to reduce the harmful effects of alcohol will continue. By 2020, we want to ensure that two thirds of the beverage volume purchased from high-risk countries has been audited by Amfori BSCI or otherwise certified for responsibility (for example, Fair Trade, Fair for Life, For Life).
Urbanisation	An ever greater proportion of our customers live in growth centres or the capital city region.	We are developing the Alko store network to meet our customers' needs, and increasing the number of stores in places with growing customer numbers.	Alko will continue to serve customers all around Finland. Customers can order products from our online store for collection at any of our 355 Alko stores or 66 pick-up points.

Alko's mission is to carry out the retail sale of alcoholic beverages in a manner that accounts for the harmful effects of the products it sells. Our operations are based on social and healthcare policies above all else. The Ministry of Social Affairs and Health is responsible for the ownership steering and supervision of Alko pursuant to the special mandate assigned to Alko in law.

About 2,401 Alko personnel provide in-store customer service. Our selection contains beverages from about 70 countries. Alko's head office is in Helsinki and we have four regional offices around Finland. Alko had 355 stores at the end of 2017.

MORE PEOPLE BECOMING BEVERAGE ENTHUSIASTS

Alko seeks to offer a diverse and interesting selection that is continually expanding and evolving. Every year, we update our selection with over a thousand new products. One store will offer between 150 and 3,000 products depending on its size.

Store selections are based on customers' needs. We pay attention to our customers' feedback and wishes, and also study the latest trends. On the basis of these wishes, feedback and trends, Alko draws up a purchasing plan and decides which products are required in our selection.

In the future, we want to offer an even more extensive range of specialised and special edition products. We will be updating our special edition in 2018, and almost 500 specialities will be added to our selection in the first year. These products will be available from our online store and also in our premium and specialist stores.

CUSTOMERS ARE INTERESTED IN GENUINE AND RESPONSIBLE PRODUCTS

Alko's 2017 sales figures show that customers are still interested in organic products. Sales of organic products rose by over 23 per cent in 2017, reaching almost 7 million litres. Sales of ethical trade products also saw a year-on-year increase of about 11 per cent, and totalled about 1.5 million litres.

This rise in the sale of organic and ethical trade products indicates our customers' desire to find genuine and sustainably produced products. To help our customers choose, Alko launched Eco symbols in 2017. These Eco symbols provide more information about beverage origins and help customers find what they want, such as vegan products, natural wines, or products with a local environmental certificate.

CUSTOMERS CARE ABOUT ENVIRONMENTAL AND HUMAN IMPACT

A large percentage of the products sold by Alko are imported from outside Finland, and these logistics have an impact on the environment. Using lighter-weight glass bottles is just one way in which we are seeking to reduce the environmental impact of the products sold by Alko. Customers can identify lightweight glass bottles from the Eco symbols used in our price information.

All retail trade must pay attention to long production chains and seek to ensure that human and labour rights are respected at every stage. Supply chain transparency is a fundamental aspect of Alko's operational development and it must focus on preventing any harmful impact on human rights. To aid our development work, we use the BSCI Code of Conduct published by amfori (an international association that promotes responsible trade) and other tools, such as producer audits. Alko performed a total of 16 audits in 2017.

The seasonal nature of harvests, combined with the cost pressures faced by primary producers, pose the greatest challenges to safeguarding human and labour rights, particularly in the production of wine. In 2017, our focus was on South Africa, where we will also perform further audits during 2018. Another new focal area will be the Mediterranean, and in particular production areas in Southern Italy.

Alko has a total of almost 550 Finnish and foreign suppliers. We engage in continual dialogue with our suppliers on how to enhance our selection and promote responsibility. Alko challenges its partners to make continual improvements in both their own operations and those of their partners.

MUCH DEBATE ABOUT ALCOHOL IN FINLAND

There was a lot of discussion surrounding Prime Minister Juha Sipilä's Alcohol Act in Finland during 2017. Much of this debate centred around raising the maximum alcohol percentage of products sold outside Alko, and also on the removal of restrictions based on production methods.

Parliament ratified the Act before taking its Christmas 2017 recess. Since 1 January 2018, grocery stores, kiosks and service stations have been able to sell beverages of maximum 5.5 per cent alcohol by volume without any restrictions based on production methods. This change will have an impact on Alko in the future, but the actual consequences of the legislation will only become apparent later, once the Act has been in force for some time.

Travellers' private imports of alcohol took a downswing even before the Act came into force. Estonia's tax increases contributed to this. When translated into pure alcohol, a total volume of 10.4 litres of alcohol was consumed in Finland in 2017. Alko's sales accounted for 32 per cent of this.

The legislative amendment has not brought any significant changes to Alko's mission. It will enable a slight extension to Alko store opening hours. Alko will continue to carry out its responsible mission after the legislative amendment. Debate about alcohol will surely continue in Finland and Alko wishes to take an active role in it.

ALKO SERVES ALL OF FINLAND

Alko wants to offer the best customer experience and provide service where our customers want to shop. The online store opened by Alko at the end of 2016 won two awards in 2017: IT project of the year and Finland's best online store. We will continue to develop our digital services and channels.

We are making considerable investments in enhancing our customer experience in all channels, and a pleasant store environment is one aspect of this experience. Alko updated its store concept, and three new types of stores have taken our outlets to a new level.

We will refurbish all Alko stores in line with our concept over the next five years. 40 stores got their new look in 2017, and refurbishments will continue at this pace during 2018.



The responsible sale of alcoholic beverages

Alko's goal is to provide the best customer experience and the best work, to be a proactive player in the community, and be an efficient company.

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



BEST CUSTOMER EXPERIENCE

Alko wants to provide the most expert and personal customer experience possible at every stage of the customer service path and in all service channels. In addition to our Alko stores, online store and order pick-up points, we provide customer service by phone, email and (since October) also chat. We renewed our customer segmenting to better understand the factors influencing our customers' behaviour and consumer habits.

The reformed Alcohol Act, which was ratified in December, will enable longer opening hours for Alko stores on weekdays. From March 2018, opening hours will be extended on the basis of customer needs and the new legislation.

Since the introduction of Alko's new store concept in 2017, different store types provide flexible service to meet the varying demands of different environments. Over the next few years, Alko's entire service network will be rapidly renewed in line with our new concept. About 40 per cent of Alko's 355 stores were updated in 2017 and the refurbishments will continue at approximately the same rate in 2018. Our store network is being continually developed to meet the changes occurring in our operating environment. If customer numbers change as a result of amendments to the Alcohol Act, we will be able to scale our store sizes and selections accordingly.

Our selection is also being continually developed on the basis of customer demand and trends. Alko's stand-ard selection consists of about 7,500 products.

EXPERTISE AND FLEXIBILITY LEAD TO THE BEST WORK

Alko's organisation was restructured in 2017. Our operations are being managed as larger entities, that is, as groups of stores, and personnel work in employment areas. This also enables us to both meet demand and provide a better range of work opportunities. Self-leadership is increasingly important in our new working culture.

New working methods and tools have already been in use for several years. This change also offers us the opportunity 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.

A PIONEER IN RESPONSIBILITY

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

As laid down in our mandate, we 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 Alko stores, in our online store and at order pick-up points remains one of our key objectives. We will be placing an even greater focus on enhancing ethics, sustainable development 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 other service-sector companies. Our store network and multichannel services require smooth business processes and an appropriate IT system structure.

STAFF CAN PARTICIPATE IN THE STRATEGY PROCESS

Alko's strategy was last updated in 2016, and still successfully meets our current needs.

We began preparatory work for our next strategy update in late 2017, and hope to be finished by the end of summer. All Alko employees have the opportunity to participate in updating our strategy.

2017 OBJECTIVES AND ACCOMPLISHMENTS

Strategic objective	2017 accomplishments
Best customer experience	<ul style="list-style-type: none">• National customer service feedback survey (Taloustutkimus Oy) – number one in the retail trade for the sixth year running.• New store concept. In 2017, we refurbished almost 40 stores in line with our new concept.• A new service channel – a customer service chat – was launched.• Our online store project won IT Project of the Year at Management Events CIO 2017, and also Finland's Best Online Store in Magenta Advisory's competition Digital Leaders in Finland 2018.
Best work	<ul style="list-style-type: none">• Pulse and Personnel Motivation Index slightly lower than last year, but still at a good level: 4.05–4.12 on a scale of 1 to 5.• We updated our management system and reorganised our store network.• The launch of voluntary store group work got off to a good start.• We developed our new Taste Deposit tool to support staff's product expertise and share knowledge.
Proactive player in the community	<ul style="list-style-type: none">• 95 per cent of young people had their age checked during Mystery Shopping test visits to Alko stores (TNS Kantar Oy). Over 4.6 million age-limit checks were performed in stores.• Two programmes – In the Company of Children and Clearly Good Work – challenged people to consider their own alcohol use in a variety of situations.• The completion of Alko's online training course in responsible procurement v2.0.• Product information was expanded to cover four new pieces of information about environmentally responsible production methods and conditions: vegan, natural wine, certificated local sustainable development, and lightweight glass bottle. The new symbols will help customers make ecological choices both in Alko stores and our online store. At the end of the year, about 13 per cent of products in our selection carried one of more of these pieces of environmental production information.• Financial journalists rated Alko's communications as the best in Finland.
Efficient company	<ul style="list-style-type: none">• We maintained our cost-effectiveness in spite of our development investments.• Delivery promise in our online store 99 per cent.• Dividend payment ability maintained.• Alko has an extensive store network, and three quarters of Finns live within four kilometres of Alko's services.



Key figures and results

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 2017, we continued to develop our digital services and made efforts to ensure the responsibility of our supply chain.

About 2,401 Alko staff provide in-store customer service. Our product portfolio includes beverages from about 70 countries. Alko had 355 stores at the end of 2017. During the year, we opened one new store in Kamppi, Helsinki. No stores were closed in 2017.

In 2017 we continued to develop our digital services. These include the Alko online store, where customers can order any available product from our selection for collection at any Alko store or pick-up point. Our online store had just under 40,000 registered users at the end of 2017.

KEY FIGURES 2017

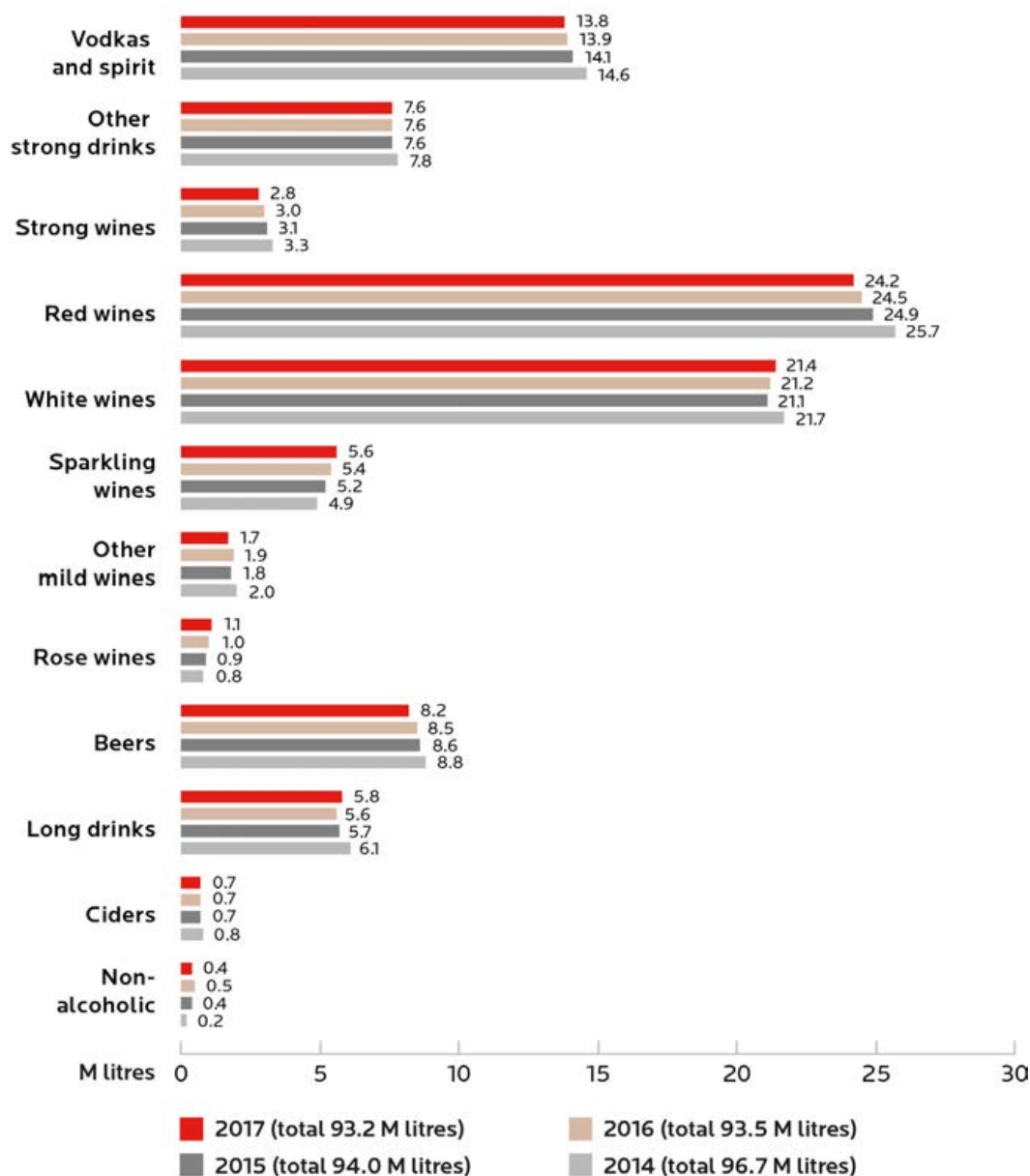


THE SALE OF WINES, SPARKLING WINES AND ROSÉ WINES ROSE IN 2017

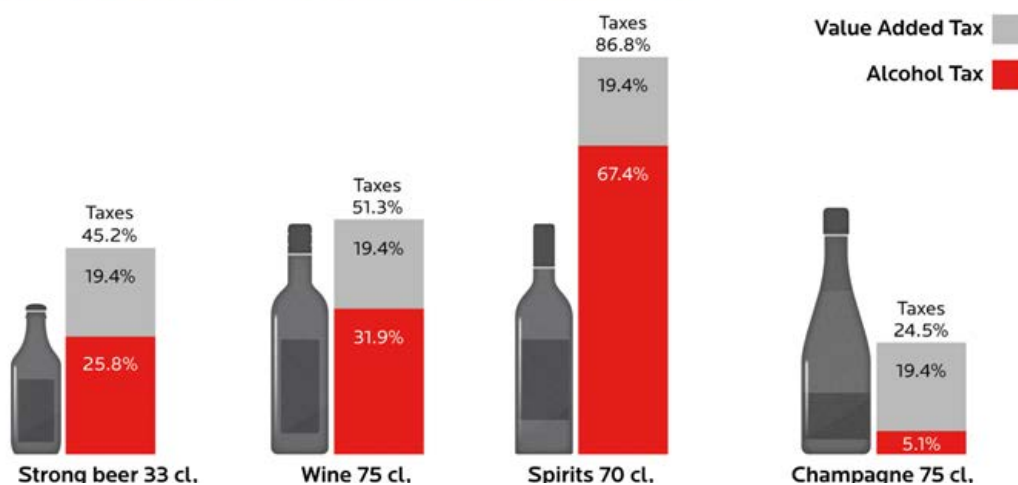
Total sales by volume in Alko stores fell to 93.2 (93.5) million litres, representing a year-on-year decrease of 0.3 per cent.

The sales by volume of spirits decreased by 1.1 per cent and brewery products by 0.7 per cent. Sales by volume of mild wines rose by 0.1 per cent.

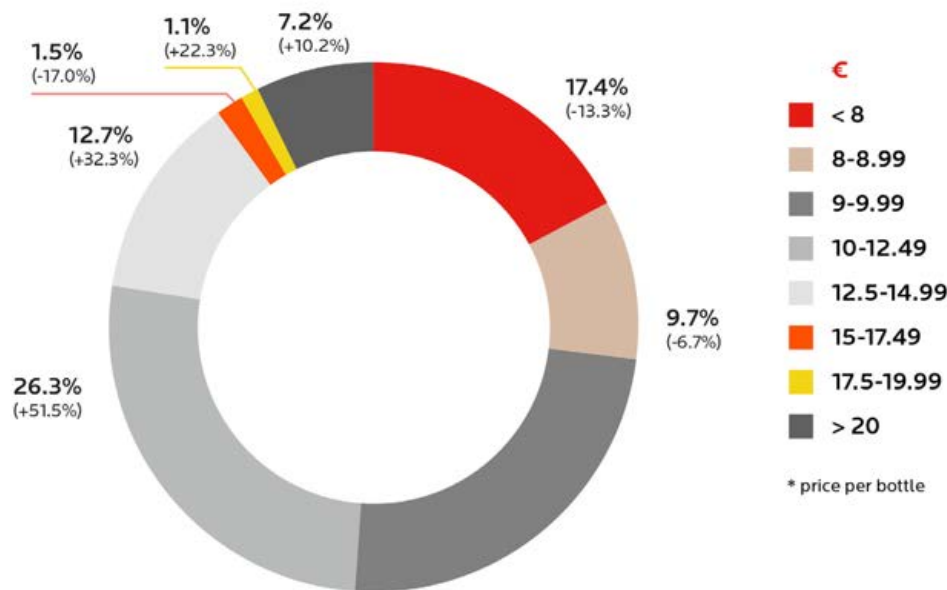
ALKO SALES BY PRODUCT CATEGORY



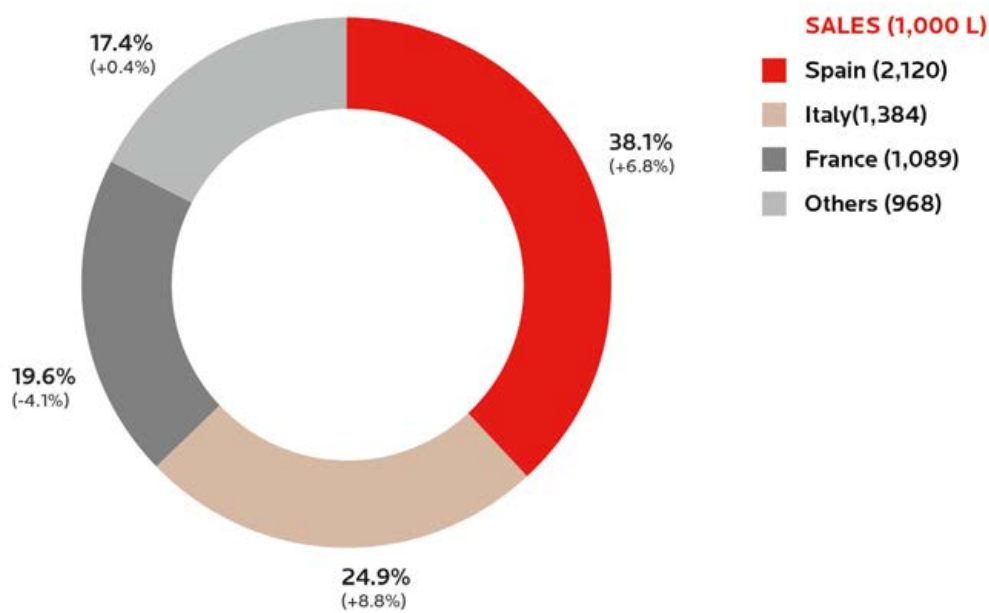
AMOUNT OF TAX IN VARIOUS PRODUCTS



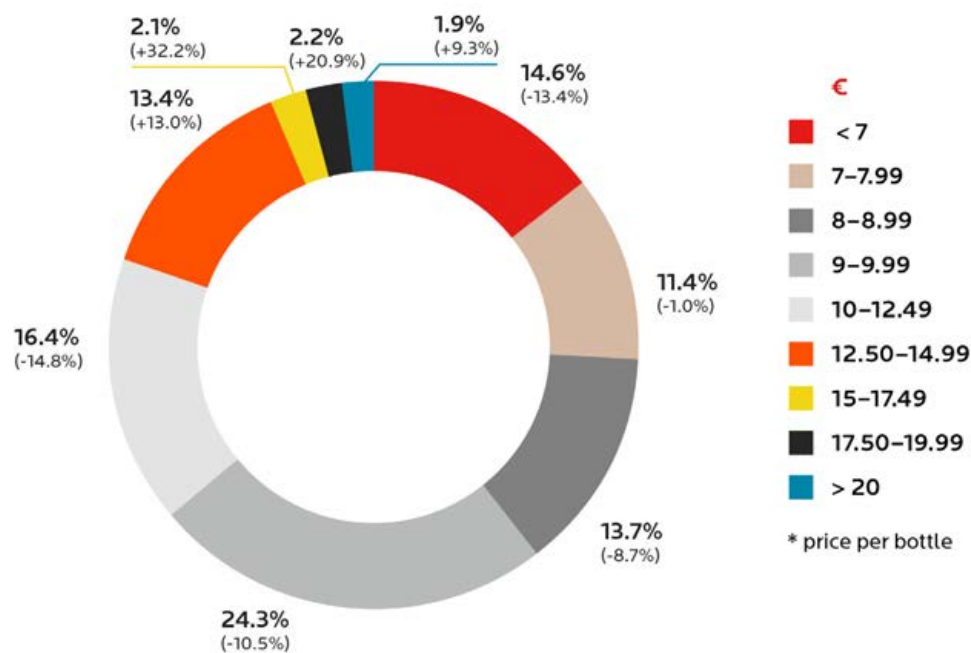
SPARKLING WINE SALES BREAKDOWN BY PRICE CATEGORY



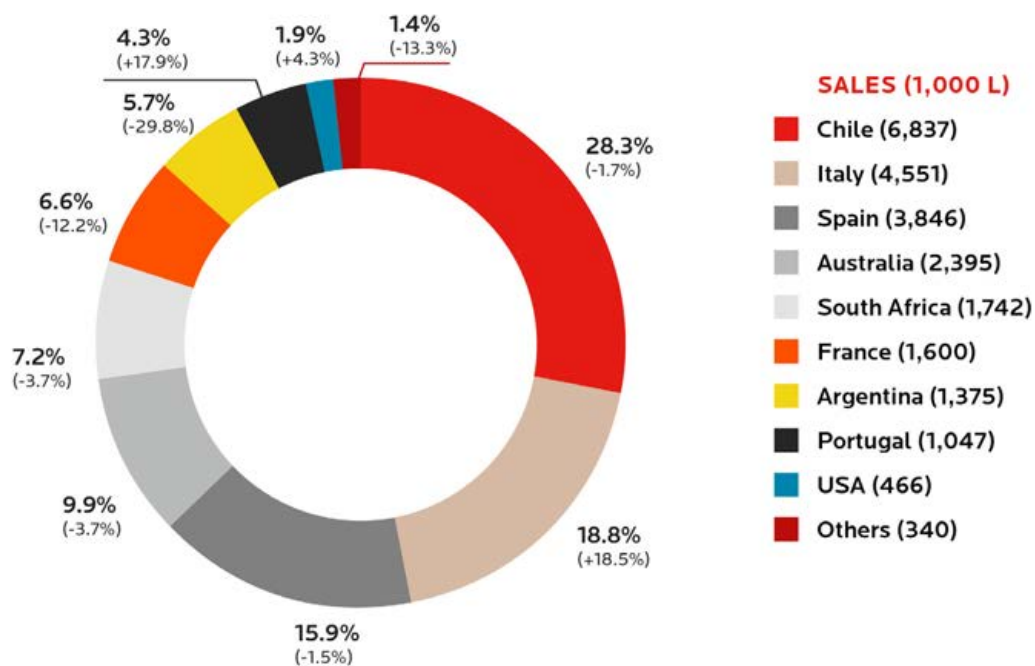
SPARKLING WINE SALES BY COUNTRY OF ORIGIN



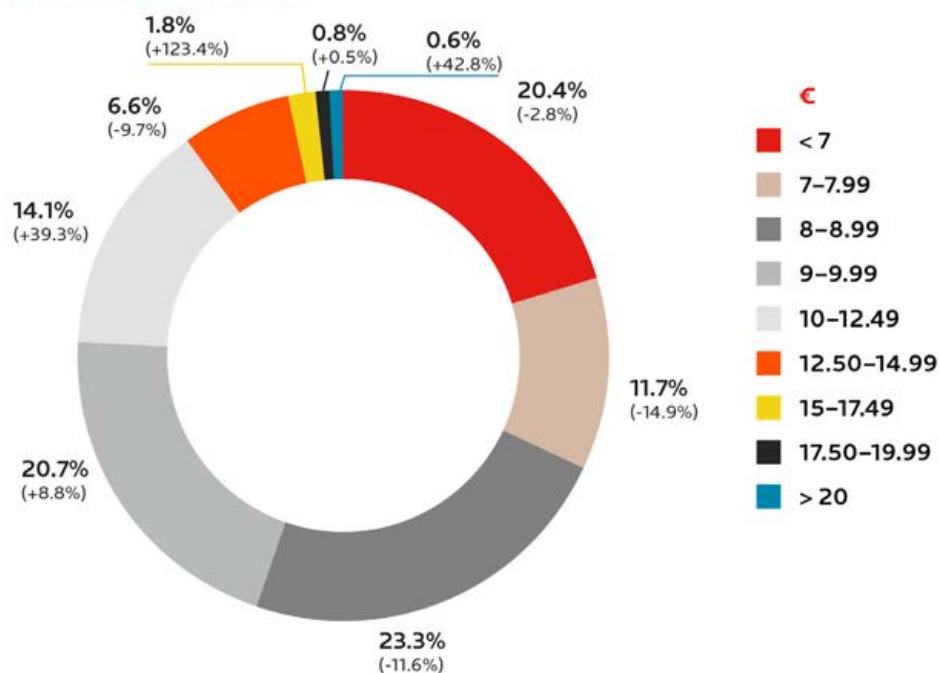
RED WINE SALES BREAKDOWN BY PRICE CATEGORY



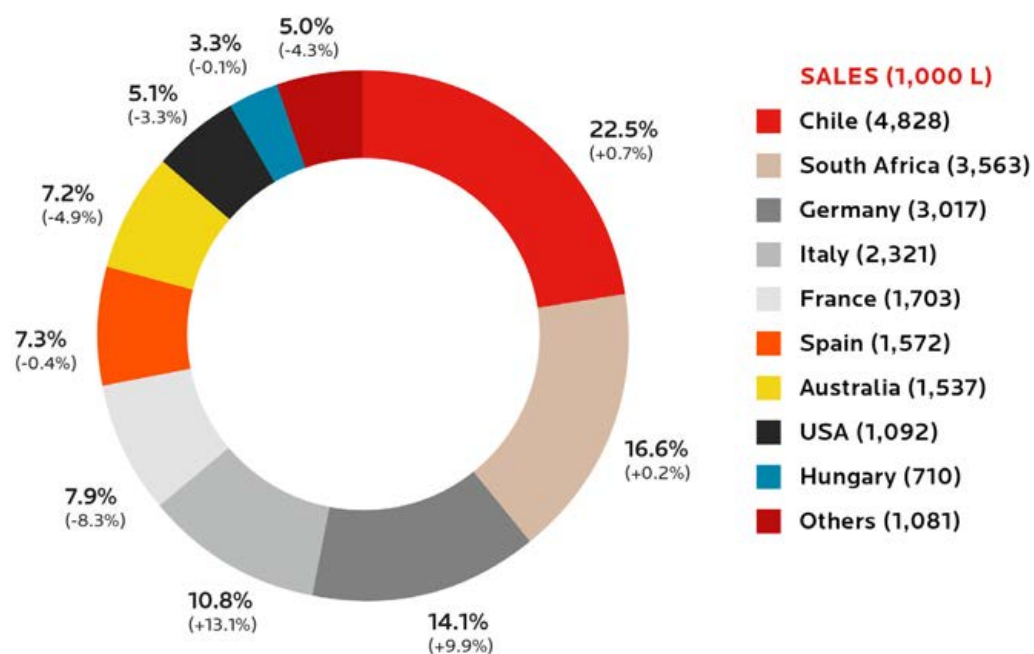
RED WINE SALES BY COUNTRY OF ORIGIN



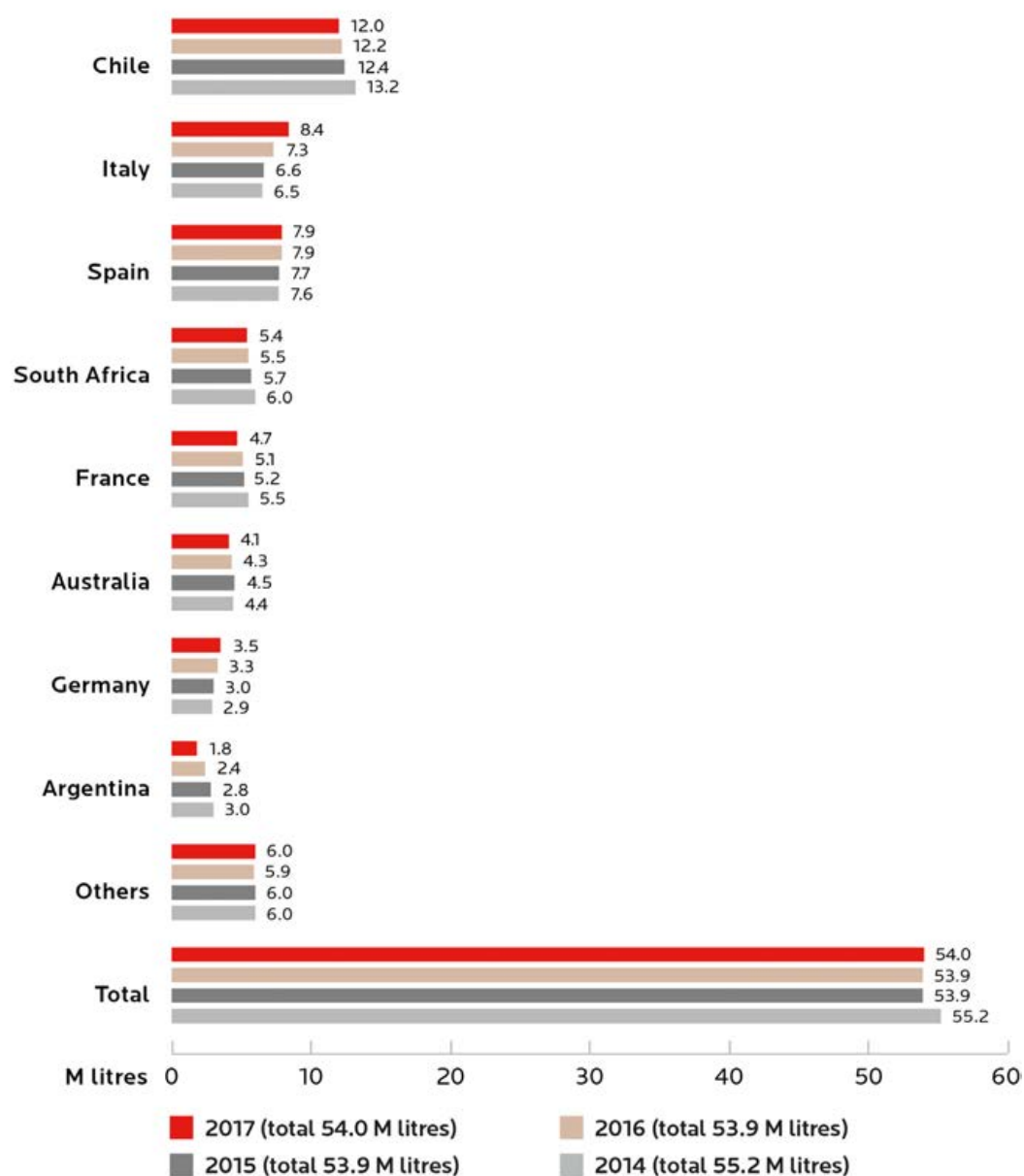
WHITE WINE SALES BREAKDOWN BY PRICE CATEGORY



WHITE WINE SALES BY COUNTRY OF ORIGIN



WINE SALES BY COUNTRY OF ORIGIN (M litres)

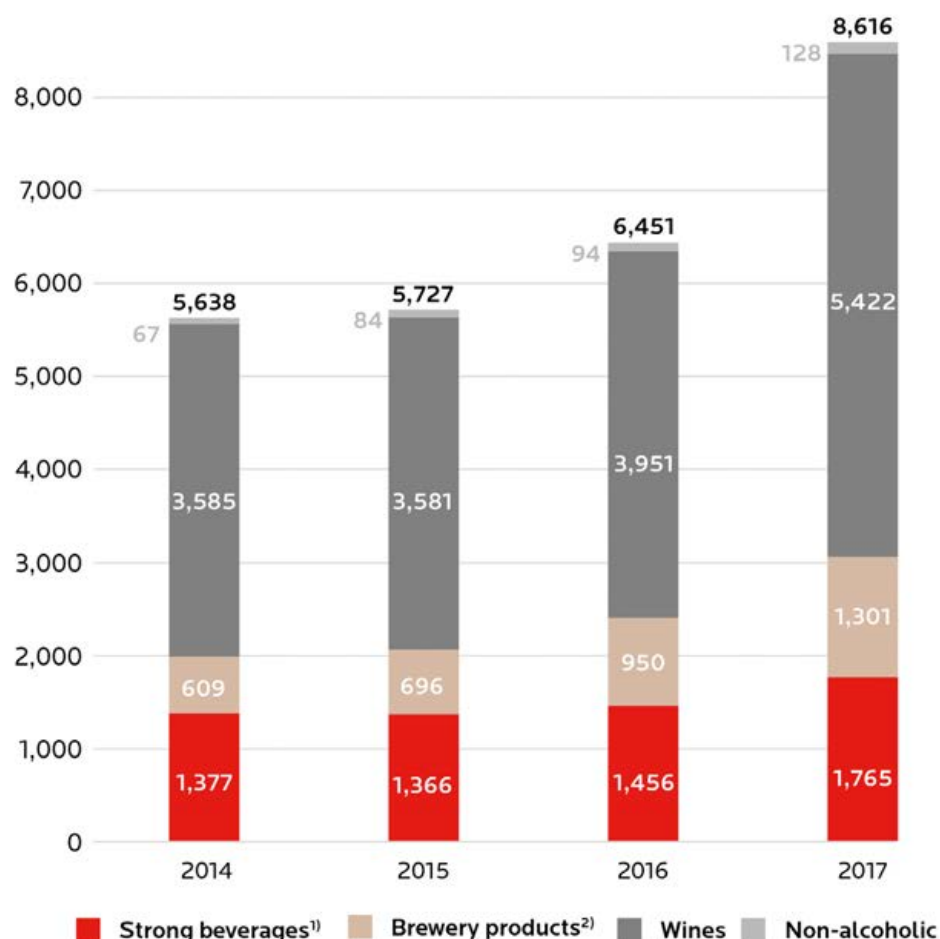


PRODUCTS FROM AROUND THE WORLD

Alko's product range featured beverages from 70 (69) countries. Beverages were purchased from 195 (197) domestic importers or manufacturers, and from 348 (276) foreign suppliers. A total of 8,615 (6,451) different products were sold by Alko during 2017.

Alko lists new products for sale on a weekly basis. In 2017, we listed 1,051 (1,090) new products in our stand-selection (including seasonal products and special editions) and 1,955 (765) in our sale-to-order selection. Alko also sells 120 (94) alcohol-free beverages and a range of accessories.

SOLD PRODUCTS BY PRODUCT GROUP



¹⁾ Vodkas and unflavoured spirits, other spirits and fortified wines ²⁾ Beers, ciders and long drinks
These figures include all products sold and all bottle and package sizes.

CAN I SEE YOUR ID, PLEASE!

Checking age limits, suspected cases of intoxication and suspected handovers of alcohol to minors form part of Alko's responsible customer service. In 2017, eight per cent of all customers in Alko stores showed legal proof of their age when buying products.

4.6 (3.8) million Alko customers showed legal proof of their age, and 0.67 (0.63) million checks of suspected intoxication and 0.39 (0.34) 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 95 (91) per cent.

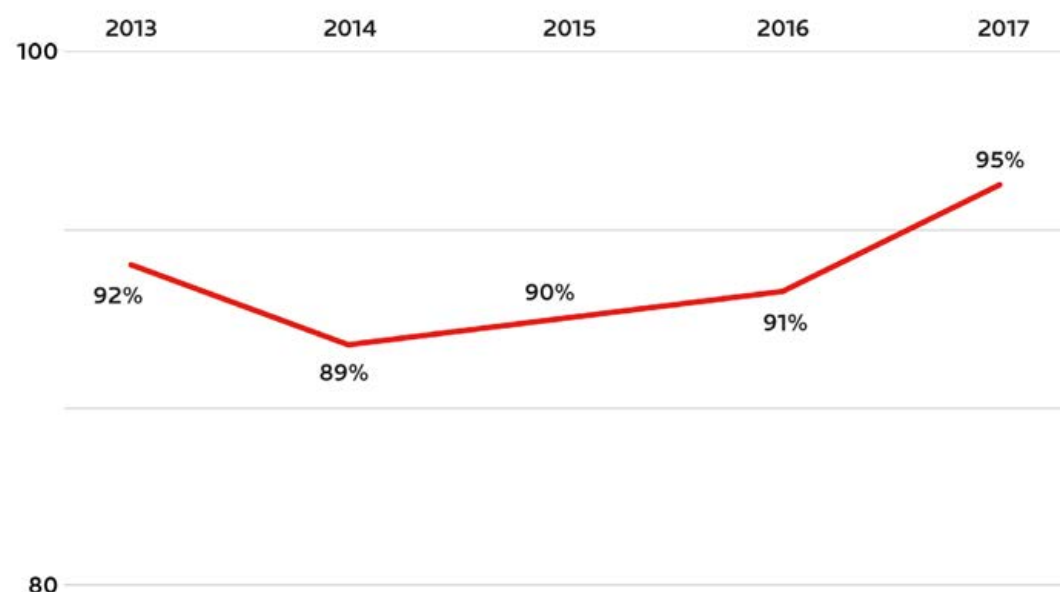
Read more about our work to reduce the harmful effects of alcohol in the section [Prevention of the harmful effects of alcohol](#).

MEASURING SUCCESS IN RESPONSIBLE OPERATIONS

	2017	2016	2015	2014	2013
Age-limit checks , million	4.6	3.8	3.7	3.6	3.6
Checks for suspected intoxication, thousand	670	635	634	660	607
Checks for suspected handover, thousand	395	345	311	360	241

MYSTERY SHOPPING

RESULTS %



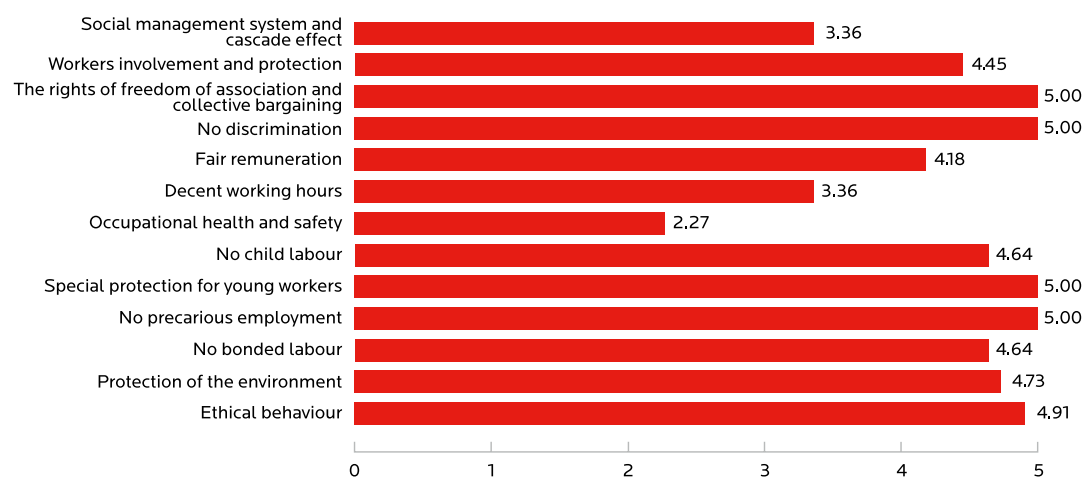
RESPONSIBLE PROCUREMENT AND ENVIRONMENTAL RESPONSIBILITY

Alko is committed to respecting all internationally recognised human rights in all of our activities, and we also require the same of our partners. In December 2017, Alko's President & CEO Leena Laitinen signed a declaration of human rights, which has been published on Alko's website.

Alko commissions Amfori BSCI audits to ensure compliance with responsible operating models in high-risk countries. 16 audits were performed in 2017.

Read more about our work to enhance the responsibility of our supply chain in the section [Responsible supply chain](#).

BSCI FOLLOW-UP AUDIT RESULTS 2017

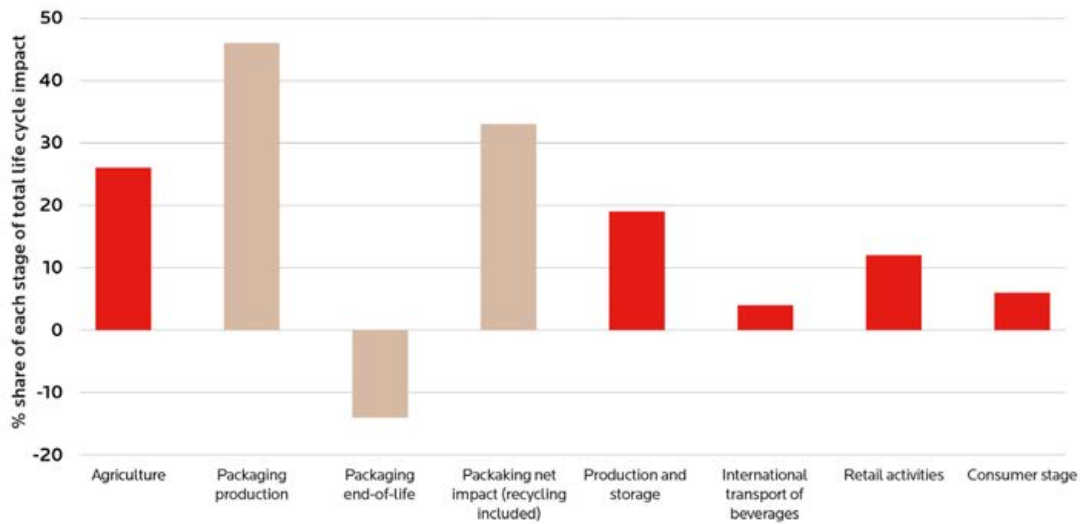


The Nordic alcohol monopolies' joint environmental study was published in June 2017. On the basis of this study, we have been developing joint operating methods relating to environmental impacts in the supply chain, and a shared strategic action plan was completed in February 2018.

Read more about our commitment to reduce the environmental impact of our operations to curb climate change in the section [Environmental responsibility](#).

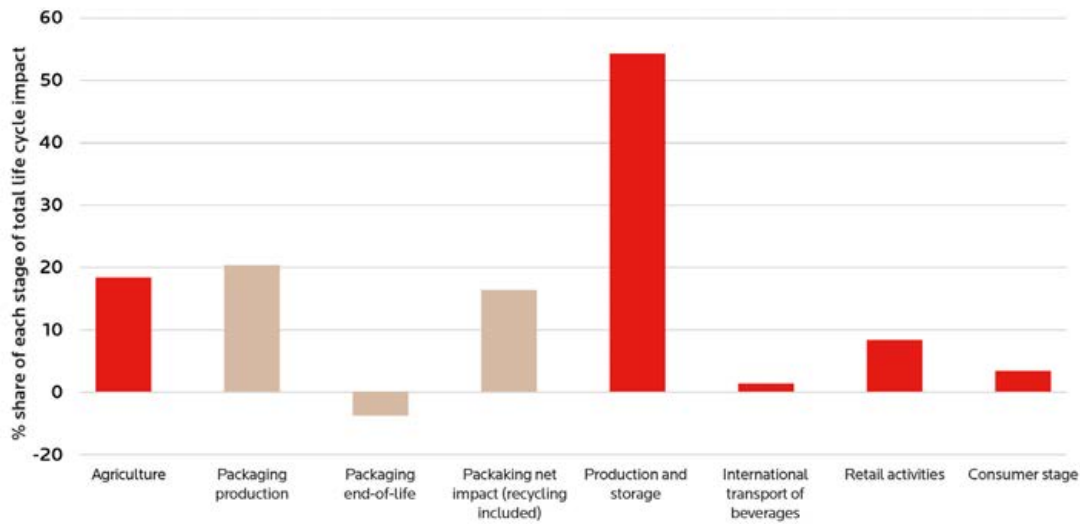
GLOBAL WARMING IMPACT OF PRODUCT CATEGORIES

WINE



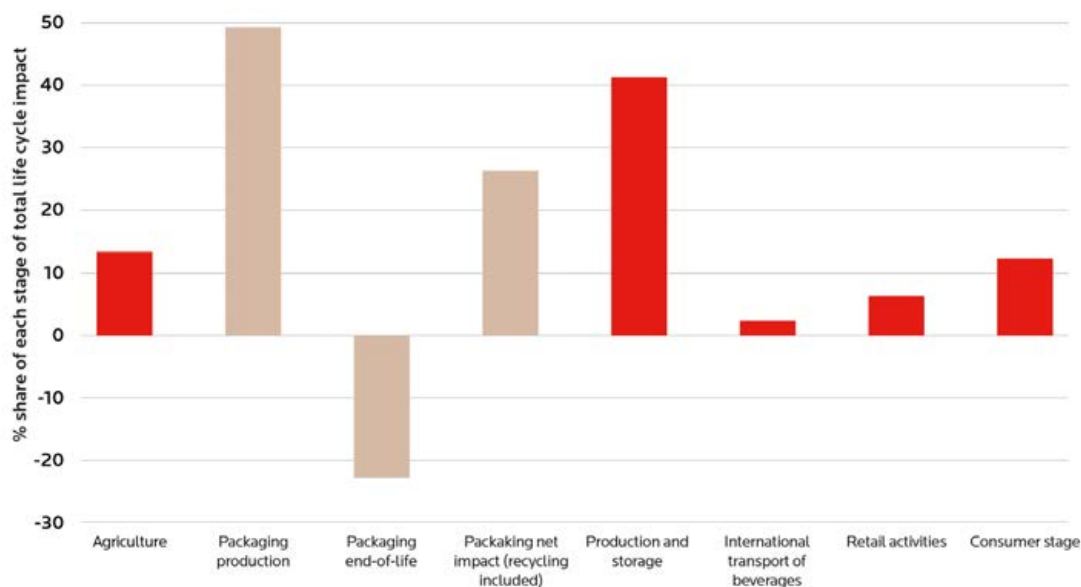
GLOBAL WARMING IMPACT OF PRODUCT CATEGORIES

DISTILLED BEVERAGES



GLOBAL WARMING IMPACT OF PRODUCT CATEGORIES

BEER



SUCCESSFUL ENCOUNTERS WITH OUR CUSTOMERS

According to the Finland Today national customer feedback survey, Alko has been providing the best customer experience since 2012, and we retained our place as number one in the retail trade in 2017 as well. Alko's overall score was 8.52 (8.55). 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.

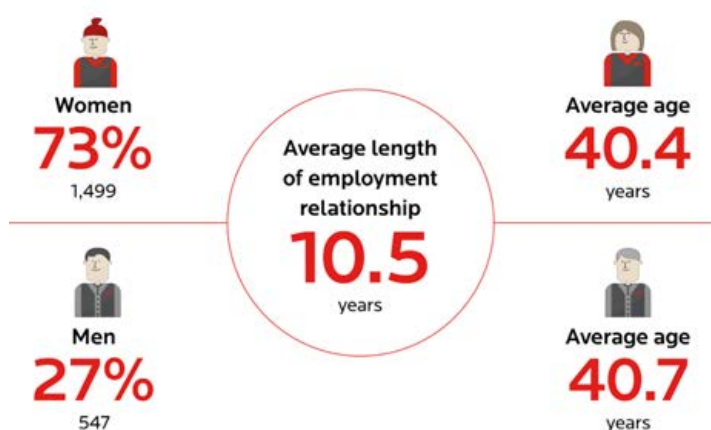
During 2017 we developed our services together with our customers and deepened our customer understanding by creating new customer segments.

BEST WORK FOR OUR NEW AND EXISTING EXPERTS

2017 was a year of renewal and learning within our organisation. In early 2017, we restructured our sales organisation so that stores now work together in store groups. At the same time, we changed the roles of our store supervisors. Store managers are now service managers, and each manager is responsible for 1–5 stores.

Read more about our commitment to offer Best Work for our current and future employees in the section [Employees and wellbeing](#).

A TYPICAL ALKO EXPERT



GOVERNANCE



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, as of 1 March 2018 1102/2017), Decree of the Finnish Government on the implementation of the Alcohol Act (151/2018), 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.

Information about Corporate Governance is published on Alko's website and is updated annually.

BUSINESS PRACTICES

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

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

All personnel receive training in Alko's business practices. Training is not monitored. Alko's business principles are included in the company's induction programme. The Board of Directors approves Alko's business principles and any amendments to them on an annual basis.

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

One instance of suspected abuse came to Alko's attention in 2017. There were no corruption-related legal cases during the year in which Alko was the defendant. Any cases of non-compliance should mainly be reported to the supervisor, the supervisor's immediate supervisor or, if that is not possible, to the internal audit function.

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. According to the Government Resolution on State Ownership Policy given on 3 May 2016, state-owned companies must report the achievement of significant social responsibility objectives to the Annual General Meeting, and must also describe their remuneration policy and justify any performance-related incentives that have been paid.

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

Supervisory Board

Alko's Supervisory Board consists of 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 approve an action plan to prevent the harmful effects of alcohol consumption in accordance with legislation
- to provide the report specified in the Alcohol Act on trends in the company's retail sales and on the measures that the company has initiated in the manner required by the Act, and
- to give the Annual General Meeting a statement concerning the company's financial statements and auditors' report.

The Supervisory Board of 2016–2019 consists of Vesa-Matti Saarakkala (Chair), Anna-Maja Henriksson (Vice-Chair) and, as members, Tuula Haatainen, Susanna Huovinen, Antti Kaikkonen, Pauli Kiuru, Osmo Kokko, Ulla Parviainen, Aino-Kaisa Pekonen, Tuomo Puumala, Päivi Räsänen and Sari Sarkomaa. The Supervisory Board granted MP Tuomo Puumala permission to resign from his Supervisory Board duties as of 1 July 2017 and appointed MP Pekka Puska in his place. The Supervisory Board also granted MP Antti Kaikkonen permission to resign from his Supervisory Board duties as of 16 October 2017 and appointed MP Juha Rehula in his place for the remainder of the Board's term of office. Director Kari Paaso 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 (Section 24 of the new Alcohol Act). The Supervisory Board meets approximately five times a year.



Board of Directors and committees

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

BOARD OF DIRECTORS

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

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

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

The principles adhered to by the Board of Directors in their work are contained in the Board's approved rules of procedure.

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

- to direct and oversee the company in accordance with the decisions of the Annual General Meeting, the Companies Act and Alko's Articles of Association
- to direct and oversee the company in accordance with alcohol-related statutes
- to strengthen the company's strategy
- to approve the annual action plan and budget and to oversee their implementation
- to approve significant investments and the acquisition and sale of real-estate shares
- to strengthen the principles of internal monitoring and supervise their implementation and adequacy
- to strengthen risk management principles
- to strengthen the internal audit directive and the annual plan
- to supervise the independence and work of the auditors
- to prepare a proposal on the election of the auditors for the Annual General Meeting
- to consider and approve the interim reports, annual report and financial statements
- to decide on the company's organisational structure and management system
- to appoint the President & CEO, Deputy CEO and other members of the Management Team, and to re-

lieve 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 4 May 2017, the Annual General Meeting elected Harri Sailas as Chair of Alko's Board of Directors and Kirsi Varhila as Vice-Chair. Juhani Eskola, Kristiina Hannula, Kuisma Niemelä, Jarmo Väisänen and Ulrika Romantschuk 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. More detailed information about Alko's Board members is given at the end of this report.

The Board of Directors convenes eleven times a year. Board members are independent of the company, and the majority are independent of the company's owner. Juhani Eskola is the Director General of the National Institute for Health and Welfare, Kirsi Vahila and Kristiina Hannula work for the Ministry of Social Affairs and Health, and Jarmo Väisänen serves in the Ownership Steering Department of the Prime Minister's Office. The President & CEO attends Board meetings, along with the Executive Vice President, Finance (Anton Westermarck) and Legal Counsel (Jonna Björklund) as Secretary.

COMMITTEES OF THE BOARD OF DIRECTORS

Alko Inc.'s Board of Directors has three committees: the Auditing, Personnel and Alcohol Policy Committees. The Board 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.
- to prepare a proposal on the choice of auditor for the Annual General Meeting
- to evaluate the independence of the auditor and the scope and quality of the audit
- to evaluate accounting principles and bookkeeping practices.

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

The Auditing Committee consists of Kuisma Niemelä (Chair), Ulrika Romantschuk and Jarmo Väisänen. Its Presiding Officers are the President & CEO and Anton Westermarck, and its Secretary is Sirkku Karjalainen.

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 a minimum of three and a maximum four 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 usually convenes about four or five times a year. However, in 2017 the Personnel Committee convened 17 times due to tasks such as the selection of a new President & CEO and preparatory work for the new remuneration system.

The Personnel Committee consists of Harri Sailas (Chair), Kuisma Niemelä, Kirsi Varhila and Jarmo Väisänen. Its Presiding Officer is the President & CEO 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 Juhani Eskola (Chair), Kristiina Hannula and Ulrika Romantschuk. Ismo Tuominen (Ministry of Social Affairs and Health) attends by invitation as an expert. The President & CEO is the Presiding Officer and Maritta Iso-Aho Secretary.



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–)
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–) Jäsen (2014–)



Juhani Eskola

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

Positions of trust:

-



Kristiina Hannula

b. 1968
Member of the Board
Master of Sport Sciences
Director of the Funding Centre for Social Welfare and Health Organisations (STEA), Ministry of Social Affairs and Health
Member of the Board since 2017

Positions of trust:

-



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 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 (2015–2017)
Oy Checkmark Ab, Member of the Board (2017–)
Partiosäätiö-Scoutstiftelsen rs, Member of the Board of Trustees (2013–)



Ulrika Romantschuk

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

Positions of trust:

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



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:

Suomen Erillisverkot Oy, Chair of the
Board (2011–)
Gasum Oy, Board Member (2016–)
Valtion kehitysyhtiö Vake Oy, Board
Member (2016–)



Mikko Eronen

Personnel representative
b. 1978
Chair of the ALV Union



Riina Väntsi

Personnel representative
b. 1973
Chair of Alkoholialan Toimihenkilöt ry



Management Team

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.

In addition to the President & CEO, the company's Management Team consists of 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. More detailed information about Management Team members is given at the end of this report.

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

PRESIDENT AND CEO

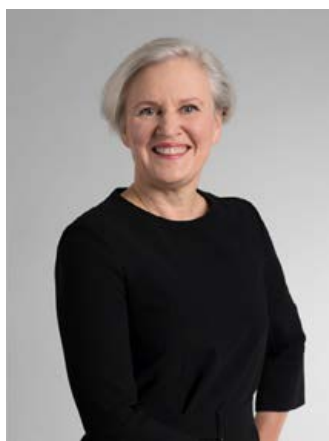
It is the task of the President & CEO to manage the company's business operations in accordance with legislation, the company's Articles of Association, and the instructions issued by the Board of Directors. The CEO also ensures that decisions taken by the Annual General Meeting, Supervisory Board, and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

The terms and conditions of the President & CEO's service are specified in a written service contract approved by the Board of Directors. The CEO's pension benefits are determined in line with the Employees Pensions Act (TyEL). The period of notice for termination of the President & CEO's service contract is six months. On 27 March 2017, President & CEO Hille Korhonen announced that she would be leaving the company's service. The Board of Directors decided to free her from her duties as of 1 June 2017. Anton Westermarck (Executive Vice President, Finance) was acting CEO from 1 June to 30 September. The Board of Directors appointed Leena Laitinen, MSc (Economics and Business Administration), as the company's new President & CEO. Laitinen started in her new position on 1 October 2017.



Leena Laitinen

b. 1970
Master of Economics and Business
Administration
President and CEO
In the company's service 1 October 2017



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 Isoaho

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



Salary and remuneration report 2017

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

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

In 2017, the Supervisory Board convened five times and its members were in attendance as follows:

Member of the Supervisory Board *	Attendance at meetings, %	Fees, EUR
Vesa-Matti Saarakkala, Chair	100%	5,000
Anna-Maja Henriksson, Vice-Chair	60%	2,400
Tuula Haatainen, member	40%	1,400
Susanna Huovinen, member	80%	2,800
Antti Kaikkonen, member until 16 October	100%	2,100
Pauli Kiuru, member	100%	3,500
Osmo Kokko, member	0%	0
Ulla Parviainen, member	100%	3,500
Aino-Kaisa Pekonen, member	100%	3,500
Pekka Puska, member as of 1 July	67%	1,400
Tuomo Puumala, member until 1 July	100%	1,400
Juha Rehula, member as of 16 October	50%	700
Päivi Räsänen, member	80%	2,800
Sari Sarkomaa, member	100%	3,500
Total	77%	34,000

* The Supervisory Board granted MP Tuomo Puumala permission to resign from his Supervisory Board duties as of 1 July 2017 and appointed MP Pekka Puska in his place. The Supervisory Board also granted MP Antti Kaikkonen permission to resign from his Supervisory Board duties as of 16 October 2017 and appointed MP Juha Rehula in his place for the remainder of the Board's term of office.

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

The Annual General Meeting decided on the following fees for the Board of Directors in 2017:

- 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. One of these meetings was an interview meeting related to the selection of the new President & CEO, and was attended by only those members who are not on the Personnel Committee. The Personnel Committee had already interviewed the candidate at an earlier date. The attendance rate at meetings of the Board of Directors was as follows:

Member of the Board *	Attendance at Board meetings, %	Monthly fees, EUR	Board meeting fees, EUR	Committee meeting fees, EUR	Fees in total, EUR
Harri Sailas, Chair	100%	33,000	6,000	10,200	49,200
Kirsi Varhila, Vice-Chair	100%	15,600	6,000	7,200	28,800
Sari Aalto-Matturi, member until 4 May 2017	100%	4,400	1,800	600	6,800
Juhani Eskola, member	100%	13,200	6,600	3,000	22,800
Kristiina Hannula, member as of 4 May 2017	100%	8,800	4,800	2,400	16,000
Leila Kostiaisen, member until 4 May 2017	100%	4,400	1,800	3,600	9,800
Kuisma Niemelä	100%	13,200	6,000	9,600	28,800
Ulrika Romantschuk, member as of 4 May 2017	100%	8,800	4,800	4,200	17,800
Jarmo Väisänen	100%	13,200	6,000	13,200	32,400
Total	100%	114,600	43,800	54,000	212,400

* The composition of the Board of Directors changed at the Annual General Meeting of 4 May 2017.

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 97 per cent.

MANAGEMENT AND PERSONNEL INCENTIVE SCHEME

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 management. 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 2017 totalled a maximum of 6–16 per cent of annual salary, depending on the recipient's job description.

Management'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 2017 totalled a maximum of 60 per cent of annual salary.

REMUNERATION FOR THE PRESIDENT & CEO AND MANAGEMENT TEAM

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.

	Total pay, EUR (monetary salary)		Short-term incentive, paid annually, EUR		Benefits in kind		Total, EUR (monetary salary + incentive + benefits in kind)	
	2017	2016	2017	2016	2017	2016	2017	2016
President and CEO (Hille Korhonen until 31 May 2017)	229,002	383,391	50,755	52,946	4,612	17,49	284,369	453,827
President and CEO (Leena Laitinen as of 1 October 2017)	83,076	-	-	-	3,015	-	86,091	-
Other members of the Management Team	1,176,446	1,164,026	138,058	120,212	38,556	46,712	1,353,060	1,330,950

	Retirement age	Pension benefits	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
Other members of the Management Team	One member age 61	Pension equivalent to 66% of annual wages	By Management Team Member 3 months and by the company 4-6 months
	Two members Retirement age in line with earnings-related pension scheme legislation (TyEL)	TyEL insurance and additional pension based on 10% of annual salary	

Annual payments of additional pensions:

EUR	2017*	2016*
President & CEO	-	-
Other members of the Management Team	90,846	80,325
Total	90,846	80,325

* does not include potential refunds



Risk management

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

INTERNAL CONTROL AND AUDITING

The Ministry of Social Affairs and Health supervises compliance with the Alcohol Act and the rules and regulations issued under it. The National Supervisory Authority for Welfare and Health (Valvira) makes an annual report to the European Commission on the extent to which Alko Inc., as the holder of the sole right to sales of alcoholic beverages in Finland, has observed the required impartiality and transparency in its relations with suppliers. This report also takes account of a statement made by the Finnish Competition Authority. The National Supervisory Authority for Welfare and Health (Valvira) 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 monitors that risk management measures are adequate and effective. The President & CEO is, with the assistance of the Management Team, responsible for risk management policy and its enforcement, and also for ensuring that risk management is appropriately arranged. Alko's risk management is based on systematically and proactively analysing and managing the threats and opportunities related to its activities. These risks are classified as strategic, 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 forms a central part 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.
- Responsibility risks in the procurement chain for alcoholic beverages may damage the company's reputation as a responsible player.

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 2017, the Annual General Meeting elected KPMG Oy Ab, a firm of Authorised Public Accountants, as the company's auditor with Lasse Holopainen, Authorised Public Accountant, as chief auditor.

Auditor

Lasse Holopainen

b. 1960

Chief Auditor, KPMG Oy Ab, APA

RESPONSIBILITY



Responsibility highlights

We provided our customers with more information about product and supply chain responsibility. We engaged in productive work to prevent the harmful effects of alcohol in cooperation with our partners.

Target	2017 measures and results	2018 and forthcoming measures
Preventing the harmful effects of alcohol as part of our own activities	<p>Top results – 95 per cent – in successful sales supervision</p> <p>Renewing our sales supervision training</p> <p>Learn to Say No campaign</p> <p>Creating awareness of the harmful effects of alcohol (such as FASD Day in stores, articles on alcohol and health)</p>	<p>Mystery Shopping target for 2018 is 96 per cent</p> <p>Learn to Say No campaign to be promoted in spring and autumn 2018 in Alko's stores and communications.</p>
Preventing the harmful effects of alcohol in collaboration with stakeholders	<p>Measures in the Clearly Good Work programme</p> <ul style="list-style-type: none"> • A new tool: Let's Talk about Intoxicants in the Workplace • The Numbers Speak for Themselves – the Finnish Association for Substance Abuse Prevention's (EHYT) calculation of the cost benefits of preventative substance abuse work in the workplace <p>Measures in the In the Company of Children programme</p> <ul style="list-style-type: none"> • You Are Not Alone seminar • Performances of Fragile around Finland 	<p>Piloting and introducing the Let's Talk tool at companies.</p> <p>Publishing The Numbers Speak for Themselves with an associated awareness campaign.</p> <p>A Child's Burden campaign in collaboration with the Finnish Olympic Committee</p> <p>Performances of Fragile to continue in theatres and schools.</p> <p>Launching the Finnish-language mobile version of the game Lydia.</p>
Sustainable development	<p>The introduction of new items of environmental product information and their corresponding symbols: vegan, natural wine, local environmental certificate, and lightweight glass bottle. At the end of the year, about 13 per cent of products displayed one or more items of environmental product information</p>	<p>During 2018, we will define the next items of environmental information to be added to products (such as packaging type or the use of renewable energy in production). By 2020, we aim to have environmental product information displayed on 40 per cent of the products in our selection.</p> <p>And by 2020, we also intend to cease the use of single-use plastic products, including plastic carrier bags.</p>

Traceable products and good working conditions in the supply chain

Version 2.0 of our e-learning course in responsible procurement (a new, expanded, interactive online course that includes a self-evaluation test for our partners)

A rum workshop that examined ways to increase transparency in the rum supply chain

The South Africa project to improve working conditions in the region

Amfori BSCI responsible procurement audits and follow-up audits performed in spring 2017

Updating the Nordic alcohol monopolies' responsible procurement strategy.

Declaration of human rights

By 2020, we want to ensure that two thirds of the beverage volume purchased from high-risk countries has been audited by Amfori BSCI or otherwise certified for responsibility (for example, Fair Trade, Fair for Life, For Life).

A project aimed at preventing the harmful effects of alcohol in the primary production of wine

SALES SUPERVISION PLAYS AN IMPORTANT ROLE

All staff completed our revised sales supervision training in 2017.

The Learn to Say No campaign focused on handing over alcohol to minors at the end of the spring school term and when school started up again in the autumn. The amusing videos of the campaign received a lot of visibility in the media.

THE CLEARLY GOOD WORK PROGRAMME FOCUSES ON THE HARMFUL EFFECTS OF ALCOHOL AT WORKPLACES

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

- A new tool: Let's Talk about Intoxicants in the Workplace. The piloting of the A-Clinic Foundation's online training was launched in March 2018.
- In 2017, the Finnish Association for Substance Abuse Prevention (EHYT) and Aalto University completed The Numbers Speak for Themselves, a joint report on preventative work in substance abuse. The report seeks to analyse investments in preventative work in the workplace, that is, what kind of input-output ratio can be expected.

IN THE COMPANY OF CHILDREN PROGRAMME

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

- The You Are Not Alone seminar, arranged by Alko in October at the Helsinki Music Centre, brought together almost eighty representatives from the media and a variety of organisations, associations and companies. The theme of the presentations was the harmful effects of alcohol on family members and loved ones.
- Performances of Fragile continued in theatres and schools around Finland. The show reached over a thousand people.

NEW ENVIRONMENTAL PRODUCT INFORMATION

Alko provided customers with a growing range of product information that helps in finding out about the environmental commitment of producers. Within the scope of their operations drinks producers invest into for example reduction in water consumption, use of renewable energy, lighter weight packaging that saves energy, or organic production methods. Six different types of environmental commitments now have their own symbols: organic, biodynamic, vegan, natural wines, products with local sustainability certification, and wines in light-weight glass bottles.

TRACEABLE PRODUCTS AND GOOD WORKING CONDITIONS IN THE SUPPLY CHAIN

Alko cooperates with goods suppliers and producers to increase awareness of social and environmental responsibility and to promote responsibility throughout the entire supply chain. All Alko partners completed version 2.0 of our e-learning course in responsible procurement.



Continual dialogue with stakeholders is important

Alko engages in open and fact-based social debate.

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

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

- Customers:
- Owner, political decision-makers
- Personnel
- Goods suppliers
- Associations
- The media.

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

When developing responsible procurement, we create best practices 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.

Stakeholder	Most important responsibility topics	Responsible actions	Participation
Customers	<p>Multichannel customer service</p> <p>Responsibility is taken into consideration in our product selection.</p> <p>Alcohol is not sold or handed over to minors.</p> <p>The impact of alcohol consumption on health</p>	<p>Personal and responsible customer service in all channels</p> <p>Responsibility is highly visible in stores and other channels.</p> <p>Measures</p> <ul style="list-style-type: none"> • customers can make more responsible choices, such as smaller packages, low-alcohol products, eco-labelled products • ensuring proper sales supervision, both in our online store and brick-and-mortar stores • communicating the impact of alcohol consumption on health. <p>Improving accessibility in customer service</p>	<p>Customer service in stores and through other channels, such as alko.fi, chat, and our customer service centre</p> <p>Customer satisfaction surveys</p> <p>National customer service feedback survey, Taloustutkimus Oy</p> <p>Social media dialogue</p>
Owner, political decision-makers	<p>Alko engages in the responsible sale of alcohol in accordance with its mandate.</p> <p>Alko is a pioneer in supply chain responsibility.</p>	<p>According to the Government Resolution on State Ownership Policy of 13 May 2016, Alko must report the achievement of significant social responsibility objectives to the Annual General Meeting.</p> <p>The Supervisory Board approves the action plan to prevent the harmful effects of alcohol consumption, and gives a statement on Alko's retail sales and the measures that the company has employed to prevent the harmful effects of alcohol consumption.</p> <p>Alko openly and transparently communicates responsibility measures that are of interest to its stakeholders.</p>	<p>Annual General Meeting</p> <p>Supervisory Board meetings</p> <p>Stakeholder meetings in line with Alko's principles</p> <p>Confidence and Reputation survey, T-Media Oy</p>
Associations and networks	<p>Human rights and working conditions in the supply chain</p> <p>The impact of climate change</p> <p>Cooperation and communications relating to the harmful effects of alcohol consumption</p>	<p>Interactive cooperation with a variety of associations and organisations</p> <p>Cooperation with other Nordic alcohol retail companies on responsible procurement and climate change issues</p> <p>Alko cooperates with associations in the social welfare and health sector on a number of programmes aimed at reducing the harmful effects of alcohol consumption.</p>	<p>Amfori BSCI's national and international activities</p> <p>Civic organisations</p> <p>Nordic alcohol monopolies</p> <p>Associations in the social welfare and health sector</p>
Personnel	<p>Best work</p> <p>Responsible customer service</p> <p>Environmentally sustainable operations in stores</p>	<p>Providing the 'Best work' and being a 'Proactive player in the community' are two key areas of Alko's strategy, and associated measures have been mobilised for key targets covering all personnel.</p> <p>Continual work to develop a proactive and flexible working culture with a real sense of community.</p> <p>Revising our guidelines for sales supervision and training all personnel</p> <p>Developing a system for stores to monitor their environmental impact</p>	<p>Target and competence discussions</p> <p>Internal communications for the Alko community: Alvari, Yammer, Skype conferences</p> <p>Personnel Motivation Index</p> <p>Passing the test to obtain a sales supervision passport</p> <p>A system for monitoring the environmental impact of stores</p>

Goods suppliers	Cooperation with goods suppliers to ensure responsible procurement with regard to issues involving environmental and social responsibility Product quality assurance	Open and diverse cooperation The entire supply chain must comply with the operating model for responsible procurement. Product quality assurance through sensory evaluation and chemical testing	Alcoholic beverages stocked and sold in accordance with Alko's instructions, which include the operating model for responsible procurement Supplier meetings and briefings Supplier survey Best Supplier indicator Online training course in responsible procurement, workshops, audits and follow-up measures, particularly in high-risk countries
The media	Open and transparent communications about Alko's activities	Comprehensive and transparent communications about Alko's activities Sales reports Annual Report	Media conferences Supplier tastings Media briefings Corporate Communications survey, Taloustutkimus Oy

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

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

ALKO'S ASSOCIATION MEMBERSHIPS

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

INTERNATIONAL ORGANISATIONS

Amfori Network Finland

Chair: Marja Aho, Sustainability Manager

OTHER ASSOCIATIONS, ORGANISATIONS AND COMMUNITIES

Suomen Palautuspakkaus Oy (PALPA)

Board member: Paula Kujansivu, Vice President, Online and Supply Chain

Suomen Keräyslasiyhdistys ry (Finnish Glass Recycling Association)

Board member: Tuomas Kokkonen, Logistics Development Manager

Finnish Foundation for Alcohol Studies

Board member: Jonna Björklund, Legal Counsel

Hotel and Restaurant Museum Foundation

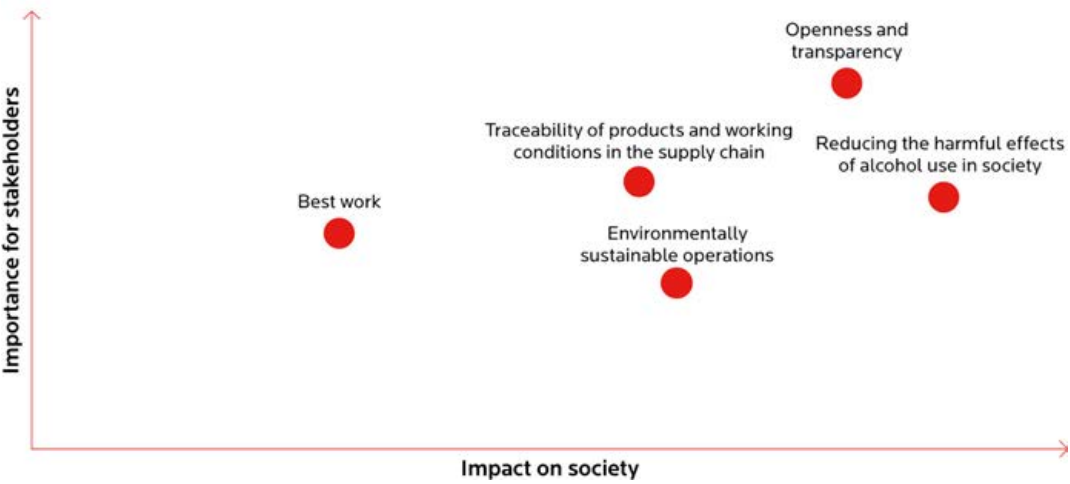
Supervisory Board member: Marja Aho, Sustainability Manager

Board member: Sari Karjalainen, Marketing Manager

MATERIALITY

At Alko, we actively monitor any changes occurring in our operating environment. Stakeholders' expectations steer our business development. Stakeholders have had increasingly higher expectations of Alko's activities in recent years. The materialities 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 2018.

THE MATERIALITY MATRIX 2017





Prevention of the harmful effects of alcohol

Alcohol is not a regular commodity – it is a legal intoxicant that can cause strong physical and mental addiction.

Substantial and long-term alcohol consumption causes both health and social problems. Alcohol abuse often casts a shadow over the lives of family and loved ones, particularly children and young people.

Alcohol also has a considerable financial impact on society – the National Institute for Health and Welfare (THL) estimates the annual cost at over EUR 2 billion. 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.

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

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

(Source: Ministry of Social Affairs and Health)

STEERING PREVENTION OF THE HARMFUL EFFECTS OF ALCOHOL CONSUMPTION

Alko's monopoly is based on social and healthcare policy objectives to reduce the harmful effects of alcohol consumption in Finland. 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. 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 is one of the tools it uses to prevent these harmful effects.

Retail consumption accounted for 68 per cent of the total consumption of alcoholic beverages in Finland in 2016. Consumption was therefore weighted towards the retail trade, that is, beverages purchased from Alko stores and other retailers that sell alcoholic beverages (grocery stores, kiosks and service stations). The percentage of total alcohol consumption in Finland accounted for by Alko's sales in 32 per cent. (Source: National Institute for Health and Welfare)

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

The responsibility steering group handles any development projects or measures involving responsibility

issues. The Executive Vice President, Communication chairs this steering group, and makes progress and action reports to Alko's Management Team and Board of Directors.

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

Alko performs an annual assessment of the measures taken to reduce the harmful effects of alcohol consumption by an impact assessment drawn up by an independent organisation.

Alko works to reduce the harmful effects of alcohol consumption in a variety of ways:



SALES SUPERVISION IS PART OF RESPONSIBLE CUSTOMER SERVICE

Sales supervision denotes the procedures that Alko sales staff use to ensure that beverages are not sold or handed over to minors, or sold to anyone who is clearly intoxicated.

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). 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. In addition to training, practical learning on the the job is also important – skills develop gradually through experience.

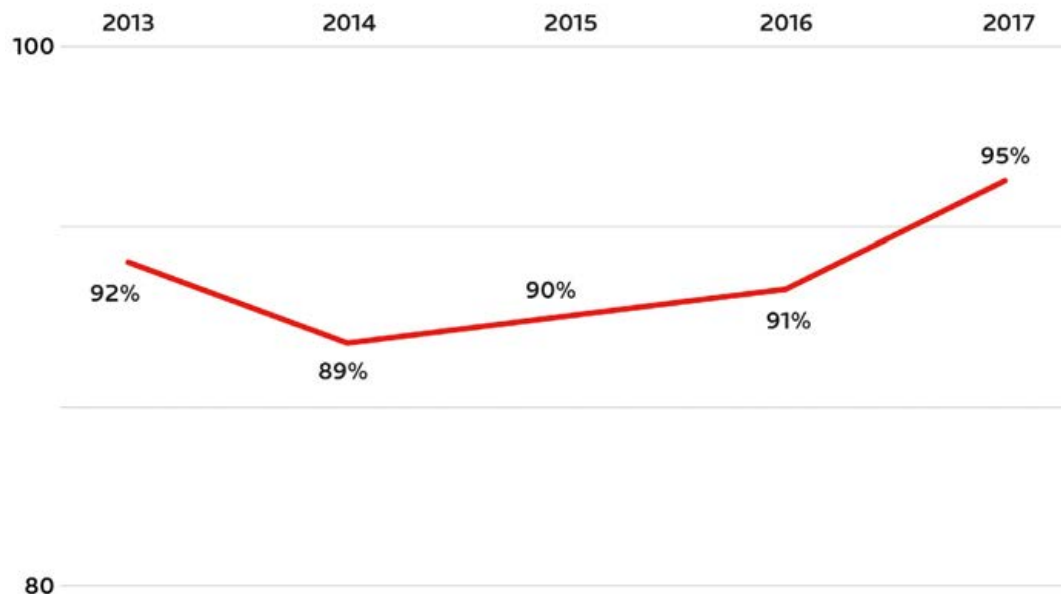
Alko monitors successful sales supervision in two ways: via its own cash registers and using a mystery shopping survey conducted by an external organisation. The mystery shopping results are also one of Alko's strategic indicators.

MEASURING SUCCESS IN RESPONSIBLE OPERATIONS

	2017	2016	2015	2014	2013
Age-limit checks , million	4.6	3.8	3.7	3.6	3.6
Checks for suspected intoxication, thousand	670	635	634	660	607
Checks for suspected handover, thousand	395	345	311	360	241

MYSTERY SHOPPING

RESULTS %



MANAGEMENT MODEL OBJECTIVES AND RESULTS

In Alko stores, age-limit checks and other sales supervision procedures are entered in our POS system. The results are monitored by region, store and salesperson. Salesperson-specific entries are regularly monitored. Monitoring seeks to ensure reliable sales supervision of a uniformly high standard in all of our stores. Regional managers set targets on the basis of the previous year's results and in relation to similar stores.

In 2017, we performed over 4.6 (3.8) million age-limit checks, and checked over 390 (345) thousand cases of suspected handovers and over 670 (635) thousand cases of suspected intoxication.

- Age-limit checks: 31 stores did not meet their target, 323 stores reached their target*
- Suspected intoxication: 33 stores did not meet their target, 321 stores reached their target*
- Suspected handovers: 16 stores did not meet their target, 338 stores reached their target*

*No targets were set to one store

Regional managers worked together to draw up our 2018 targets on the basis of the results for previous years. We do not intend to make a significant increase in the number of age-limit checks. Our 2018 targets will therefore follow 2017 figures, taking into account similar target levels for similar stores.

In 2017, our stores exceeded the Mystery Shopping target of 92 per cent. The ages of 95 per cent of customers were checked (91%), while five per cent were not checked. We have therefore already succeeded in our objective to raise our Mystery Shopping success rate from 91 to 95 per cent by 2020.

In 2017, we also made our first mystery shopper visits to 58 pick-up points for online orders. The result for these visits was 90 per cent.

In 2018, we will have four mystery shopper visits to each Alko store, plus one visit to all of our order pick-up points. The target for store visits is 93 per cent, and the top target is 96 per cent. The 2018 target for pick-up point visits is the same as for store visits, 93 per cent.

From the beginning of 2017, we began checking the age of all customers who appeared to be under 30, which helped us achieve a good result. We informed our customers about this through a number of channels, such as in-store communications and social media. All staff have also completed our revised online course in sales supervision. Age-limit checks are supported by in-store customer communications, particularly at the end of the spring school term and when school starts up again in the autumn. The amusing videos in Alko's Learn to Say No campaign received a lot of visibility in social media.

In 2018, we will continue to develop new tools to support sales work in challenging situations, and particularly interactions with customers who are elderly or suffering from dementia.

PURCHASE BAN AGREEMENT LIMITS ALCOHOL PURCHASING

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

We signed a total of 24 purchase ban agreements in 2017 (14 in 2016). Purchase ban agreements are always temporary, and can last a maximum of 12 months.

COMPLAINT MECHANISMS

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

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 share the same goal – to prevent the harmful effects of alcohol consumption in society.

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

In the Company of Children is an Alko responsibility programme that seeks to prevent and reduce the harmful effects of adults' alcohol abuse on children. Our cooperation partners in the programme include the A-Clinic Foundation, Mannerheim League for Child Welfare, Finnish Parents' League, and National Institute for Health and Welfare (THL). One of the programme's high points was the You Are Not Alone seminar arranged by Alko in October at the Helsinki Music Centre. This seminar brought together almost eighty representatives from the media and a variety of organisations, associations and companies. The seminar's theme was the harmful effects of alcohol on family members and loved ones. Children and young people in particular were given a voice. Alcohol problems within a family can stigmatise children and young people, which is why young people hope that alcohol could be discussed more openly.

Performances of the theatre show *Fragile* also continued during 2017. The full show visited Kuopio City Theatre, while a smaller-scale version – *MiniFragile* – visited Pihtipudas, Viitasaari, and the SYK school in Helsinki. The show reached over a thousand people. 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 seeks to prevent the harmful effects of alcohol consumption in working life

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

One of the most significant projects in the programme is Let's talk about intoxicants in the workplace, an A-Clinic Foundation coaching course for supervisors. This online coaching consists of handy information and tools to help supervisors manage and prevent the harmful effects of intoxicants in the workplace. The development of electronic tools is progressing according to plan. For example, suitable available materials are being digitised, and new materials are also being produced, such as video content for supervisors. This implementation will continue in 2018, with the pilot scheduled for launch in March 2018.

The Finnish Association for Substance Abuse Prevention (EHYT) and Aalto University have now completed their joint report on preventative work in substance abuse in the workplace. The report seeks to analyse investments in preventative work in the workplace, that is, what kind of investment-outcome ratio can be expected. The report will be used during 2018, for instance, in marketing coaching targeted at supervisors.

FASD day 9 September 2017

On 9 September 2017, Alko took part in the international FASD day for the third time by opening its stores at 9:09. The Finnish Association on Intellectual and Developmental Disabilities is our partner in this campaign.

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. We also spread awareness of this issue by displaying posters outside our shops.

Support for 75 youth projects

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, commit-

ment, 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.

75 Mahis projects were launched during 2017. With the aid of Alko's support, the groups implemented a variety of projects and events, such as an escape room and transforming an old car into a youth club sofa. Alko has been supporting young people's projects through the Mahis project since 2001.

Alcohol awareness campaigns for educational establishments

Since 2015, educational establishments have been able to order Alko's health booklets for free via the Subject Aid service. Two booklets – *Alkoholi ja ihmisen elämänsykli* (Alcohol and the Human Life Cycle) and *Lisä- ja vierasaineet* (Additives and Contaminants) – have proved popular, with a total of 24,053 orders in 2017. 86 per cent of teachers who ordered the booklets gave them a grade of 'good' or 'excellent'.

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 research results and articles on topics related to substance abuse. The Finnish Foundation for Alcohol Studies was established in 1950 to promote and support scientific research on alcohol consumption in general, or alcohol as a personal or social problem. Seven doctoral theses that received funding from the Finnish Foundation for Alcohol Studies were published in 2017 (3 in 2016). 22 new peer-reviewed articles were published in international publication series in 2017 (24 in 2016) and seven in national series (3 in 2016). Nine other publications also appeared in 2017 (16 in 2016). A total of EUR 279,820 in new research grants was also allocated to alcohol and narcotics research (EUR 281,963 in 2016).

In 2017, the journal *Yhteiskuntapolitiikka* published a total of six peer-reviewed articles on alcohol-related topics, plus four longer analyses. The articles covered topics such as alcohol consumption in families, how commonplace alcohol consumption is, and consumption differences between different population groups. Other topics included alcohol policy, lobbying in the alcohol industry, and treatment systems for problematic alcohol use.

In 2016, Alko's Annual General Meeting decided to donate a total of EUR 360,000 to support and develop the University of Helsinki's medical research on addiction and alcohol. The University of Helsinki's medical faculty has launched a five-year associate professor tenure track. The tasks of the researcher on the associate professor tenure track will focus on alcohol- and health-related research topics that are of interest to society; teaching; and social debate. The donation will be paid in three instalments in 2016–2018.

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 2017 winner was Golden Spirit, a competitive cheerleading club from Helsinki.

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. *Kaarinan Pojat ry* was Sports Club of the Year 2017.

Police Officer of the Year

The Police play a key role in maintaining order and safety, and in preventing crime. Though our cooperation in the Police Officer of the Year award, we want to show our appreciation for the important work done by the Police. Alko is one of the Police Officer of the Year award's longest-standing partners. The winner is selected by the Helsinki Junior Chamber of Commerce, Finnish Police Federation, and National Police Board.

Detective Sergeant Risto Ottavainen from the Oulu Police Department was selected Police Officer of the Year 2017.

'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 Itä's research and awareness programme called *A century of children, youth and families in Finland*. During 2017 the project focused on communicating about the results of the programme in various ways, eg. blogs.

Lydia and the A Child's Burden campaign

Alko will be launching a mobile version of Lydia in spring 2018. Lydia is a game that gives a touching description of the life of a child growing up with alcoholism in the family. It is targeted not only at alcohol users and those growing up in the shadow of alcohol, but also those without any personal experience of the subject. The game gives players a concrete opportunity to place themselves in someone else's shoes.

The A Child's Burden campaign seeks to spark off debate about whether even moderate alcohol consumption is appropriate in all circumstances, such as those involving children's hobbies. The target group is parents and coaches, and adults in general. The campaign will be launched in early 2018.



Responsible supply chain

Alko wants to ensure that consumers can make ethical choices.

Product traceability and good working conditions in the supply chain are one of Alko's material responsibility targets. It is forecast that consumers' interest in and awareness of product origins and production conditions will continue to grow. Corporate responsibility legislation is likewise playing a larger role all around the world. Taking a responsible approach to operations is no longer voluntary.

MANAGEMENT MODEL FOR RESPONSIBLE PROCUREMENT

Responsibility and equality are integral aspects of our operations. Our responsible procurement model is based on ethical operating principles that are in turn based on the UN's Guiding Principles on Business and Human Rights, the International Labour Organisation's (ILO) major conventions and declarations, and the OECD Guidelines for Multinational Enterprises. Our aim is to create operating and follow-up models for alcoholic beverage procurement with a view to influencing the ethical business practices of alcohol suppliers and paying attention to the principles of sustainable development.

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

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

We support our partners in their efforts to make continual improvements with the aid of the ethical operating principles and tools published by Amfori BSCI (an international responsibility organisation). We require all of our beverage suppliers to comply with Amfori BSCI's ethical operating principles. Our Listing Procedure specifies the principles that Alko suppliers must comply with when cooperating with us, including those for responsible procurement. In addition to undersigning Amfori BSCI's ethical principles, Alko also requires all actors to be proactive in the supply chain. We challenge our partners to meet their due diligence obligation by assessing human rights impacts, taking adequate measures to prevent human rights violations, and ensuring compliance with agreed principles in the supply chain. In addition, all beverage suppliers must also complete Alko's online responsibility training course. The online course seeks to ensure that our partners fully understand the practical impact of our ethical principles.

91 per cent of our beverage suppliers completed version 1.0 of the course, which went online in 2015. Version 2.0 was published at the beginning of 2018. Five times a year, Alko organises supplier events with an informative general section and a workshop section. All supplier events held during 2017 presented responsible procurement themes, and two supplier workshops were also held on the topic.

Alko cooperates with the other Nordic alcohol monopolies on responsible procurement.

GRIEVANCE MECHANISMS

Alko's ethical principles seek to ensure that staff have access to appropriate grievance mechanisms.

The lack of appropriate grievance mechanisms is a topic of international debate. Global solutions are extremely rare – if they exist at all. Problems can, however, be resolved locally. Alko is negotiating a letter of intent with the IUF (International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations) via Service Union United, PAM. Cooperation with unions is one way of enabling the voices of those working in the supply chain to be heard.

WE RESPECT HUMAN RIGHTS IN EVERYTHING WE DO

In 2017, we assessed Alko's human rights impact in the light of the UN's Guiding Principles on Business and Human Rights, and committed to respecting all internationally recognised human rights in all of our activities. Alko's operations also have direct and indirect impacts on the human rights of our staff, our customers, and people working in our supply chain. We engage our stakeholders in dialogue on human rights, and pay attention to them in everything we do. We require our staff and partners to respect all internationally recognised human rights. We also encourage our partners to make continual improvements in their own operations in this respect.

HUMAN RIGHTS IN SUPPLY CHAIN



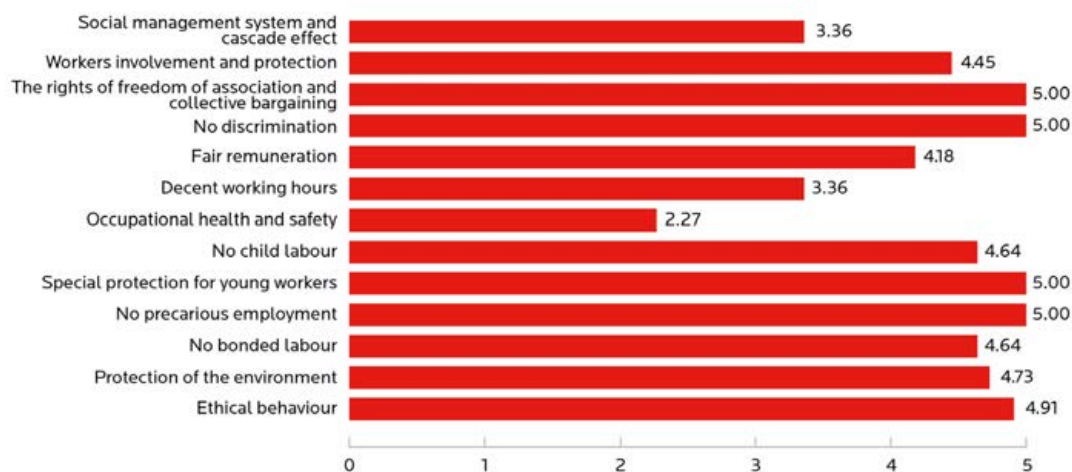
ACTIVITIES AND RESULTS

We stocked a total of 8,615 products in our selection in 2017. Alko does not have its own production or bottling facilities. All of the products we sell are purchased from Finnish or foreign suppliers. These total 544, of which 166 are import agents. Our supply chain is global, extensive and multi-tiered. Ensuring transparency in our supply chain is challenging. Our vision for responsible procurement is to make the invisible visible. Only by identifying our strengths and weaknesses can we enable change – to copy best practices and correct bad ones.

Alko's supply chain consists of 544 beverage suppliers and about 1,700 other goods and service providers. 55 of these account for about 80 per cent of the value of all indirect procurements. The total value of Alko's procurements was EUR 1,017 million. The acquisition cost of for-sale beverages (EUR 968 million) accounted for 95 per cent of Alko's total procurements. The value of our indirect procurements was EUR 49 million. The beverages we sold came from 70 countries. Two new countries of origin were introduced last year: Armenia and Haiti.

On the basis of risk analyses, Alko commissioned 16 third-party audits (that is, inspections) of ethical principles in 2017 (17 audits in 2016): eight audits in South Africa, five in Argentina, two in Chile, and one in Guyana. The target was 26 audits. A lack of Amfori BSCI accredited auditors during the harvest season was the main reason we fell short of our target.

BSCI FOLLOW-UP AUDIT RESULTS 2017



Best result 5, worst result 0

Primary production carries the most significant risks of neglect of human and labour rights in Alko's supply chain. Agricultural harvests are very labour intensive, and there is a great need for human resources. The problem is that workers do not receive sufficient induction, safety risks are not highlighted, and seasonal workers are not provided with appropriate protective gear and tools. And legislation on working hours is unfortunately too often ignored. The inspections did not find any particularly serious violations, that is, no zero tolerance cases as defined by Amfori BSCI. Zero tolerance applies to, for example, the use of child labour or the threat of physical violence. The following have been identified as high risk in the supply chain: South Africa, Chile, Argentina, Mediterranean coastal regions, and sugar cane cultivation for rum.

The workers' rights of freedom of association and collective bargaining can be at risk in the risk countries of the supply chain. Amfori BSCI code of conduct requires that the workers have the freedom of association and collective bargaining. In 2017 audits there were no breaches of freedom of association and collective bargaining.

Alko seeks to increase the number of audits conducted in the future, to ensure adequate coverage for procurements in all high-risk countries. The greatest challenge in achieving this is limited resources – there are not enough accredited Amfori BSCI auditors available. Nordic cooperation is a significant enabler in developing an operating model for responsible procurement. The alcohol monopolies of Sweden, Norway, Iceland and the Faroe Islands are all members of Amfori BSCI. A shared operating model enables comprehensive follow-up measures. By 2020, we want two thirds of the beverage volume purchased from high-risk countries to have been audited by Amfori BSCI or otherwise certified for responsibility (for example, Fair Trade, Fair for Life, For Life).

SOUTH AFRICAN PRODUCTION CONDITIONS A TOPIC OF DEBATE IN 2017

Issues relating to working conditions in South African wine production came to the attention of our consumer customers in 2017. A documentary called Bitter Grapes was aired in Sweden, Norway and Denmark in autumn 2016, and created widespread awareness of the deficiencies in the South African wine industry. Responsible consumers strongly questioned working conditions in the wine industry. In addition to sparking off extensive debate, the documentary launched new analyses and follow-up measures among the Nordic alcohol monopolies. During 2017, producers have been audited, corrective measures have been identified, and their implementation has been monitored in collaboration with suppliers. Although concrete improvements have already been achieved, there is still plenty of work left to do. This is why Alko launched a South Africa project in autumn 2017. Participation in this project is mandatory for all suppliers that sell South African wines to Alko. The project will run for six months with the aim of standardising suppliers' approaches to their due diligence obligation, and to increase overall competence and understanding of the responsibilities inherent in our business relations.

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

In the near future, Alko will be paying particular attention to increasing transparency in the supply chain through the systematic and efficient collection of data, enhanced cooperation with partners and more active cooperation with stakeholders, in order to ensure the effectiveness of our responsible procurement model and increase dialogue and interaction. Alko's operating model plays a critical role in ensuring that beverage suppli-

ers take adequate measures to minimise human rights risks. In Alko's opinion, cooperation in getting all parties in the supply chain to commit to enhancing both their own and their partners' competence will, in the long-term, have a more significant impact on working conditions than focusing on follow-up measures. Alko's responsible procurement model is based on the 80/20 rule, that is, we communicate the importance of focusing on preventative measures without, of course, neglecting follow-up measures.

In addition to cooperating with our goods suppliers, discussion with other stakeholders also plays an important role. Alko regularly meets with civic organisations, employee organisations, responsibility organisations, producer associations, producer representatives, and other Nordic alcohol monopolies.

TRANSPARENCY IN THE RUM SUPPLY CHAIN

In conjunction with our 2017 supplier events, Alko arranged a separate workshop for all suppliers that sell rum or rum-based products to Alko. The theme of the workshop was supply chain transparency and its associated challenges. The workshop resulted in a description of a typical rum supply chain. Workshop participants jointly committed to promoting future transparency in the rum supply chain. A particular area for concern – and one that is widely acknowledged – is the poor working conditions on sugar cane plantations at harvest time. Intervention in this issue is also one of the key targets of Nordic cooperation in 2018.



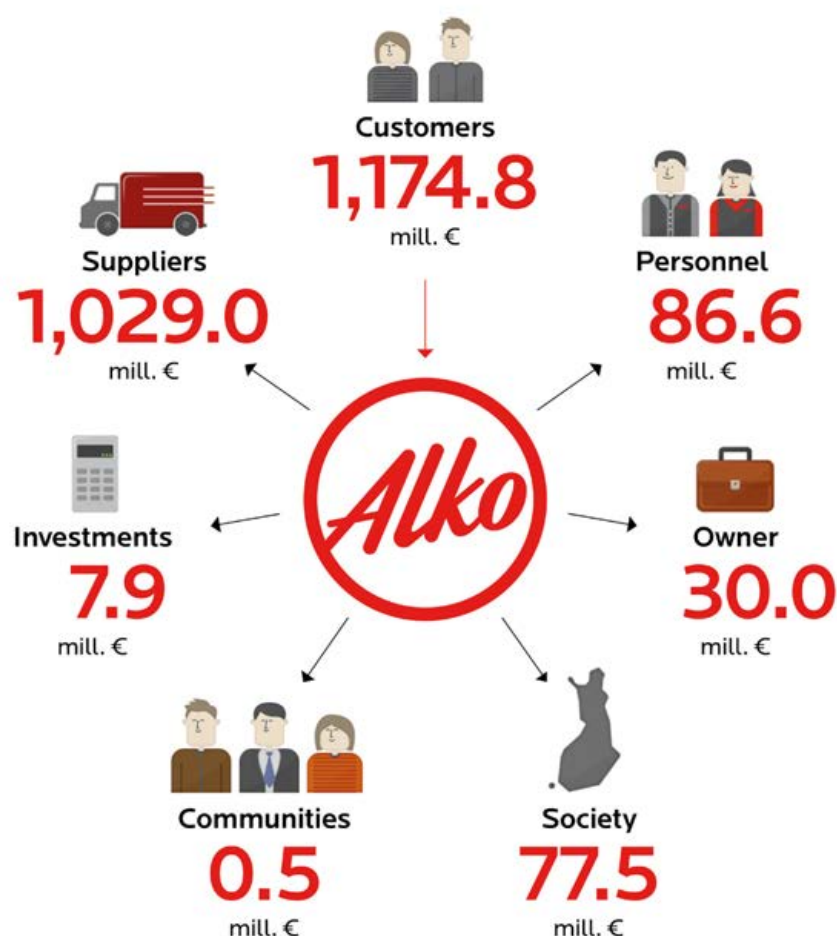
Financial responsibility

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.

ADDED ECONOMIC VALUE FROM ALKO'S OPERATIONS FOR DIFFERENT STAKEHOLDER GROUPS IN 2017



CUSTOMERS EUR 1,174.8 MILLION

We offer our customers safe, premium-quality products and services. In 2017, income from alcoholic beverages totalled EUR 1,168.4 (1,156.2) million. Beverages were primarily sold not only through Alko's store network but also through the online store that opened in 2016.

We provided goods and services to the value of EUR 5.7 (5.8) million. This figure includes EUR 358 (331) thousand in income from analyses performed by the Alcohol Control Laboratory

Other operating income totalled EUR 1.7 (2.1) million and mainly comprised rental income.

SUPPLIERS OF GOODS AND SERVICES EUR 1,029.0 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 Amfori 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 valid until 28.2.2018, from 1.3.2018 Alcohol Act 1102/2017) 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 938.9 (934.1) million in 2017. Most of these operators are based in Finland, but we also made purchases of alcoholic beverages from international operators totalling EUR 13.8 (13.8) million in 2017. Alko makes its purchases in euros in order to avoid exchange rate risks.

We purchased other products and services costing EUR 32.5 (36.0) million in 2017. A total of EUR 57.6 (59.7) million in procurements from suppliers was also entered under fixed costs. These purchases enabled, among other things, the following:

- Investments of EUR 13.2 (10.0) million in IT services and consulting. IT expenses increased due the

development and maintenance of the online store and other digital services. IT expenses also include updates to our IT environment and its maintenance.

- At the end of 2017, 334 of our 355 stores were located in leased premises, for which we paid EUR 17.5 (17.0) million in rent. Rental expenses rose slightly due to store relocations.
- We made further investments in improving our multi-channel customer experience and ensuring smooth-running operations.

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 86.6 MILLION

In 2017, salaries and fees paid to personnel totalled EUR 70.1 (70.5) million. Pension costs totalled EUR 13.4 (12.5) million, and other personnel expenses EUR 3.1 (4.6) million in 2017. We employed slightly fewer people in our stores than in 2016.

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 2017, the Alko Pension Fund (Division A) supplementary pension covered 240 employees, and the Vistalco supplementary pension covered two.

The President & CEO and four members of the Management Team have no supplementary pension scheme, but at the end of 2017, 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 minimum 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. However, reforms made to pension legislation in 2017 will lower retirement pensions if an employee retires before reaching the statutory retirement age. In 2017, we paid a total of EUR 1.4 (0.1) million in supplementary pension insurance payments, which represents 2.0 (0.1) per cent of the company's total payroll.

SOCIETY EUR 77.5 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 2017 accrued EUR 578.3 (580.0) 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. We paid EUR 10.8 (15.0) million in alcohol tax on an accrual basis for alcoholic beverages passing through our central warehouse, plus EUR 0.3 (0.3) million in beverage packaging tax.

Alko paid EUR 40.8 (37.5) million in VAT and EUR 10.5 (9.5) million in corporate tax, and EUR 14.6 (15.5) million in wage taxes and EUR 0.6 (1.5) 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 0.5 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). Our partners for campaigns in the Clearly Good Work programme are A-Clinic Foundation, the Finnish Association for Substance Abuse Prevention (EHYT), KELA, the Finnish Institute of Occupational Health, the National Institute for Health and Welfare (THL), and the Centre for Occupational Safety. Although this cooperation is based on mutual agreements, KELA, the National Institute for Health and Welfare, and the Centre for Occupational Safety acted as experts without compensation in these programmes in 2017. Alko paid organisations a total of EUR 141,000 in fees for their contributions in 2017 (EUR 163,256 in 2016).

We also cooperate with the Youth Academy and Finnish Olympic Committee. With these organisations, the

sum of contributions against compensation totalled EUR 61,700 (61,000). We also contributed EUR 5,000 in our cooperation with the Finnish Association on Intellectual and Developmental Disabilities on fetal alcohol spectrum disorders (FASD). Gratuitous contributions made to the Junior Chamber International Helsinki's Policeman of the Year nomination and the Finnish Olympic Committee's 'Grow Up to be an Athlete' grant totalled EUR 6,700 (6,700). Other gratuitous contributions include EUR 2,000 (2,000) to the charity organisation Veikko ja Lahja Hurstin Laupäivä ry for a Christmas event for people of limited means.

We also supported the research activities of the Finnish Foundation for Alcohol Studies with a donation of EUR 67,300 (67,300), and contributed EUR 15,000 (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 (120,000).

The impact of these grants and contributions on full-year profit came to EUR 0.5 (0.9) million.

Alko did not give grants or subsidies to political parties.

OUR OWNER EUR 30.0 MILLION

Alko is wholly owned by the Finnish government. We paid our owner a dividend of EUR 30.0 million from our revenue for 2016 (EUR 40.0 million from our revenue for 2015). This dividend was paid in two instalments in 2017: EUR 15.0 million in June and EUR 15 million in September.

Alko does not receive any financial assistance from the state.

INVESTMENTS EUR 7.9 MILLION

Alko invested in strategic projects and the development of its store network. In 2017, we invested EUR 5.8 million in developing our store network (EUR 2.6 million in 2016), opening one new store in Kamppi, Helsinki and relocating 15. No shops were closed. Investments made in developing our stores more than doubled on 2016.

Alko's new store concept combines a multichannel approach, knowledgeable and personal service, and a learning experience for customers. We have a single, standardised store concept with three different store types. These types define a store's product selection, size and location, and the staff's product expertise. All of our stores have a collection point for online orders. We managed to refurbish dozens of our stores in 2017, and will carry out another 40-plus refurbishments during 2018, 13 of which are already scheduled for the first quarter.

We invested a total of EUR 2.0 million in strategic projects in 2017. The largest investment in monetary terms was updating our IT system (EUR 1.8 million), which will continue in 2018. Other smaller-scale investments were made to a total of EUR 0.2 million.



Environmental responsibility

Alko is committed to reducing the environmental impact of our operations to curb climate change.

THE ENVIRONMENTAL IMPACT OF OUR SUPPLY CHAIN

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

The ingredients used to make Alko's products are grown all around the world in a variety of natural environments and climates. Ingredient production and beverage manufacture have a direct impact not only on their local environment and its ecosystems but, via energy consumption and emissions, also on climate change. We think it is important to sustain the ability to source products widely from different corners of the globe also in the decades to come; and that the direct and indirect environmental impacts can be managed and harmful effects can be reduced. This is why Alko seeks to be a pioneer in environmental responsibility with regard to both products and supply chains.

Environmental impact management

Alko's responsibility strategy includes an environmental strategy. To embed environmental perspectives in the development of supply chains, our product selection, and product communications Alko's environmental expert works with product, purchasing and logistics experts.

Alko implements the UN Sustainable Development goals that the Finnish State is committed to. Alko's environmental work is based on Alko's strategy and environmental policy. Practical measures are guided by the objectives and responsibilities specified in our ISO 14001 environmental management system. We report on our environmental impacts both on the Alko website and in our Annual Report.

Alko's ISO 14001 certificate was updated to version ISO 14001:2015 in January 2017, and the first follow-up audits were conducted in November 2017.

To embed environmental perspectives into the operation of our stores Alko's environmental expert works with experts at our business locations and logistics units.

Alko's environmental policy states that business development must pay attention to environmental perspectives: preserving natural resources and reducing their consumption. Our goal is to identify and reduce significant environmental impacts in our supply chain.

- We employ efficient transport logistics and make sure that cases and other packaging materials are recycled.
- We also take note of producers' ecological investments when developing our product assortment.

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. The most significant environmental impacts of the monopolies' supply chains are generated by:

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

The Nordic alcohol monopolies commissioned an environmental impact assessment, which was completed in 2016 and published in spring 2017. Focus areas and targets for our collaborative environmental strategy are set for 2018-2021 based on its results. The Nordic alcohol monopolies have agreed the theme for their supply chain-related environmental measures in 2018 to be the packaging of beverages.

Additionally, Alko's own strategic environmental objective is to reduce the volume of packaging waste generated by product logistics in stores by ten per cent by 2020.

Alko has not made any external commitments relating to the environmental impacts of our supply chain.

Alko has no complaints procedure for issues relating to the environmental impacts of our supply chain.

ENVIRONMENTAL PRODUCT INFORMATION FOR BEVERAGES IN OUR ASSORTMENT

In 2017, the number of certified organic products on sale at Alko saw a year-on-year increase of 23 per cent. Customers' interest in other environmental information has also risen. That's why we implemented a project during 2017 to expand the range of environmental product information available to provide our customers with more knowledge about production methods and conditions. At the end of the year, about 13 per cent of the products in Alko's assortment had one or more of these environmental attributes.

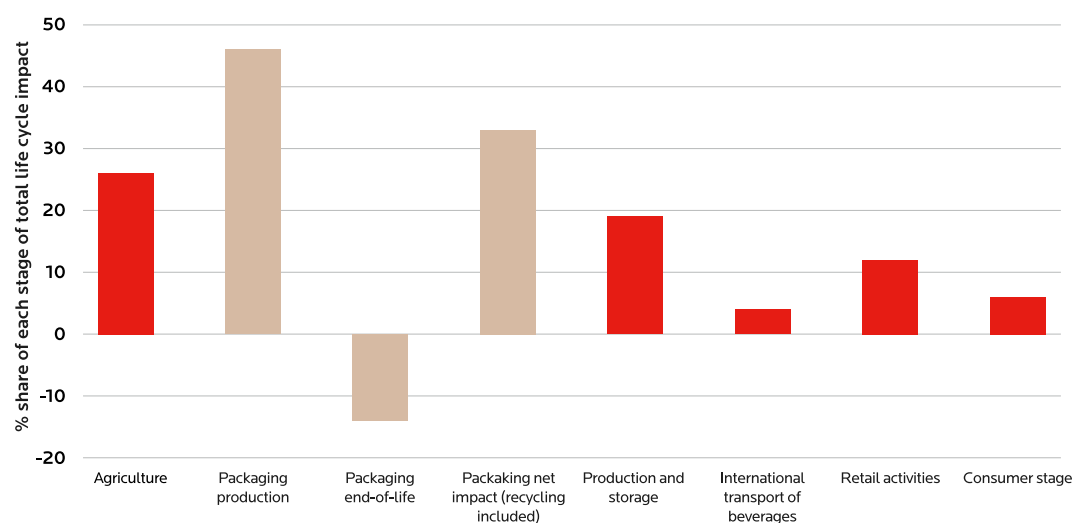
Since the expansion there may now be up to six different attributes related to the environmental responsibility of production methods and conditions: vegan, natural wine, local sustainability certification, lightweight glass wine bottle, organic, and biodynamic. The last two were already included in our product information before the expansion.

We intend to further expand our environmental product information over the coming years. Our target is for 40 per cent of Alko products to have at least one environmental attribute by 2020.

By 2020, we also intend to ramp down the use of single-use plastic products in Alko's range of auxiliary products, including plastic carrier bags.

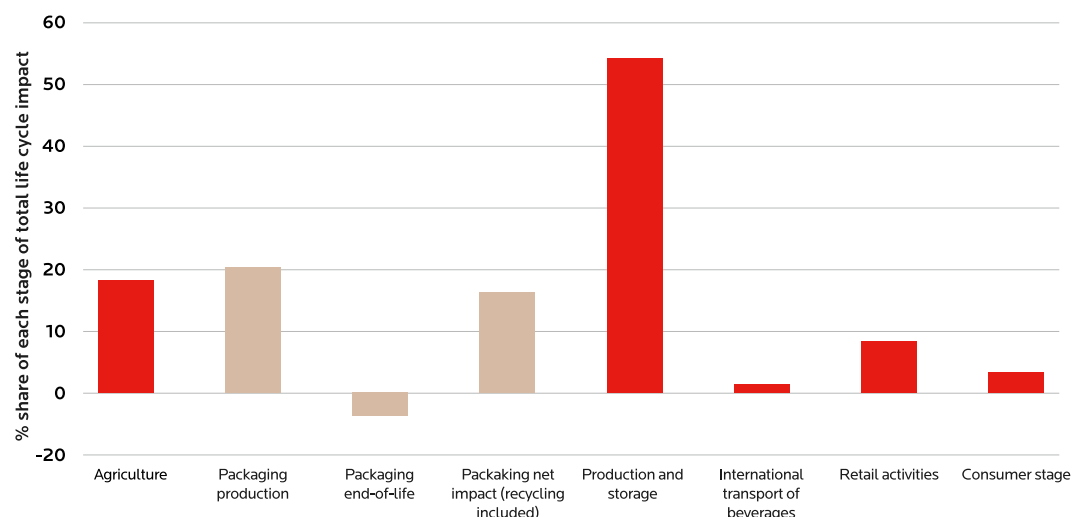
GLOBAL WARMING IMPACT OF PRODUCT CATEGORIES

WINE



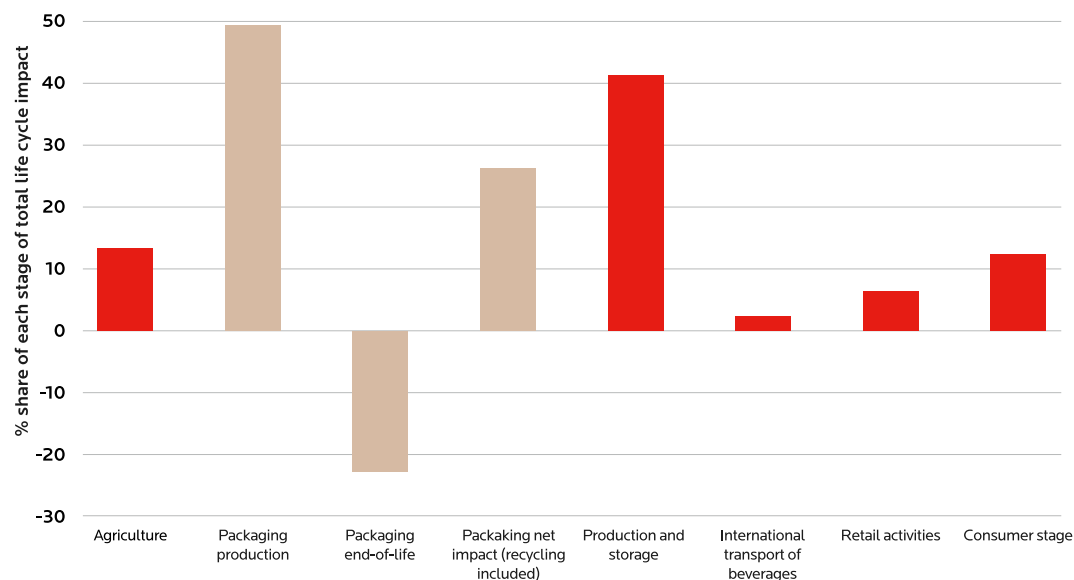
GLOBAL WARMING IMPACT OF PRODUCT CATEGORIES

DISTILLED BEVERAGES



GLOBAL WARMING IMPACT OF PRODUCT CATEGORIES

BEER



THE ENVIRONMENTAL IMPACT OF OUR OWN OPERATIONS

That businesses should reduce the environmental impact of their operations is a fundamental consumer expectation, and this goes for Alko as well. Alko actively seeks to reduce the environmental impacts of its store network.

Alko has environmental objectives extending to 2020. One objective is to reduce electricity consumption in our store network by 10 per cent (kWh/m²) and the resulting carbon dioxide emissions by 50 per cent (compared to 2017).

One of our major development projects during 2017 was to prepare for the introduction of an environmental information system covering our head office and entire store network. This system was implemented in early 2018, and will enable us to monitor stores' electricity consumption and correct any anomalies.

The total electricity consumption at our stores, regional offices and head office in 2017 was approximately 11.6 GWh (2016: 12 GWh, 2015: 13.0 GWh). These figures are partially measured and partially based on estimates. Our objective is to replace electricity consumption estimates with metered data in our entire store network by the end of 2018.

In 2017, Alko purchased a total of 5 050,7 MWh of renewable electrical energy whose origin has been certified as specified in the Act on Verification and Notification of Origin of Electricity. This accounted for about 47.5 per cent of Alko's total electricity consumption. Our goal is to halve the carbon dioxide emissions resulting from Alko's electricity consumption during the period 2018–2020. The means to achieve this include saving electricity and increasing our use of green electricity products.

The effectiveness of our environmental efforts begins with choosing the store premises. When choosing store premises, we consider environmental perspectives: functional waste management, a diverse range of recycling possibilities, environmentally friendly forms of heating, space efficiency, and a bottle return system shared with other companies operating in the property. The majority of Alko's 355 stores and regional offices operate out of leased premises. A total of 21 stores are located in premises owned by Alko. The average area of our stores is 284 square metres (288 in 2016, 296 in 2015). Our objective is to reduce the average area of our stores by 5 per cent by year 2022. The direct environmental impacts of store premises are heat, electricity and water consumption. Consumption figures are only available for electricity consumption.

Alko stores sent a variety of materials for recycling or reuse in 2017, including auxiliary process substances such as:

- cardboard waste 1,115.6 tons (2016: 1,005 tons, 2015: almost 840 tons). This total volume covers only the cardboard waste sent via Alko's own return transport, that is, 125 out of 355 stores.
- plastic pallets 146.1 tons (2016: 132 tons, 2015: 108 tons). This figure covers all 355 stores.
- inner bags from boxed wines 3.7 tons (2016: almost 3.6 tons, 2015: 3 tons)

The volume of both cardboard waste and plastic pallets has risen by about 30 per cent in two years. This change is significant, both as an absolute figure and in relation to the slight contraction in sales (in terms of litres) during this period. One factor behind this is the expansion of our selection: During the aforementioned period, the number of products in Alko's assortment has risen by 1,051 (1,090) products. As of 2018, we will be able to collate information about recycling in our store network's new environmental information system, which will enable us to monitor packaging waste volume and our success in reducing it.

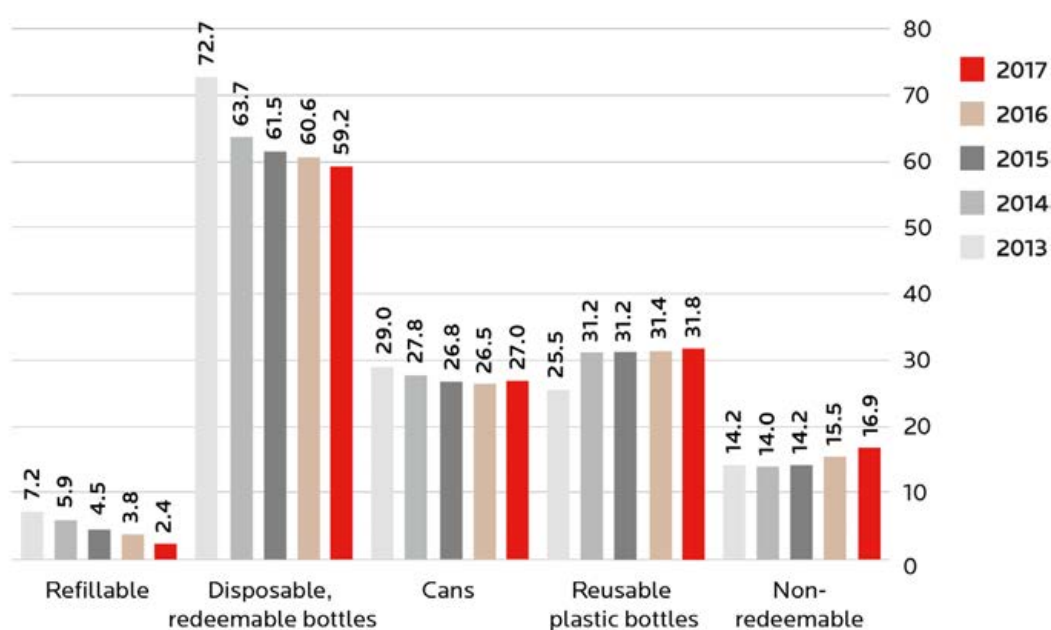
Only very small quantities of hazardous waste are being generated in Alko's stores, for example used batteries, compact fluorescent lamps and fluorescent tubes. No hazardous waste data is being collected for reporting.

Durable, recyclable and reusable furniture materials are selected for stores and office premises. The renovation and furnishing of our stores is managed centrally. Our goal is to enable the reuse of as much surplus furniture as possible, either in our own locations or externally. We refurbished a total of 34 stores in 2017. Eight of these were 'facelifts' where reuse of existing shelving and fixtures is possible. The reuse rate for fixtures was about 24 per cent. Since we launched the implementation of our new store concept Alko's fixture reuse rate has temporarily declined as we are completely refurbishing stores.

Old display shelving is also reused in stores' storage areas. In 2017, our reuse rate for this purpose was about 70 per cent.

Alko recycles empty beverage containers in close cooperation with other retail chains. Alko is one of the owners of Suomen Palautuspakkaus Oy (PALPA), which manages deposit beverage packaging. Alko is also a member of Suomen Keräyslasiyhdistys ry, the association responsible for recycling non-deposit glass packaging. Suomen Pakkauskierrätys RINKI Oy administers Finland's network of recycling points for non-deposit bottles, cardboard packaging, and plastic packaging.

PACKAGES SOLD IN ALKO



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

We monitor the CO2 emissions of our deliveries. In 2017, CO2 emissions from Alko's own import deliveries totalled 451 tons (2016: 707, 2015: 521 tons). CO2 emissions from domestic distribution to stores totalled 42.4 tons (2016: 61 tons, 2015: 73 tons)*. The figures for domestic transportation include products delivered to stores via Alko's central warehouse, but not return transport. If premises do not provide facilities for recycling, we use return transport to collect recyclable plastic foils and packaging board from our stores for centralised recycling. The reduction in our CO2 emissions during 2017 is mainly due to lower volumes passing through our central warehouse and import service. Alko's CO2 emission data for domestic transport does not cover products that are delivered directly from suppliers' own warehouses.

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

At head office, we paid attention to environmental perspectives when deciding the location and the office design. One of our core objectives is to encourage the use of public transport. Employees no longer have their own rooms or assigned workstations, and we have also optimised the size and number of conference rooms. These efforts have resulted in a space efficiency figure of 12.5 m2 per person in 2017.

The increased use of remote working and instant messaging has also led to a reduction in emissions caused by Alko employees' work commutes. We utilize video conference technology in personnel training to replace physical meetings. And with our suppliers and other partners we also favour telephone conferences over face-to-face meetings.

ENVIRONMENTAL PARTNERSHIPS

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

THE ENVIRONMENTAL RISKS OF ALKO'S BUSINESS

Alko has not specifically defined business-related environmental risks nor associated key indicators. The greatest environmental risks in the industry are changes in environmental conditions that stem from global climate change and may impact the primary production of ingredients in Alko's supply chain. The most significant of these are increased temperatures during the growing season and worsening droughts in areas already suffering from critical water shortages. These include wine-producing regions such as South Africa, California and southern Italy. Climate change has also increased the unpredictability of weather during the growing season. In 2017, early summer frost and exceptionally heavy rains caused harvest losses in important French wine regions such as Bordeaux. The industry is also subject to local, producer-specific environmental risks, mainly in relation to the use of pesticides and their harmful direct, longer-term effects on local ecosystems and communities.

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

*These figures have been calculated with following emission factors:

Deliveries using Alko's import service:

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

Domestic distribution to stores:

- emission factor 0,052246 kg/tn*km

In 2017, Alko sold 137.3 million beverage packages (2016: 137.8 million):

- 59.2 million single-use deposit glass bottles
- 2.4 million refillable glass bottles
- 27.0 million cans
- 31.8 million recyclable plastic bottles with a redeemable deposit
- 6.9 million bag-in-boxes
- 4.1 million paperboard containers
- 5.9 million non-deposit glass and plastic bottles



Employees and wellbeing

We want to provide the best work for our new and existing experts.

BEST WORK

'Best Work' is one of Alko's strategic targets and material responsibility themes. Offering the Best Work is important to us, as a good employee experience enables Alko to provide our customers with the best customer experience. A good employee experience is also a core element in building an external image as a desirable employer, and is therefore essential for successful recruiting and attracting skilled personnel.

Best Work is one of the areas in our strategic quadrant, and is steered by one of our four strategic steering groups. This steering group consists of representatives of Alko's business, HR and finance functions, and personnel representatives. The steering group convenes about ten times per year. The following diagram shows the key success indicators that have been defined for the Best Work strategic area:

	2017	2017 target	2016	2015
Personnel Motivation Index	4.08	4.12	4.09	4.16
Number of red teams (identical vs prev. year)	2	15 identical	6	-
Voluntary turnover	10.10%	<10.00%	8.72%	5.90%
Total absences due to sickness	4.61%	4.30%	4.33%	4.07%
Accidents at work	112	110	113	113
No. of disability pensions	6		2	1
Pay grade and forecast for the following 2 years	3; E2		5	5
Retirement age (retirement pensions)	60.7	60.0	61.0	59.8
No. of retirees	24		53	57
Service Index	4.7	4.65	-	-
Attendance rate for seasonal training	75.2%	75.0%	79.0%	-
Additional duty rota fill rate	76%	71%	72%	-
No. of personnel/No. of supervisors (stores)				
- all	17.5	16-18	-	-
- permanent	12.8	12-15	8.8	8.3

These indicators are monitored at least twice a year by the steering group and at least once a year by the Management Team. Each indicator has also been assigned to a particular team in the HR unit, and these teams are responsible for continually monitoring their assigned indicator. Corrective measures are taken if trends in a particular indicator do not meet the target level.

The working methods associated with Best Work targets are defined as part of our HR processes, and coaching in these is regularly provided for supervisors at Service Manager Days or during other supervisor training events. If corrective measures are required, we inform personnel through internal communication channels or supervisors.

Our Personnel Motivation Index is the main indicator used to measure success in Best Work. The trends in this indicator over the past few years can be seen in the table above.

Our scores for this indicator exceed the service-sector comparison level. Alko scored higher than the comparison figures in 10 out of the 11 questions for which such figures were available.

PERSONNEL IN FIGURES

Changes in the number of employees

In 2017, Alko restructured its store organisation to better support business requirements.

Instead of heading up only one store, a store manager will now lead several stores. Such a collection of stores is called a store group. As a result, the number of store managers declined from about 220 to 133. The title for this position was also changed from store manager to service manager.

The new operating model seeks to make resourcing as flexible as possible, while also ensuring sufficient work for personnel.

This structure makes it easier to both provide and receive flexible work.

The revamp also led to the creation of new positions: chain manager and chain coach. These positions play a key role in mobilising standardised working methods throughout our store network.

There has been no significant year-on-year change in the number of personnel. Alko's payroll rose by an average of 0.67 per cent during 2017 (1.2% in 2016).

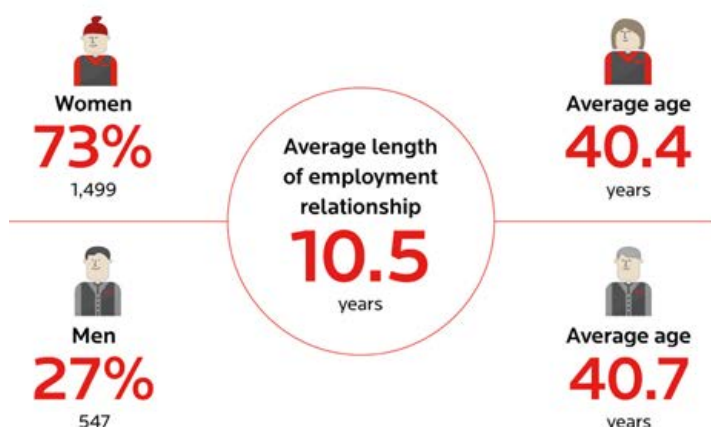
Our personnel numbers vary greatly during the year, as we have a large number of fixed-term employment contracts during the high seasons. In 2017, Alko hired about 400 fixed-term employees during the high seasons.

DEVELOPMENT OF NUMBER OF PERSONNEL

	2017	2016	2015	2014
No. of personnel at the year-end	2,646	2,655	2,525	2,611
Person work years	1,870	1,856	1,821	1,879
No. of permanent contracts at year-end	2,037	2,057	2,108	2,205
Average no. of personnel during the year	2,401	2,385	2,415	2,524
Calculated average person work years during the year	1,870	1,856	1,821	1,879
Fixed-term contracts	539	-	-	-

Almost all experts at head office are employed on a full-time, permanent basis. The majority of those on part-time contracts are sales staff, as Alko's sales are both highly seasonal and weighted towards the end of the week. We increased our investments in HR planning and resourcing during 2017. Our goal is smooth and successful HR planning that will ensure both a suitable amount of work for our personnel and the highest possible fill rate for duty rosters.

A TYPICAL ALKO EXPERT



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

Five of Alko's eight-person Management Team are women. 59 per cent of service managers are women and 41 per cent men. 43 per cent of supervisors at head office are women and 57 per cent men.

NO. OF PERSONNEL BY PERSONNEL GROUP

PERMANENT CONTRACTS

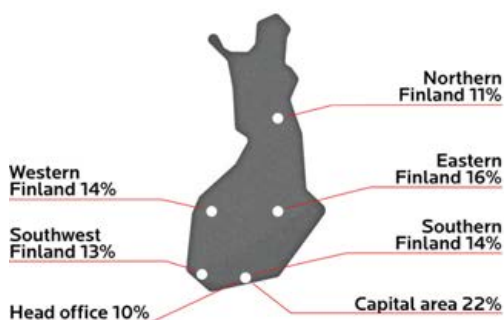


Geographical distribution of personnel

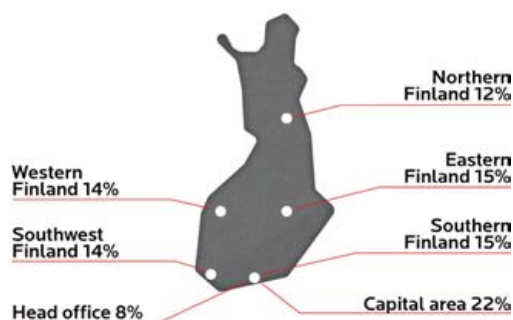
Alko's regional organisation is divided into six regions, each led by a regional manager. Our personnel are evenly distributed across these six geographical regions. Alko's head office functions are located in Helsinki.

GEOGRAPHICAL DISTRIBUTION OF STAFF

Temporary



Permanent



Duration of employment and turnover

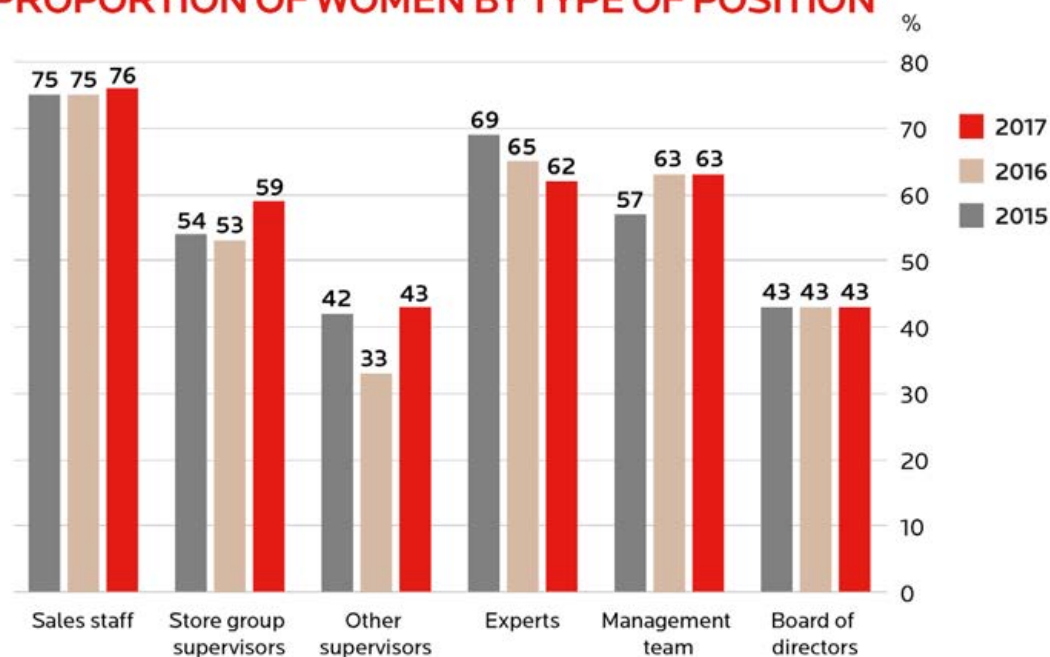
Long-term employment contracts at Alko are an indication of the high level of employee loyalty. About 60 per cent (66%) of our permanent employees have been with Alko for more than five years. However, we did see more voluntary personnel turnover in 2017 than previously. We assume that the changes made to our store structure at the beginning of the year had an impact on the increase in turnover. We did not make any personnel reductions in conjunction with our organisational restructuring.

Alko's former President & CEO, Hille Korhonen, left Alko's service in May 2017, and Leena Laitinen took over as President & CEO in autumn 2017. Before joining Alko, Laitinen was the Managing Director of Snellman Group. Anton Westermarck (Alko's Executive Vice President, Finance) was acting as CEO until Laitinen took up her new position.

During 2017, Alko signed 1,146 (1,008) new employment contracts with 1,000 (883) people. 248 (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. The same people regularly return to work at Alko during the high seasons. In 2017, returning employees accounted for 292 of those hired (327 in 2016). 708 (556) people begun working for Alko for the first time in 2017. Of these new employees, 76 (73) per cent were women and 24 (27) per cent were 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 – sales staff – involves a number of tasks requiring good physical condition (for example, unloading product deliveries). Fluent Finnish-language skills also remain important in customer service. We aim to increase our future investments in personnel diversity.

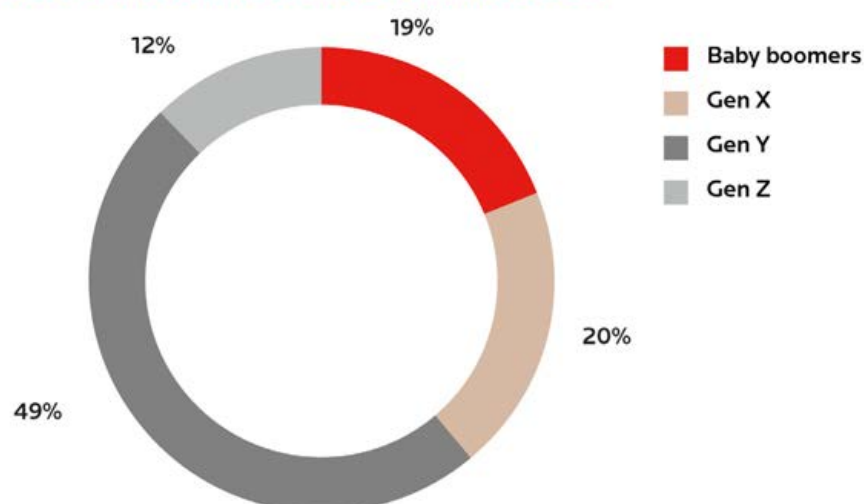
PROPORTION OF WOMEN BY TYPE OF POSITION



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. Seasonal employees tend to be slightly younger than our permanent staff.

AGE DISTRIBUTION ALL EMPLOYMENT CONTRACTS



Baby Boomers 1945-1965

Gen X 1966-1976

Gen Y 1977-1994

Gen Z 1995-

Family leave

70 employees were on family leave at the end of 2017 (87 in 2016). Of these, four were men and the remainder were women.

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

Terminated employment contracts

The average duration of employment contracts at Alko is 12.8 (13.2) years for men and 9.6 (9.9) years for women.

	2017	2016	2015
Terminated employment contracts	1,186	823	562
Terminated employment contracts, women, %	73.6	72.5	70.4
Terminated employment contracts, men, %	26.4	27.5	29.6
No. of resignations	279	180	125

Retirees accounted for 24 (53) of those who left Alko's employment in 2017.

The average retirement age in 2017 was 60.9 (60.1).

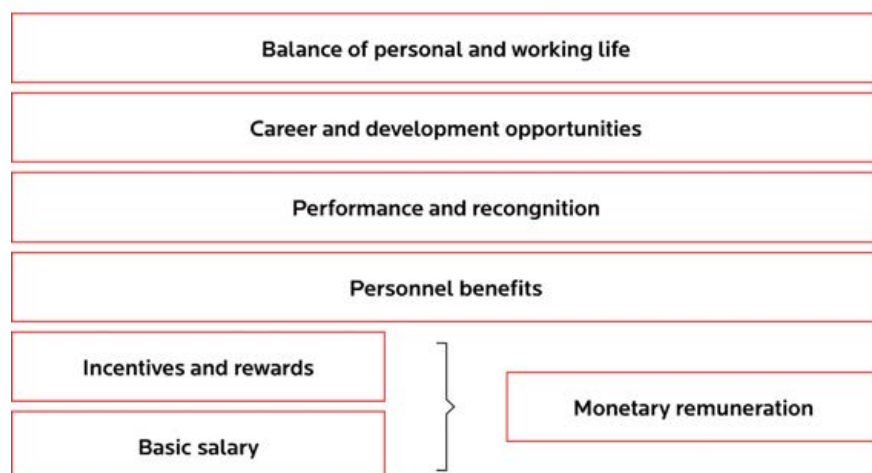
Voluntary turnover increased in 2017. Improvements in the external job market and Alko's restructuring are both believed to have had an impact on this increase in turnover.

Due to the long duration of employment contracts at Alko, we have not previously seen any need for leaving interviews. However, in late 2017 we decided to launch an anonymous online questionnaire that will be sent to everyone who leaves Alko's employ as of 2018. This will help us identify the areas we should develop in order to curb the rising trend in personnel turnover.

REMUNERATION

We offer our personnel a remuneration system that supports our strategy. Monetary remuneration comprises of a basic salary plus a strategic incentive scheme that covers all employees and visibly connects strategy and remuneration – joint success is rewarded.

ELEMENTS OF TOTAL REMUNERATION AT ALKO



Alko's personnel expenses totalled EUR 86.6 (87.6) million in 2017. A total of EUR 70.1 (70.5) million was paid in salaries and fees. Employees and management will be paid EUR 2.3 (2.8) million in incentives for 2017, inclusive of personnel-related expenses. This represents 2.7 (3.2) per cent of personnel costs.

In 2017, the average annual pay (including any benefits and incentives) for Alko employees as a whole was EUR 30,276 (32,846). Several factors contributed to the decline in annual earnings, including increased personnel turnover and the structural reorganisation in spring 2017, which reduced the number of store supervisors working at Alko. The average annual earnings of employees is 7.5 per cent of the CEO's total annual earnings. This figure includes all current employment contracts for 2017, irrespective of contract type or working hours. As Alko's current President & CEO joined the company in October 2017, estimated annual earnings have been used as a comparison.

Alko uses the pay groups and tables specified in collective agreements. Other factors influencing remuneration are also agreed upon in the collective agreements and apply to all employees within their 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 posi-

tions for office personnel.

No external consultants have been used in the planning of Alko's remuneration system.

Remuneration system for store 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.

In 2016, we introduced the remuneration system agreed on by Alko and the ALV Union, which represents sales personnel. This system is based on demonstrable skill, and in 2017 it was time to get it fully established. The areas of expertise we evaluated were:

product expertise, service expertise, store expertise, efficient working methods and work community skills support the realisation of Alko's strategy through their practical implementation.

We continued making revisions to the remuneration system for store group supervisors during 2017, and the new system will be introduced in February 2018. Store group supervisors (service managers) will have contractual salaries whose minimum levels will be based on the net sales and customer volumes of their store group.

Ratio of basic salary – men and women

The majority of Alko personnel are paid in accordance with pay group tables, so their pay is the same as all others in the same pay group. Equal pay is one of the items we examine when drawing up our biennial equality plan. The last check was carried out in 2017, on the basis of remuneration for the previous year. If you look at the total earnings of the two largest personnel groups – sales staff and store supervisors – you will notice that women's gross earnings were 2–6 per cent lower than men's in 2016. As the majority of Alko employees are paid on an hourly basis, differences in the number of hours worked have a significant impact on total earnings. The difference has, however, narrowed since the last check.

If you consider experts at head office as a group, the basic salary earned by women is 83 per cent of men's earnings, and 86 per cent of men's in the case of supervisors. This difference is explained by the fact that more men than women work in the most demanding positions.

Gender does not affect remuneration at Alko and no significant differences have been observed between comparable positions. Contractual salaries are checked regularly – once a year – when they are compared to both internal and external comparison groups.

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).

TRAINING AND DEVELOPMENT

Over the last few years, competence development at Alko has largely followed the 70/20/10 model, in which the majority of competence development (70 per cent) is acquired on the job through working and learning, 20 per cent is acquired by the work community (by receiving knowledge and support, and benefiting from others' experience), while the remaining 10 per cent comes from training. Alko employees received an average of five days of training in 2017.

New customer service recruits are provided with a standard training package consisting of induction, online courses, intro days, and basic training. Supervisors support their team's competence development. Once the foundations are in place, the best way to develop competence is by learning on the job. However, other areas shown in the tree, such as season training, also support competence development. Employees are able to harness and further enhance their expertise through a variety of tasks performed alongside their primary duties, such as through coaching or applying for one of our 'master' positions.

Although our competence development does not focus on traditional training, we still train our employees more than average. Alko's customer service personnel received five days of training in 2017. The most important training event is season training, which is targeted at all customer service personnel. It ensures that our employees develop and maintain a high level of service and product expertise, and also learn new practices and tools. Season training is held twice a year, and its attendance rate is one of our HR unit's key targets. In 2017, we once again met the target for season training with an attendance rate of 75.2 per cent (target 75%).

We also strengthened our collaborative competence and its development with the introduction of MyAlko sparring partners. MyAlko sparring partners are customer service personnel who 'spar' with sales supervisors (service managers) in their work. Last year, our focus was on developing supervisors' preparedness for meetings. During the year, sparring partners held 66 sparring sessions with supervisors, and these activities received positive feedback from supervisors and sparring partners alike. These activities will continue in 2018.

We maintain a high level of product expertise with product presentations and tastings that enable our customer service personnel to familiarise themselves with products. We revamped these tastings in 2017. Now that store staff are organised around store groups, we updated our tasting concept to be part of regular store group

team meetings. We also created a variety of tasting procedures and videos to support development. One major innovation relating to product expertise and tasting is the Taste Deposit app, which was completed during 2017.

Taste Deposit is Alko's own digital online app that acts not only as a platform for tasting notes and product-related stories, but also as a customer service aid when seeking enriched product information. Taste Deposit is a shared platform where all Alko employees can store and share their product expertise. The app is intended solely for internal use at Alko and was introduced at the beginning of 2018. Taste Deposit is a good example of expertise that has been converted into digital format, and how information can be shared and enriched across store borders.

To support service and selection development within store groups, we established new roles – masters. Each store group's service manager is now supported by a service and selection master. The service master's task is to provide inspiration in fine-tuning our customer experience, while the selection master is responsible for enhancing the store group's selection and personnel's product expertise. 269 customer service personnel completed master training in 2017 after the launch of these activities in autumn 2017.

CHECKOUT SURVEY OF SALES EXPERTISE

Our checkout survey to measure sales staff's expertise, which asked 'How did we serve you today?', resulted in an excellent score of 4.7 (target 4.65).

During 2017, our efforts to enhance supervisory work focused on supervisory work in our store organisation in particular. Regional managers had their own development programme, which included both personal and group coaching. In conjunction with the restructuring of our regional organisation, all service managers were provided with personal coaching and, when they were changing roles, also group coaching.

We provided support for people taking on the new service manager role with, for example, a three-day service manager development programme that was attended by about 45 people in 2017. This coaching programme includes interaction skills, a variety of perspectives and tools to use in business management, and service management. All service managers will complete the coaching programme, and further coaching programmes will be held during 2018.

Regular supervisor clinics were arranged for supervisors at head office, covering strategic and current topics in HR management.

In late 2017, we also held nationwide Supervisor Days, which were attended by almost all of Alko's supervisors. These days focused on Alko's strategic themes, their further development, and their mobilisation.

Alko also continued to make considerable investments in personnel safety. With this in mind, we wanted to ensure that our safety training's content and coaching methods are modern and up to date. Our safety training was revised for 2017 with a new partner, and 34 local safety training sessions were held. These consisted of training for salespeople with security responsibilities, basic conflict management, and emergency first aid. Over 500 personnel attended these sessions. The training was organised as an interactive event in which everyone could actively participate. The average score given in feedback for this training was 4.76 (on a scale of 1–5).

In addition to local training, we also introduced a new online safety training course that was completed by 2,284 employees during the year.

COMPETENCE DISCUSSIONS AND PERFORMANCE REVIEWS

Target and competence discussions are a key element in our management practices, both in terms of performance management and personal development. Every employee attends target and competence discussions twice a year. 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. The new HR system introduced in 2016 supports the target and competence discussion process and its documentation.

The competence development of Alko employees bolsters a model for personnel competence development and HR management that places great importance on Alko's skills hierarchy, voluntary competence development, and identifying and sharing your own expertise. Competence was discussed with every salesperson with the aid of our skills hierarchy tool. Launched in 2015, Alko's skills hierarchy is a feedback tool for use in personal competence discussions. It compares a salesperson's competence to their job description and the competence level at their own store.

PERSONNEL SURVEYS

In 2017, Alko moved from the traditional, extensive annual personnel survey to the Pulse survey, which is carried out 3–4 times a year. The Pulse survey aims at a more up-to-date and agile way of monitoring changes in our operations. Pulse asks for feedback on our employee experience, supervisory work, the working community, personal enthusiasm and motivation, and work enablers. One or two questions about current topics are added as required.

We conducted three Pulse surveys during 2017, two of which had the same content. The last Pulse survey of the year measured our Personnel Motivation Index, which also formed part of our more extensive personnel survey in 2016.

At the beginning of the year, the Pulse index stood at 4.11 (out of a maximum of 5). The Pulse survey conducted in the autumn, after the store group restructuring, resulted in a score of 4.07. There are no comparison figures for the previous year, as Pulse was conducted for the first time with this content.

The Pulse survey conducted at the end of the year contained the Personnel Motivation Index questions from the 2016 personnel survey.

The results have remained virtually unchanged since last year's survey. The Personnel Motivation Index from the end-of-year Pulse survey was 4.08 compared to 4.09 in 2016.

As the Personnel Motivation Index includes questions that have been specifically tailored to Alko, no direct comparisons with other service-sector companies can be made with regard to the index as a whole. In the 20 questions for which there is comparison data, Alko's results are, except for one question, better than the sector in general.

Compared to the 2016 results, the Personnel Motivation Index has improved in 'opportunities to influence your work' and 'competence and learning'. This is partially explained by improved feedback (thanks to the competence assessment) and the new selection and service master roles. A slight fall was seen in 'motivation', 'team dialogue', 'improving together', and 'belief in Alko's future'. We believe that the new, larger store group teams have had an impact on this, as it will take time for them to start feeling like teams. Factors relating to the new Alcohol Act are also believed to have caused some uncertainty. Compared to other service-sector companies, our strengths are 'learning new things', 'well-being', 'experiencing success', and 'a happy and energised feeling at work'.

The Pulse survey's response rate varied between 69 and 83 per cent last year, so the results can be considered highly representative of personnel's views.

The results are actively used to support management, and are evaluated by the Management Team, at regional and unit conferences, and during team meetings. Teams are also involved in evaluating the results and agreeing on development measures. If required, HR provides supervisors and teams with proactive support for these development measures.

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. Our strongly collaborative culture, in which personnel representatives participate in developing our company, has helped enable successful restructuring and the mobilisation of effective new operating models. Close cooperation with personnel will continue to be a requirement for Alko's success.

It is important that the strategies and interests of Alko's representative body is in line with Alko's strategy and interests. In December 2016, conflicts of interest led Alko to resign from the Federation of Finnish Commerce FFC and join Service Sector Employers PALTA, of which we have been a member since 1 July 2017.

Alko adheres to two collective agreements: The collective agreement for store personnel signed by the ALV Union and Service Sector Employers PALTA, and the collective agreement for salaried personnel signed by Alkoholialan Toimihenkilöt ry and Service Sector Employers PALTA. The aforementioned collective agreements apply to all Alko employment contracts. At the turn of the year 2017–2018, both sides engaged in negotiations that resulted in revisions to the structure and content of both collective agreements. The collective agreement for store personnel is valid until 31 January 2019 and the collective agreement for salaried personnel until 31 January 2020.

Alko's shop steward system is based on the shop steward agreements appended to the collective agreements.

Collective negotiations on employee reductions comply with the minimum notification period (five days) and negotiation period (14 days/six weeks) specified in the Cooperation Act.

In 2017, Alko restructured its store network into store groups. The collective negotiations preceding this restructuring complied with the seven-day notification period. The negotiations lasted a little over six weeks with a total of twelve sessions.

Cooperation agreements are appended to both collective agreements, and they specify the purpose and goals of cooperation that must be complied with at Alko, and also the parties involved. The cooperation agreements also specify the regulations governing the consultative committee. Alko's consultative committee comprises both employer representatives and representatives from both personnel organisations. The consultative committee met a total of 11 times during 2017, including one email conference.

Alko had two employment disputes pending in the courts during 2017. Legal verdicts were issued for both during 2017.

One dispute concerned a discrimination case from 2009, in which the Supreme Court ordered the employer to pay damages to the employee. In the Supreme Court's opinion, the employer had placed the employee in a discriminatory position due to the employee's obligation to return to work after paid maternity leave. The fact that the employer's actions were based on a regulation in the collective agreement had no bearing on the case.

The second case involved a dispute from 2015 concerning the termination of an employment contract. The employee's contract was terminated as a result of failure to comply with safety guidelines and regulations issued by the employer. The Eastern Finland Court of Appeal decreed that the employer's decision to terminate the aforementioned employment contract was justified, and ordered the employee to compensate the employ-

er for the legal fees incurred by the court case.

WELL-BEING AND SAFETY AT WORK

We have always made considerable investments in wellbeing at Alko. Wellbeing is not a separate activity – it is a natural part of everyday work at Alko. Wellbeing contributes to the attainment of our strategic targets and is a key element in Alko's Best Work strategy area.

During 2017, we continued the introduction of our new target and competence discussion model. A new HR system was also introduced to support these discussions. Multi-store work expanded to several store groups during 2017, which enabled competence to be developed and shared more extensively throughout the working community.

We also continued the MyAlko coaching sessions that were launched in 2016. The MyAlko game used 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. During the game, personnel also made strategic initiatives for developing everyday activities, and these were collected and forwarded to a number of head office units for further action.

As in previous years, Alko also made investments in working capacity management during 2017, engaging in close cooperation with relevant partners. In particular, we have been focusing on identifying working capacity risks and supporting individual employees' working capacity. In autumn 2017, we introduced a system to support the Early Support Model. This system is for use by supervisors, who receive reminders about tasks relating to working capacity and early care. However, there are still improvements to be made in working capacity management and we will continue to make investments in this area in 2018 by, for example, developing reporting, cooperating with occupational healthcare, looking for new active support models and treatment paths, and developing supervisors' skills in working capacity management.

During 2017, we granted a total of six disability pensions, three of which were partial disability pensions and three full disability pensions. Vocational rehabilitation is actively in use at Alko. Our rehabilitation usage rate is good – 1.13 per cent – compared to 0.86 per cent at other companies in the retail industry.

In addition to safety training, we also invest in the safety of our personnel in other ways. With regard to safety services, we have developed our security guard services, technical security solutions, and alarm and service centre functions to better meet our stores' needs. Other significant measures included renewing our safety reporting system and risk evaluation tool, and introducing electronic emergency rescue plans.

OCCUPATIONAL SAFETY

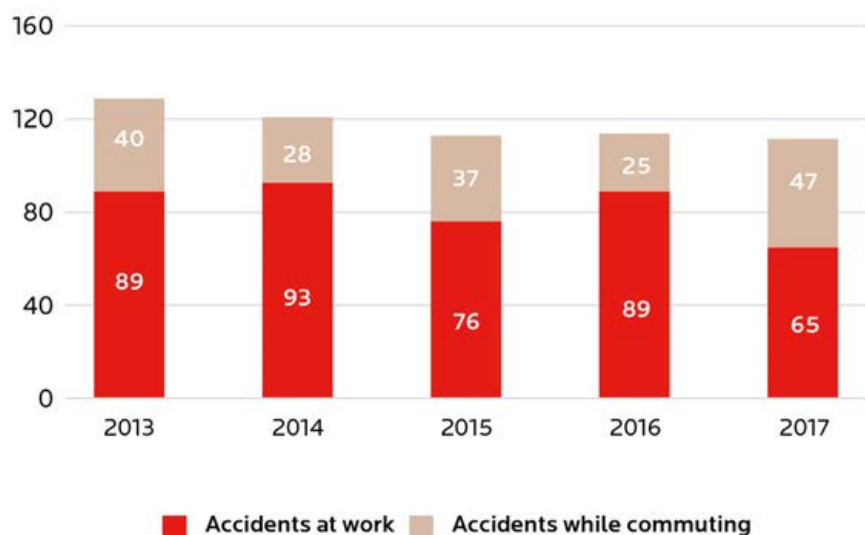
Alko has a company-level occupational safety committee to aid cooperation on occupational safety matters. Sales staff have four representatives in this committee, salaried employees two, and the employer one. Occupational healthcare representatives also attend meetings as required. The occupational safety 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 2017. The occupational safety organisation also met for two full-day seminars to develop its activities. The focal points for development were developing standardised operating models and enhancing cooperation both within the occupational safety organisation and with its partners. Other important areas for development included indoor air issues, ergonomics, working capacity issues, self-management, and safety communications.

ACCIDENTS AND OCCUPATIONAL DISEASES

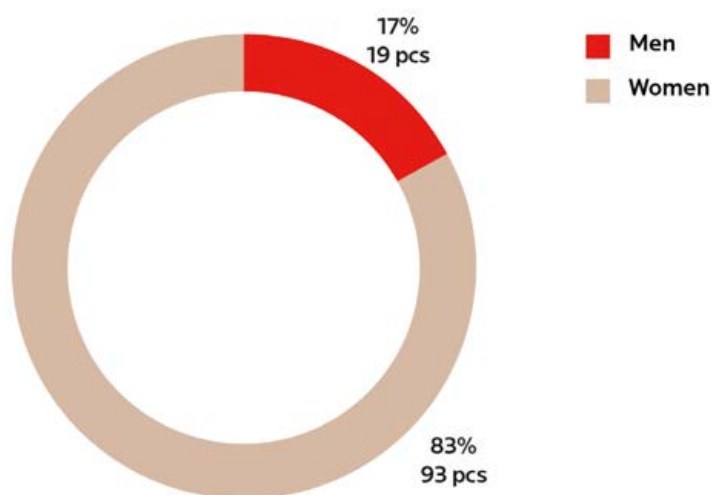
Alko places a strong focus on guidance for employees and preventing work-related risks. There were a total of

ACCIDENTS AT WORK, 2013–2017



112 (114) occupational accidents at Alko in 2017, 47 (25) of which occurred whilst commuting. There were no occupational diseases or work-related fatalities at Alko during 2017.

ACCIDENTS BY GENDER IN 2017



Accidents led to a total of 1,101 days of absence, that is, one accident caused an average of nine days of absence (four in 2016). 83 per cent of accidents involved women and 17 per cent men.

The most common workplace accidents at Alko involve lifting- and impact-related musculoskeletal injuries that are incurred when unloading product deliveries. Slipping and falling are the most common accidents that occur whilst commuting. Slippery weather conditions in the first quarter contributed to the rise in commuting-related accidents in 2017. Regular safety communications and, thereby, increased awareness on how to prevent accidents, contributed to the decline in workplace accidents. An accident that led to two long sickness absences had an impact on the increased seriousness of accidents.

ABSENCE DUE TO SICKNESS

Sickness absences have risen slightly on the previous year.

The sickness absence rate now stands at 4.61 per cent compared to 4.33 per cent in 2016. There were 12.19 (10.99) sickness days per person. There has been an increase in short (1–3 days) and medium-length (11–29 days) sickness absences in particular.

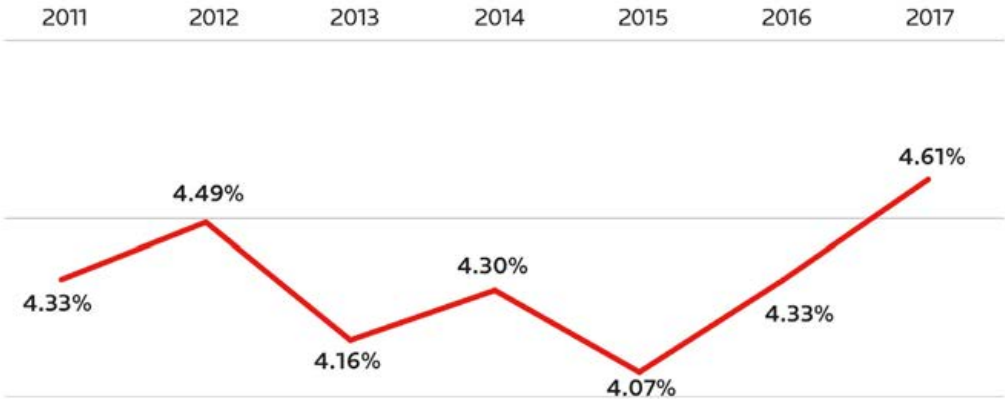
The majority of sickness absences are short (fewer than 30 days). Long sickness absences (30 days or more)

account for 11.21 per cent of all absences (10.73% in 2016 and about 11.76% in 2015).

No single factor is responsible for the rise in sickness absences. It can be assumed that the structural reorganisation and new operating models have somewhat burdened personnel, and this is reflected in the rise in short sickness absences.

Musculoskeletal diseases continue to be one of the major reasons for individual sickness absences. Salespeople engage in medium-heavy work, which means that due attention must be paid to ergonomics. In 2018, we invested in promoting health and supporting working capacity with targeted and more-effective services and

TRENDS IN ABSENCE DUE TO SICKNESS



Sickness absence rate

development measures. Particular attention was paid to ergonomics, workflow, and promoting and maintaining good health in order to reduce musculoskeletal-related absences.

There are some positions at Alko in which tasting products plays an essential role in daily work. We provide these employees with regular dental care services.

During 2017, we continued to further strengthen our cooperation on working capacity management with a number of organisations, such as occupational safety, occupational healthcare, and our pension company. In 2018, we will further develop working capacity-related operating models and bolster the mobilisation of our updated early care model by, for example, introducing online working capacity coaching to support supervisors.



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 since 2004 based on GRI reporting guidelines. This material references the GRI Standards listed in the GRI Index. The report is published in Finnish and English, and is only available online. This report has not been externally assured.

ASPECT BOUNDARIES

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

The information presented in the report is based on statements made in support of the company's operational activities and the figures from the audited accounts and financial statements. The report covers all of Alko's operations.

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

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

MATERIAL ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY

Material aspects for reporting were defined 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 2018.

MATERIAL ASPECT MANAGEMENT

MATERIAL ASPECTS	ASPECT BOUNDARY
Financial responsibility	
Economic performance	Alko Inc
Indirect economic impacts	Alko Inc, Society
Procurement practises	Alko Inc, goods suppliers
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	Amfori BSCI high-risk country suppliers
Grievance mechanisms regarding working conditions	Personnel, goods
Supplier human rights assessment	Amfori 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

CALCULATION PRINCIPLES FOR THE COMPANY'S CORPORATE RESPONSIBILITY INDICATORS

Total electricity consumption of stores

Electricity consumption data is collected retroactively on an invoicer-specific basis from invoices or by requesting this data from lessors/invoicers. Consumption data is not available for all properties, as the lessor either does not invoice for electricity consumed or charges for it as a fixed monthly sum with the rent.

Indicator data is sourced from Turku Energy. The company obtains detailed consumption data only for stores under its own monitoring. For other properties, electricity consumption data for 2016 has been compiled from invoices or requested from the invoicer (at the level of kWh/month).

Annual reporting primarily uses estimated figures for the previous year, because there is often not enough time to compile consumption data before the annual report is published (excl. data from Turku Energy).

Electricity consumption at the head office

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

Packages sold by Alko

The figures for the number of packages sold by Alko are compiled from the Universal sales report, which is updated monthly.

CO2 emissions of import deliveries

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

CO2 emissions of domestic distribution to stores

The indicator data covers the volumes delivered from Alko's central warehouse to stores.

The figures are collected from deliveries received by the stores (as entered in the GOLD system). Volumes received during the year are collected from the DW system in litres, which are then converted to tonnes (multiplier: 1.44 kg/l). Transport distances are compiled (trunk transport: from the Alko central warehouse to terminals, and distribution transport: from terminals to stores). If the locations of terminals and stores have not changed during the year, the figures for the previous year are used. The deliveries completed (tn*km) are calculated for each store and then multiplied with the emissions multiplier (CO2/tn*km). The emissions are added up, arriving at the total emissions for the year.

Packaging materials collected from Alko stores with the return transport

The indicator data is collected from the GOLD system by outputting all store warehouse events (returns) for packaging materials treated as separate products. The amounts of each packaging material returned are added up and multiplied by the assumed weight (the three last numbers of the product number), and the figures for each material are added together.

The company only reports on the material amounts collected with return transport from stores and then directed to recycling. Amounts recycled via the properties or otherwise are not included in the figures.

Environmental product information

Environmental product information (organic, biodynamic, vegan, natural wine, certificated local sustainable development and lightweight glass bottle) is based on product information cards from Alko's product management system. Alko's online shop provides up-to-date figures for each day.

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

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

Mystery Shopping

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

Amfori BSCI audits of responsible procurements

Alko monitors compliance with ethical operating principles in the supply chain with Amfori BSCI audits. Data on audit results is collected from Amfori BSCI's database.

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 2017. Our report for 2016 was published in March 2017.

Additional information

Alko's Communications Unit

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GRI-index

We report in accordance with the GRI Standards.

All GRI Standards version 2016.

	DISCLOSURE TITLE	LOCATION	OMISSIONS AND ADDITIONAL INFORMATION
	GENERAL STANDARD DISCLOSURES		
102-1	Name of the organisation	Basic mission	
102-2	Activities, brands, products, and services	Basic mission	
102-3	Location of headquarters	Basic mission	
102-4	Location of operations	Basic mission	
102-5	Ownership and legal form	Basic mission	
102-6	Markets served	Basic mission	
102-7	Scale of the organisation	Basic mission	
102-8	Information on employees and other workers	Basic mission	
102-9	Supply chain	"Responsible supply chain"	
102-10	Significant changes to the organisation and its supply chain	"Responsible supply chain"	
102-12	External initiatives	"Responsible supply chain"	
102-13	Membership of associations	Interest groups and materiality	
102-14	Statement from senior decision-maker	CEO greetings	
102-16	Values, principles, standards, and norms of behaviour	Corporate Governance	
102-17	Mechanisms for advice and concerns about ethics	Corporate Governance	
102-18	Governance structure	Corporate Governance	
102-22	Composition of the highest governance body and its committees	Board of Directors and committees	
102-35	Remuneration policies	Management remuneration	
102-36	Process for determining remuneration	Employees and wellbeing	
102-37	Stakeholders' involvement in remuneration	Employees and wellbeing	
102-38	Annual total compensation ratio	Employees and wellbeing	
102-39	Percentage increase in annual total compensation ratio	Employees and wellbeing	
102-40	List of stakeholder groups	Interest groups and materiality	

102-41	Collective bargaining agreements	Employees and wellbeing	
102-42	Identifying and selecting stakeholders	Interest groups and materiality	
102-43	Approach to stakeholder engagement	Interest groups and materiality	
102-44	Key topics and concerns raised	Interest groups and materiality	
102-45	Entities included in the consolidated financial statements		Alko Oy and Kiinteistö Oy Arkadiantalo
102-46	Defining report content and topic boundaries	Interest groups and materiality	
102-47	List of material topics	Interest groups and materiality	
102-48	Restatements of information	Disclosure principles	
102-49	Changes in reporting	Disclosure principles	
102-50	Reporting period	Disclosure principles	
102-51	Date of most recent report	Disclosure principles	
102-52	Reporting cycle	Disclosure principles	
102-53	Contact point for questions regarding the report	Disclosure principles	
102-54	Claims of reporting in accordance with the GRI Standards	Disclosure principles	
102-55	GRI content index	GRI index	
102-56	External assurance	Disclosure principles	
MANAGEMENT APPROACH			
103-1	Explanation of the material topic and its Boundary	Disclosure principles	
103-2	The management approach and its components	Responsibility management	
103-3	Evaluation of the management approach	Responsibility management	
ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	Financial impact	
201-2	Financial implications and other risks and opportunities due to climate change	Risk management, Environmental responsibility	
201-3	Defined benefit plan obligations and other retirement plans	Financial impact	
201-4	Financial assistance received from government		Alko does not receive any financial assistance from government.
INDIRECT ECONOMIC IMPACTS			
203-2	Significant indirect economic impacts	Financial impact, Employees and wellbeing	
ANTI-CORRUPTION			
205-2	Communication and training about anti-corruption policies and procedures	Corporate Governance	
205-3	Confirmed incidents of corruption and actions taken	Corporate Governance	One case of suspicion of misconduct. There were no cases concerning corruption, in which Alko was accused.
ANTI-COMPETITIVE BEHAVIOR			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		No legal actions.
ENVIRONMENTAL IMPACTS			
302-1	Energy consumption within the organisation	Environmental responsibility	
	Own aspect: environmentally friendly products	Environmental responsibility	
EMISSIONS			
305-3	Other indirect (Scope 3) GHG emissions	Environmental responsibility	
306	EFFLUENTS AND WASTE		
306-2	Waste by type and disposal method	Environmental responsibility	
SOCIAL IMPACT			
	Own aspect: reducing harmful effects of alcohol in society	Prevention of the harmful effects of alcohol	
EMPLOYMENT			
401-1	New employee hires and employee turnover	Employees and wellbeing	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employees and wellbeing	
401-3	Parental leave	Employees and wellbeing	

LABOR/MANAGEMENT RELATIONS			
402-1	Minimum notice periods regarding operational changes	Employees and wellbeing	
OCCUPATIONAL HEALTH AND SAFETY			
403-1	Workers representation in formal joint management-worker health and safety committees	Employees and wellbeing	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Employees and wellbeing	
403-4	Health and safety topics covered in formal agreements with trade unions	Employees and wellbeing	
TRAINING AND EDUCATION			
404-1	Average hours of training per year per employee	Employees and wellbeing	Training hours have not been reported by gender.
404-2	Programs for upgrading employee skills and transition assistance programs	Employees and wellbeing	
404-3	Percentage of employees receiving regular performance and career development reviews	Employees and wellbeing	
DIVERSITY AND EQUAL OPPORTUNITY			
405-1	Diversity of governance bodies and employees	Employees and wellbeing	
405-2	Ratio of basic salary and remuneration of women to men	Employees and wellbeing	
NON-DISCRIMINATION			
406-1	Incidents of discrimination and corrective actions taken	Responsible supply chain	
		Employees and wellbeing	
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Responsible supply chain	
SUPPLIER SOCIAL ASSESSMENT			
414-1	New suppliers that were screened using social criteria	Responsible supply chain	Alko conducts Amfori BSCI audits to assess the social responsibility of suppliers in high-risk countries. The percentage of suppliers screened has not been separately reported out of new suppliers but out of suppliers in high-risk countries.
PUBLIC POLICY			
415-1	Political contributions	Interest groups and materiality	Alko does not give any financial contribution to political parties.
CUSTOMER HEALTH AND SAFETY			
416-1	Assessment of the health and safety impacts of product and service categories	Product quality	All standard selection, seasonal selection and special edition products are evaluated through sensory evaluation supported by laboratory tests. All products in Alko's selection are evaluated through laboratory tests. In addition, product quality is surveyed based on risk analysis based on product quality programme and through customer feedback. Alko will create a new indicator to follow these analyses.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Product quality	There were no such violations in 2017.
MARKETING AND LABELING			
417-1	Requirements for product and service information and labeling	Product quality	Correctness of labeling is checked when the products are listed. b) Alko will start to follow the success rate of these checks. The goal is that 100% products have a valid label. Information on the other indicators has not been collected.
417-2	Incidents of non-compliance concerning product and service information and labeling	Product quality	
SOCIOECONOMIC COMPLIANCE			
419-1	Non-compliance with laws and regulations in the social and economic area		There were no cases of non-compliance in 2017.

FINANCIAL STATEMENTS



Year 2017 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 2017, we implemented projects to create the new Alko – a multi-channel company with a real sense of community.

KEY FIGURES 2017



Alko's net sales including alcohol tax totalled EUR 1,174.8 (1,162.7) million. Net sales excluding alcohol tax were EUR 596.5 (582.6) million. Growth in sales of higher-quality products and a moderate rise in the general price level contributed to this rise in net sales.

Operating profit came to EUR 52.6 (46.6) million, representing 4.5 (4.0) per cent of net sales including alcohol tax.

Alko's result improved on the previous year due to net sales growth. Fixed costs decreased, with the greatest fall being seen in other operating costs. Alko continued to invest in the development of its store network and multichannel customer service.

Profit for the financial year was EUR 40.7 (38.3) million, which was better than budgeted.



Board of Directors' report

In 2017, Alko had the sole right to engage in the retail sales of drinks containing more than 4.7 per cent alcohol by volume. The company's operations and sole right to engage in the retail sale of such alcoholic beverages are based on social and health policy goals to reduce the harmful societal effects of alcohol.

Our strategic objectives are to provide the best customer experience and best work, be a responsible player in the community, and operate efficiently.

62 (60) per cent of Finns consider the restrictions imposed by alcohol policy to be suitable or would like to see tighter restrictions, while 32 (32) per cent would like to relax the restrictions.

60 (62) per cent of Finns think that Alko is a good method of limiting the harmful effects of alcohol consumption. 78 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 2018.

KEY FIGURES

	2017	2016	2015
Net sales, EUR million	1,174.8	1,162.7	1,158.9
Net sales excluding alcohol tax, EUR million	596.5	582.6	572.7
Operating profit, EUR million	52.6	46.6	49.7
Income tax on ordinary operations, EUR million	-10.5	-9.5	-10.1
Profit for financial year, EUR million	40.7	38.3	40.2
Income from ordinary operations, EUR million	40.7	38.3	40.2
Return on equity, %	50.4	49.6	51.7
Equity ratio, %	31.9	29.6	30.3
Balance sheet total, EUR million	271.2	256.3	256.4
Gross investments in fixed assets, EUR million	7.9	7.4	4.7
Average number of personnel during the financial year	2,401	2,385	2,415
Salaries and fees for the financial year, EUR million	70.1	70.5	67.4

Alko's net sales including alcohol tax totalled EUR 1,174.8 (1,162.7) million. Net sales excluding alcohol tax were EUR 596.5 (582.6) million. Growth in sales of higher-quality products and a moderate rise in the general

price level contributed to this rise in net sales.

Operating profit came to EUR 52.6 (46.6) million, representing 4.5 (4.0) per cent of net sales including alcohol tax. Fixed costs totalled EUR 152.1 (155.1) million.

Alko's result improved on the previous year due to net sales growth. Fixed costs decreased, with the greatest fall being seen in other operating costs. Alko continued to invest in the development of its store network and multi-channel customer service.

Financial income and expenses amounted to EUR -1.4 (1.2) million, which included EUR 1.5 million in property depreciation. Profit for the financial year was EUR 40.7 (38.3) million, which was better than budgeted.

The balance sheet total came to EUR 271.2 (256.3) million, which was up on the previous year, mainly thanks to growth in cash and cash receivables.

The equity ratio came to 31.9 (29.6) per cent.

The company's total investments amounted to EUR 7.9 (7.4) million. Investments mainly focused on the development of the store network and strategic projects such as developing Alko's IT system environment.

TAXATION AND PRICES

There were no changes in the excise tax on alcoholic beverages in 2017. The excise tax on alcoholic beverages was raised by an average of 10 per cent at the beginning of 2018.

Alko's retail sales prices rose by 0.6 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 Kantar TNS Oy survey, travellers' private imports of alcohol declined by 18.8 per cent on 2016 when translated into pure alcohol. The National Institute for Health and Welfare will publish alcohol consumption statistics on its Internet site (www.thl.fi) in April 2018.

Total sales by volume in Alko stores amounted to 93.2 (93.5) million litres, representing a year-on-year decrease of 0.3 per cent.

The sales by volume of spirits decreased by 1.1 per cent and brewery products by 0.7 per cent. Sales by volume of mild wines rose by 0.1 per cent.

Product group	Sales in 2017, millions of litres	Sales in 2016, millions of litres	Year-on-year change, millions of litres	Year-on-year change, per cent
Vodkas and spirits	13.8	13.9	-0.1	-0.7
Other spirits	7.6	7.6	0	0.3
Fortified wines	2.8	3.0	-0.2	-6.3
Red wines	24.2	24.5	-0.3	-1.2
White wines	21.4	21.2	0.3	1.2
Sparkling wines	5.6	5.4	0.2	3.9
Rosé wines	1.1	1.0	0.1	7.3
Other mild wines	1.7	1.9	-0.2	-8.4
Ciders	0.7	0.7	-0.0	-0.3
Long drinks	5.8	5.6	0.2	2.9
Beers	8.2	8.5	-0.3	-3.2
Non-alcoholic beverages	0.4	0.5	-0.0	-2.8
Total	93.2	93.5	-0.3	-0.3
Total, converted to pure alcohol	15.6	15.7	-0.1	-0.4

BEST CUSTOMER EXPERIENCE

At the end of 2017, Alko had a total of 355 (353) stores and an online store. Our store network was supplemented by 60 (66) order pick-up points. 57.3 (57.7) million customer visits were made to Alko stores.

According to the Finland Today national customer feedback survey, Alko has been providing the best customer experience since 2012, and we retained our place as number one in the retail trade in 2017 as well. Alko's overall score was 8.52 (8.55). 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.

We continued to develop our digital services. These include the Alko online store, where customers can order any available product from our selection for collection at any Alko store or pick-up point. Our online store had just under 40,000 registered users at the end of 2017.

PRODUCTS

Alko's product range featured beverages from 70 (69) countries. Beverages were purchased from 195 (197) domestic importers or manufacturers, and from 348 (276) foreign suppliers.

A total of 8,615 (6,451) different products were sold by Alko during 2017.

Alko lists new products for sale on a weekly basis. In 2017, we listed 1,051 (1,090) new products in our standard selection (including seasonal products and special editions) and 1,955 (765) in our sale-to-order selection. Alko also sells 120 (94) alcohol-free beverages and a range of accessories.

MAJOR RESPONSIBILITY OBJECTIVES AND RESULTS

Alko has drafted a report on responsibility in accordance with Directive 2014/95/EU of the European Parliament and of the Council. The report has been drafted voluntarily.

The most important subareas of responsibility at Alko are responsible alcohol sales, environmental responsibility, responsibility in the supply chain and personnel.

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

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

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

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

Responsibility management

Responsibility is Alko's strategic focal area. We set annual targets for both responsible operations and their development, and also measure our success in achieving them. We implement responsible operating methods in all of our operations.

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

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

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

Company-level objectives and results

Alko's responsibility performance is measured among the general public with the responsibility score of T-Media Oy's Confidence and Reputation survey. The 2017 result saw a year-on-year decline and fell short of the target. The survey does not give any obvious answers for this fall in Alko's score for responsibility. Alko will be conducting a more in-depth survey of the factors influencing perceptions of Alko's responsibility during spring 2018.

	2017	2017 target	2016	2015
Confidence and Reputation survey, responsibility factor	3.31	3.46	3.51	3.42

Prevention of the harmful effects of alcohol

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

Targets and results

In age-limit checks, 4.6 million customers showed proof of their legal age. 0.67 million checks of suspected intoxication and 0.39 million checks of suspected handovers were also carried out. The Mystery Shopping result was 95 per cent, exceeding the target. We have therefore already succeeded in our objective to raise our

Mystery Shopping success rate in age-limit supervision from 91 to 95 per cent by 2020.

Alko cooperates with a variety of organisations and associations to prevent the harmful effects of alcohol. Alko continued its Clearly Good Work and In the Company of Children programmes in 2017. Two of the major projects in our Clearly Good Work programme were Let's Talk About Intoxicants in the Workplace (coaching for supervisors implemented in collaboration with the A-Clinic Foundation) and a calculation on preventative substance abuse work (implemented in collaboration with the Finnish Association for Substance Abuse Prevention EHYT and Aalto University). One of the highpoints in the In the Company of Children programme was the You Are Not Alone seminar, whose theme was the harmful effects of alcohol abuse on family and loved ones. Performances of Fragile, a play depicting alcoholism in the family, also continued in theatres and schools around Finland. These programmes will also continue in 2018.

	2017	2017 target*)	2016	2015
Age-limit checks, million	4.6		3.8	3.7
Suspected cases of intoxication, thousand	670		635	634
Suspected cases of handover, thousand	395		345	311
Mystery Shopping age-limit checks	95%	92 %	91%	90%

*Store-specific targets

Environment

Alko's environmental work is based on our environmental policy. The most significant environmental impacts in our supply chain arise from the manufacture of packaging, the cultivation of ingredients, energy consumption in the beverage industry, and emissions. The Nordic alcohol monopolies' joint environmental study was published in June 2017. On the basis of this study, we have been developing joint operating methods relating to environmental impacts in the supply chain, and a shared strategic action plan was completed in February 2018. Our goal is to find 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. We must take legislation on anti-competitive practices and the impartiality requirement related to Alko's position into consideration when defining and adopting environmental requirements. In cooperation with goods suppliers and other Nordic alcohol monopolies, we seek to find operating methods and tools to promote sustainable development in years to come.

Last year, we expanded the environmental information available for our selection to cover vegan products, products with a certificate of sustainable development, natural wines, and wines in lightweight glass bottles of max 420 grams. Our aim is to increase the amount of available environmental information about beverage production over the coming years.

Environmental efforts in Finland are guided by the objectives and responsibilities specified in the ISO 14001 environmental management system. Alko's ISO 14001 certificate was updated to version ISO 14001:2015 in January 2017, and the first follow-up audits were conducted in November 2017. During 2017, we prepared an environmental information system for introduction in our store network. The new system went online at the beginning of February 2018, and will enable us to monitor electricity consumption and recycling at Alko stores.

Environmental risks

The greatest environmental risks in the industry are changes in environmental conditions that stem from climate change and may impact the primary production of ingredients in Alko's supply chain. The most significant of these are increased temperatures during the growing season and worsening droughts in areas already suffering from critical water shortages. These include wine-producing regions such as South Africa, California and southern Italy. Climate change has also increased the unpredictability of weather during the growing season.

In 2017, early summer frost and exceptionally heavy rains caused harvest losses in important French wine regions such as Bordeaux. The industry is also subject to local, producer-specific environmental risks, mainly in relation to the use of pesticides in primary production and their indirect, long-term harmful effects on local ecosystems and communities.

Targets and results

Our target is to reduce electricity consumption in our store network by 10 per cent and the resulting carbon dioxide emissions by 50 per cent (compared to 2017). We also want to make a 10 per cent reduction in the volume of packaging waste in our stores by cooperating with our suppliers to change transport packaging practices.

The estimated total power consumption of Alko shops, regional offices and the head office was estimated at 11.6 GWh in 2017. In 2017, Alko purchased a total of 5,050.7 MWh of renewable electrical energy whose origin has been certified as specified in the Act on Verification and Notification of Origin of Electricity. This accounted for about 47.5 per cent of Alko's total electricity consumption. We will halve our carbon dioxide emissions in 2018-2020 by both saving electricity and increasing our use of green electricity products.

	2017	2017 target*)	2016	2015
Total electricity consumption (Estimated total power consumption of Alko shops, regional offices and the head office)	11.6 GWh		12 GWh	13.0 GWh
Alko stores sent a variety of materials for recycling or reuse in 2017, including auxiliary process substances such as:				
Cardboard waste (The total volume covers only the cardboard waste sent via Alko's own return transport, that is, 125 out of 355 stores.)	1,115.6 tons		1,005 tons	840 tons
Pallet plastic (This figure covers all 355 stores.)	146.1 tons		132 tons	108 tons
Inner bags from boxed wines	3.7 tons		3.6 tons	3 tons

*No environmental targets were set for 2017. Our target is to reduce electricity consumption in our store network by the end of 2020 by 10 per cent and the resulting carbon dioxide emissions by 50 per cent (compared to 2017). We also want to make a 10 per cent reduction in the volume of packaging waste in our stores.

Best work

2017 was a year of renewal and learning within our organisation. In early 2017, we restructured our sales organisation so that stores now work together in store groups. At the same time, we changed the roles of our store supervisors. Store managers are now service managers, and each manager is responsible for 1–5 stores.

Alko's HR processes and services are established and developed in cooperation with personnel representatives. We follow a policy of continual collective negotiation with staff. We monitor developments in our employee experience using the Pulse questionnaire. Our key objective is to maintain our employee experience at a good level.

Our staff develop their skills in a variety of ways, such as online courses, on-the-job learning, and traditional classroom teaching. There were an average of five (4.0) training days per employee. Training seeks to give sales personnel up-to-date information about our products and service concepts, thereby supporting the development of an even better customer experience.

Alko had 2,646 (2,655) employees at the end of 2017. In terms of computational work-years, the work done by full-time and part-time employees totalled 1,870 (1,856) work-years. Alko had an average of 2,401 (2,385) employees during 2017. Alko employed 581 men and 1,666 women in 2017.

At Alko, we monitor our personnel breakdown by gender, age, and duration of employment contract. We also monitor personnel turnover (voluntary vs other) and employment contract types (fixed-term vs permanent).

There is a lot of variation in our payroll, as Alko recruits seasonal workers on fixed-term contracts. At the end of last year, 54 per cent of employees were part-time, 22 per cent were full-time and 24 per cent were on fixed-term contracts. Alko does not use leased labour. Staff working hours are planned on the basis of customer flows and are mainly weighted towards seasons and other customer flow peaks.

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 70.1 (70.5) million. Staff and management will be paid EUR 2.3 (2.8) million in incentives for 2017, inclusive of personnel-related expenses. This represents 2.7 (3.2) per cent of personnel costs.

	2017	2017 Target	2016	2015
Personnel Motivation Index	4.08	4.12	4.09	4.16
Voluntary turnover	10.10%	<10%	8.72%	5.90%
Total absences due to sickness	4.61%	<4.30%	4.33%	4.07%
Accidents at work	112	110	113	113
TyEL pay grade and forecast for the following 2 years	3		5 3	5
Retirement age (retirement pensions)	60.7	60	61	59.8
No. of personnel/No. of supervisors (stores)				
- all	17.5	16-18	-	-
- permanent	12.8	12-15	8.8	8.3

Alko invests in occupational safety, risk prediction, and occupational healthcare. We monitor dangerous situations and the number of accidents, including any subsequent sick leave. We use health and safety data to draw up measures that will enable us to proactively support our staff's wellbeing to the best of our ability.

Respecting human rights

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

All Alko suppliers must sign a covenant in which they agree to comply with Amfori BSCI's ethical operating principles for supply chains. To support this, we updated our e-learning responsibility training, with the aim of ensuring a sufficient understanding of the practical impacts of ethical principles. These ethical principles are based on international agreements and covenants, and include the following: the right to freedom of association and collective bargaining, fair and legal remuneration, occupational health and safety, protection for young workers, banning bonded labour, ethical business, banning discrimination, decent working hours, banning child labour, promoting steady employment, and environmental protection.

Suppliers must also complete Alko's e-learning course on responsibility and Amfori BSCI.

Human rights risks

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

Targets and results

By 2020, we want to ensure that two thirds of the beverage volume purchased from high-risk countries has been audited by Amfori BSCI or otherwise certified for responsibility (for example, Fair Trade, Fair for Life, For Life).

Alko commissioned 16 inspections, that is, audits in 2017. In 2017, audits focused on South Africa, where we will also perform further audits during 2018. Another new focal area will be the Mediterranean, and in particular production areas in Southern Italy.

South Africa, a six-month responsible procurement project, is still ongoing. This project provides suppliers with induction on consistent and adequate working methods to prevent human rights violations.

Alko and the other Nordic alcohol monopolies use some of the same goods suppliers, and thus audits by the other monopolies support efforts to ensure and develop responsibility in Alko's supply chain. The most common areas for development detected in the conducted audits were deficiencies in occupational health and safety. Overtime work exceeding the legal maximums is also regrettably common, especially during the harvest season. Four zero-tolerances cases (as specified in Amfori BSCI's protocol) came to light in Alko's supply chain in 2017. All of these cases related to the inappropriate treatment of workers. Zero-tolerance cases are by nature flagrant violations or negligence that require immediate intervention. These are handled with regular follow-up measures but to an accelerated schedule.

Alko's 2018 targets involve increasing transparency in the supply chain, developing our partners' expertise, and more active cooperation with stakeholders, in order to ensure the effectiveness of our responsible procurement model and increase dialogue and interaction. In Alko's operating model, it is critical to ensure that beverage suppliers take adequate measures to minimise human rights risks.

	2017	2017 target	2016	2015
Amfori BSCI audits	16	23	17	21

By 2020, we want to ensure that two thirds of the beverage volume purchased from high-risk countries has been audited by Amfori BSCI or otherwise certified for responsibility.

Anti-bribery and corruption

All personnel have received training in Alko's business principles, which have been approved by the Board of Directors. Our business principles guide each and every Alko employee in accordance with the current values and principles for responsible operations that have been approved by Alko's management. The Board of Directors approves Alko's business principles and any amendments to them on an annual basis. In accordance with its business principles, Alko personnel may not accept or give any direct or indirect gifts or benefits that could be considered as bribery or corruption. Alko requires every employee to comply with and promote its business principles. Any instances of non-compliance should be reported to the supervisor, the supervisor's immediate supervisor, or the internal audit function. The company does not have a separate system for reporting non-compliance.

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

In 2017, there were no ongoing legal cases or investigations into non-competitive behaviour involving Alko.

SHARES AND SHAREHOLDERS

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

GOVERNANCE

On 4 May 2017, Alko's Annual General Meeting elected Harri Sailas, M.Sc. (Econ.), as Chair of the Board and Director General Kirsi Varhila, M.Sc. (Pol.Sc.), as Vice-Chair of the Board. The Annual General Meeting also elected the following members: Director General Juhani Eskola, MD, PhD; Director Kristiina Hannula, MSc. (Sports Science); Kuisma Niemelä, MA; Ulrika Romantschuk, EVP, Communications & Branding, BA (Political Science); 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 forms a central part 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.
- Responsibility risks in the procurement chain for alcoholic beverages may damage the company's reputation as a responsible player.

EVENTS AFTER THE END OF THE FINANCIAL PERIOD

Parliament ratified the new Alcohol Act in late 2017, and the Act came into force in two phases on 1 January 2018 and 1 March 2018. At the turn of the year, daily consumer goods stores were permitted to sell strong beers, ciders and long drinks containing up to 5.5 per cent alcohol by volume. As from the beginning of March, Alko stores can be open from Monday to Friday until 21:00. In addition, the stores can now serve customers on Easter Saturday from 9:00 to 18:00 and on both Christmas Eve and Midsummer's Eve from 9:00 to 12:00.

Changes to the percentage limits for alcoholic beverages that can be sold in grocery stores are expected to have a negative impact on sales of Alko's brewery beverages. However, estimates indicate that the changes brought by the new Alcohol Act will not have any impact on the coverage of our store network.

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 fell due to increases in alcohol taxation implemented by the Estonian government.

Alko will continue to develop its store network to meet a variety of customer needs. We will also continue to develop our digital services and refurbish our stores in line with our updated store concept.

THE BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The Board proposes that EUR 383,052.31 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 2017 totalled EUR 67,501,120.96 (EUR 56,415,591.23), of which EUR 40,702,477.42 (EUR 38,308,944.97) is profit for the financial year.

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

	EUR
• distributed as a dividend	32,000,000.00
• to be retained under equity	35,501,120.96
Distributable funds, 31 December 2017	67,501,120.96

No substantial changes have taken place in the company's financial situation 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, 21 March 2018

Board of Directors



Supervisory Board statement

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

Helsinki, 22nd of March, 2018

Vesa-Matti Saarakkala Chairman	Ulla Parviainen Member
Anna-Maja Henriksson Vice Chairman	Aino-Kaisa Pekonen Member
Tuula Haatainen Member	Pekka Puska Member
Susanna Huovinen Member	Juha Rehula Member
Osmo Kokko Member	Päivi Räsänen Member
Pauli Kiuru Member	Sari Sarkomaa Member



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