



# Alko Annual Report 2002

responsible and service-oriented

## *Alko's values*

*Customer satisfaction*

*Responsibility*

*Transparency*

*Expertise*

*Profitability*



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# Alko in Brief

**A**lko is a trading chain specialising in alcoholic beverages. The company's basic function is the retail sale of alcoholic beverages and it also aims to prevent the harmful effects of alcohol consumption. As the sole alcohol company referred to in the Alcohol Act, Alko plays a central role in the Finnish alcohol system: that of promoting alcohol use with minimal harmful effects.

Our aim is to serve all customers responsibly and impartially. At the end of 2002, some 2 330 personnel served customers in 299 Alko shops, and other personnel numbered about 180.

According to Alko's customer-oriented strategy, we constantly strive to improve our customer service. Our strategy is drawn up in accordance with the functions laid down for the company in the Alcohol Act and Decree, and also considering the targets set for the state-owned company and its corporate values.

The Alcohol Act gives Alko a monopoly over the retail sale of all beverages containing alcohol, apart from fermented beverages containing up to 4.7% alcohol by volume and wines sold by Finnish farm wineries containing up to 13% alcohol by volume. Calculated in terms of 100% alcohol, Alko accounted for 52 per cent of retail consumption and 41 per cent of documented consumption. Alko sales including VAT and excise duty totalled 1 332 million euros and tax-exempt net sales 453 million euros.

By virtue of its monopoly status, Alko maintains a high standard of customer service and responsible control over sales in its shops. For example, our self-supervision system includes checking the age of young customers and not selling to obviously intoxicated persons.

Alko publishes a booklet called Listing Procedure and Retail Sale of Alcoholic Beverages, stating the principles governing relations between Alko and its suppliers.

In 2002, Alko opened 15 new shops and moved nine others to more central locations. The total number of order points was increased by three. The product range was overhauled and 500 new products added.

## Key figures

	2000	2001	2002
Sales proceeds (incl. VAT), mill. euros	1 175	1 256	1 332
Net sales, mill. euros <sup>1</sup>	386	419	453
Operating profit, mill. euros	44	33	-1
Gross investment, mill. euros	7	9	8
Personnel	2 208	2 399	2 508
Number of shops (31 Dec.)	275	284	299
Order points (31 Dec.)	124	138	141
Number of brands (31 Dec.)	1 700	1 850	1 800

<sup>1</sup> Excl. tax

# Letter from the President and CEO



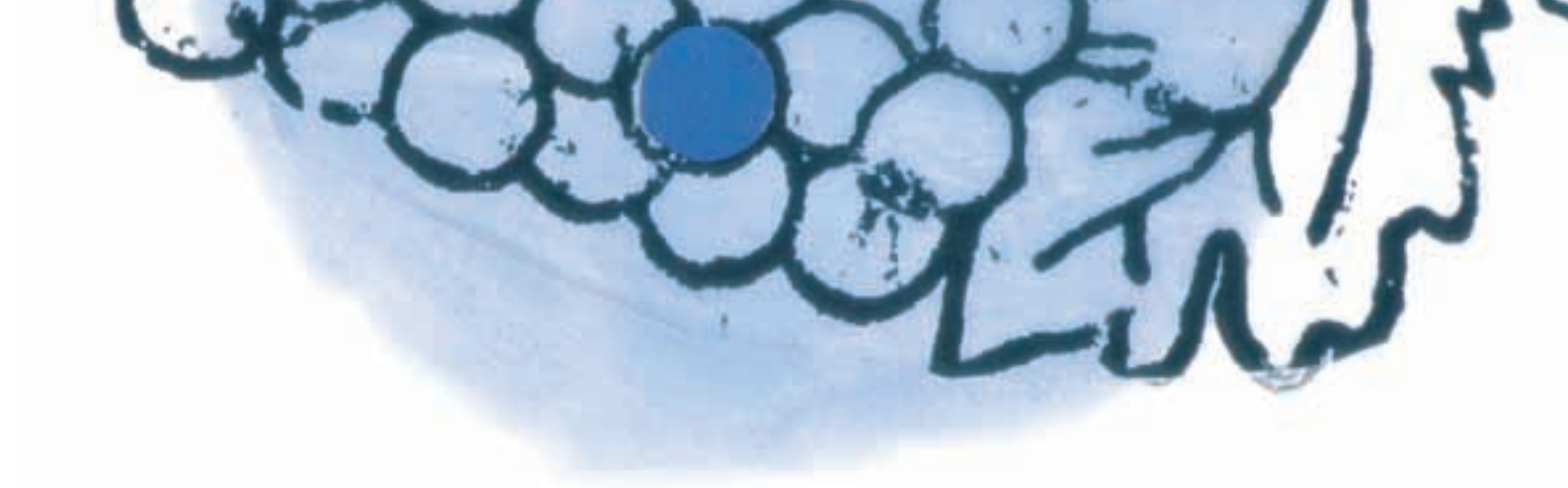
Alko has been operating for 70 years now. It was launched when the Prohibition Act was repealed in 1932, and experienced some major upheavals during the rest of the century. One major change was the new alcohol and medium beer act in 1969, which allowed sales of medium beer in more than 17 000 food shops. Alko had 161 shops at that time. The entry into force of the new act was followed by the establishment of more than 2 700 new restaurants licensed to sell medium beer. Alcohol consumption doubled in Finland over the next few years.

Another major change was the alcohol legislation reform of 1995, following Finland's accession to the European Union. This resulted in the division of current Alko operations between various operators and, eventually, in the establishment of an independent company in 1999.

Today, Alko and Finnish alcohol policy are once more taking a step towards a new era: practically unlimited import of alcoholic beverages will soon be possible from EU countries nearby, and these beverages will be significantly cheaper than the highly taxed products available in Finland. It has been estimated that consumption of alcohol will grow from the current 9 litres per capita a year to as much as 12 litres, regardless of the type of taxation solution arrived at, though such decisions may well affect consumers' buying behaviour when it comes to choosing between domestic channels and nearby EU countries. In future, 2004 will be remembered as the same kind of milestone as the repeal of the Prohibition Act, the deregulation of medium beer sales and Finland's accession to the European Union.

## **Responsible, service-oriented**

We at Alko believe that the government will make an alcohol taxation decision that will guarantee Finns a familiar purchasing outlet at competitive prices. Now, if ever, we must emphasise responsibility in our alcohol trade. Alko has always aimed to ensure that alcoholic beverages are not sold to underaged or intoxicated people. In 2002, more than 620 000 age checks were made, and 60 000 refusals to sell on account of intoxication were recorded. We also began to keep a record of obvious attempts to make prohibited purchases.



Apart from responsibility in sales, a high level of customer satisfaction is also essential in our operations. In order to be an efficient specialty chain we must offer a service that sets us apart from others, and choose our locations to provide maximum accessibility for customers. We have put money into modernising the visual image of our chain, and our shops offer smooth and expert service by a motivated personnel.

#### **Partnership – an important element in Alko's image**

Alko values trusting, open dialogue with its partners. Cooperation in day-to-day operations is facilitated by electronic communications extending from the shops to our Material Flow Centre and on to the suppliers of our products.

We study potential improvements in materials management and take both international and domestic trends into account. We find improvement and continuous modernisation an important and interesting challenge.

#### **Speciality retailing – our strength**

Alko is an efficient speciality chain. The right service attitude and product expertise are key factors in our way of doing things, and thus is recognising our role as a responsible alcohol retailer.

By combining specialty retailing with customer service we believe we can serve our customers and meet their specific needs.

Apart from responsibility and customer service, our way of doing things involves selling versatile quality products that have passed quality assessments and chemical testing.

#### **Alko sales and performance in 2002**

In 2002, sales by Alko totalled more than 100 million litres, an increase of more than 6 per cent. The total value of sales, including value-added and excise duty, came to more than EUR 1 330 million. Profit for the year before extraordinary items was EUR 700 000. Financial performance was depressed somewhat by exceptionally high pension expenses. Along with the pension foundations of

many other companies, the Alko Pension Foundation suffered from a fall in share prices on the market and from additional costs caused by changes in the age structure. Nonetheless, Alko succeeded in meeting its owner's financial requirements impeccably.

Sales by Alko shops accounted for 52 per cent of the retail consumption of alcohol. In view of our special status we consider it important for the company to have a sufficient share of the retail sales of alcoholic beverages in Finland.

#### **Personnel in a key role**

In order to be able to offer an equally high-quality service in all our shops nationwide, Alko personnel have to learn new things, cooperate consistently and maintain active relations. Best practices must then be spread throughout the chain. The uniform appearance of our shops helps both customers and staff alike, and centralisation of corporate services constitutes part of our improved customer service.

The entire organization should learn to think in terms of the operating chain. This is our main future challenge, and turning this way of thinking into practical action is already well under way.

A total of close on 60 million customers visited Alko shops in 2002. We have not only succeeded in increasing the volume of our customer service work but also in constantly improving the quality of the service, as the good findings of our customer satisfaction surveys demonstrate.

I should like to thank our personnel and all those who have made a contribution to Alko's work to produce better services!

March 2003



Jaakko Uotila

# Operating Environment

*Consumption of alcoholic beverages increased faster than private consumption in general in 2002. The real price level in the consumption of alcoholic beverages rose by an average of one per cent. Alko's market share of retailing reached 52 per cent.*

The Finnish economy grew more than the other EU countries on average in 2002. After a short less effective period production figures increased again early in the year, and average growth year-on-year is estimated at about 1.6 per cent. Private consumption, which reflects consumer purchasing power, is estimated to have grown by about 2.5 per cent. The general rise in prices was slower than the average EU inflation rate. The Finnish inflation rate in 2002 was 1.6 per cent.

As in 2001, the total number of retail outlets and restaurants licensed to serve mild beverages fell. During 2002, however, Alko opened 15 new shops and the number of order points was increased by three. The number of restaurants serving both strong and mild beverages and the number of customer places in them increased on 2001.

The amount of alcohol that travellers are allowed to import free of tax did not change in 2002.

## Alcohol tax unchanged in Finland

Taxation of alcoholic beverages remained unchanged in Finland in 2002. Of Finland's neighbouring countries, Norway reduced its tax on strong beverages and wines at the beginning of 2002, and that on strong beverages again at the beginning of 2003. Denmark is planning to

reduce its taxation of strong beverages considerably at the beginning of 2004.

In Finland, alcoholic beverages are subject to a basic tax on alcoholic beverages and a surtax on the packaging, the purpose of which is to control consumption. In addition, alcoholic beverages are also subject to the general value-added tax (VAT).

According to preliminary figures, State revenues from alcohol totalled two billion euros, with 1.3 million euros accounted for by alcohol tax, up 3.7 per cent on the previous year. Other alcohol revenues consist of VAT income. Revenue from alcoholic beverages accounts for slightly over four per cent of all State tax income.

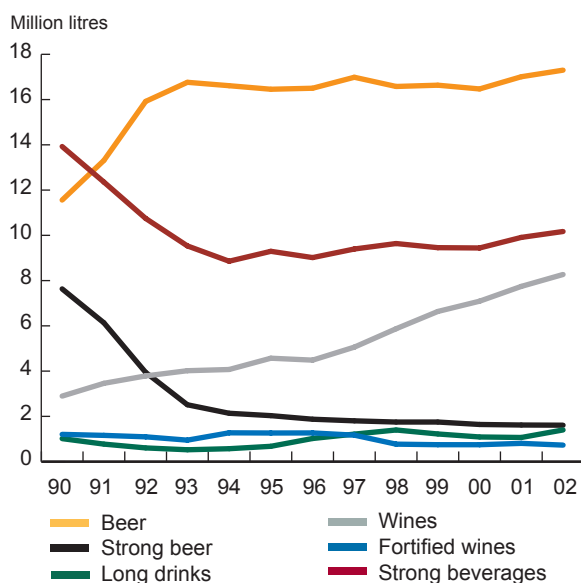
The current Act on the Alcoholic Beverage Tax came into effect in July 1994. Before that, alcohol taxation was based on the price of the beverage. In the current system, based on an EU directive, tax is calculated by either the quantity or the relative volume of pure alcohol in the beverage. All EU countries follow the same taxation principle.

## Increase in alcohol consumption

The economic confidence of households was higher in 2002 than the year before, and real income increased by a good two per cent. Supply of alcoholic beverages increased and no major changes took place in prices.

### Alcohol consumption

In 100% alcohol, by beverage category, 1990–2002



Source: Intoxicants Statistical Yearbook, National Research and Development Centre for Welfare and Health (Stakes)

### Alcoholic beverage excise duty by product group

In EU countries and in Norway and Estonia

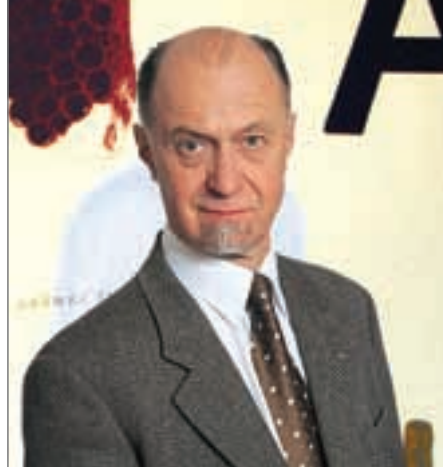
Euros per litre of 100% alcohol

	Strong beverages	Intermediate product	Wine	Beer
Minimum excise duty in EU	6	3	0	2
Italy	6	3	0	4
Spain	7	3	0	2
Portugal	9	3	0	3
Greece	9	3	0	3
Austria	10	4	0	5
Luxembourg	10	4	0	2
Germany	13	9	0	2
France	15	12	0	3
The Netherlands	15	6	5	5
Belgium	17	6	4	4
Ireland	28	22	25	20
UK	30	17	21	18
Denmark	37 <sup>1</sup>	8	9	9
Finland	50	39	21	29
Sweden	55	27	22	16
Norway (non-EU)	82 <sup>2</sup>	48	48	48
Estonia (non-EU)	9	6	6	4

Source: CEPS (Confederation Europeenne des Producteurs de Spiritueux), July 2002.

<sup>1</sup> In 2004 the excise duty will be 20 euros.

<sup>2</sup> In 2003 the excise duty will be 73 euros.



***Alko has a firm position in the country's alcohol policy***

**Jussi Huttunen**, Chairman of Alko's Board of Directors, believes that Alko will maintain its position as a responsible alcohol retailer even though the amount of alcohol that can be imported into the country is increasing.

"In 2004, when Estonia joins the European Union, we will be in a new situation. Alcohol prices and taxation are lower in Estonia than in Finland, so the amount of alcohol imported from Estonia is likely to increase, especially in the case of strong beverages."

"Finland must therefore think of new principles in taxation to be able to tax arrangement in order to control the situation," says Huttunen.

According to Huttunen, a poorly controlled alcohol policy may have serious effects on Finnish society – greater an increase in health problems and crime, and a decrease in the favourable on tourism or the whole economy.

In the face of such major changes, Huttunen believes it is particularly important for Alko to be involved in formulating a new Finnish alcohol policy.

Documented consumption grew 3.5 per cent, while undocumented consumption remained at its previous level.

In 2002, total per capita consumption of alcoholic beverages in 100% alcohol was 9.3 litres. Documented consumption came to 7.6 litres and undocumented consumption to 1.7 litres.

Retail sales accounted for 4.8 per cent of the increase in documented consumption. Licensed sales were 1.7 per cent down on the previous year.

Consumption of wines increased most, by 8.9 per cent on the previous year. Demand for long drinks increased significantly by almost 50 per cent, and sales of long drinks containing ethyl alcohol sold in Alko shops and restaurants by 16 per cent. Beer consumption rose by 1.4 per cent.

**Consumption of alcoholic beverages in Finland in 100 % alcohol, litres per capita**

	2000	2001	2002
Documented consumption	7.0	7.3	7.6
Undocumented consumption <sup>1</sup>	1.8	1.7	1.7
<b>Total</b>	<b>8.8</b>	<b>9.0</b>	<b>9.3</b>

Source: Intoxicants Statistical Yearbook 2002, National Research and Development Centre for Welfare and Health (Stakes).

<sup>1</sup> Undocumented consumption means alcohol imported by tourists, home-made legal and illegal alcohol, smuggling and alcohol substitutes, and alcohol drunk by tourists abroad.

**The real level of consumer prices of alcoholic beverages increased**

This level has remained stable since the early 1990s. The real level of retail sales has been falling, while that of licensed sales has risen somewhat.

According to advance information, the nominal sales price of alcohol rose by 2.7 per cent on average. In 2002, the nominal price of retail sales rose by 2.1 per cent and that of licensed sales by 3.9 per cent. In real terms, this means a rise of more than one per cent in the real price level.

**Proportion of retail sales increased**

Documented alcohol consumption is divided into retail sales and licensed sales. The proportion of documented consumption accounted for by retail sales rose by one percentage point in 2002. The proportion of retail consumption accounted for by Alko sales reached 52 per cent.

Ther proportion of total documented consumption accounted for by licenced sales fell to 19 per cent.

**Breakdown of retail sales of alcoholic beverages**

	2000	2001	2002
Alko <sup>1</sup>	51%	51%	52%
The grocery business <sup>1</sup>	49%	49%	48%
Finnish farm winery products, litres <sup>2</sup>	350 000	350 000	352 000

<sup>1</sup> Source: National Research and Development Centre for Welfare and Health (Stakes). Calculated in litres of 100% acohol.

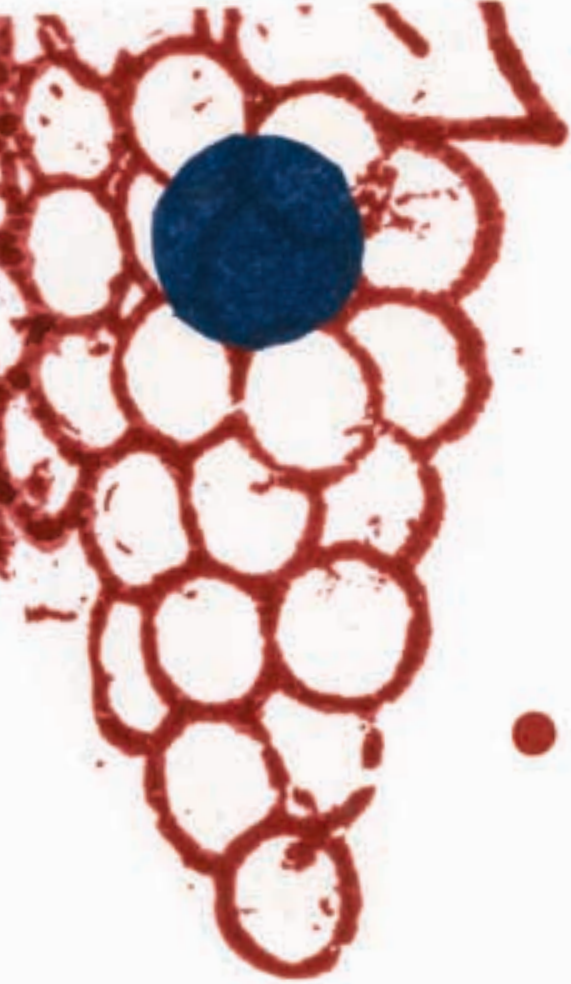
<sup>2</sup> Source: National Product Control Agency for Welfare and Health (STTV).

There were over 50 farm wineries in Finland at the end of 2002. The farms produced and sold some 352 000 litres of alcoholic beverages, i.e. almost the level of previous years.

**Finnish attitudes to alcohol**

Almost 90 per cent of Finland's adult population consumes alcohol. For most, consumption is moderate or very low. Nevertheless, the number of people who drink a lot is estimated to be between a quarter of a million and half a million. An increase in the obvious disadvantages of drinking has kept attitudes to alcohol strict. The population is increasingly in favour of the current alcohol policy restrictions.

Intoxicant and drug issues have been widely debated and have received considerable media coverage.



2





# Alko's Services and Products

*Alko offers its customers a varied, high-quality range of alcoholic beverages and a comprehensive network of shops, and both are constantly developed to offer the best possible service to customers.*

## *A comprehensive shop network supports the Finnish alcohol system*

Alko has, with a few exceptions, a monopoly in the retail sale of alcoholic beverages in Finland. To fulfil this function, it needs a comprehensive shop network supplemented with order points to ensure that legal alcohol is available all over the country.

The comprehensive shop network, good location of shops and good service are the best ways to guarantee and improve customer satisfaction.

At the end of 2002, Alko had 299 shops and 141 order points. Alko follows its own strategy for choosing outlet locations when adding to its shop network. The main criteria when starting up a new shop are the population base, the distance to the nearest Alko service point, and various factors relating to travelling and customer service. The harmful effects of alcohol are also considered when establishing new outlets.

Fifteen new shops were opened in 2002: Hausjärvi, Heinola, Keminmaa, Kotka, Kyyjärvi, Kärkölä, Padasjoki, Rovaniemi, Savonlinna, Säkyä, Vaasa and Helsinki (Arabianranta, Itäkeskus, Pitäjänmäki and Ruoholahti). In 2003, 10–15 new shops will be opened.

Opening hours were extended and made more uniform in 2002. 155 shops are open Monday to Friday from 9 am to 8 pm and on Saturdays from 9 am to 6 pm. All shops open at 9 am except four: the shops in Nuorgam and Ruka, and those in the Raisio Mylly and Vantaa Jumbo shopping complexes.

By virtue of its monopoly status, Alko is required to exercise well-organised sales supervision. Experiences of internal control have so far been good. Over 620 000 checks were made during the year to ensure that the customers were not underage, and in over 62 000 cases no alcohol was sold because the customer was too inebriated.

In 2002 Alko began to improve its visual image, aiming to strengthen its image as a specialised shop.



### *Monthly training to develop services*

Alko shops aim to offer impartial service that meets the customer's wishes. Service standards are improved through continuous personnel training.

According to **Kari Pennanen**, District Manager for Eastern Finland, personnel get monthly training on seasonal themes and new products.

"We think about what customers need in their daily life, and service improvement actually develops from very small beginnings."

"Special customer service training focusing on quality issues and on responding to customer needs better will be the key area in 2003", says Pennanen.

He goes on to explain that Alko's slogan responsible and service-oriented describes the company's service concept extremely well. In his view, a natural element in good customer service is responsibility, that is, alcohol must not be sold to underage or inebriated customers, and this position is also supported by customer surveys.

# Alko's Services and Products

## *Extensive and safe range of alcoholic beverages for the customer*

At the end of 2002, the general selection included over 1 800 products from about 50 different countries. A further 670 or so products were offered in the sale-to-order selection. Customers may also order through Alko products that are not in the company's product range.

Of the 500 new products in the general selection in 2002, over 300 were wines. Selection of bag-in-box wines doubled. Greater interest in wines also created more demand for quality wines.

At the end of 2002, the range included some 40 Finnish and some 100 foreign beers. The Federation of the Brewing and Soft Drinks Industry celebrated its 100<sup>th</sup> anniversary, and Finnish breweries marked the occasion by issuing special beers, which helped extend the range of beers sold by Alko.

Beverages are bought from almost 400 foreign suppliers and about 90 Finnish producers or importers. Smooth relations are founded on clear terms and conditions and open communication.

Alko's quality control guarantees the quality of new and existing products through sensory evaluation and uses its expertise to support the selection of new products and further development of the range.

### **Alcohol Control Laboratory**

Alko's Alcohol Control Laboratory (ACL) checks the quality and safety of products sold by Alko. Products in the standard range are tested at regular intervals for the properties that the authorities require to be tested in the EU area.

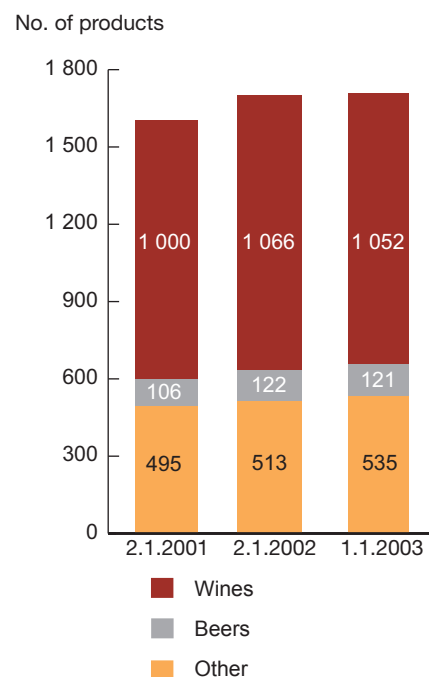
In the interest of consumer protection, the Laboratory also screens alcoholic beverages for alien components (e.g. toxic moulds and heavy metals), additives (e.g. preservatives and colour additives) and substances causing allergic reactions.

The subjects of the Laboratory's special research projects change yearly. In 2002, the focus was on wine colours, the quality of bag-in-box wines and the product safety and authenticity of beers, wines and spirits.

Some 5 500 samples were analysed by the ACL in 2002. External paying customers such as companies and authorities account for a considerable proportion of the laboratory's income.

Alko's Alcohol Control Laboratory is accredited by the Centre for Metrology and Accreditation as an officially competent and impartial testing unit for industrial alcohol, alcoholic beverages and technochemical products. It has also been designated Finland's official alcoholic beverages testing laboratory to the EU by the Ministry for Foreign Affairs.

**Number of alcoholic beverage brands in the price list**





### *Quality wines can be reserved*

Many quality wines are produced in such small quantities or are in such high demand globally that producers only sell them in small shipments. This is why Alko may not always be able to buy enough of a specific wine to meet the demand.

"Thanks to our reserving system, we are nevertheless able to help our customers to get these products," explain Manager for Internet Communications **Virpi Vesterinen** (left) and Purchasing Manager **Katja Angervo**. The ordering system was introduced in the autumn of 2001 at the request of Alko customers. In 2002, over 2 400 orders were placed for 27 different wines. The products are delivered to an Alko shop of the customer's choice. These so called limited availability products are presented in the leaflet *Uudet tuotteet* (New products, not available in English) and on Alko's Internet pages.

"Sale of these products must be fair, so if we have more reservations than we have bottles, we pick the 'winners' at random." Angervo and Vesterinen continue.

The ordering system has been warmly welcomed by customers all over the country.

### **Districts and shops on 1 January 2003**

#### *Southern Finland*

District office Helsinki  
District Manager Markku Kujansivu  
63 shops, 8 order points

#### *Eastern Finland*

District office Kuopio  
District Manager Kari Pennanen  
59 shops, 36 order points

#### *Central Finland*

District office Tampere  
District Manager Antero Elovaara  
65 shops, 17 order points

#### *Western Finland*

District office Turku  
District Manager Erkki Pakola  
62 shops, 41 order points

#### *Northern Finland*

District office Oulu  
District Manager Ari Nyberg  
50 shops, 39 order points

Alko's five districts focus on customer service and human resources development, management by result and advance planning of possible new locations.





# Alko's Services and Products

## Pricing and taxation

Alko's pricing is impartial and transparent. All suppliers and products are treated according to uniform principles. Pricing methods are transparent and retail prices the same in all Alko shops. The pricing regulations and factors affecting prices are reviewed once a year.

The euro became Finland's official currency on 1 January 2002. Since the beginning of July, prices have been shown only in euros in Alko shops.

When the euro was introduced in Finland at the beginning of 2002, Alko changed its systems for calculating retail prices with regard to the bottle deposit and for rounding off sales prices. The Ministry of Finance and the Ministry of the Environment defined the euro level of alcoholic beverage taxes and the euro value for retail containers. In addition, retail prices were affected in January 2002 by changes in the prices that suppliers charge Alko.

Besides the beginning of January, suppliers can now adjust the prices they charge Alko at the beginning of every April, July and October. On the same dates, they

can also change how they distribute their products to the shops. Any foreign currency adjustments and changes in the prices that its suppliers charge Alko were passed on directly to consumers through the retail price.

### Alko's real price level down

Price changes were minimal in 2002, and retail prices of alcoholic beverages sold by Alko rose more slowly than the inflation rate. The nominal price level of beverages sold by Alko rose by an average of 0.4 per cent on last year, but the average real price of beverages fell by a good one per cent.

### Taxation of alcoholic beverages

No other changes occurred in the taxation of alcoholic beverages in 2002 apart from those caused by the introduction of the euro. The basic tax in euros was exactly equivalent to the tax in markkas. The surtax was rounded off downwards.

#### Taxation of alcoholic beverages

##### **SPIRITS**, 0.70 litres, 40% by volume

		Retail price 22.20 euros
Purchase price + Alko's sales margin	18%	4.07 e
Tax on alcoholic beverages	64%	14.13 e
VAT	18%	4.00 e

##### **WINE**, 0.75 litres, over 8% by volume

		Retail price 7.20 euros
Purchase price + Alko's sales margin	56%	4.01 e
Tax on alcoholic beverages	26%	1.89 e
VAT	18%	1.30 e

##### **BEER**, 0.33 litres, 5.2% by volume

		Retail price 1.45 euros
Purchase price + Alko's sales margin	48%	0.70 e
Tax on alcoholic beverages	34%	0.49 e
VAT	18%	0.26 e

# Alko's Services and Products

## *Alko sales up and milder beverages favoured*

Alko sales increased about six per cent on the previous year, totalling 103.3 million litres. In 100% alcohol the total was 16.5 million litres, up by 5.6 per cent on the previous year.

In 100% alcohol, mild beverages (maximum 22% alcohol by volume) accounted for almost half of Alko sales. In 2002 their share of sales grew by about 1.4 percentage points to 47.2 per cent. The proportion of mild beverages has grown because demand for wines is increasing. Proportionally, sales of spirits fell most.

Sales of wines grew fastest, as they did in 2001. Among strong beverages, sales of cognac and liqueurs continued to increase, too. Red wines exceeded white wine in popularity by over half a million litres, with a 16% increase in sales.

The increase in sales was caused by higher consumer purchase power, a drop in the real price of alcoholic beverages and an increase in beverage availability. Fifteen new shops were opened and the number of order points were increased by three. Shop opening hours were extended.

The product range was widened, and the selection of beverages was modified to respond better to local demand.

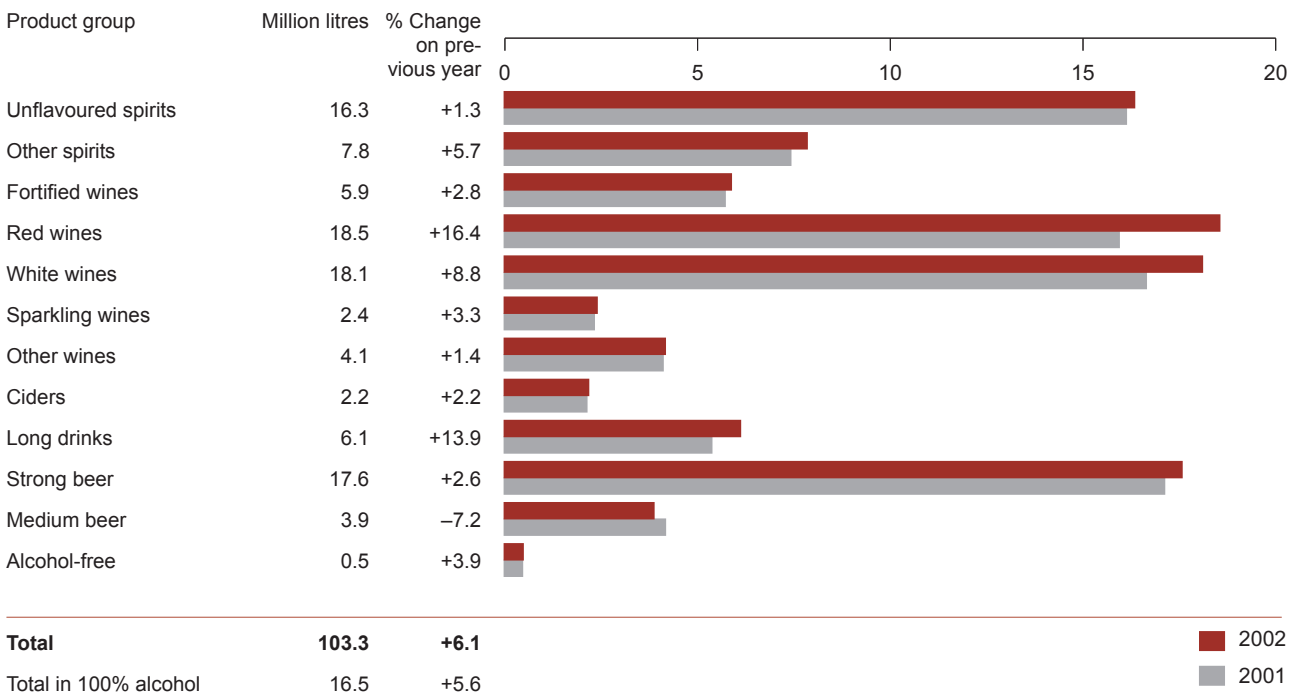
The summer of 2002 was exceptionally warm. Fine weather during the holiday season boosted sales of brewery products in particular.

2002 marked the 50<sup>th</sup> anniversary of introduction of the first long drinks into the Alko product range. Several new beverages were added to the product group in 2002.

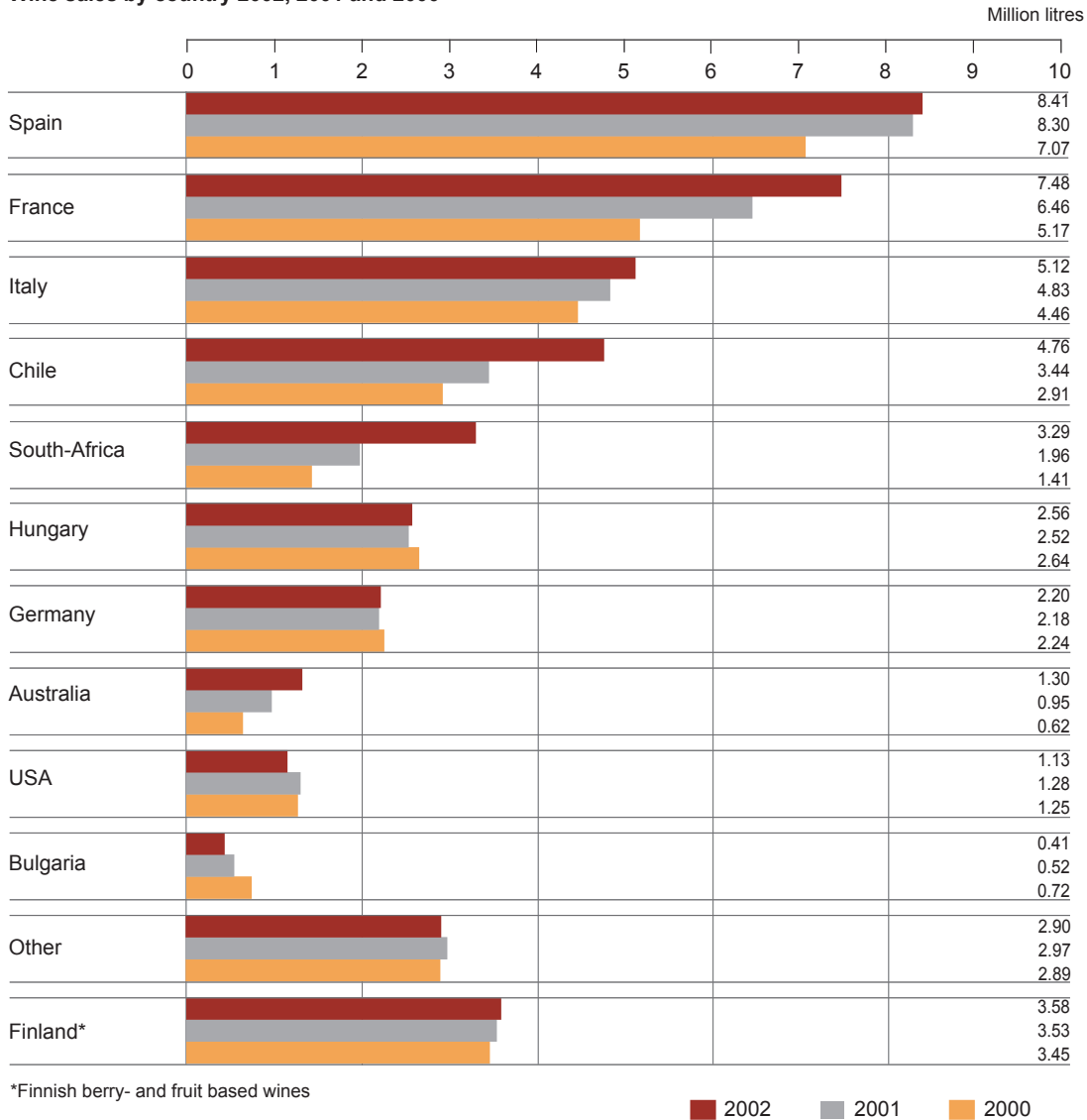
2002 also marked the centenary of the Federation of the Brewing and Soft Drinks Industry. Towards the end of the year, the German food chain Lidl opened its first shops in Finland. This created more competition on the Finnish food and medium beer market and brought in some much cheaper brands of medium strength beer.

Sales of long drinks increased by almost 14 per cent on the previous year and those of strong beer by 2.6 per cent. Annual sales of medium strength beer fell by just over seven per cent.

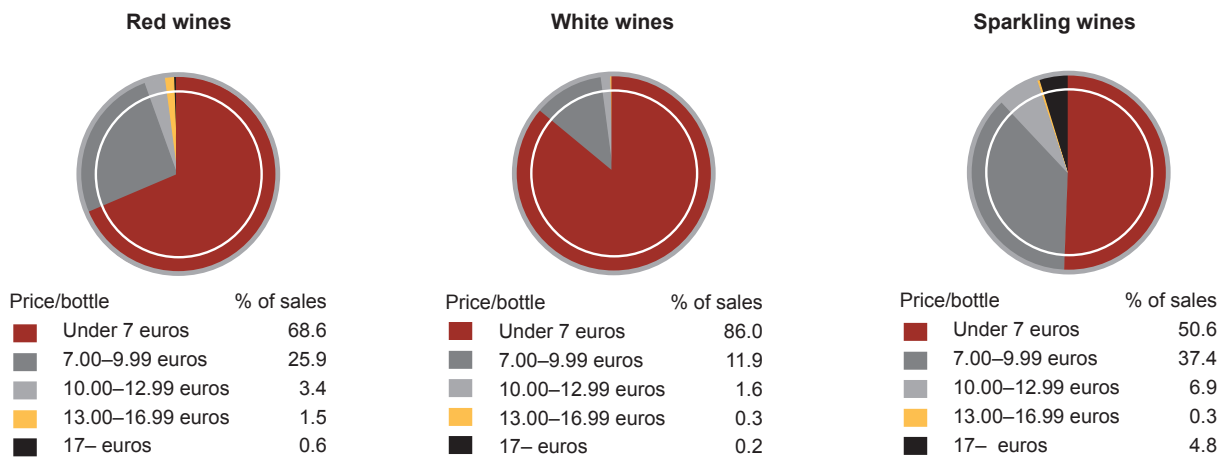
### Sales by product group in 2002



**Wine sales by country 2002, 2001 and 2000**



**Sales breakdown by price category in 2002**



# Alko's Services and Products

## Red wine sales by country in 2002

	Sales 1 000 litres	Change on previous year %	% of sales
Spain	6 279	-0.6	33.9
France	3 479	31.6	18.8
Chile	3 156	39.4	17.0
Italy	2 112	24.8	11.4
Australia	576	61.3	3.1
South-Africa	550	102.8	3.0
Argentina	332	14.9	1.8
USA	310	-5.9	1.7
Bulgaria	253	-21.1	1.4
Hungary	222	-11.8	1.2
<b>Total, 10 most popular</b>	<b>17 269</b>	<b>17.2</b>	<b>93.3</b>
<b>Total, all countries</b>	<b>18 529</b>	<b>16.5</b>	<b>100.0</b>

## White wine sales by country in 2002

	Sales 1 000 litres	Change on previous year %	% of sales
France	2 806	6.6	15.5
South-Africa	2 711	62.9	15.0
Italy	2 435	-4.2	13.5
Hungary	2 204	2.6	12.2
Germany	2 027	-0.0	11.2
Chile	1 577	37.4	8.7
Spain	1 510	6.5	8.4
USA	781	-15.0	4.3
Australia	687	21.9	3.8
<b>Total, 9 most popular</b>	<b>16 738</b>	<b>11.1</b>	<b>92.6</b>
<b>Total, all countries</b>	<b>18 081</b>	<b>8.8</b>	<b>100.0</b>

## Sparkling wine sales by country in 2002

	Sales 1 000 litres	Change on previous year %	% of sales
France	1 013	-0.0	42.6
Italy	523	1.2	22.0
Spain	510	12.6	21.4
Germany	119	-4.7	5.0
<b>Total, 4 most popular</b>	<b>2 165</b>	<b>1.5</b>	<b>91.0</b>
<b>Total, all countries</b>	<b>2 376</b>	<b>3.3</b>	<b>100.0</b>

## Wine sales by price group

Over 65 per cent of the red wines sold in 2002 cost less than seven euros, and over 85 per cent of the white wines.

Over 25 per cent of red wine sales and over 10 per cent of white wine sales came from products in the 7 to 9.99 euros price range. Red wines costing 10 euros or more represent a good five and white wines a good two per cent. Among sparkling wines, consumers have begun to favour the more expensive varieties.

Much of the rise in the lower price bracket is caused by the great success of two or three litre bag-in-box wines, where the retail price per litre is usually cheaper than in the equivalent product sold in bottles. Sales of bag-in-box wines increased significantly in 2002, and faster than other wine. Such wines now account for 13 per cent of wine sales annually. The bag-in-box wine range consisted of some 40 products at the end of the year.



## *A wide range of services for our customers*

*In addition to retail sales, Alko customer service involves producing relevant and responsible material, advisory customer services and corporate services.*

Alko issues three regular customer publications, Etiketti magazine, the Alko price list and Uudet tuotteet (New products).

Etiketti, published four times a year, provides information on beverage and food culture and on current events. It is also available on the Alko Internet site. The Alko price list and Uudet tuotteet (New products) contain not only product information and price details but also information related to selling.

Alko publishes various leaflets on the harmful effects of alcohol. The titles cover general alcohol facts, the additives and contaminants in alcoholic beverages, the effect drinking has on our system and health, and a summary of the WHO European Alcohol Programme 2000–2005. The latest leaflet, Alcohol and pregnancy, was published in autumn 2002. A leaflet on the alcohol consumption of young people will be published in 2003. All publications and leaflets are available free at Alko shops.

The Internet site [www.alko.fi](http://www.alko.fi) contains for instance news, information about the company and the shops, product information and sales statistics.

### **Etiketti Club – various wine courses**

The Etiketti Club is for those interested in food and drink, and in combining those two. It had some 13 000 members at the end of 2002. In 2002 the Club organised close to a hundred wine courses and a wine trip to Portugal.

Club members receive a monthly newsletter, the Uudet tuotteet publication introducing new products, four issues of the Etiketti magazine and the price list each year, as soon as they are issued. Alko's Internet site include special pages for Club members.

The Etiketti Club will be celebrating its fifth anniversary in 2003.

### **Customer consultation and feedback steer development**

The Customer Service helps people with questions concerning Alko products and services. Feedback can be given by telephone, through the Internet site or by e-mail or post.

Customers contact Alko some 25 000 times annually. The customer service responds as soon as possible. Most of the questions concern product availability, characteristics or usage, or the service at shops. Alko also has product specialists who can give advice on selecting suitable wines for the meal.

Customer feedback is utilised in service development and shop design. We receive plenty of requests for new products to our product range – and indeed customer requests are an important source of input when new products are introduced.

### **Corporate Services concentrating its expertise**

Alko has also developed custom-made services for companies. The aim is to make it as easy as possible for corporate customers to do business with us, and for our services to meet all their needs concerning the purchase of alcoholic beverages. Corporate Services covers all the necessary services from the moment an order is made right up to delivery to the destination. If necessary, it can also provide advice concerning alcoholic beverages, knowledge about wine or wine selection for a menu. A Corporate Services brochure, published in autumn 2002, is available at Alko shops.

In 2002, the number of shops specialising in corporate service sales was increased by 22; previously, this special service was available only in Itä-Pasila, Helsinki.

All the Alko shops naturally continue to serve companies as well as private customers.

*For more information about Alko services, go to [www.alko.fi](http://www.alko.fi)*



# Public Responsibility and Sustainable Development

*Alko has a public responsibility to consider both the customer and the customer's best interests with regard to the harmful effects of alcohol. Alko subscribes to principles that promote a clean environment and sustainable development. Alko's aim is for Finnish consumers to understand and accept Alko's important role in developing a responsible Finnish alcohol culture and preventing social and health problems.*

The company's public responsibility is divided into three overlapping areas: social, financial and environmental. The Nordic Alcohol Policy in itself is one way of assuming public responsibility. Alko is an important element in Nordic and especially Finnish alcohol policy, and a key participant in the national alcohol policy programme run by the Finnish Ministry of Social Affairs and Health.

Alko's social and health policy is based on the Alcohol Act and Decree that govern its operations. Its basic func-

tion is to retail alcoholic beverages, and in doing so it seeks to prevent the harmful effects of alcohol consumption. Alko's Board of Administration approves an annual operational plan concerning this goal.

## **Alko's overall responsibility**

The harmful effects of alcohol can be prevented by controlling the consumption of alcoholic beverages. Alko's monopoly over retail sales is founded on this target. The company's alcohol policy supports the national alcohol

programme targets. Alko's most important functions with respect to its public responsibility concern responsible alcohol sale, high product quality and the promotion of consumer protection.

Alko aims at thoroughly supervising the sale of alcohol, for example by checking that customers are not underage. Such checks and other forms of supervision are planned to suit the special characteristics and operating environment of each shop. In 2002, more than 620 000 age checks were made, and about 60 000 refusals to sell on account of intoxication were recorded. In April, Alko began to keep a record of all obvious attempts to make prohibited purchases. 7 600 such attempts were recorded.

Being one of the Finnish participants in the WHO European Alcohol Programme 2000–2005, Alko is fulfilling a crucial social role. Its contribution to the discussion of alcohol policy is a key element in carrying out its public responsibility. Alko has representatives in several national organisations.

The quality of new and existing products is monitored by Alko's quality control system and the company's own accredited Alcohol Control Laboratory.

Those who ultimately benefit from Alko's financial success and responsible public role are its personnel, the Finnish government as the owner, and its customers, partners and other stakeholders. Alko operations are effective and economic. Profits are entered in full as revenue to the government.

### **Recycling as part of sustainable development**

With respect to environmental protection, Alko subscribes for example to the Business Charter for Sustainable Development of the International Chamber of Commerce. The principle of rational use of natural resources and environmental protection demands are observed in detail. A detailed company environmental programme is applied in planning day-to-day operations.

Alko's environmental responsibility is shown best in its efficient recycling system. Recycling of bottles and cans is partly handled by Alko alone and partly in cooperation with other operators in the retail trade. Thanks to its long tradition of recycling and close cooperation with its partners, Finland has the world's most efficient recycling systems for drink containers. Some 94 per cent of all containers sold by Alko are recycled.

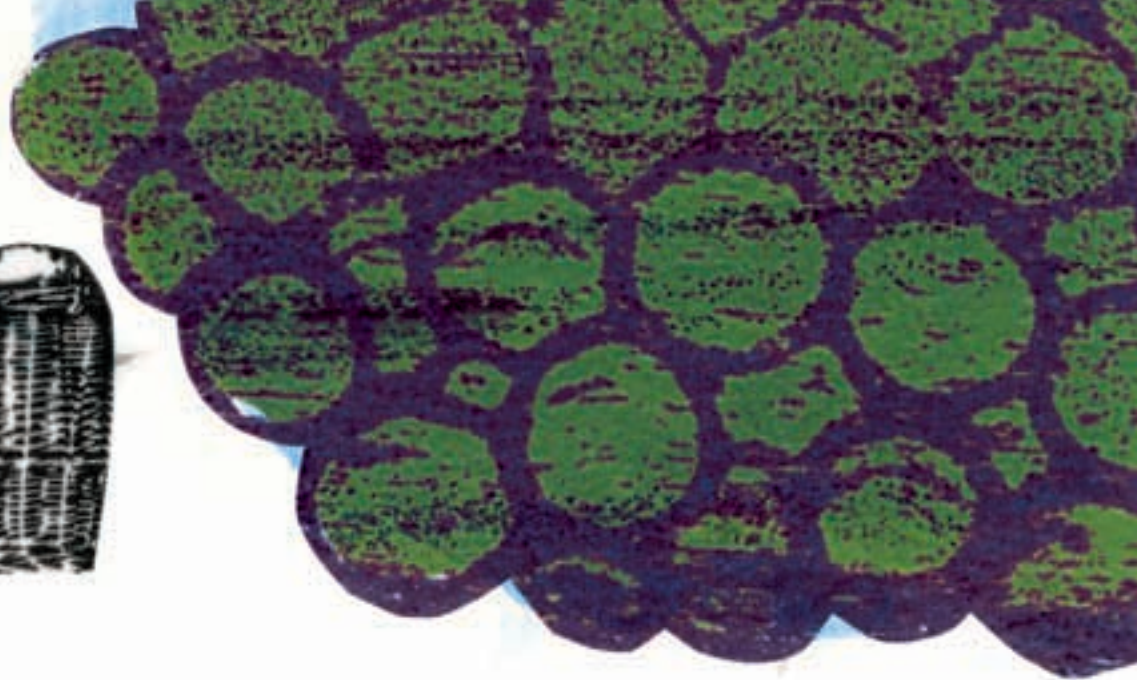
Returned containers are first sorted and then either sent back for refilling or used to make new bottles or other material, such as glass wool. The Finnish alcoholic beverage and brewing industries use over one billion refillable bottles a year. If recycling and refilling were stopped, we would face about 330 million kilograms more glass waste and 20 million kilograms more plastic waste each year.

Approximately 27 thousand tonnes of waste glass are recycled annually. In 2002, 11 new partners joined Alko's deposit-based disposable bottle system, bringing the number of alcohol importers, wholesalers and manufacturers to 153. In Finland, non-deposit drink containers are collected by municipal systems.

Almost all the pallets and crates used to transport products are re-used. Packaging plastic and cardboard are also collected and recycled. The plastic bags sold in Alko shops do not contain any environmentally harmful constituents and its paper bags are readily biodegradable.

Alko is active in national recycling promotion projects and is also participating in a research project on the life cycle of drink containers. The company supplies statistics and other data on the recycling of packaging to the Ministry of the Environment, the Regional Environment Centres and municipal waste management companies.





# Personnel Active in Developing Operations

*The objective of Alko's personnel policy is to have competent and satisfied personnel who take an active role in developing operations.*

Thanks to the expert customer service skills and responsible approach of Alko employees the company targets can be achieved.

## Number of personnel still rising in 2002

The number of Alko personnel grew by 4.5 per cent compared with 2001, and reached 2 508 at the end of 2002. More personnel were recruited, because sales increased and new shops were opened during the year. Personnel numbered an average of seven per cent higher than last year. The number of part-time employees increased the most.

The average age of the personnel is 42. Most shop personnel are women. Since 2001, men have accounted for just under a third. The proportion of women shop managers grew somewhat and now stands at over 11 per cent.

## Interaction on a daily basis

Meetings between the Alko Management Team and shop personnel continued. In 2002, the meetings between personnel and management discussed, for example, the company's operating framework and day-to-day aspects of the work.

The results of a biannual personnel survey were examined at each workplace. The personnel also voiced their opinions on implementation of the Alko personnel policy.

Description and development of operation chains began, with the object of improving customer service and operations on the whole. The management system was developed in a direction that supports common planning and good supervisory practices. The appraisal interview model was renewed and supervisors were trained in the new practices.

Feedback systems were also renewed. Shop personnel answered an internal customership satisfaction survey on the smooth running and success of operations. Those who left Alko were asked to give their opinion of Alko as an employer.

## Entire personnel involved in incentive scheme

The entire personnel have been involved in an incentive scheme since 1997. In 2002, the main target was to improve



## *New shop in Keminmaa off to a flying start*

"I had a challenging start to my new job. I had been working as shop manager for a month before the Keminmaa shop opened. Before that I had recruited the employees, and together we went from empty business premises to a shop providing full customer services," explains **Maarit Nyman-Pitkänen** (right), manager of the Keminmaa shop, which opened in September.

Nyman-Pitkänen and permanent part-time shop assistant **Airi Ainasmaa** say they are keeping busy in the pleasant new shop.

"The head office in Vantaa seemed very distant at first, but with time and increased contact, it has become closer to us."

"We aim to make openness our key value. The 'internal customers' principle is working well at Alko. I think we have a good team at the shop, and a vision of genuine customer service that we follow. I believe our customers also feel that."

# Personnel

## Personnel at year end

	2000	2001	2002
Permanent full-time	813	811	820
Permanent part-time	1 049	1 183	1 266
Fixed-term	346	405	422
<b>Total</b>	<b>2 208</b>	<b>2 399</b>	<b>2 508</b>
Average	2 142	2 209	2 359
Computed full-time	1 618	1 674	1 789

customer service and increase joint planning, development and work evaluation in the workplace.

Pay and incentive schemes were further improved in development groups consisting of Alko personnel. Different incentive methods were developed further, using feedback from personnel.

### From on-the-job learning to vocational qualification

The main focus in shop personnel training was customer service and product knowledge. 62 per cent of all training was on these subjects. Furthermore, 20 shop assistants went on to acquire the vocational qualification for sales staff. On average, the number of days spent in training was three per employee.

Alko employees received further training in responsible sale of alcohol. The subject was discussed in the basic personnel training, and a separate day was dedicated entirely to this issue.

The focus of training system development was to complete a description of the training system used in the shops and of basic training for sales assistants. On-the-

job learning and self-study are also a key part of the Alko training system.

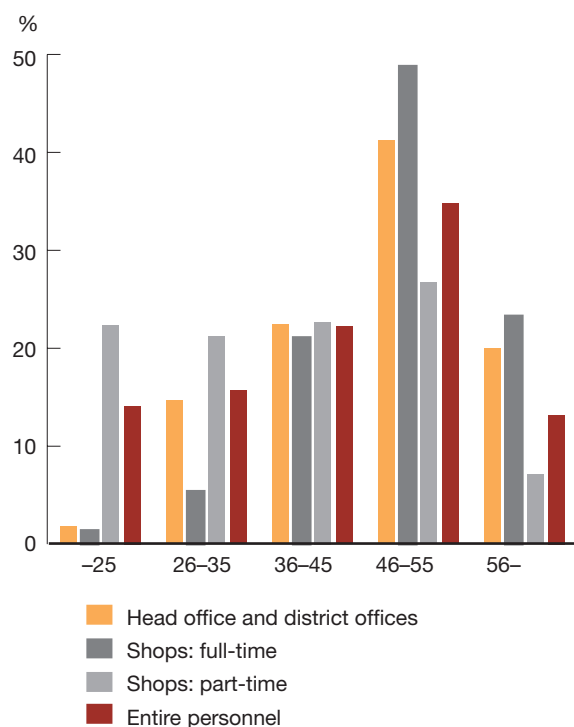
The main emphasis of supervisor training was on communication and interaction skills. All shop managers participated in the training. 24 staff members started to study a further qualification in supervisory skills.

### Well-being at work

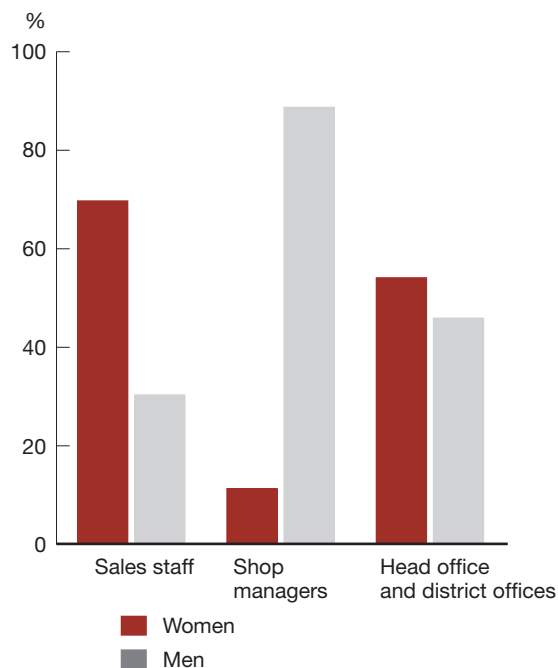
Alko staff benefit from comprehensive occupational health care services. Cooperation between workplaces, occupational health care and the work safety and health system was increased. Alko believes well-being at work is a combination of mental and physical working capacity, working atmosphere, know-how, and safety and health measures.

Events focussing on the energy and well-being needed for coping at work were arranged in cooperation with the occupational health care services. Alko supported recreational and sporting events at the workplaces and the staff's leisure and hobby activities. Staff may also use the company holiday house.

Age breakdown by personnel group



Gender by personnel group



# Corporate Governance

*The Alko administration is founded on the Alcohol Act, the Decree on the operations of the alcohol company, the Companies Act and the Articles of Association. As a State-owned company, Alko is administered and supervised by the Ministry of Social Affairs and Health.*

Alko's function is to engage in the retail sales in Finland laid down for it as a monopoly right (with certain exceptions) in the Alcohol Act. Under the Alcohol Act, it must do so in a way that helps prevent the harmful effects of alcohol.

The current provisions of the Companies Act also apply to Alko in so far as the Alcohol Act does not require otherwise.

Alko's system of governance and operation incorporates social accountability.

Alko has a Board of Administration, a Board of Directors, and a President and Chief Executive Officer. One or more Vice Presidents can be appointed, one of whom deputises for the CEO when necessary.

## **Board of Administration**

The Government appoints the members of the Board of Administration for four calendar years at a time. Changes in the composition may occur during this period. The Board of Administration has 12 members. The Chairman and Vice Chairman are appointed by the Government. The Board had five meetings in 2002.

Under the Alcohol Act, representatives of the Ministry of Social Affairs and Health and Ministry of Trade and Industry are entitled to attend Board of Administration meetings and contribute to the discussion. The Ministry of Social Affairs and Health has appointed its own representative, while the Ministry of Trade and Industry has not exercised its right.

The functions of the Board of Administration include the following:

- to ensure that the company's affairs and administration are handled according to sound business principles and with an eye to profitability, and that the provisions of the law, the Articles of Association and other approved instructions are complied with;
- to advise the Board of Directors in important matters of principle with extensive reverberations;
- to monitor trends in alcohol matters in Finland and abroad and to issue, on this basis, guidelines for the company's future development;

- to issue the report referred to in section 36, subsection 2 of the Alcohol Act on the development of its retail operations and the measures the company has taken under the Alcohol Act;
- to approve an operating plan for one calendar year at a time concerning prevention of the harmful effects of alcohol consumption, as required by decree;
- to provide the Annual General Meeting with a statement concerning the parent company and consolidated financial statements and an auditors' report;
- to decide on other matters resting with the Board of Administration under the Companies Act.

## **Board of Directors**

The Annual General Meeting elects the Chairman and Vice Chairman of the Board and the other members. The Board comprises at least three and at most five members in addition to a Chairman and Vice Chairman. The personnel are represented at Board meetings by two observers. The Board met 12 times in 2002.

The functions of the Board of Directors include the following:

- to direct and oversee the company administration and proper arrangement of operations in accordance with the law and the Articles of Association, decisions of shareholders' meetings, and instructions issued by the Board of Administration;
- to elect a President and CEO, a Deputy President and CEO and Vice Presidents, and to specify their salaries;
- to engage and dismiss the top management and decide on their salaries;
- to decide on matters relating to substantial changes in the company's operations or organisation;
- to decide on other matters resting with the Board of Directors according to the Companies Act.

*continues on page 24*

### Board of Administration

The term of the present Board of Administration is from 1 January 2000 to 12 December 2003.

**Riitta Uosukainen** Chairman, Speaker of Parliament  
**Esko Aho** Vice Chairman, MP

Other members

**Merikukka Forsius** MP  
**Esko Helle** MP  
**Saara Karhu** MP  
**Mari Kiviniemi** MP  
**Kalervo Kummola** MP  
**Pekka Kuosmanen** MP  
**Henrik Lax** MP  
**Riitta Prusti** MP  
**Markku Rossi** MP  
**Arto Seppälä** MP

**Jarkko Eskola**, Head of Department, Ministry of Social Affairs and Health representative.  
The Ministry of Trade and Industry has not appointed a representative.



Alko Board of Directors

From left, standing Jussi Simpura, Matti Elovaara, personnel representatives Pekka Kirjavainen and Taisto Rossi.  
From left, sitting Raija Koskinen, Tiina Oksala-Leino, Aino-Inkeri Hansson and Jussi Huttunen.





Alko Management Team, from left  
Mika-Pekka Miettinen,  
Erkki Tommila, Antero Halme  
and Jaakko Uotila.

### Management Team

**Jaakko Uotila**

President and CEO  
Chairman of the Management Team  
b. 1949

**Antero Halme**

Executive Vice President  
Finance, deputy for the  
President and CEO  
b. 1948

**Mika-Pekka Miettinen**

Executive Vice President  
Communication  
b. 1964

**Erkki Tommila**

Executive Vice President  
Personnel  
b. 1961

### Board of Directors

Six members were elected to the Board of Directors at the AGM held on 7 March 2002.

**Jussi Huttunen**

Chairman  
b. 1941  
Director General of the National  
Public Health Institute

**Matti Elovaara**

Vice Chairman  
b. 1939  
Commercial Counsellor

**Aino-Inkeri Hansson**

member  
b. 1950  
Deputy Director General at the Ministry  
of Social Affairs and Health

**Raija Koskinen**

member  
b. 1947  
Senior Adviser for the Budget  
at the Ministry of Finance

**Tiina Oksala-Leino**

member  
b. 1963  
Managing Director of  
the Speciality Goods Retailers'  
Association

**Jussi Simpura**

member  
b. 1949  
Statistics Finland,  
Director of Statistics

*Personnel representatives*

**Pekka Kirjavainen**

observer member  
b. 1952  
Chairman of Alkoholikaupan  
Ammattiliitto ALV ry

**Taisto Rossi**

observer member  
(up to 30 November 2002)  
b. 1942  
Head Shop Steward of Alkoholialan  
Toimihenkilöt ry

**Juri Helmiö**

observer member  
(as from 1 December 2002)  
b. 1952  
Chairman of Alkoholialan  
Toimihenkilöt ry

# Corporate Governance

## **President and CEO**

Under the Articles of Association, it is the President and CEO's job to direct the company's operations and see to its administration. He also ensures that decisions of the shareholders' meeting, Board of Administration and Board of Directors are carried out. He also nominates a four-member Management Team, which in 2002 consisted of the President and CEO and three other members. The Management Team assists the President and CEO in drawing up the strategy, in operative decision-making and monitoring of results. The Management Team met 27 times in 2002.

## **Auditing**

The auditors elected by the Annual General Meeting on 7 March 2002 are: Yrjö Tuokko, Authorised Public Accountant and Erkki Mäki-Ranta, Approved Accountant and Chartered Public Finance Auditor, with Jorma Heikkinen, Authorised Public Accountant, and Tuokko Tilintarkastus Oy Authorised Accounting Firm as deputies. Tuokko Tilintarkastus Oy is also responsible for the company's continuous auditing.

## **Supervision system**

Under the Alcohol Act and rules and regulations issued under it, supreme supervision of Alko rests with the Ministry of Social Affairs and Health.

The Ministry reports annually to the EU Commission on how fully Alko, as the monopoly alcohol company in Finland, has observed the required impartiality and transparency in its relations with suppliers. The report also takes account of a statement made by the Office of Free Competition.

At the Annual General Meeting, the right to vote on behalf of the owner is exercised by a Ministry of Social Affairs and Health representative (usually the Minister responsible for alcohol matters) who has received authorisation from the Government.

The National Product Control Agency for Welfare and Health (STTV) under the Ministry watches over Alko's retail sales. Any Alko decision concerning retail of alcoholic beverages can be appealed to the Agency, and further to the Supreme Administrative Court.

## **Auditing committee and internal auditing**

In accordance with the approved operating principles, the internal auditing ensures that all key processes and

systems work properly, efficiently and correctly. The aim is to minimise risks and to prevent any abuses.

The management and development of internal auditing, and coordination of this auditing and auditing of the accounts is done by the auditing committee headed by the Chairman of the Board. It discusses matters raised in the internal and annual accounts audits. The auditing committee consists of the Chairman of the Board, internal auditing representatives and the company's President and CEO.

## **Management and incentive system**

The company management is mission, vision and value oriented. Alko's customer-oriented strategy is based on the social accountability referred to in the Act and Decree and on the ownership strategy decided on by the Ministry of Social Affairs and Health. The strategy is approved by Alko Board.

The annual operating plans and budgets are based on the strategy. The entire personnel is covered by incentive schemes. The bonus for each unit in the organisation comprises elements for cost effectiveness, quality of customer service and development of operations. In 2002, bonuses paid accounted for some four per cent of total personnel costs.

## **Risk management**

The greatest risk to Alko's business would be a change in the legislation that would end the company's current special status. Otherwise there are no significant commercial or environmental risks. Security risks have been evaluated well and are under control. Alko is covered by the usual insurance required for business operations.

# Report by the Board of Directors

Alko Inc. is the company referred to in the Finnish Alcohol Act which has a monopoly on the retail sale of alcoholic beverages in Finland, with the exception of beverages prepared through fermentation and containing a maximum of 4.7 per cent of alcohol by volume, and Finnish farm wines containing a maximum of 13 per cent of alcohol by volume.

Alko Inc. is a company fully owned by the State, operating under the Ministry of Social Affairs and Health. The Ministry represents the State in Alko issues.

Alko's governance complies with the model recommended for State-owned companies by the Ministry of Trade and Industry as applicable.

## Responsibility

The Decree on the operation of the alcohol company states that its basic function is to retail alcoholic beverages, seeking also to prevent the harmful effects of alcohol consumption. The existence and operation of the company is based on these social and health policy considerations.

Alko's monopoly status underlines the company's duty to act responsibly. Alko pays particular attention to sales control in its shops. Internal control refers to the planning, monitoring and supervision of alcohol sales done by the shops themselves. In sales, control means refusing to sell alcoholic beverages to underage and obviously intoxicated people. Alko also began to keep a record of prohibited purchases.

Responsibility, impartiality and efficiency are the cornerstones of Alko operations. The Company exercises sound use of natural resources and observes the requirements of environmental protection.

Alko's Alcohol Control Laboratory (ACL) examines the chemical quality and safety of alcoholic beverages, industrial alcohol and other products containing alcohol. The Ministry for Foreign Affairs has designated ACL to the EU as Finland's official laboratory for alcoholic beverages testing.

## Strategic position

In August 2002 the Alko Board approved the strategy for 2002–2005. The focus areas have remained the same. Good customer management and its improvement are, however, stressed more than before. In all respects, the strategy and actions taken support broad social acceptance of the current alcohol system. Alko underlines good and responsible customer service and equality in all its dealings.

Finnish attitudes to alcohol have grown stricter in recent years. An increasing proportion of Finns consider Finland's existing alcohol policy restrictions suitable.

## Operating environment for the national economy in brief

The trend in Finland's national economy continued on an upward climb in 2002 after the drop in 2001, but economic growth was smaller than predicted. GDP growth was less than two per cent in 2002.

The unemployment rate remained at last year's level. The employment forecast weakened somewhat and forecasts weakened for trade in particular, although retail sales increased to a certain extent. In trade, the downward turn occurred in the summer. The number of part-time employees is increasing, while that of full-time employees is falling.

## Consumption of alcoholic beverages in 2002

Retail sales accounted for 81 per cent and licensed sales for 19 per cent of documented consumption. Alko accounted for 52 per cent of retail sales.

Total alcohol consumption per capita in 100% alcohol was 9.3 litres.

Documented consumption of alcohol increased by 3.5 per cent and estimated undocumented consumption remained at 1.7 litres per person.

Alko sold a total of 103.3 million litres of alcoholic beverages, up by 6.1 per cent on the previous year. Alko

# Report by the Board of Directors

sales totalled 16.5 million litres in 100% alcohol.

Sales of red wines exceeded those of white wines for the first time at the end of 2002.

## **Consumption forecasts for the near future**

Total alcohol consumption is expected to grow at an annual rate of about four per cent from 2001 to 2004. Retail sales are expected to rise by four per cent a year and licensed sales an average of three per cent a year. Sales of wines are growing fastest, by about 10 per cent a year.

In 2003, the amount of beer that may be imported into Finland from other EU countries was increased from 32 to 64 litres. With Estonia's accession to the European Union likely in May 2004, alcohol sales will probably change in Finland, thereby changing these predictions.

## **Retail prices of alcoholic beverages**

In January 2002 the euro became the official currency in Finland, and Alko went over to euro pricing. Since July, prices have been shown in the shops only in euros.

At the same time as Finland went over to the euro in January 2002, Alko changed its system for calculating retail prices with regard to the bottle deposit and rounding off sales prices. This cut Alko profits by EUR 2 million.

Euro prices for tax on alcoholic beverages and retail packaging were determined by the Ministry of Finance and the Ministry of the Environment. In addition to these changes, retail prices in January were affected by price changes made by the suppliers. Suppliers were allowed to adjust their prices at the beginning of January, April, July and October. Any changes caused by exchange rate fluctuations and price changes made by suppliers were all immediately reflected in the retail price.

The price changes that took place during the year were marginal. The growth rate in the retail prices of the alcoholic beverages sold by Alko was slower than the rate of inflation, and Alko's nominal retail prices rose by an average of 0.4 per cent on the previous year. The real price level fell by just over one per cent.

## **Taxation of alcoholic beverages**

There is a special tax on alcoholic beverages in Finland, as well as the normal VAT. The special tax consists of the basic tax on alcoholic beverages and a surtax on packaging.

The basic tax is calculated either on the pure alcohol in the beverage (beers and ethyl alcohol based beverages) or on the volume (wines and intermediate products).

State revenues from alcoholic beverages in 2001 stood at 2 million euros, or 5.5 per cent of total State revenues. Tax on alcoholic beverages accounts for 1.3 billion euros of this.

The 2003 State Budget keeps the level of alcohol taxation at its current level. Estonia's probable accession to the EU in May 2004 may result in cuts in Finnish alcohol tax.

## **Comparison of alcoholic beverage taxation in Finland, Scandinavia, Germany and Estonia**

### **Taxation of spirits**

Taxation of spirits is at approximately the same level in Finland and Sweden.

Norway has the highest taxation of spirits in Europe, more than 60 per cent higher than in Finland. In Denmark, the tax on spirits is almost 30 per cent, in Germany 75 per cent and in Estonia over 80 per cent lower than it is in Finland.

Finland's tax level is over nine times as high as the lowest EU taxation level. Norway will lower its taxation on spirits in 2003 and Denmark in 2004.

### **Taxation of wines**

The tax on wines is the same in Finland and Sweden.

The taxation on wines in Norway is double that of Finland, but the Danish tax level is 60 per cent and the Estonian 70 per cent lower than in Finland.

Germany's wine taxation is the EU minimum, that is, no alcoholic beverage tax at all paid on wines.

### **Taxation of beers**

The German alcoholic beverage tax on beer is only slightly above the EU minimum.

Estonia's beer tax is double and the Danish five times the German level. The Estonian beer tax is almost 90 per cent, the German over 90 per cent and the Danish almost 70 per cent lower than the Finnish taxation level.

The Swedish beer tax is slightly under half and the Norwegian beer tax over 1.5 times that of Finland.

In addition to tax on alcoholic beverages, the beverages are liable for VAT, the level of which varies from 16 per cent (Germany) to 25 per cent (Sweden and Denmark).

#### Alko shops

At the end of 2002, Alko had 299 shops and 141 order points that supplement the shop network. 15 new shops were opened in 2002, in Hausjärvi, Heinola, Keminmaa, Kotka, Kyyjärvi, Kärkölä, Padasjoki, Rovaniemi, Savonlinna, Säkölä and Vaasa and in four places in Helsinki - Arabianranta, Itäkeskus, Pitäjänmäki and Ruoholahti. In 2003, 10 to 15 shops will be opened, depending on outlet location arrangements.

#### Product range

At the end of 2002, the general selection included 1 836 (1 851) products from 52 countries. There were 1 117 products in the standard wine range. 538 new products were introduced. Some 670 products were also offered in the sale-to-order selection.

#### Customer service and responsibility

Customer satisfaction is measured continuously. Alko is still the best retail chain in Finland, and second among specialty shops, and seventh among the entire service sector. Competition has increased in service development, and the differences have become smaller.

#### Profit for the financial year

Sales including VAT and excise duty totalled EUR 1 332 million (+6.1%) and net sales 1 092 million euros (+6.0%). Profit before extraordinary items came to 0.7 million euros.

#### Profit before extraordinary items, million euros

2000	2001	2002
47.1	36.5	0.7

Profits were cut by exceptionally high pension costs. 32.5 million euros was paid to the Alko Pension Fund's division A, and 16.9 million euros to division B. These expenses also include write-downs of equity investments worth 17 million euros, and 5.5 million euros in expenses from the increased liability caused by higher age structures to division A; the latter sum was entered on the balance sheet as a one-off expense.

The company's financial position is solid, and it has no interest-bearing liabilities.

#### Investments

Gross investments in 2002 came to EUR 8 million, and related to overhauls of the shop network and image. Upgrading of IT systems continued, too. Investments were financed out of income.

#### Distribution of dividend

A sum of EUR 35 million was paid as dividend in 2001. This sum includes last year's annual profit and profits from previous years amounting to 8 million euros.

In addition to the profit for 2002, 0.2 million euros, the company has 22 million euros of distributable funds. The Board proposal for distributable funds for 2002 is 20 million euros.

#### Personnel

The total personnel at year end was 2 508 (2 399), equivalent to 1 789 (1 674) work years. The number of employees grew, mainly due to the proportional increase in part-time employees.

The entire personnel has been involved in an incentive scheme since 1997. In 2002, the main goal was to improve customer service and increase joint planning, development and the evaluation of success in the workplace.

# Report by the Board of Directors

## **Alko Pension Fund**

The Alko Pension Fund is an AB pension foundation as referred to in section 2 of the Act on Pension Foundations. The foundation handles the normal employee pension (TEL) in division B and supplementary pensions in division A.

No new members have been admitted to division A since 1991.

The Fund provides A and B division services for some 2 100 members, and pensioners number 1 815.

## **Board of Administration**

The term of the current Board of Administration is from 1 January 2000 to 31 December 2003.

The Chairman is Speaker of Parliament Riitta Uosukainen and the Vice Chairman Esko Aho, while the members are Merikukka Forsius, Esko Helle, Saara Karhu, Mari Kiviniemi, Kalervo Kummola, Pekka Kuosmanen, Henrik Lax, Riitta Prusti, Markku Rossi and Arto Seppälä, all members of Parliament.

The Ministry of Social Affairs and Health representative is Jarkko Eskola.

## **Board of Directors and President and CEO**

The Annual General Meeting on 7 March 2002 elected six members to the Board of Directors: Jussi Huttunen as Chairman, Matti Elovaara as Vice Chairman, and Aino-Inkeri Hansson (new), Raija Koskinen, Tiina Oksala-Leino and Jussi Simpura (new) as members.

The personnel representatives on the Board of Directors are Pekka Kirjavainen, Chairman of Alkoholikaupan Ammattiliitto ALV ry. and Taisto Rossi, Head Shop Steward of Alkoholialan Toimihenkilöt ry. (until 30 November 2002) and Juri Helmiö, Chairman of Alkoholialan Toimihenkilöt ry. (as of 1 December 2002). The company's President and CEO is Jaakko Uotila, and his deputy is Antero Halme, Executive Vice President, Finance.

## **Auditors**

The auditors appointed by the Annual General Meeting on 7 March 2002 are Yrjö Tuokko, Authorised Public Accountant and Erkki Mäki-Ranta, Approved Accountant, Chartered Public Finance Auditor, with Jorma Heikkinen, Authorised Public Accountant and Authorised Accounting Firm Tuokko Tilintarkastus Oy.

## **Future outlook**

The regulations concerning alcohol imports changed at the beginning of 2003. Instead of the previous 32 litres of beer, travellers are now allowed to import 64 litres from another EU country.

The European Union will expand considerably in 2004. The greatest change will be Estonia's accession to the Union. The greatest changes to Alko will be the larger volume of imports from Estonia and the EU's new internal alcohol import regulations. When the operating environment changes, it will be important to retain Alko's monopoly in retail sales.

# Income Statement

		1 Jan.–31 Dec.2002 Million euros	1 Jan.–31 Dec.2001 Million euros
NET SALES		1 091.5	1 029.4
Other operating income	1)	1.5	1.5
Materials and services			
Materials, consumables and supplies			
Purchases during the financial year		930.2	875.5
Increase(-)/decrease(+) in inventories		-9.9	-5.8
Personnel costs	2)		
Wages and salaries, remunerations		53.8	50.2
Social expenses			
Pension expense		49.4	12.1
Other social expenses		4.5	4.5
Depreciation and writedowns			
Depreciation according to plan		7.0	8.0
Depreciation on non-current assets		1.0	0.0
Other operating expenses		58.0	53.9
OPERATING PROFIT		-1.1	32.6
Financial income and expenses			
Income from holdings in Group companies	3)	0.0	0.9
Income from other investments held as non-current assets	3)		
From others		0.0	0.0
Other interest and financial income	4)		
From others		1.9	3.1
Interest and other financial expenses	5)		
To others		0.0	-0.1
PROFIT BEFORE EXTRAORDINARY ITEMS		0.7	36.5
Extraordinary items	6)		
Extraordinary income		0.0	1.4
PROFIT BEFORE APPROPRIATIONS AND TAXES		0.7	37.9
Appropriations			
Increase(-)/decrease(+) in depreciation difference		-0.1	1.0
Income taxes	7)		
For the financial year and previous financial years		-0.5	-11.9
PROFIT FOR THE FINANCIAL YEAR		0.2	27.0

# Balance Sheet

		31 Dec. 2002 Million euros	31 Dec.2001 Million euros
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets			
Other capitalised expenditure	8)	1.7	2.8
Advance payments	9)	0.4	0.1
Tangible assets			
Land and water areas	10)	0.0	0.0
Buildings and constructions	11)	0.0	0.0
Machinery and equipment	12)	25.9	24.3
Other tangible assets	13)	0.2	0.2
Investments			
Holdings in Group companies	14)	2.1	2.1
Holdings in participating interests companies	15)	8.6	10.5
Other shares and holdings	16)	8.8	9.3
<b>TOTAL NON-CURRENT ASSETS</b>		<b>47.8</b>	<b>49.4</b>
<b>CURRENT ASSETS</b>			
Inventories			
Finished products/goods		66.1	56.2
Advances received		0.4	0.5
Receivables			
Non-current			
Receivables from participating interests companies	17)	0.0	0.0
Current			
Accounts receivable		8.8	9.3
Other receivables		0.0	0.0
Prepaid expenses and accrued income	18)	9.6	6.7
Financial securities			
Other securities	19)	66.5	77.8
Cash in hand and on deposit		33.6	38.3
<b>TOTAL CURRENT ASSETS</b>		<b>185.0</b>	<b>188.7</b>
<b>TOTAL ASSETS</b>		<b>232.9</b>	<b>238.2</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	20)	16.8	16.8
Retained profit		22.4	30.5
Profit for the financial year		0.2	27.0
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>39.4</b>	<b>74.3</b>
<b>APPROPRIATIONS</b>			
Depreciation difference	21)	7.1	7.0
<b>TOTAL APPROPRIATIONS</b>		<b>7.1</b>	<b>7.0</b>
<b>LIABILITIES</b>			
Current			
Advances received		0.1	0.0
Accounts payable	22)	134.8	122.8
Other liabilities		21.8	18.7
Accrued expenses and deferred income	23)	29.6	15.4
<b>TOTAL LIABILITIES</b>		<b>186.3</b>	<b>156.9</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>232.9</b>	<b>238.2</b>



# Statement of Changes in Financial Position

	1 Jan.–31 Dec. 2002 Million euros	1 Jan.–31 Dec. 2001 Million euros
Cash flow from operations		
Operating profit	-1.1	32.6
Adjustments		
Depreciation according to plan	7.0	8.0
Unrealised exchange rate profit/loss	0.0	0.0
Other income and expenses (no related payment)	1.0	0.0
Other adjustments	0.6	0.5
Cash flow before change in working capital	7.6	41.1
Change in working capital		
Increase(-)/decrease(+) in current non-interest-bearing accounts receivable	4.8	-7.1
Increase(-)/decrease(+) in inventories	-9.9	-6.0
Increase(-)/decrease(+) in current non-interest-bearing liabilities	31.9	6.6
Cash flow from operations before financial items and taxes	34.4	34.6
Interest paid and payments on other financial operating expenses	0.0	-0.1
Dividends received on operations	0.0	0.6
Interest and financial income from operations	2.1	3.2
Direct taxes paid	-10.3	-10.1
Cash flow arising from extraordinary operating items	0.0	0.0
CASH FLOW FROM OPERATIONS (A)	26.1	28.2
Cash flow from investments		
Investments in tangible and intangible assets	-8.3	-8.9
Income from surrender of tangible and intangible assets	1.2	2.4
CASH FLOW FROM INVESTMENTS (B)	-7.1	-6.5
Cash flow from financial operations		
Dividend paid	-35.0	-33.6
CASH FLOW FROM FINANCIAL OPERATIONS (C)	-35.0	-33.6
CHANGE IN FINANCIAL POSITION (A+B+C)		
INCREASE(+)/DECREASE(-)	-16.0	-11.9
Financial position at beginning of financial year	116.1	128.0
Financial position at beginning of financial year	100.1	116.1

# Notes to the Financial Statement

## Consolidation principles

No consolidated financial statements have been drawn up, because the subsidiaries are real estate companies, and are not significant in providing a correct and sufficient view of the company's performance and financial status. The subsidiaries have no effect on distributable funds.

## Valuation principles

### Valuation of fixed assets

Fixed assets are entered in the balance sheet at historical cost, including variable acquisition-related costs minus accumulated depreciation according to plan. The depreciation according to plan is calculated on a straight-line basis, depending on the economic life of the fixed asset item in question. The estimated economic lives are:

	years
Buildings	25–40
Constructions	20
Machinery and equipment (purchased before 2002)	10
Transportation equipment (purchased in 2002)	7
Transport equipment	5
Computer hardware	3
Computer software	3
Renovation of store premises	5

### Valuation of inventories

Inventories are valued including variable costs according to the average price principle. The value of stocks carried by shops includes excise duty, while stocks in the central warehouse in Kuninkaala, Vantaa, do not.

### Valuation of financial assets

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

### Items denominated in foreign currency

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

# Notes to the Income Statement

	2002 Million euros	2001 Million euros
1) Other operating income		
Rental income on real estate and premises	1.0	0.9
Commission income	0.3	0.3
Other income	0.2	0.1
Total	1.5	1.3
2) Notes on personnel and members of various organs		
Permanent	816	810
Part-time and fixed-period	973	864
Average personnel	1 789	1 674
Salaries and remunerations paid to the management		
Chief Executive Officers	0.4	0.3
Members of the Board	0.1	0.1
Members of the Board of Administration	0.0	0.0
	0.5	0.4
Financial income and expenses		
3) Dividend and interest received, interest paid		
Dividend received on holdings in Group companies	0.0	0.6
Corporate tax credit	0.0	0.2
Dividend received on holdings in Group companies	0.0	0.9
Dividend received on holdings in other companies	0.0	0.0
Corporate tax credit	0.0	0.0
Dividend received on holdings in other companies	0.0	0.0
4) Total interest received	1.9	3.0
5) Total interest paid	0.0	0.0
6) Extraordinary items		
Extraordinary income		
Profit from dismantling Alcotrade Oy	0.0	0.0
Sale of shares under fixed assets	0.0	1.4
Total extraordinary income	0.0	1.4
7) Income taxes		
Income tax on extraordinary items	0.0	0.4
Income tax on operations	0.5	11.4
Total direct tax	0.5	11.9

# Notes to the Balance Sheet

	2002 Million euros	2001 Million euros
8) Other capitalised expenditure		
Acquisition cost on 1 January		
Increase at the beginning of the financial year	11.4	10.5
Increase during financial year	0.4	1.0
Decrease during financial year	-0.1	-0.2
Acquisition cost at year end	11.7	11.4
Accumulated depreciation at the beginning of the financial year	8.6	6.6
Accumulated depreciation on decrease	-0.1	-0.1
Depreciation for financial year	1.5	2.1
Accumulated depreciation at year end	10.0	8.6
Book value at year end	1.7	2.8
9) Advance payments and construction in progress		
Acquisition cost at beginning of financial year	0.1	0.1
Increase	0.4	0.9
Finished	-0.1	-0.9
Book value at year end	0.4	0.1
10) Land and water areas		
Acquisition cost at beginning of financial year	0.0	0.0
Decrease during financial year	0.0	0.0
Book value at year end	0.0	0.0
11) Buildings and constructions		
Acquisition cost at beginning of financial year	0.1	0.1
Increase during financial year	0.0	0.0
Decrease during financial year	0.0	-0.1
Acquisition cost at year end	0.1	0.1
Accumulated depreciation at beginning of financial year	0.1	0.1
Accumulated depreciation on decrease	0.0	-0.1
Depreciation for financial year	0.0	0.0
Accumulated depreciation at year end	0.1	0.1
Book value at year end	0.0	0.0
12) Machinery and equipment		
Acquisition cost at beginning of financial year	60.8	57.3
Increase during financial year	7.5	7.8
Decrease during financial year	-2.4	-4.3
Acquisition cost at year end	65.9	60.8
Accumulated depreciation at beginning of financial year	36.5	34.1
Accumulated depreciation on decrease	-2.0	-3.6
Depreciation for financial year	5.5	5.9
Accumulated depreciation at year end	40.0	36.5
Book value at year end	25.9	24.3

	2002 Million euros	2001 Million euros
13) Other tangible assets		
Acquisition cost at beginning of financial year	0.2	0.2
Increase during financial year	0.0	0.0
Decrease during financial year	0.0	0.0
Acquisition cost at year end	0.2	0.2
Accumulated depreciation at beginning of financial year	0.0	0.0
Accumulated depreciation of decrease	0.0	0.0
Depreciation for financial year	0.0	0.0
Accumulated depreciation at year end	0.0	0.0
Book value at year end	0.2	0.2
14) Holdings in Group companies		
Acquisition cost at beginning of financial year	2.1	2.1
Increase during financial year	0.0	0.0
Decrease during financial year	0.0	0.0
Book value at year end	2.1	2.1
15) Holdings in participating interests companies		
Total acquisition cost at beginning of financial year	10.5	10.7
Total increase during financial year	0.0	0.0
Decrease during financial year	-1.0	-0.1
Depreciation on write-downs during financial year	-1.0	0.0
Total book value at year end	8.6	10.5
16) Other shares and holdings		
Total acquisition cost at beginning of financial year	9.3	9.8
Total increase during financial year	0.0	0.0
Decrease during financial year	-0.5	-0.5
Total book value at year end	8.8	9.3
17) Receivables from participating interests companies		
Loan receivables	0.0	0.0
18) Prepaid expenses and accrued income		
Statutory social insurance contributions	0.5	4.1
Collection system payments	0.3	0.3
Social Insurance Institution compensation for occupational health care	0.6	0.6
Interest receivable	0.1	0.3
Advance expenses	0.3	1.0
Purchase invoice and other refunds	0.1	0.2
Tax advance	7.4	0.1
Other prepaid expenses and accrued income	0.2	0.0
	9.6	6.7
19) Other securities under financial assets are short-term corporate commercial papers, and the difference between their current value at the time of closing and the book value is not significant.		

# Notes to the Balance Sheet

	2002 Million euros	2001 Million euros
20) Shareholders' equity		
Share capital at beginning of financial year	16.8	16.8
Share capital at year end	16.8	16.8
Retained profit at beginning of financial year	57.4	64.0
Dividend paid	35.0	33.6
Retained profit at year end	22.4	30.4
Profit for financial year	0.2	27.0
Profit funds at year end	22.6	57.4
Shareholders' equity at year end	39.4	74.2
Distributable funds at year end	22.6	57.4
21) Depreciation difference and change in depreciation difference		
Other capitalised expenditure		
Depreciation difference at beginning of financial year	0.4	0.7
Depreciation difference for financial year	-0.4	-0.2
Depreciation difference on decrease	0.0	0.0
Depreciation difference at year end	0.0	0.4
Buildings and constructions		
Depreciation difference at beginning of financial year	0.0	0.0
Depreciation difference for financial year	0.0	0.0
Depreciation difference on decrease	0.0	0.0
Depreciation difference at year end	0.0	0.0
Machinery and equipment		
Depreciation difference at beginning of financial year	6.6	7.4
Depreciation difference for financial year	0.5	-0.1
Depreciation difference on decrease	-0.1	-0.6
Depreciation difference at year end	7.1	6.6
Total depreciation difference at beginning of financial year	7.0	8.0
Total depreciation difference for financial year	0.2	-0.3
Total depreciation difference on decrease	-0.1	-0.6
Total depreciation difference at year end	7.1	7.0
22) Accounts payable	134.8	122.8

	2002 Million euros	2001 Million euros
23) Accrued expenses and deferred income		
Holiday pay liability and other payroll advances including social costs	13.4	12.1
Income tax advance	0.0	2.5
Additional social insurance contributions	15.4	0.1
Other accrued expenses and deferred income	0.8	0.7
Total accrued expenses and deferred income	29.6	15.4
Other notes		
Leasing liabilities		
Maturing during the year following the financial year	0.3	0.3
Maturing later	0.2	0.3
Total	0.5	0.6
The leasing contracts are predominantly 3-year contracts with redemption terms	0.4	0.4

## SPECIFICATION OF SHARE OWNERSHIP

### 14) Holdings in Group companies

	% owned by Parent company	Proportion of equity 1 000 euros	Equity euros	Number of shares	Nominal value euros/share	Total nominal value 31 Dec. 2002 1 000 euros	Book value 31 Dec. 2002 1 000 euros	Profit/loss acc. to the latest Financial Statements 1 000 euros
Real-estate companies								
Hanko Vuorikatu 9, Hanko	58.26	178	305 296.48	882	168	148	188	-1
Humalapelto, Karstula	77.22	153	198 622.22	278	8	2	182	6
Nastonharjun Liiketalo, Nastola	75.60	169	223 711.88	7 560	2	13	171	0
Puolangan Keskus, Puolanka	50.48	186	367 731.97	275	56	15	118	0
Raahen Asemakatu 12, Raahе	57.90	231	398 196.78	14 476	17	243	272	0
Tampereen Hämeenpuisto 27b, Tampere	59.55	1 427	2 396 121.38	16 836	17	283	663	4
Vuoksenniskan Harjulanrinne, Imatra	73.08	698	955 275.28	7 308	0	2	505	0
Total holdings in Group companies		3 042					2 098	11

### 15) Holdings in participating interests companies

Real estate and housing companies	13 696	8 576
Total holdings in participating interests companies	13 696	8 576

### 16) Other shares and holdings

Housing and real-estate companies	8 702
Commercial companies	82
Other non-itemised shares and holdings (in telephone companies)	50
Total other shares and holdings	8 834
Total shares	19 508

# Indicators

In order to make the indicators comparable, net sales in the consolidated income statements for 1999–2002 were adjusted by excluding the tax on alcoholic beverages otherwise included in them.

		2002	2001	2000	1999	1998
Net sales	Million euros	452.8	418.8	386.2	382.8	326.3
Operating profit	Million euros	-1.1	32.6	44.4	43.0	30.8
proportion of net sales	%	-0.2	7.8	11.5	11.2	9.4
Profit before extraordinary items, voluntary provisions and income taxes	Million euros	0.7	36.5	47.1	45.8	33.7
proportion of net sales	%	0.2	8.7	12.2	12.0	10.3
Profit for the financial year	Million euros	0.7	37.9	47.0	45.8	28.4
proportion of net sales	%	0.2	9.0	12.2	12.0	8.7
ROE	%	0.4	29.0	38.3	45.8	53.8
ROI	%	1.2	42.9	54.8	63.0	66.3
Equity ratio	%	20.0	34.1	37.4	36.2	28.6
Current ratio		1.0	1.2	1.3	1.2	1.0
Gross investment in fixed assets	Million euros	8.3	8.8	6.7	8.7	10.4
proportion of net sales	%	1.8	2.1	1.7	2.3	3.2
Average personnel during financial year		2 359	2 209	2 142	2 086	1 987

## CALCULATION FORMULAE

Invested capital		Balance sheet total – non-interest-bearing liabilities – deferred tax liability – statutory reserves
ROE, %	100 x	$\frac{\text{Profit before extraordinary items – taxes}}{(\text{equity} + \text{minority interest} + \text{provisions} - \text{deferred tax liability}) \text{ average}}$
ROI, %	100 x	$\frac{\text{Profit before extraordinary items – interest and other financial expenses}}{\text{Average invested capital}}$
Equity ratio, %	100 x	$\frac{\text{Equity} + \text{minority interest} + \text{provisions} - \text{deferred tax liability}}{\text{Balance sheet total} - \text{accounts payable}}$
Current ratio		$\frac{\text{Current assets}}{\text{Current liabilities}}$



# Board Proposal & Auditor's Report

## BOARD PROPOSAL TO THE AGM FOR THE DISTRIBUTION OF PROFIT

The parent company's distributable funds on 31 December 2002 were 22 599 014.83 euros, of which profits for the financial year accounted for 170 653.00 euros.

The Board of Directors proposes that 20 000 000.00 euros be paid out as dividend.

The remaining distributable funds will be carried over in the profit account.

Vantaa, 26 February 2003

Jussi Huttunen

Matti Elovaara

Aino-Inkeri Hansson

Raija Koskinen

Tiina Oksala-Leino

Jussi Simpura

Jaakko Uotila  
Chief Executive Officer

## AUDITORS' REPORT

To the shareholders of Alko Inc.

We have examined the bookkeeping, financial statements and administration of Alko Inc. for the financial year 1 January to 31 December, 2002. The financial statements drawn up by the Board of Directors and the President & CEO, showing a profit of EUR 170 653.00 comprise a report on operations income statements, balance sheets and notes to the financial statements. Based on our audit, we now issue a report concerning the financial statements and administration.

We have conducted our audit in accordance with generally accepted auditing standards. The bookkeeping, the accounting principles and the content and manner of presentation have been examined to a sufficient degree to obtain reasonable assurance that the financial statements are free from material misstatement. As regards the administration, we have examined the compliance of actions by the Board of Administration, by the Board of Directors and by the President & CEO with the requirements of the Finnish Companies Act.

Our statement notes that the financial statements have been drawn up pursuant to the Finnish Accounting Act and other rules and regulations governing annual financial statements. The financial statements present a true and fair view of the performance and financial status in accordance with the Accounting Act. The financial statements can be approved and the members of the Board of Administration, Board of Directors and the President & CEO can be released from liability for the financial year now audited. The Board of Directors' proposal for the disposal of profit complies with the Finnish companies Act.

Vantaa, 28 February 2003

Erkki Mäki-Ranta  
Approved Accountant  
Chartered Public Finance Auditor

Yrjö Tuokko  
Authorised Public Accountant

# Statement by the Board of Administration

The Board of Administration of Alko Inc. has studied the company's financial statements and auditors' report for 2002 and proposes to the 2003 Annual General Meeting that the company income statement and balance sheets for the 2002 financial year be approved. The Board of Administration agrees with the Board of Directors' proposal for disposal of the profits.

Helsinki, 28 March 2003

Riitta Uosukainen

Esko Aho

Merikukka Forsius

Esko Helle

Saara Karhu

Mari Kiviniemi

Kalervo Kummola

Pekka Kuosmanen

Henrik Lax

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