

Alko Annual Report **2003**





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Customer satisfaction

We guarantee a first-rate service and product range for all our customers. Doing business with us is easy and pleasant. Our operations are of high quality.



Responsibility

Our business is based on our sense of responsibility in terms of social and health care policy. We ensure the quality and safe use of the products we sell. We follow and develop social, environmental and economic principles related to the responsibility we accept for the community. We take responsibility for our own work.



Transparency

Our activity is based on transparency, impartiality and honesty. We discuss even difficult matters in a constructive way. We engage in successful co-operation and trust one another.



Expertise

We are professionally skilled and capable of renewal. We are able to change in order to suit every situation.



Profitability

We work economically and efficiently.

Alko in Brief

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Alko is a trading chain specializing in alcoholic beverages, which has 314 shops and 142 order points. In 2003, Alko opened 15 new shops and moved 23 others to better locations for the customer. The company's head office is in Kuninkaala, Vantaa.

Alko is an independent company fully owned by the State and administered and supervised by the Ministry of Social Affairs and Health.

The company's basic function is the retail sale of alcoholic beverages under a monopoly granted under the Alcohol Act, with the aim of preventing the harmful effects of alcohol consumption. Exceptions to alcoholic beverages under the monopoly are fermented beverages containing up to 4.7% alcohol by volume and wines sold by Finnish farm wineries containing up to 13% alcohol by volume.

The State-owned alcohol company gained the sole right to the retail sale of alcoholic beverages in Finland in 1932. The first Alko shop was opened on 5 April 1952. When Finland joined the EU in 1995, a new Alcohol Act was passed under which the sole right to the retail sale of alcohol remained with Alko Inc., a company fully owned by the State.

Responsible and service-oriented

In 2003, over 62 million customers visited Alko shops. Our competent customer service is supported by efficient retail chain operations, well-organized materials management and first-class personnel training in product knowledge. A standard visual appearance and carefully planned shelving arrangements at all Alko shops make the shopping easier for our customers.

Alko shops must comply with strict requirements concerning responsible control over their sales. Alcoholic beverages are not sold to underage or intoxicated persons. We also strive to prevent the handover of alcohol to underage persons.

The principles governing relations between Alko and its suppliers are presented in a booklet called Listing Procedure and Retail Sale of Alcoholic Beverages. About 460 new products were added to Alko's product range in 2003.

Key figures

	2003	2002	2001
Sales proceeds (incl. VAT), mill. euros	1 382	1 332	1 256
Net sales, mill. euros ¹	476	453	419
Operating profit, mill. euros	44	-1	33
Gross investment, mill. euros	10	8	9
Personnel	2 574	2 508	2 399
Number of shops (31 Dec.)	314	299	284
Order points (31 Dec.)	142	141	138
Number of brands (31 Dec.)	1 840	1 800	1 850

¹ Excl. tax

Letter from the President and CEO

The main feature of our operations in 2003 was preparing ourselves for the changes to the operating environment in 2004.

The most important of these for Alko are the liberalization of travellers' imports and Estonia's accession to the European Union. The Government reacted to this at the end of 2003 by enacting a new Alcohol Act that came into effect on 1 March 2004. The new Act reduced the taxation on alcoholic beverages, the aim being that with lower prices citizens will not have such a big incentive to purchase alcoholic beverages abroad.

Alko's Board of Directors examined the change with particular care, dealing with it from different perspectives at every Board meeting. A similar approach was adopted throughout the whole organization from the management team to team meetings at Alko shops.

The effects of the change are all but impossible to predict accurately. For this year we have adopted the motto "predicting change and reacting flexibly" as the guiding principle in planning the operations. We must, therefore, be ready to make corrective decisions quickly if something unexpected occurs.

Last year a great deal of effort was put into strengthening the acceptability of Alko's sole right status to customers and society.

Friendliness, flexibility and consideration for the customer have been our objectives in 2003, and they will not change, whatever our challenges are. We will compete for customer satisfaction by developing our operating methods.

According to the feedback they have given, customers are satisfied with the atmosphere at Alko and our ability to change in line with their expectations. Feedback collected from our customers over several years says that through critical questioning of our operating methods we have created a better service and more efficient processes. This is exemplified by the reformed area organization that we introduced at the beginning of October.

Alko's sole right to sell beverages containing over 4.7 per cent alcohol to its customers is dependent to a great extent on consumers supporting the sole right in the future as well.

In 2003 we opened 15 new shops and transferred 23 others to a better location for the customer. We wanted to place increasing emphasis on our image i.e. a responsible speciality business in the alcohol trade. The shop personnel were fitted out with a new uniform, and shops were modernized in order to increase Alko's appearance of consistency.



Alko's personnel went through extensive customer-ship training in 2003. This was supplementary to the customer service training that the personnel has been going through since 1996.

Responsibility is an everyday matter for Alko

One of Alko's most important values is responsibility. During 2003 more than 878 000 age checks were carried out on young customers, about 83 000 refusals to sell alcohol to intoxicated persons were recorded as were some 19 700 obvious attempts to make prohibited purchases or handovers. We consider self-supervision to be extremely important, because by doing so we can cut some of the harmful effects caused by alcohol and guarantee our customers' safety.

The importance of this work is underlined by the latest extensive Gallup Poll on attitudes to alcohol. Finns are satisfied with the present alcohol restrictions and a growing number of Finns would be ready to tighten them.

We also feel that an important part of our responsibility is public responsibility. Alko has a particular obligation and is also in a good position to take into consideration the perspectives of a company's social responsibility in all its operations: social, environmental and economic. In 2003 we published the first social responsibility report.

At the beginning of October 2003 the Government issued a Resolution about the strategies in the alcohol policy. The Resolution authorizes the preparation of a National Alcohol Programme for 2004–2007. The programme will be ready in the spring of 2004. The Government also decided at the same time that retail sales of alcoholic beverages would remain the sole right of the state-owned company in accordance with the Alcohol Act. Alko is taking part in drawing up the National Alcohol Programme.

Alko sales and profit 2003

In 2003, Alko's sales per litre amounted to more than 106 million, a growth of 2.7 per cent compared with 2002. Alko's sales including VAT and excise duty

amounted to EUR 1 382 million and without taxes to about EUR 476 million. The growth in sales compared with the previous year was 3.8 per cent. The profit for the year was EUR 27 million.

The sales and profit indicators for 2003 were similar to those in 2001; in 2002 Alko covered losses on the pension fund using the operating profit. We are now back on the same course as in the years preceding 2002.

Taken on a product-group basis, the biggest increase in sales came in mild wines, particularly red wines, and long drinks. Bag-in-box wines rose to 22 per cent of wine sales in terms of litres.

Regeneration is important

This year customers will be particularly interested in what added value we will be able to produce for them. Succeeding in satisfying customer needs means that operations will have to be developed constantly. The in-depth knowledge of products among Alko's sales personnel and the ability to serve customers in accordance with their needs are the cornerstones of dealing with the customer. For that reason Alko is still investing heavily in product and service training. An increasing amount will also be invested in customer and personnel safety both now and in the future, the aim being the efficient management of a responsible and service-oriented alcohol trade in Finland in the future too.

Last year more than 62 million customers visited Alko's shops. Our responsible and service-oriented personnel have performed their work excellently, for which I offer my sincerest thanks. I would also like to express warm thanks to the stakeholders who have been involved in developing our operations.

March 2004



Jaakko Uotila

Operating Environment

The consumption of alcoholic beverages was lower than private consumption in general in 2003. The real prices of alcoholic beverages rose by 0.7 per cent. Alko's share of the retail market remained unaltered.

Finnish economic growth was slightly slower in 2003 than in the previous year, despite an initial upswing in the spring. Average growth year-on-year, based on consumption demand in particular, is estimated at about 1.5 per cent. Private consumption is estimated to have grown by about 3 per cent. The general rise in prices was slower than the average EU inflation rate. The Finnish inflation rate in 2003 was 0.9 per cent.

During 2003, Alko opened 15 new shops. At the end of the year, Alko had a total of 314 shops and 142 order points extending the Alko shop network. The number of other retail outlets and restaurants serving mild beverages went down, as in the previous year. The number of restaurants serving both strong and mild beverages and the number of customer places in them increased on the previous year.

The amount of beer that travellers are allowed to import free of tax changed in 2003 so that a maximum of 64 litres of beer may now be imported from other EU countries instead of 32 litres. Restrictions on other beverages remained as they were until the end of the year. At the beginning of 2004, the restrictions on importing alcoholic beverages for which tax has already been paid were removed, and all travellers within the EU are now allowed to bring alcoholic beverages for their own use freely from other EU countries without paying taxes for them in Finland.

Finnish alcohol tax

Taxation on alcoholic beverages remained unchanged in Finland in 2003. Of Finland's neighbouring countries, Norway reduced its tax on strong beverages at the beginning of 2003; the previous tax reduction had taken place a year earlier. At the beginning of 2004 Norway increased the tax slightly. Denmark, on the other hand, cut taxation of strong beverages by nearly one half at the beginning of October 2003.

According to preliminary figures, State revenues from alcohol totalled more than EUR 2 billion in 2003, with EUR 1.4 billion accounted for by alcohol tax, up 1.9 per cent on the previous year. Other alcohol revenues consisted of VAT income. Revenue from alcoholic beverages accounted for slightly over four per cent of all State tax

income. In Finland, alcoholic beverages are subject to a basic tax and an additional tax based on the type of packaging. In addition, alcoholic beverages are also subject to the general value added tax (VAT).

In 1994 Finland changed from alcohol taxation based on the price of the beverage to taxation defined in an EU directive, in which the 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. Taxation of wines in Finland was reduced in 1998. In all other respects, the nominal tax has remained the same.

Taxation of alcoholic beverages has been considerably lower from the beginning of March 2004, bringing the tax rate down by 33 per cent on average. The aim of the tax reduction is to adjust consumer prices to a level that will act as a disincentive to buying alcoholic beverages from abroad.





Taxation of alcoholic beverages in the neighbouring countries 2003

The taxation rate applied to alcoholic beverages was slightly different in Sweden and Norway than in Finland, depending on the product group. In Norway, strong beverages were subject to considerably higher taxes than in Finland. The tax for strong beverages in Denmark was less than half that applied in Finland; in Germany, about one quarter. Taxation of beer in Denmark was about a third of that in Finland and in Germany one fifteenth.

After the reduction in the 44% tax of strong beverages in Finland on March 1, 2004, the Estonian rate will be one third of the Finnish rate. The taxation rate for beers was reduced by 32 per cent at the beginning of March 2004 in Finland, bringing the Estonian tax rate for beers to one fifth of the Finnish rate.

Alcoholic beverage excise duty by product group 2003

In EU countries and in some other countries
Euros per litre of 100% alcohol

	Strong beverages	Inter-mediate products	Wine	Beer
Minimum excise duty in EU	6	3	0	2
Italy	7	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	18	6	5	5
Belgium	17	6	4	4
Ireland	39	22	25	20
UK	28	17	20	17
Denmark	20	8	9	9
Finland	50	39	21	29
Finland 1 March 2004	28	24	19	20
Sweden	55	28	22	16
Iceland *	74	59	47	36
Norway *	67	44	44	44
Estonia *	9	6	6	4
Latvia *	8	6	4	2
Lithuania *	9	6	4	2
Poland *	10	1	3	4

* Non-EU

Source: CEPS (Confédération Européenne des Producteurs de Spiritueux), January 2004.

Alko involved in alcohol programme

"The concern over the increase in the consumption of alcohol is one important reason for the Government deciding to draw up an alcohol programme for 2004–2007. The purpose of the programme is to reduce the adverse effects of alcohol," says **Markku Lehto**, Permanent Secretary at the Ministry of Social Affairs and Health. "The programme consists of broad-based cooperation in which both business life and non-governmental organizations can participate through partnership agreements. Alko is also involved; it has a special position because of its size and know-how. I think that Alko has been successful in implementing a responsible alcohol policy. The company systematically monitors the sale of alcoholic beverages. As the operating methods in the alcohol programme become consolidated and established with time, we will try to utilize Alko's knowledge where possible. I am sure that with the extensive cooperation within the alcohol programme we will be able to prevent and deal with the adverse effects of alcohol."



Alcohol consumption continues to rise

The economic confidence of households remained high in 2003, and real purchasing power grew by three per cent on the previous year. Supply increased and prices changed only slightly.

Documented consumption in 2003 was 40 million litres in 100% alcohol, which was an increase of 1.2 per cent on the previous year. Undocumented¹ consumption remained at its previous level.

In 2003, total per capita consumption of alcoholic beverages in 100% alcohol was 9.4 litres. Documented consumption came to 7.7 litres and undocumented consumption to 1.7 litres. Undocumented consumption has remained at the same level for five years now and accounts for just under one fifth of total consumption. More than half of undocumented consumption is imported by travellers. Alcohol drunk by travellers abroad accounts for about one fifth of undocumented consumption and legal and illegal home-made alcoholic beverages about one quarter.

Retail sales accounted for 2.3 per cent of the increase in documented consumption. Licensed sales were 3.4 per cent down on the previous year.

As in 2002, consumption of wines increased most, with sales increasing by 8.0 per cent on the previous year. This was about the same as the increase in the demand for long drinks, which was 7.8 per cent. In particular, demand for foreign long drinks sold in Alko shops and in

restaurants increased significantly. In contrast, cider consumption went down 4 per cent during the year.

Sales of strong beverages increased by slightly under 1 per cent. Beer sales went down 0.7 per cent from the previous year.

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

	2003	2002	2001
Documented consumption	7.7	7.6	7.3
Undocumented consumption ¹	1.7	1.7	1.7
Total	9.4	9.3	9.0

Source: Intoxicants Statistical Yearbook 2003, National Research and Development Centre for Welfare and Health (Stakes).

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

Slight increase in the real prices of alcoholic beverages

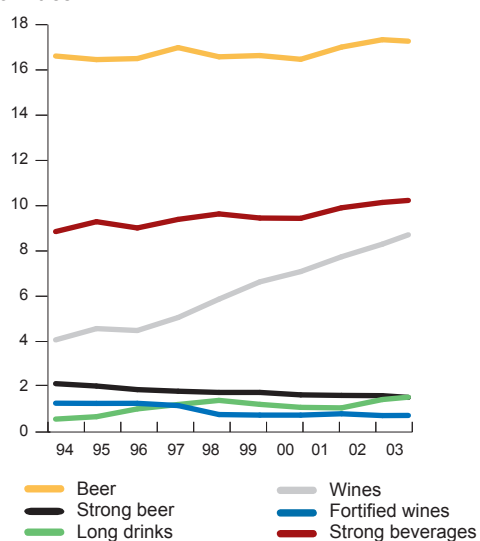
The real level of consumer prices of alcoholic beverages has remained stable since the early 1990s. The real prices in retail sales have been falling, while those of licensed sales have risen somewhat.

According to preliminary figures, nominal prices of alcoholic beverages rose by 1.5 per cent in 2003. The nominal prices of retail sales of alcohol rose by 1.3 per cent and those of licensed sales by 1.8 per cent. Proportioned to consumer prices, this means a rise of 0.7 per cent in the real price level of alcohol sales.

Alcohol consumption in Finland

In 100% alcohol, by beverage category, 1994–2003

Million litres



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

Retail sales up one percentage point

Documented alcohol consumption is divided into retail sales and licensed sales. Retail sales increased by one percentage point to 82 per cent of documented consumption in 2003. Licensed sales dropped to 18 per cent of documented consumption. Alko sales remained at 52 per cent of retail sales.

Breakdown of retail sales of alcoholic beverages

	2003	2002	2001
Alko ¹	52%	52%	51%
The grocery business ¹	48%	48%	49%
Finnish farm winery products, litres ²	331 000	350 000	350 000

¹ Source: National Research and Development Centre for Welfare and Health (Stakes). Calculated in litres of 100% alcohol.

² Source: National Product Control Agency for Welfare and Health (STTV).

There were over 50 farm wineries in Finland at the end of 2003. The farms produced and sold some 331 000 litres of alcoholic beverages; the level has remained the same for several years now.

Alko's Services and Products

**Shop Network and Customers –
Alko serves 62 million customers a year.**

Alko engages in the retail sale of alcoholic beverages on the basis of its sole right as defined in the Alcohol Act. Exceptions to beverages sold under the monopoly are fermented beverages containing up to 4.7% alcohol by volume and wines containing a maximum of 13% alcohol by volume that are sold by Finnish farm wineries.

We carry our responsibilities impartially and efficiently. We can boast a network of shops that covers the entire country, expert personnel and an extensive range of high-quality products.

We invest in a reliable, consistent operating method. Our success depends on the skills of our personnel, the image we convey to our customers and the way we carry on our speciality trade. We are a reliable partner for our stakeholders.

Our monopoly status requires that we have a well-organized sales supervision system. Responsibility is an integral part of first-class customer service. In 2003, we checked the age of young customers over 878 000 times, and 83 000 refusals to sell on account of intoxication were recorded, as were 19 700 obvious attempts to make prohibited handovers.

The company organization was revamped on 1 October 2003. To improve our customer-oriented approach to the operating chain and to make it more efficient, we rearranged the shop network into nine regions instead of five districts. Each region is managed by a regional manager. The new regional organisation is managed by the Executive Vice President of Customer Services, who reports to the President and CEO.

Customer training for all personnel was carried out in 2003 with a particular focus on the different needs of different customers and the quality of the service. The quality of our service is measured frequently. In 2003, we conducted a customer survey among over 45 000 people at Alko shops. According to the survey, Alko provided an excellent service and had even improved on 2002. In surveys that measure customer satisfaction and the customer service images of retail chains Alko has been at the top of the list for several years now.



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Shops, Products and Diverse Selection



Fifteen new shops

At the end of 2003, Alko had 314 shops and 142 supplementary order points. New shops were opened at Espoo (Mankkaa and Tapiola), Helsinki (Itäkeskus), Inari (Saariselkä), Lahti (Mukkula), Kokkola town centre, Oulu (Kaakkuri), Pirkkala (Partola), Turku (Hirvensalo and Kupittaa station), Kangasala, Kustavi, Piikkiö, Ristiina and Valkeala. In addition, 23 shops moved to more advantageous locations for the customer. Six new shops are planned for 2004.

Longer opening hours were introduced at the shops to meet customers' needs.

Corporate services – part of comprehensive customer service

All Alko shops provide a service for corporate customers. In addition, Alko has 23 shops specializing in serving corporate customers in major towns and northern holiday resorts. The product range, personnel and service at these shops are adjusted to the specific needs of corporate customers. On 1 May 2003 we introduced a Corporate Customer Card, which can be used as any standard payment card at Alko shops. We have also paid regular visits to corporate customers in the major towns to gather customer feedback and acquire new ideas on improving our operations.

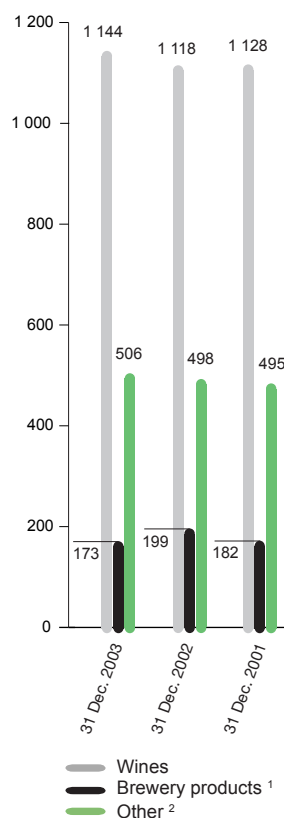
Safe products of uncompromising quality from a diverse selection of alcoholic beverages

In a global context, Alko is a major buyer of alcoholic beverages. We aim at offering our customers products that are uncompromisingly good and numerous in their diversity. Keeping track of consumer behaviour and international trends is an important part of our purchasing operations.

In 2003, wine suppliers offered 3 092 labels for Alko for sale; of these, we ordered 1 285 for tasting. A total of 290 new wines were bought eventually. Alko's beer selection covers about 30 domestic and 90 foreign labels.



Number of alcoholic beverage brands in the price list



¹ Among others: beer, cider and long drinks

² Among others: fortified wines, cocktails and strong beverages

Regional offices and shops 1 January 2004

Helsinki
Regional Office Helsinki
Regional Manager Markku Kujansivu
31 shops

Uusimaa
Regional Office Helsinki
Regional Manager Kimmo Mäkelä
35 shops, 8 order points

Western Finland
Regional Office Turku
Regional Manager Erkki Pakola
43 shops, 27 order points

Pirkanmaa
Regional Office Tampere
Regional Manager Antero Elovaara
35 shops, 5 order points

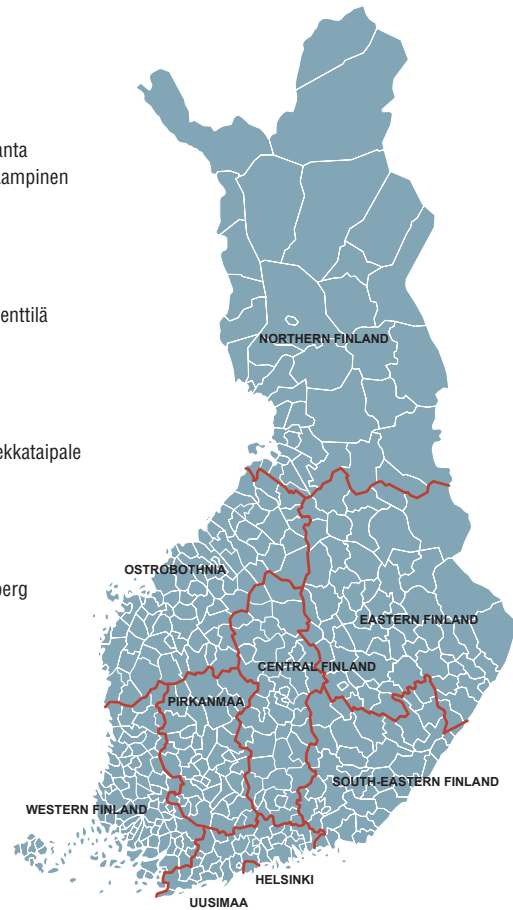
Central Finland
Regional Office Tampere
Regional Manager Juha Korhonen
33 shops, 11 order points

South-Eastern Finland
Regional Office Lappeenranta
Regional Manager Tapio Lampinen
32 shops, 12 order points

Ostrobothnia
Regional Office Oulu
Regional Manager Anne Penttilä
36 shops, 26 order points

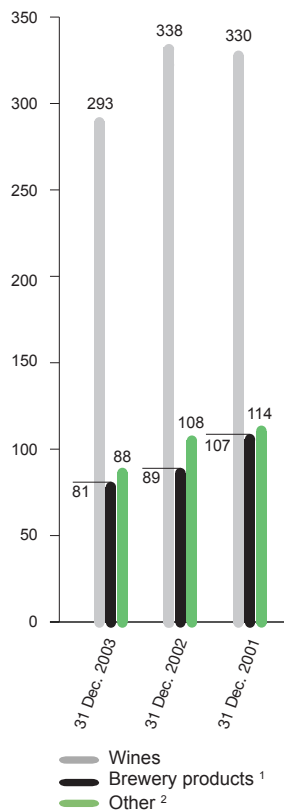
Eastern Finland
Regional Office Kuopio
Regional Manager Jari Hiekkataipale
34 shops, 29 order points

Northern Finland
Regional Office
Regional Manager Ari Nyberg
35 shops, 24 order points



Base map © Genimap Oy, Licence L5324/03

Number of new alcoholic beverage brands in price list



¹ Among others: beer, cider and long drinks

² Among others: fortified wines, cocktails and strong beverages

Increased knowledge of beer

In 2003, five Alko shops in the Greater Helsinki area and at Kupittaa in Turku focused on brewery products. The selection was extended, and displays and space usage were given a clearer definition.

“The main thing was that foreign brewery products were laid out according to the country of origin and type of beer. This is how customers most commonly look for beers; alcohol content is not so important,” says **Jyri Saraste**, manager of the Alko shop in Herttoniemi, Helsinki. “The signs were also replaced. Most of our brewery product sales are Finnish, so, of course, we place special attention on their location. Many of our staff have a good knowledge of beers, but we were given further training this year. Many customers are experts in their beers. I suppose we’re coming closer to the beer countries of Central Europe, where many types of beer supplement a meal and are used like wine.



Shops, Products and Diverse Selection

Growing sales of bag-in-box wines and New World wines

The biggest change in sales in 2003 was consumers' growing interest in bag-in-box wines, which accounted for 22 per cent of the total sales of wines. The number of bag-in-box wines increased by about 30.

Customers were also increasingly interested in New World wines, which are produced in the United States, Argentina, Chile and Australia, for instance.

Their popularity is based on the straightforward labels, well-known grapes, familiar brands and good value for money.

South Africa accounted for the highest proportion of all the New World white wines sold by Alko i.e. 19.5 per cent; Chile, Australia and Argentina increased their share of red wines considerably.

The growing number of wine enthusiasts increased the demand for more expensive quality wines. Many quality wines enjoy such wide international popularity that the producers simply cannot meet the global demand. As a reliable partner and major buyer, however, Alko has an excellent advantage where purchase of these wines is concerned. The prices of the most sought-after wines sold at Alko are highly competitive by international standards, thanks to our clear and impartial pricing system. Our reservation system ensures that the most popular quality wines are available in all parts of Finland.

Alcohol Control Laboratory

Alko's Alcohol Control Laboratory (ACL) tests 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.

To ensure consumer protection, Alko also conducts investigations that exceed the authorities' requirements. In 2003, such studies focused on the microbiological purity of wines, the quality of bag-in-box wines, the

allergens in beer, and the authenticity of alcoholic beverages. The ACL analysed 6 700 samples in 2003, a 22% increase on the previous year. A large part of the analyses were carried out for external clients, companies and authorities for separate fees.

The ACL received a large number of inquiries from its customers about the chemical quality of alcoholic beverages and in particular, about the presence of any allergens.

The ACL cooperated with the other Nordic alcohol monopolies in quality issues and represented Finland at the International Vine and Wine Office (IWO) in activities relating to analytical methods and the safety of wines.

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



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 and order points. The pricing regulations and factors affecting prices are reviewed once a year. Any changes to be made are discussed with suppliers and communicated to the interested parties in accordance with a previously agreed schedule.

A review of prices at the beginning of 2003 kept them as they were. The effects of inflation were examined with regard to factors affecting the pricing and the prices of purchase services were also reviewed.

Prices of alcoholic beverages were changed four times during the year: in January, April, July and October. On these occasions, suppliers had an opportunity to review their prices, raise or lower them, or make changes in the distribution of their products to Alko shops. At the same time the exchange rates used in the pricing were updated. All such changes and adjustments were passed on directly to consumers through the retail price.

Alko's real price level down

Price changes were quite small in 2003. The nominal price level at the end of 2003 was 0.4 per cent higher than a year earlier. The annual price level in 2003 was 0.5 per cent up on the previous year. Proportioned to consumer prices, the real price level of Alko's sales went down 0.4 per cent on average.

Taxation of alcoholic beverages

Taxation of alcoholic beverages in 2003 remained the same as before. On average, taxes were 84 per cent of the prices of strong beverages. In the prices of wines, taxes formed slightly under half of the prices; in the prices of beers, slightly more than a half. Value added tax (VAT) forms 18 per cent of the retail price. The VAT tax rate is 22 per cent.



Taxation of alcoholic beverages in 2003

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

Taxation of alcoholic beverages is described in detail in the section 'Operating Environment', pp. 4–6.

Alko's Sales 2003– Sales increased, with milder beverages gaining popularity.

Alko sales continued to grow in 2003, albeit at a somewhat lower rate than in 2002. Sales per litre increased by 2.7 per cent, totalling 106.0 million litres. In 100% alcohol, Alko sold 17.1 million litres, which was 3.5 per cent more than in 2002.

The increased sales were largely based on improved consumer purchasing power, a slight drop in real prices and a wider range of alcoholic beverages. Alko opened 15 new shops, and the range of products supplied by shops was modified further to better respond to local demand. Mild beverages increased their share of the sales income by just under one percentage point, with wines gaining more and more popularity, as in previous years.

Sales of mild wines rose by 8.2 per cent. Long drinks, however, achieved the largest increase in sales, rising 14.1 per cent on the previous year. Sales of mild grape wines rose by a total of 9.3 per cent, with red wines achieving the biggest growth, 14.3 per cent. The increase in long drinks sales derived from the rising popularity of new foreign beverages.

The sale of bag-in-box wines continued its rapid increase. Retail prices of these two- or three-litre bag-in-box

wines per litre are often lower than those of wines sold in bottles. The total amount of bag-in-box wines sold was 9.7 million litres, which was 22 per cent of all wine sales. The product range of bag-in-box wines comprised 39 red wines, 30 white wines and one rosé. Multi-packs (e.g. six- or twelve-packs) accounted for 40 per cent of the sale of brewery products.

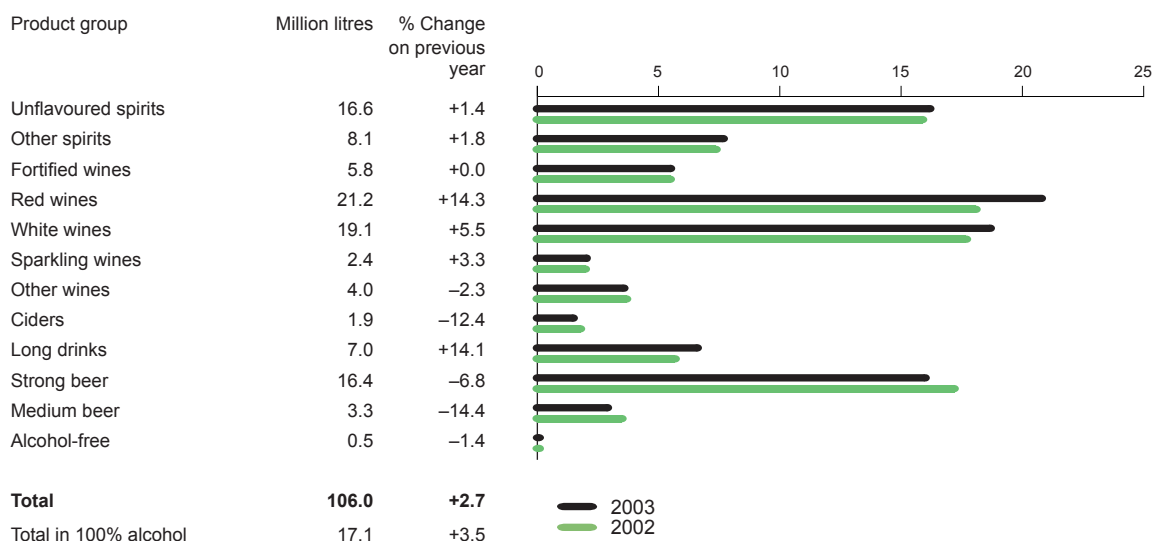
Wine sales by price group

Nearly 28 per cent of the red wines sold in 2003 cost less than six euros, and nearly 40 per cent of red wine sales came from products in the 6 to 6.99 euros price range.

Over 60 per cent of the white wines cost less than six euros, and more than a quarter fell within the 6 to 6.99 euros price range.

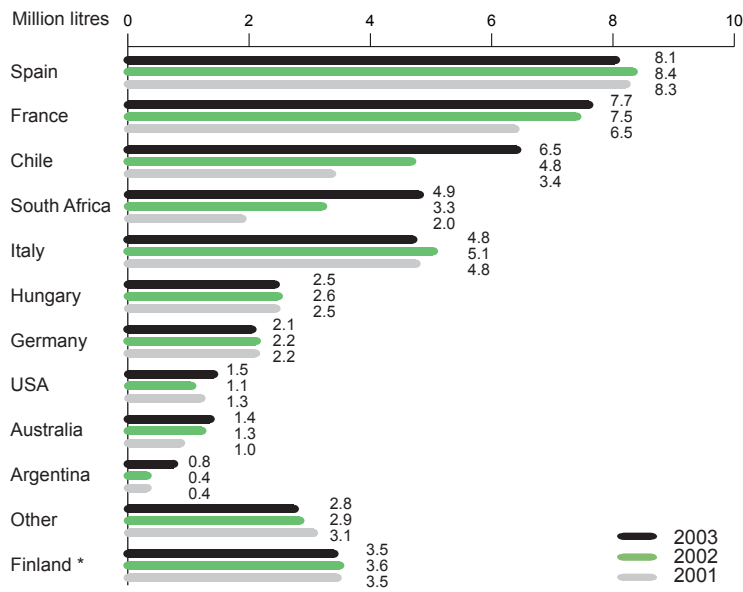
The popularity of two or three litre bag-in-box wines is clearest in these particular price brackets. Converted into prices of 0.75-litre bottles, bag-in-box wines fall within the lowest price categories. They accounted for 23 per cent of the sales of red wines per litre and 25 per cent of the sales of red wines per litre.

Sales by product group in 2003 and 2002



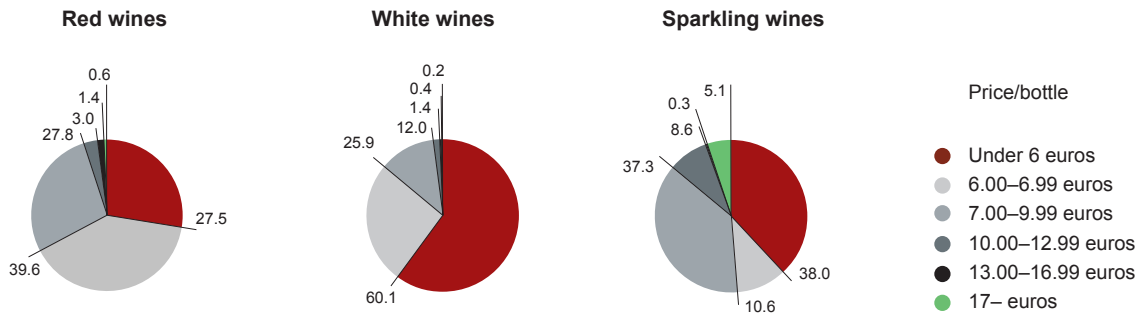


Wine sales by country 2003, 2002 and 2001



* Finnish berry- and fruit based wines

Sales breakdown by price category in 2003, % of sales



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Red wine sales by country in 2003

	Sales 1000 litres	Change on previous year %	% of sales
Spain	5 879	-6.4	27.8
Chile	4 509	42.9	21.3
France	3 812	9.6	18.0
Italy	2 205	4.4	10.4
South Africa	1 142	107.5	5.4
Argentina	735	121.6	3.5
Australia	726	26.0	3.4
USA	445	43.3	2.1
Bulgaria	264	4.2	1.2
Hungary	218	-1.6	1.0
Total, 10 most popular	19 933	15.4	94.1
Total, all countries	21 174	14.3	100.0

White wine sales by country in 2003

	Sales 1000 litres	Change on previous year %	% of sales
South Africa	3 722	37.3	19.5
France	2 688	-4.2	14.1
Hungary	2 115	-4.1	11.1
Italy	2 072	-14.9	10.9
Germany	1 974	-2.6	10.3
Chile	1 966	24.7	10.3
Spain	1 521	0.7	8.0
USA	1 030	31.9	5.4
Australia	675	-1.8	3.5
Total, 9 most popular	17 762	6.1	93.1
Total, all countries	19 081	5.5	100.0

Sparkling wine sales by country in 2003

	Sales 1000 litres	Change on previous year %	% of sales
France	982	-3.0	41.1
Spain	577	13.3	24.2
Italy	463	-11.4	19.4
Total, 3 most popular	2 023	-6.2	84.7
Total, all countries	2 389	0.6	100.0



A Wide Range of Services



Responsible, service-oriented communication

In addition to retail sales, Alko's customer service involves producing wide-ranging, responsible information and advisory services for customers.

To maintain and enhance its positive image, Alko communicates actively with the public in a wide number of ways. All information published by Alko aims at supporting customer service at shops and preventing the harmful effects of alcohol.

A variety of information in popular customer publications

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

Etiketti, published four times a year, provides information on beverage and food culture and on the appropriate use of alcohol. It also contains news about Alko and the alcohol beverages business.

The Alko price list and *Uudet tuotteet* (New products) contain not only product information and price details but also sales information. The price list was revamped to better support the Finnish wine culture on the basis of the results of a customer survey conducted at the end of the summer of 2003.

New look for Website

Alko's website (www.alko.fi) was remodelled in June 2003: a new layout was introduced and we also added some new information on alcohol and health.

The Website provides up-to-date information and plenty of background facts about Alko. Wine and food lovers can browse pages that offer wine tips for different courses and contain popular recipes from our customer magazine *Etiketti*.

The pages include a price list of beverages containing not more than 22% alcohol by volume and information on our shops and their locations.

Expert information on the health hazards of alcohol

Alko publishes various leaflets on the harmful effects of alcohol. The leaflet series *Alkoholi ja terveys* (Alcohol and Your Health) is produced in cooperation with top experts in the subjects covered. The titles cover general alcohol

facts, the additives and contaminants in alcoholic beverages, the effect drinking has on our system and health, drinking alcoholic beverages during pregnancy and a summary of the WHO European Alcohol Programme 2000–2005. The latest leaflet in the series, which covered research on youth drinking, was published in autumn 2003. The next leaflet to be published will deal with alcohol, traffic and driving.

The above leaflets are available free at Alko shops or they can be ordered from Alko's Customer Service free of charge. Almost 1.8 million leaflets have already been printed.

Advertising based on strengths and responsibilities

Alko advertisements in the media focus on both our strengths and our responsibilities. In 2003, we had two campaigns in selected magazines to highlight our customer service and our selection of beverages. We also had three campaigns on the harmful effects of too much drinking at one time. Exceptional opening hours during public holidays were also published in the media.

5th anniversary of the Etiketti Club

The Etiketti Club provided by Alko offers services to all who are interested in food and drink and in combining them. At the end of 2003 the club had about 14 000 members. The Etiketti Club offered information on food and beverages to the members by post every month and gave more than a hundred wine courses all over Finland. The Club also arranged a wine trip to Alsace, France. On the occasion of its fifth anniversary, the Etiketti Club was promoted through a campaign in Alko shops for two weeks in October. The Website for Etiketti Club members was revamped and expanded. Two new courses were launched in the wine course selection.

Improvements for feedback processing

Alko's Customer Service offers personal service to customers by phone and responds to feedback received through the Internet and by e-mail or letter. In 2003, there were over 22 000 customer contacts.

Customer advisers are involved in a project on the process of handling feedback more efficiently, with the goal of improving feedback in all the company's operations.

Public Responsibility for Today and the Future

We take our public responsibility very seriously and want to develop it. Accordingly, we include our social responsibility in all our practical operations along with economic and environmental responsibility. Of all these, our social responsibility is perhaps most visible; after all, Alko's social and health policy is based on the Alcohol Act and the Decree that governs its operations.

Alko published its first social responsibility report in 2003. The report described activities carried out in 2002.

Serving the customer

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's aim is for Finnish consumers to understand and accept Alko's role in developing a responsible Finnish alcohol culture and preventing social and health problems. Alko is part of both the Finnish and the Nordic alcohol system.

Broad social responsibility

Alko's social and health policy is based on the Decree that governs its operations. Its basic function is to retail alcoholic beverages, and in so doing it seeks to prevent the harmful effects of alcohol consumption. Alko's Board of Administration approves an annual operational plan concerning this goal. The plan for 2003 is aimed at supporting the National Alcohol Programme led by the Ministry of Social Affairs and Health.

Increased imports by Finnish tourists and declining domestic prices foreseen for 2004 will increase alcohol consumption and its harmful consequences in Finland, which is why the Government issued a resolution on guidelines for alcohol policy in 2003. The resolution calls for a new national alcohol programme for 2004–2007, which will retain Alko's monopoly in retail sales and engage the company closely in the implementation of both the resolution and the programme.

The harmful effects of alcohol can be prevented by controlling the consumption of alcoholic beverages. Alko's sole right to 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 the implementation of the Government's resolution and the National Alcohol Programme. This requires excellent customer service, comprehensive responsibility in all alcohol-related transactions, high-quality products and strict observance of consumer protection at all stages of the sales process.

The obligation imposed on the company by the alcohol policy separates Alko from the rest of the retail food trade. 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 development of alcohol policy and the alcohol trade is a key element in carrying out its public responsibility.

Alko aims at exemplary sales control in the company's daily business in practice. All shops have a self-monitoring plan to prevent underage or intoxicated persons from purchasing alcohol and a set of guidelines to deal with situations where there is reason to suspect that alcohol bought at the shop will be sold on to underage persons, for instance. These issues are a key aspect of personnel training. In 2003, customers' ages were checked on more than 878 000 occasions; more than 83 000 customers were suspected of being intoxicated; and there were about 19 700 suspected cases of illegal sale or handover.

The quality of Alko's products, whether new or already in the shops, is monitored by the company's own quality control system as well as its accredited Alcohol Control Laboratory (ACL).

Profits to the State in full

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's operations are run in an effective, economical manner. Profits are entered in full as revenue to the Government.

Environmental responsibility is a prominent feature of the company

With respect to environmental protection, Alko subscribes to the Business Charter for Sustainable Development of the International Chamber of Commerce, for example. The company observes closely the principle

of rational use of natural resources and environmental protection demands. 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. There are 128 shops that manage the recycling of bottles and cans by themselves; 186 shops cooperate with other operators in the retail trade.

Thanks to sound consumer information and efficient cooperation partnerships, 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 more than one billion refillable bottles a year. If recycling and refilling were stopped, we would face about 300 million kilograms more glass waste and 20 million kilograms more plastic waste each year.

Approximately 35 500 tonnes of waste glass were recycled in 2003. 12 new partners joined Alko's deposit-based disposable bottle system, bringing the number of alcohol importers, wholesalers and manufacturers to 160. Non-deposit drink containers are collected by municipal systems and environmental companies.

Alko sold 69 of its products as bag-in-box products or in cartons. Empty bag-in-box packages may be returned whole to carton recycling containers.

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

Alko is active in national recycling promotion projects. The company supplies statistics and other data on the recycling of packing to the Ministry of the Environment, the Regional Environment Centres and municipal waste management companies.

Improving Personnel Expertise, Work and the Working Community

The goal of personnel management at Alko is to ensure that we have a skilled, motivated staff with a sense of responsibility, an ability to adapt to changes and an active interest in improving the company's work. We promote our employees' well-being by improving their skills, their work and their working community.

Learning games and learning paths

Alko offers its employees a wide range of training opportunities. In 2003, we drafted a training map which helps to establish the different training needs for different segments of the personnel. Personal learning paths consist of a variety of combinations of training and on-the-job-learning. New employees are introduced to the company through induction sessions and basic courses for salespersons as well as on-the-job learning.

Skills development focused on customership and supervisors' leadership in 2003. On average, there were four training days per person during the year.

All employees took part in the training in customer aspects, which focused on the ground rules of quality service and recognition of different types of customers. Supervisors were given training at seminars; in addition, Alko launched a new programme on developing the personnel management skills of shop managers in particular. Advanced courses related to product knowledge were also arranged.

Since 2000, 83 Alko employees have passed the vocational examination for sales staff and 43 have passed the special vocational examination for supervisors in the retail trade.

The work on describing and developing work processes, which began in 2002, continued. The changes in the operating environment anticipated for 2004 called for a revision of the company's values and discussion of any changes that would have to be made in Alko's operations. Alko's values were first discussed with supervisors; discussions at workplaces will continue in spring 2004. These values were also given a new visual image.

Promoting occupational health and safety

The safety aspects of shop work and customer service were prominent parts of the development work on shop operations and occupational well-being. Shop managers were trained to prepare shop safety plans with their teams.

Alko provides its employees with comprehensive occupational health care services. Cooperation between workplaces, occupational health care and the work safety and health system has an established position in Alko's operations. Alko supported organizing old and new forms of recreational and sporting events at the workplaces and the staff's leisure-time club activities. Staff may also use the company holiday house.

Personnel at year end	2003	2002	2001
Permanent full-time	818	820	811
Permanent part-time	1 354	1 266	1 183
Fixed-term	402	422	405
Total	2 574	2 508	2 399
Average	2 479	2 359	2 209
Computed full-time	1 854	1 789	1 674

Personnel by gender, %	Women	Men
Sales staff	70.2	29.8
Shop managers	14.2	85.8
Head office and regional offices	54.7	45.3



Positive feedback from employees

The entire personnel is involved in an incentive scheme. Incentive rewards are paid on the basis of customer satisfaction, efficiency and realization of development projects at workplaces. Regular meetings increase employees' commitment to and interest in the development of their workplaces. The annual shop visits from the management team promote dialogue between management and staff.

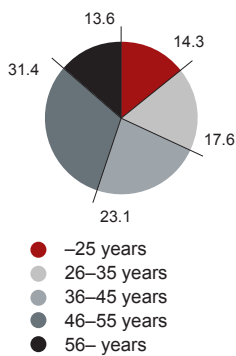
In autumn 2003, the company conducted a survey among the entire staff. According to the survey, Alko employees were more satisfied than average with their work and their employer. They were committed to their work and willing to be responsible for making operations run smoothly; they were also satisfied with their supervisors and the management and organization of operations. However, they also called for better communication with their supervisors and more feedback on their work.

Increasing personnel

The number of Alko personnel grew by 2.5 per cent compared with 2002, reaching 2 574 at the end of 2003. The greatest increase was in part-time jobs. Most of the 250 vacancies for permanent jobs were filled with applicants from within Alko; on the other hand, there was a large supply of seasonal labour. Shop managers were given training in the proper allocation of staff resources to safeguard the quality of customer service, use the resources wisely and ensure the personnel's well-being.

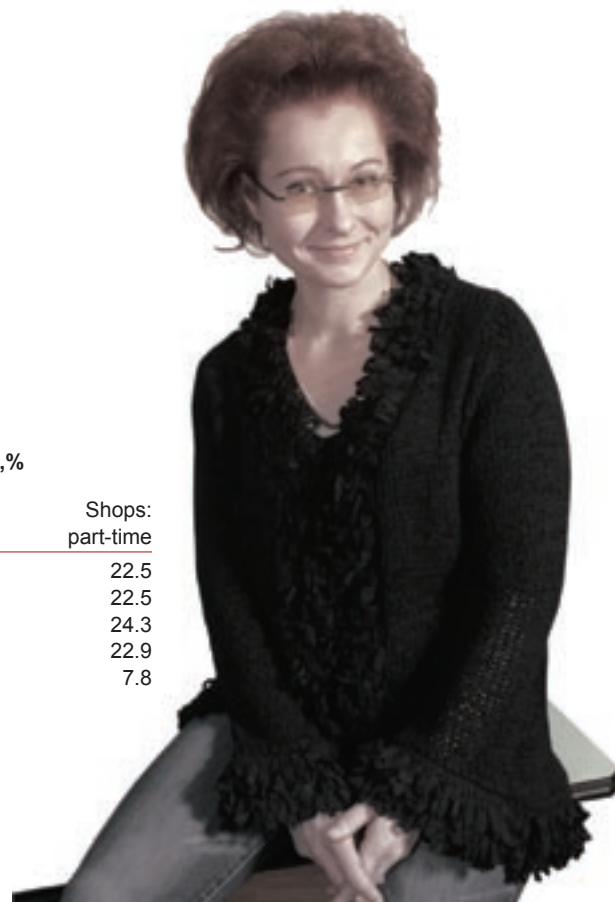
The average age of Alko personnel was 42, and the average length of employment 15 years. Women account for 63 per cent of all personnel and 70 percent of salespersons. The proportion of women shop managers grew and now stands at 14 per cent.

Age breakdown, %



Age breakdown by personnel group, %

	Head office and regional offices	Shops: full-time	Shops: part-time
-25	1.2	0.6	22.5
26-35	15.1	7.9	22.5
36-45	21.5	20.9	24.3
46-55	39.0	47.2	22.9
56-	23.3	23.4	7.8



Wide range of work and training

"In my opinion it has been rewarding that I've been able to participate in vocational training with the support of my employer. In 2000 I completed a further qualification for shop assistants. And at the beginning of the year I took part in supervisory training. The emphasis of the training for both is in the shop, right where it must be, I feel," says **Hanna Långström**, a shop assistant at Alko in Karkkila. "In addition to vocational training, on-the-job learning is extremely important. I've got involved in many areas of the work at the shop, partly because ours is small. I handle, among other things, orders and, of course, customer service. Customers ask all kinds of things, sometimes about culture, about history and about the backgrounds of a wine region. Its not everywhere that the level of all-round education is tested to the extent that it is in an Alko shop. I feel people are generally satisfied at our shop. We think it's important that the company's management visits the shops and we can say what we really feel."

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 sole right (with certain exceptions) in the Alcohol Act. Under the Alcohol Act, it must also aim at preventing the harmful effects of alcohol.

The current provisions of the Companies Act also apply to Alko unless otherwise provided in the Alcohol Act.

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.

The Annual General Meeting

The Annual General Meeting is held within six months from the end of the financial year on the date determined by the Board of Directors. 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. The duties of the Annual General Meeting include adopting the financial statements of the company and deciding on the payment of any dividends and the election of Board members.

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 four meetings in 2003.

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 law provisions in the Articles of Association, decisions by a shareholders' meeting and other approved instructions are complied with;
- to advise the Board of Directors on 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 company financial statement 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 13 times in 2003.

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 organization;
- to decide on other matters resting with the Board of Directors according to the Companies Act.

President and CEO and the Management Team

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 ensures that decisions of the shareholders' meetings, Board of Administration and Board of Directors are carried out. He also nominates a Management Team, which since 1 October 2003 has consisted of five members, the latest addition being the Executive Vice President, Customer Services. The Management Team assists the President and CEO in drawing up the strategy, in operative decision-making and monitoring results. The Management Team met 24 times in 2003.

The retirement age for the President and CEO, Jaakko Uotila, is 63 years; the period of notice is six months.

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 minimize 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 an auditing committee headed by the Chairman of the Board. The committee 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.

Auditing

The auditors elected by the Annual General Meeting on 7 May 2003 are: Yrjö Tuokko, Authorized Public Accountant and Erkki Mäki-Ranta, Approved Accountant and Chartered Public Finance Auditor, with Jorma

Heikkinen, Authorized Public Accountant, and Tuokko Tilintarkastus Oy Authorized 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.

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

Management and incentive system

The company's management is mission, vision and value oriented. The annual operating plans and budgets are based on the strategy approved by the company's Board of Directors. The entire personnel is covered by incentive schemes. The bonus comprises elements for cost effectiveness, quality of customer service and development of operations. In 2003, bonuses paid accounted for some 1.5 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. The National Alcohol Programme for 2004–2007 has defined the status of the alcohol company as one of the players in the alcohol trade. There are no significant commercial or environmental risks. Alko is covered by the usual insurance required for business operations.



Alko Board of Directors (from left) Jussi Huttunen, Raija Koskinen, Matti Elovaara, Reijo Väärälä, Tiina Oksala-Leino, Jussi Simpura, Pekka Kirjavainen and Juri Helmiö.

Board of Directors

Six members were elected to the Board of Directors at the AGM held on 7 May 2003:

Jussi Huttunen

Chairman
b. 1941
Professor

Matti Elovaara

Vice Chairman
b. 1939
Commercial Counsellor

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
Director of Statistics, Statistics Finland

Reijo Väärälä

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

Personnel representatives

Pekka Kirjavainen

b. 1952
Chairman of Alkoholikaupan
Ammattiliitto ALV ry

Juri Helmiö

b. 1952
Chairman of Alkoholialan Toimihenkilöt ry

Board of Administration

The present Board of Administration began its work on 1 January 2004. The term of the Board of Administration is from 1 January 2004 to 31 December 2007.

Ville Itälä, Chairman, MP
Anneli Jäätteenmäki Vice Chairman, MP

Other members:

Merikukka Forsius MP
Saara Karhu MP
Mikko Kuoppa MP
Pekka Kuosmanen MP
Seppo Lahtela MP
Henrik Lax MP
Maija Rask MP
Markku Rossi MP
Sari Sarkomaa MP
Arto Seppälä MP

During the term 2000–2003 the members of the Board of Administration were Riitta Uosukainen (Chairman), Esko Aho (Vice Chairman), Merikukka Forsius, Esko Helle, Saara Karhu, Mari Kiviniemi, Kalervo Kummola, Pekka Kuosmanen, Henrik Lax, Riitta Prusti, Markku Rossi and Arto Seppälä.

Jarkko Eskola, Director General, acted as the Ministry of Social Affairs and Health representative until 31 May 2003; as of 1 June 2003, the Ministry's representative has been Aino-Inkeri Hansson, Director General.



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,
 Communications
 b. 1964

Kari Pennanen
 Executive Vice President,
 Customer Services
 b. 1964

Erkki Tommila
 Executive Vice President,
 Personnel
 b. 1961



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

Report by the Board of Directors

Alko has the sole right to the retail sale of alcoholic beverages in Finland with certain exceptions. In line with the Alcohol Act the company's aim is to prevent the harmful effects caused by the consumption of alcohol.

Alko's customer-oriented strategy is based on the social duties prescribed in the Act and Decree and on the owner strategy decided by the Ministry of Social Affairs and Health. The success factors defined in Alko's strategy are customer management, human resources, the operating method of a special trade, interactive partnership and the Alko image.

During the year the Board of Directors made thorough preparations for the forthcoming change in the operating environment and analysed the various options.

The Board of Directors decided that Alko would still follow the strategy made for 2002–2005. It found that the time for drawing up a new strategy would be after it had more detailed information about the biggest changes in its operating environment taking place during 2004.

According to the strategy, Alko's values are customer satisfaction, responsibility, transparency, expertise and profitability. A systematic discussion about values began in November 2003, and it is still continuing among the personnel.

Changes in the alcohol trade's operating environment

From the beginning of 2003 import quotas for beer were changed in Finland, and it was possible to bring 64 litres of beer into the country from other Members States of the European Union instead of 32. From the beginning of 2004 the regulations for travellers' imports are the same in Finland as in other EU countries. Travellers are entitled to import alcoholic beverages freely from EU countries for their own use without paying tax on them in Finland.

On 3 December 2003 Parliament, on the basis of a Government proposal, approved an Act amending the Act on the taxation of alcohol and alcoholic beverages. The new Act becomes operative on 1 March 2004 and it says that the alcohol tax will be reduced.

The Government made a Resolution on 9 October 2003 about the guidelines in the policy on alcohol. The

Resolution gives the power to prepare a National Alcohol Programme for the years 2004–2007. The programme will be ready in the spring of 2004. The Government decided in its guidelines that the sole right to the retail sale of alcoholic beverages will remain with the state-owned alcohol company in line with the Alcohol Act.

Public discussion on alcohol policy gave widespread approval to the present alcohol system.

General operating environment

The gross domestic product increased by about one and a half per cent in 2003, and it is expected to grow by some three per cent in 2004. The peak of the cycle, however, will probably be reached in 2005. Inflation in 2003 was about one per cent and the unemployment rate 9 per cent. Inflation will slow down in 2004 to only 0.7 per cent, mainly because of the reduction in the prices of alcoholic beverages. The unemployment rate will probably fall to 8.8 per cent. The growth in private consumption in 2003 was more than three per cent, and it is likely to slow down to 2.7 per cent in 2004.

Growth in consumption of alcoholic beverages slows down

Statistics on the consumption of alcoholic beverages in Finland are kept by the National Research and Development Centre for Welfare and Health. The calculation of the consumption of alcoholic beverages distinguishes between documented and undocumented consumption.

Retail sales accounted for 82 per cent of the documented consumption of alcoholic beverages, a rise of one percentage point. Alko accounted for 52 per cent of the retail sales, as before. Licensed sales accounted for 18 per cent of the consumption, a fall of one percentage point. The total consumption of alcohol per capita in 100% alcohol was 9.4 litres.

The documented consumption of alcoholic beverages was 7.7 litres per capita, an increase of 1.2 per cent over the previous year. The undocumented consumption remained steady at 1.7 litres per capita. Undocumented consumption is expected to rise in 2004 as travellers' imports from countries such as Germany and Estonia increase.

Alko sold a total of 106.0 million litres of beverages, an increase of 2.7 per cent compared with the previous year. Alko sales totalled 17.1 million litres in 100% alcohol i.e. 43 per cent of documented consumption and an estimated 35 per cent of total consumption.

Retail prices of alcoholic beverages

Alko's own pricing principles did not change during 2003. Suppliers were given an opportunity to review their prices for Alko at the beginning of January, April, July and October. The price reviews were immediately incorporated into the retail prices.

Price changes during the year were minimal. The rate of increase in the retail prices for beverages sold by Alko was slower than the general inflation rate and real prices fell from a year ago. The nominal price level of all the alcoholic beverages sold by Alko went up by an average of 0.5 per cent during the year.

Taxation of alcoholic beverages

According to the Act on the taxation of alcohol and alcoholic beverages, the tax on alcoholic beverages will be reduced by an average of 33 per cent. The biggest fall in taxation will be on spirits, 44 per cent, and on intermediate products, 40 per cent. The tax on beers will be reduced by 32 per cent and on wines by 10 per cent. The aim is to use the change in taxation to adjust consumer prices to the level at which citizens would not have such a big incentive to acquire alcohol abroad. The decision supports Alko's special status by keeping the proportion of alcohol sold by the company at an adequately high level in relation to total consumption.

Alko will implement the tax reductions fully in consumer prices. The change will reduce consumer prices by an average of 22 per cent.

Comparison of alcoholic beverage taxation

Spirits

The taxation on spirits in Finland's neighbouring countries was lightest in Estonia, where it was about one fifth of the Finnish level. In Germany it was about a quarter of the Finnish level, and in Denmark, following a tax reform

that became operative on 1 October 2003, about 40 per cent of the Finnish level.

In Sweden and Norway the taxation on spirits was higher than in Finland, just under 10 per cent in Sweden and 30 per cent in Norway.

The reduction of 44 per cent in the taxation of spirits in Finland will bring the Finnish level nearer to that in Estonia, Denmark and Germany. After the change the Finnish taxation level will be about three times the Estonian level, twice the German level and 30 per cent higher than in Denmark.

After the change the level of taxation in Finland will be about 50 and 60 per cent lower than in Sweden and Norway, respectively.

Wines

Just as with spirits, the taxation on wines is lightest in Germany, Estonia and Denmark. In Germany wines bear no taxation at all; in Estonia and Denmark the taxation level is about a third of the Finnish level. The tax on wines in Sweden is about the same as in Finland and in Norway it is twice the Finnish level.

The tax reduction of 10 per cent in Finland will not bring about a substantial change in the relative taxation rate on wines in Finland's neighbouring countries.

Beers

The taxation on beer in Germany is about one fifteenth of the Finnish level, and in Estonia about one eighth. In Sweden the taxation on beer is 45 per cent lower and in Norway 50 per cent higher than in Finland.

With the reduction of 32 per cent in Finland, the level of taxation will come down close to the Swedish level. After the change the taxation on beer in Estonia and Germany will be a fifth and a tenth of the new level in Finland respectively.

Alko shops

Alko is developing its shop network in line with the programme approved annually by the Board of Directors.

At the end of 2003 Alko had 314 shops in 212 municipalities and 142 order points that supplement the shop network. New shops were opened in Espoo (Mankkaa

and Tapiola), Helsinki (Itäkeskus), Inari (Saariselkä), Lahti (Mukkula), Kokkola city centre, Oulu (Kaakkuri), Pirkkala (Partola), Turku (Hirvensalo and Kupittaa station) and at Kangasala, Kustavi, Piikkiö, Ristiina and Valkeala.

New shop projects for 2004 are pending in the Greater Helsinki area in Espoo (Olari), and elsewhere in Finland at Jämsänkoski, Oulu (Linnanmaa), Noormarkku, Muurame and Enontekiö.

Products

At the end of 2003 the general selection of alcoholic beverages at Alko included 1 844 (in the previous year 1 815) products from 52 countries. The wine selection comprised 1 207 (1 117) products. During 2003 458 (537) products were introduced. Some 710 (670) products were also offered in the sale-to-order selection. Besides alcoholic beverages it is also possible to purchase non-alcoholic beverages and various wine accessories from Alko.

Public responsibility

Alko published its first social responsibility report in August 2003. The report covers in depth Alko's social, environmental and economic responsibility. The company's social responsibility is determined to a great extent by its basic duty to sell alcoholic beverages so that the harmful effects caused by the consumption of alcohol are prevented.

Organizational change 1 October 2003

Alko was reorganized on 1 October 2003 with the division of the management of its sales network into nine regions instead of five districts, the aim being units operating efficiently in terms of geographical location and the number of shops and employees.

Profit for financial year

Sales including VAT and excise duty amounted to EUR 1 382 million (+3.8%) and the net sales to EUR 476.3 million (+5.1%). The operating profit for the year was EUR 43 million and the profit before extraordinary items EUR 44 million.

Profit before extraordinary items, million euros

2003	2002	2001
43.8	0.7	36.5

The financial position is good and the company does not have any interest-bearing liabilities.

Investment

The gross investment, which totalled EUR 9.8 million, focused on the modernization of the shops. The information technology was developed by updating the work stations. The investment was financed out of income.

Distribution of dividend

The sum of EUR 20 million paid by the company as dividend for 2002 included distributable funds from previous years in addition to the profit for the year in question.

The profit for 2003 is EUR 27.5 million. The company has about EUR 30 million of distributable funds. The Board of Directors proposes that a dividend of EUR 20 million be distributed for 2003.

Personnel

The total personnel at the year end was 2 574 (2 508), equivalent to 1 854 (1 789) work years.

Alko pays its personnel incentive salaries. The achievement of the targeted profit budgeted for 2003 made it possible to pay out a total of EUR 0.8 million (EUR 2.2 million) in incentive payments.

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. Division A was closed down in 1991.

The Fund provides A and B services for some 2 100 members (full-time employees). There are 1 857 (1 815) pensioners.



Board of Administration

The term of office for the company's Board of Administration is four years. The previous term finished at the end of 2003. During 2003 the Board of Administration met four times.

The Government appointed a new Board of Administration for the company for the period 2004–2007.

The Chairman of the new Board of Administration is Ville Itälä and the Vice Chairman Anneli Jäätteenmäki. Both are members of Parliament. The other members are Merikukka Forsius, Saara Karhu, Mikko Kuoppa, Pekka Kuosmanen, Seppo Lahtela, Henrik Lax, Maija Rask, Markku Rossi, Sari Sarkomaa and Arto Seppälä.

When the previous term of office finished at the end of 2003, the Chairman was Riitta Uosukainen and the Vice Chairman Esko Aho. The members were Merikukka Forsius, Esko Helle, Saara Karhu, Mari Kiviniemi, Kalervo Kummola, Pekka Kuosmanen, Henrik Lax, Riitta Prusti, Markku Rossi and Arto Seppälä.

The Ministry of Social Affairs and Health representative was Jarkko Eskola from 1 January to 31 May 2003 and Aino-Inkeri Hansson from 1 June to 31 December 2003.

Board of Directors and President and CEO

The Annual General Meeting elected six members to the Board of Directors on 7 May 2003: Jussi Huttunen as Chairman, Matti Elovaara as Vice Chairman, and Raija Koskinen, Tiina Oksala-Leino, Jussi Simpura and Reijo Väärälä as members. Väärälä, a new member, took the place of Aino-Inkeri Hansson.

The personnel representatives on the Board of Directors are Pekka Kirjavainen, Chairman of Alkoholikaupan Ammattiliitto ALV ry and Juri Helmiö, Chairman of Alkoholialan Toimihenkilöt ry.

The Board of Directors met 13 times in 2003. The Board's work is developed on the basis of an annual evaluation.

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 May 2003 are Yrjö Tuokko, Authorized Public Accountant, and Erkki Mäki-Ranta, Approved Accountant, Chartered Public Finance Auditor, with Authorized Accounting Firm Tuokko Tilintarkastus Oy and Jorma Heikkinen, Authorized Public Accountant, as deputies.

Outlook

The company is faced with its biggest environmental changes since 1995, when Finland became a member of the European Union and the Alcohol Act and the Act on alcohol taxation were updated.

The company's sales and the consumption of alcoholic beverages will be affected by three major changes in 2004: the liberalization of travellers' imports, the reduction in the alcohol tax and Estonia's membership of the EU on 1 May 2004. Prices of sales will go down by an average of 22 per cent on 1 March 2004. The liberalization of travellers' imports is likely to reduce Alko's sales. When, however, the prices of alcoholic beverages fall because of the reduction in the tax on alcohol, Alko's sales may increase. The combined effect is that the company's sales are likely to remain at the 2003 level.

Different changes will probably take place in Alko's sales in different parts of the country. In southern Finland, where travellers' imports from Estonia will probably increase, sales per litre could go down, whereas elsewhere in Finland the fall in alcohol prices could raise sales per litre.

Alko will be active in following changes to the environment, and it will participate in carrying out the National Alcohol Programme as a responsible operator in accordance with its own role.

Helsinki, 25 February 2004

Alko Inc.
Board of Directors

Income Statement

Million euros		1 Jan.–31 Dec. 2003	1 Jan.–31 Dec. 2002
NET SALES		1 133.1	1 091.5
Other operating income	1)	1.5	1.5
Materials and services			
Materials, consumables and supplies			
Purchases during the financial year		946.3	930.2
Increase(-)/decrease(+) in inventories		7.1	-9.9
Personnel costs	2)		
Wages and salaries, remunerations		55.2	53.8
Social expenses			
Pension expenses		11.0	49.4
Other social expenses		4.6	4.5
Depreciation and writedowns			
Depreciation according to plan		6.9	7.0
Depreciation on non-current assets		0.0	1.0
Other operating expenses		60.6	58.0
OPERATING PROFIT		42.9	-1.1
Financial income and expenses			
Income from other investments held as non-current assets	3)		
From others		0.0	0.0
Other interest and financial income	4)		
From others		1.0	1.9
Interest and other financial expenses	5)		
To others		-0.1	0.0
PROFIT BEFORE APPROPRIATIONS AND TAXES		43.8	0.7
Appropriations			
Increase(-)/decrease(+) in depreciation difference		-0.3	-0.1
Income taxes	6)		
For the financial year and previous financial years		-16.1	-0.5
PROFIT FOR THE FINANCIAL YEAR		27.5	0.2



Balance Sheet

Million euros	31 Dec. 2003	31 Dec. 2002
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Other capitalised expenditure	7) 1.9	1.7
Advance payments	8) 0.1	0.4
Tangible assets		
Land and water areas	9) 0.0	0.0
Machinery and equipment	10) 27.7	25.9
Other tangible assets	11) 0.3	0.2
Investments		
Holdings in Group companies	12) 2.1	2.1
Holdings in participating interests companies	13) 7.4	8.6
Other shares and holdings	14) 8.3	8.8
TOTAL NON-CURRENT ASSETS	47.8	47.8
CURRENT ASSETS		
Inventories		
Finished products/goods	59.1	66.1
Advances received	0.2	0.4
Receivables		
Non-current		
Receivables from participating interests companies	15) 0.0	0.0
Current		
Accounts receivable	9.5	8.8
Other receivables	0.0	0.0
Prepaid expenses and accrued income	16) 1.1	9.6
Financial securities		
Other securities	17) 73.2	66.5
Cash in hand and on deposit	26.4	33.6
TOTAL CURRENT ASSETS	169.5	185.0
TOTAL ASSETS	217.3	232.9
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	18) 16.8	16.8
Retained profit	2.6	22.4
Profit for the financial year	27.5	0.2
TOTAL SHAREHOLDERS' EQUITY	46.9	39.4
APPROPRIATIONS		
Depreciation difference	19) 7.4	7.1
TOTAL APPROPRIATIONS	7.4	7.1
LIABILITIES		
Current		
Advances received	0.0	0.1
Accounts payable	20) 124.8	134.8
Other liabilities	19.3	21.8
Accrued expenses and deferred income	21) 19.0	29.6
TOTAL LIABILITIES	163.1	186.3
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	217.3	232.9

Statement of Changes in Financial Position

Million euros	1 Jan.–31 Dec. 2003	1 Jan.–31 Dec. 2002
Cash flow from operations		
Operating profit	42.9	-1.1
Adjustments:		
Depreciation according to plan	6.9	7.0
Unrealised exchange rate profit/loss	0.0	0.0
Other income and expenses (no related payment)	0.0	1.0
Other adjustments	0.8	0.6
Cash flow before change in working capital	50.6	7.6
Change in working capital:		
Increase(-)/decrease(+) in current non-interest-bearing accounts receivable	0.3	4.8
Increase(-)/decrease(+) in inventories	7.3	-9.9
Increase(+)/decrease(-) in current non-interest-bearing liabilities	-24.6	31.9
Cash flow from operations before financial items and taxes	33.6	34.4
Interest paid and payments on other financial operating expenses	-0.1	0.0
Dividends received on operations	0.0	0.0
Interest and financial income from operations	1.1	2.1
Direct taxes paid	-7.4	-10.3
Cash flow arising from extraordinary operating items	0.0	0.0
CASH FLOW FROM OPERATIONS (A)	27.2	26.1
Cash flow from investments:		
Investments in tangible and intangible assets	-9.5	-8.3
Income from surrender of tangible and intangible assets	1.8	1.2
CASH FLOW FROM INVESTMENTS (B)	-7.7	-7.1
Cash flow from financial operations:		
Dividend paid	-20.0	-35.0
CASH FLOW FROM FINANCIAL OPERATIONS (C)	-20.0	-35.0
CHANGE IN FINANCIAL POSITION		
(A+B+C) INCREASE(+)/DECREASE(-)	-0.4	-16.0
Financial position at beginning of financial year	100.1	116.1
Financial position at year end	99.6	100.1



Notes to the Financial Statements

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
Machinery and 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

Million euros	2003	2002
1) Other operating income		
Rental income on real estate and premises	1.1	1.0
Commission income	0.3	0.3
Other income	0.1	0.2
Total	1.5	1.5
2) Notes on personnel and members of various organs		
Permanent, amount	829	816
Part-time and fixed-period, amount	1 025	973
Average personnel, amount	1 854	1 789
Salaries and remunerations paid to the management		
Chief Executive Officers	0.3	0.4
Members of the Board	0.1	0.1
Members of the Board of Administration	0.0	0.0
Total	0.4	0.5
Financial income and expenses		
3) Dividend and interest received, interest paid		
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	1.0	1.9
5) Total interest paid	0.0	0.0
6) Income taxes		
Income tax on operations	16.1	0.5
Total direct tax	16.1	0.5



Notes to the Balance Sheet

Million euros	2003	2002
Acquisition cost of and depreciation on non-current assets		
7) Other capitalized expenditure		
Increase at the beginning of the financial year	11.7	11.4
Increase during financial year	1.1	0.4
Decrease during financial year	-0.0	-0.1
Acquisition cost at year end	12.7	11.7
Accumulated depreciation at the beginning of the financial year	10.0	8.6
Accumulated depreciation on decrease	-0.0	-0.1
Depreciation for financial year	0.9	1.5
Accumulated depreciation at year end	10.8	10.0
Book value at year end	1.9	1.7
8) Advance payments and construction in progress		
Acquisition cost at beginning of financial year	0.4	0.1
Increase	0.1	0.4
Finished	-0.4	-0.1
Book value at year end	0.1	0.4
9) 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
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	0.0
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	0.0
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
10) Machinery and equipment		
Acquisition cost at beginning of financial year	65.9	60.8
Increase during financial year	8.7	7.5
Decrease during financial year	-4.5	-2.4
Acquisition cost at year end	70.1	65.9
Accumulated depreciation at beginning of financial year	40.0	36.5
Accumulated depreciation on decrease	-3.7	-2.0
Depreciation for financial year	6.1	5.5
Accumulated depreciation at year end	42.4	40.0
Book value at year end	27.7	25.9

Notes to the Balance Sheet

Million euros	2003	2002
11) 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	0.3	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	0.3	0.2
12) 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
13) Holdings in participating interests companies		
Acquisition cost at beginning of financial year	8.6	10.5
Increase during financial year	0.0	0.0
Decrease during financial year	-1.1	-1.0
Depreciation on write-downs during financial year	0.0	-1.0
Total book value at year end	7.4	8.6
14) Other shares and holdings		
Acquisition cost at beginning of financial year	8.8	9.3
Increase during financial year	0.0	0.0
Decrease during financial year	-0.6	-0.5
Total book value at year end	8.3	8.8
15) Receivables from participating interests companies		
Loan receivables	0.0	0.0
16) Prepaid expenses and accrued income		
Statutory social insurance contributions	0.0	0.5
Collection system payments	0.3	0.3
Social Insurance Institution compensation for occupational health care	0.3	0.6
Interest receivable	0.1	0.1
Advance expenses	0.2	0.3
Purchase invoice and other refunds	0.0	0.1
Tax advance	0.0	7.4
Other prepaid expenses and accrued income	0.1	0.2
Total prepaid expenses and accrued income	1.1	9.6
17) 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

Million euros	2003	2002
18) 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	22.6	57.4
Dividend paid	20.0	35.0
Retained profit at year end	2.6	22.4
Profit for financial year	27.5	0.2
Profit funds at year end	30.1	22.6
Shareholders' equity at year end	46.9	39.4
Distributable funds at year end	30.1	22.6
19) Depreciation difference and change in depreciation difference		
Other capitalized expenditure		
Depreciation difference at beginning of financial year	0.0	0.4
Depreciation difference for financial year	0.2	-0.4
Depreciation difference on decrease	0.0	0.0
Depreciation difference at year end	0.2	0.0
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	7.1	6.6
Depreciation difference for financial year	0.6	0.5
Depreciation difference on decrease	-0.6	-0.1
Depreciation difference at year end	7.1	7.1
Total depreciation difference at beginning of financial year	7.1	7.0
Total depreciation difference for financial year	0.8	0.2
Total depreciation difference on decrease	-0.6	-0.1
Total depreciation difference at year end	7.4	7.1
Liabilities		
20) Accounts payable	124.8	134.8
21) Accrued expenses and deferred income		
Holiday pay liability and other payroll advances including social costs	12.3	13.4
Income tax advance	1.3	0.0
Additional social insurance contributions	4.5	15.4
Other accrued expenses and deferred income	0.9	0.8
Total accrued expenses and deferred income	19.0	29.6

Notes to the Balance Sheet

Million euros	2003	2002
Other notes		
Leasing liabilities		
Maturing during the year following the financial year	0.3	0.3
Maturing later	0.3	0.2
Total	0.6	0.5
The leasing contracts are predominantly 3-year contracts with redemption terms	0.3	0.4

Specification of share ownership

12) Holdings in Group companies

	% owned by Parent company	Proportion of equity 1 000 euros	Equity euros	Number of shares	Nominal value euros/shares	Total nominal value 31 Dec. 2003 1 000 euros	Book value 31 Dec. 2003 1 000 euros	Profit/loss acc. to the latest Financial Statements 1 000 euros
Real estate companies								
Hanko Vuorikatu 9, Hanko	58.26	182	311 543.80	882	168.00	148	188	6
Humalapelto, Karstula	77.22	148	191 578.13	278	8.00	2	182	7
Nastonharjun Liiketalo, Nastola	75.60	168	222 101.16	7 560	1.70	13	171	-2
Puolangan Keskus, Puolanka	50.48	186	369 398.57	275	56.00	15	118	2
Raahen Asemakatu 12, Raahе	57.90	231	398 196.78	14 476	17.00	243	272	0
Tampereen Hämeenpuisto 27b, Tampere	59.55	1 428	2 397 191.86	16 836	17.00	283	663	1
Vuoksenniskan Harjulanrinne, Imatra	73.08	699	955 934.09	7 308	0.30	2	505	1
Total holdings in Group companies		3 041					2 098	15

13) Holdings in participating interest companies

Real estate and housing companies	10 802	7 435
Total holdings in participating interest companies	10 802	7 435

14) Other shares and holdings

Housing and real-estate companies	8 121
Commercial companies	52
Other non-itemized shares and holdings (in telephone companies)	81
Total other shares and holdings	8 253

Total shares	17 786
--------------	--------

		2003	2002	2001	2000	1999
Net sales	Million euros	476.3	452.8	418.8	386.2	382.8
Operating profit	Million euros	42.9	-1.1	32.6	44.4	43.0
proportion of net sales	%	9.0	-0.2	7.8	11.5	11.2
Profit before extraordinary items, voluntary provisions and income taxes	Million euros	43.8	0.7	36.5	47.1	45.8
proportion of net sales	%	9.2	0.2	8.7	12.2	12.0
Profit for the financial year	Million euros	43.8	0.7	37.9	47.0	45.8
proportion of net sales	%	9.2	0.2	9.0	12.2	12.0
ROE	%	55.0	0.4	29.0	38.3	45.8
ROI	%	87.0	1.2	42.9	54.8	63.0
Equity ratio	%	25.0	20.0	34.1	37.4	36.2
Current ratio		1.0	1.0	1.2	1.3	1.2
Gross investment in fixed assets	Million euros	9.8	8.3	8.8	6.7	8.7
proportion of net sales	%	2.1	1.8	2.1	1.7	2.3
Average personnel during financial year		2 479	2 359	2 209	2 142	2 086

In order to make the indicators comparable, net sales in the consolidated income statements for 1999–2003 were adjusted by excluding the tax on alcoholic beverages otherwise included in them.

Calculation Formulae

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

Proposal for the Distribution of Profit and Auditors Report

Board Proposal to the AGM for the Distribution of Profit

The parent company's distributable funds on 31 December 2003 were 30 057 743.92 euros, of which profits for the financial year accounted for 27 458 729.09 euros.

The Board of Directors proposes that 20 000 000.00 be paid out as dividend. The remaining distributable funds will be carried over in the profit account.

Helsinki, 25 February 2004

Jussi Huttunen

Matti Elovaara

Raija Koskinen

Tiina Oksala-Leino

Jussi Simpura

Reijo Väärälä

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, 2003. The financial statements drawn up by the Board of Directors and the President & CEO, showing a profit of EUR 27 458 729.09 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, 27 February 2004

Erkki Mäki-Ranta
Approved Accountant
Chartered Public Finance Auditor

Yrjö Tuokko
Authorized Public Accountant

Statement by the Board of Administration

Statement by the Board of Administration

The Board of Administration of Alko Inc. has studied the company's financial statements and auditors' report for 2003 and proposes to the 2004 Annual General Meeting that the company income statement and balance sheets for the 2003 financial year be approved. The Board of Administration agrees with the Board of Directors' proposal for disposal of the profits.

Helsinki, 18 March 2004

Ville Itälä

Anneli Jätteenmäki

Merikukka Forsius

Saara Karhu

Mikko Kuoppa

Pekka Kuosmanen

Seppo Lahtela

Henrik Lax

Maija Rask

Markku Rossi

Sari Sarkomaa

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