



Alko Inc.'s Annual Report
and Corporate Social
Responsibility Report
2008

To the reader

As before, Alko's Annual Report and Corporate Social Responsibility Report 2008 are provided as a single publication.

Alko's functions and operations are defined in the Alcohol Act and in a related decree. The Alcohol Act aims at guiding the consumption of alcohol in order to prevent the harmful social and health effects caused by drinks containing alcohol. Reporting in a single publication about corporate social responsibility and finances has been welcomed as a good way to provide ample information about Alko. The information in the Annual Report section deals with, among other things, alcohol consumption as well as with Alko's services and products. The whole idea behind the reports is to give an extensive and understandable picture to various stakeholders.

In our reports, we apply the Global Reporting Initiative's GRI-G3 guidelines, although somewhat modified. Clearly though, Alko's viewpoint has undergone a change in accordance with our new strategy. The Corporate Social Responsibility Report is thus divided into responsibilities related to alcohol policy, as well as to social, environmental and economic responsibilities.

Alko's Annual Report and Corporate Social Responsibility Report 2008 are printed in Finnish. Its English version can be found in our website at www.alko.fi. Alko's Corporate Social Responsibility Report is compared with the GRI recommendation on page 56.

ALKO INC.'S ANNUAL REPORT AND
CORPORATE SOCIAL RESPONSIBILITY REPORT

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Review by the President and CEO



Corporate social responsibility has always been an essential part of Alko's image, and its importance will become increasingly more emphasised in the future. The requirements of customer service are also changing: thus, we need to be able to develop our activities towards the direction of our customers' preferences.

Our aspiration is to create operating methods with the help of which we can reduce any negative effects caused by our sales. These are great challenges for the foreseeable future – but we strive to continue to be a company which leads the way in the area of specialised trade and assumes its corporate social responsibilities in an exemplary way.

Sales supervision, with its age limit, suspected intoxication and suspected handover checks, is an essential part of Alko's responsibility. Each member of our sales staff understands his or her personal responsibility and role. Purchase eligibility is being monitored, and the system is being developed by registering each control check in the cash terminal system. The 10 millionth check in the age-limit monitoring that started in 1999 was performed in 2008.

The entire personnel of the company completed the responsibility test and thus proved their competence in the basics of responsible sales work. Finnish people, especially the younger ones, were informed through many different channels about the rules of the game in shopping transactions: about the importance of proving one's age and about the illegality of handing over alcohol to non-eligible individuals. Another of Alko's 2008 campaigns was the "zero breath test" campaign, the message of which was "zero is the correct number in traffic". Both of these campaigns strengthened Alko's reputation as a responsible dealer and enhanced its image in the society.

Since 1984, a yearly survey has been conducted in Finland: among other things, people have been asked about their opinions of the prices of alcoholic drinks, age-limit regulation pertaining to the sale of alcoholic drinks and about the current sales system. For the last three years, people's opinions have also been sought on Alko's role in the control of the harmful effects caused by alcohol. No less than 70 per cent of the people in Finland are of the opinion that Alko's sole right to sell alcoholic beverages controls the extent of the harmful effects of alcohol. Right now these attitudes are in many ways stricter than ever during the last 25 years. Age limits are regarded as important, and constraints to the availability of alcohol are advocated. Harmful effects due to alcohol are being viewed with great concern, and there is a real need for a Finnish sole-right system.

In the area of environmental responsibility, Alko is known, above all, for its well-designed recycling system for alcoholic drink containers. The recycling system for drink bottles and cans in Finland is one of the most efficient in the world. We receive the bottles and cans we have sold and forward them to be utilised either as refillables or as raw material for industry. We have operated the system for many years, and develop and improve it with other participants.

The surveys verify it: Alko's customer service is very good. According to customer surveys, Alko is regarded as a responsible chain of specialised retail shops which provide good service. Our customers' satisfaction with the service has been gauged, among others, with a national customer service feedback survey, in which we have been rated, for years now, among the best ten service companies. The good marks we have received verify that Alko invests strongly both in the personnel's service know-how as well as in the improvement of its retail outlets. According to the survey, our strengths include friendliness of service, clarity and smooth

cash terminal service. In addition to the customer service, the customers praise the comfort of our shops, the wide range of our products and the secured quality of our products.

Alko's sales volume was affected by an increase in the alcohol tax and by the economic downturn at the end of the year. Although the value of Alko's taxable sales increased 6.2 per cent, the sales by volume were down. The company's profit for the financial year improved from EUR 54.8 million to EUR 56.6 million, which was due both to modest growth in costs and the sale of more expensive products.

The strategy for the coming years is charged with many expectations: there are explicitly measurable and concrete aims from the viewpoint of corporate social responsibility as well as from the viewpoint of the efficiency of customer service and business operations. Responsibility is realised once it becomes perceptible.

Operations do not improve on their own, some actors are needed; the thanks are due, above all, to the actors, in other words to our personnel, customers and other stakeholders.

Jaakko Uotila



Alko in brief

Alko is a trading chain specialising in alcoholic beverages responsibly, impartially and efficiently. The company's basic function is the retail sale of alcoholic beverages in Finland. Alko has the sole right for the sales of drinks containing alcohol in Finland. The only exceptions for this 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. Alko's functions and operations are defined in the Alcohol Act and in a related decree.

The Alcohol Act aims at guiding the consumption of alcohol in order to prevent the harmful social and health effects caused by drinks containing alcohol. As the alcohol company referred to in the Alcohol Act, Alko plays a central role in the Finnish alcohol system. The company's function and its sole right for the sales of drinks containing more than 4.7% alcohol are justified, above all, by social and health policy reasons. Retail sales increased to 85.3 per cent of the documented alcohol consumption. Alko's share of the sales decreased to 42.6 per cent, and the share of supermarkets increased to 42.7 per cent. Restaurant sales decreased to 14.7 per cent of the documented alcohol consumption.

The cornerstones for Alko's activities and acceptability are good customer service and high customer satisfaction. The operation of the company must also be efficient and impartial. Impartiality in selection and pricing is ensured with public instructions on product listing, in which the operating principles between Alko and its suppliers can be found. A comprehensive network of shops with its order points ensures the availability of legal alcohol in different parts of the country. At the end of 2008, Alko had 344 shops and 124 order points. Six new shops were opened in 2008: in Järvenpää, Hämeenlinna, Sulkava, Ylläs in Kolari, Kuopio and in Jyväskylä. Of Alko's shops, 17 moved to new premises.

In February 2008, Alko's central warehouse moved, within Vantaa, from Kuninkaala to Itella Logistics premises in Viinikkala. Alko's head office, in turn, moved at the end of February from Kuninkaala in Vantaa to Salmisaari in Helsinki. Alko's regional division was reorganised from 1st June 2008; the number of regions increased from nine to eleven. Lappi and Päijät-Häme are the new regions.

Key indicators (EUR million)

	2006	2007	2008
Net sales	1,026.5	1,067.5	1,133.4
Net sales excl. excise duty	549.1	582.3	605.5
Profit before appropriations and taxes	61.9	73.7	74.5
Gross investment in fixed assets	5.9	12.6	9.0

Mission

Alko's basic function is to be a responsible retailer of alcoholic beverages in Finland so that the company can maintain and strengthen the sustainability and smooth functioning of the alcohol system, which aims at the well-being of Finnish citizens. Due to Alko's special status and function, exemplary responsibility and good service highlight its operations and activities.

Vision

Responsible and service-oriented, the best retailer in Finland. In 2012, Alko is an exemplary actor in the Finnish alcohol system. We are the best retailer in Finland in assuming responsibility and being service-oriented. By constantly improving our activities and operations, we achieve our economic targets.

Values

The company's values help in the realisation of its mission and vision by promoting cooperation between different people, by pointing out correct operating principles, and by committing the personnel to the company's goals.

Customer satisfaction

We guarantee a high-quality service and product range for all our customers. Doing business with us is effortless and flexible. The quality of our operations is of a high level.

Responsibility

The starting point in our activities is the sense of responsibility in the alcohol trade. We ensure the quality and safety of our products. In our activities we comply with and improve those social, environmental and economic principles that form part of corporate social responsibility. We take the responsibility for our work.

Openness

Our activities are based on openness, impartiality and honesty. Even when dealing with difficult matters, we discuss them constructively. Our cooperation brings about results and we trust each other.

Know-how

We are well-trained and adaptable to new circumstances. We can adapt to all situations.

Cost-effectiveness

We operate economically and efficiently. Efficient and profitable operations secure business profitability.

Alko's strategy 2009–2012

Alko's new strategy was approved in August 2008. The four-year strategy outlines the company's direction, its targets and recipe for success. Alko has a special role and task. The starting point for the strategy is that Alko's special role will continue. The target has been set, and it is high: the company wants to be regarded as Finland's best retailer in 2012 when it comes to responsibility and service. The development goal for the 2009–2012 strategy period is to strengthen our responsibilities in all sectors of corporate social responsibility and further improve our quality customer service.

Operating environment

In the latter part of 2008, the international recession was mirrored in Finland's economy. Consumer prices rose strongly in the first half of 2008, but as a result of a change in economic conditions the price increases levelled down towards the end of the year. Increases in available incomes and improvement in employment helped to boost private consumption. Towards the end of the year, consumer's uncertainty and price rises slowed down the growth in private consumption.

The value and volume of sales in the retail trade both went up in 2008. The most important reason for the growth in the value of sales was strong increase in foodstuff prices. In the alcohol trade, a hike in the alcohol tax also raised the prices. The volume of retail sales decreased in December due to the change in the economic situation. Employment prospects improved in the retail sector during 2008. Preparations to allow Sunday shopping started, and a legislative proposal about the matter will probably be introduced during the spring of 2009.

Legislative changes and public discussions

Increases in the consumption of alcohol in the new millennium have also increased the harmful effects of such consumption. Alcohol has become the most common cause of death among working age Finnish men and women aged between 15 and 64. Treatment periods of alcohol-related diseases have increased. The direct cost incurred to society through alcohol consumption was EUR 700–900 million in 2006.

Legislative changes have been used as means to exert influence on the growth of alcohol consumption and to ameliorate the problems caused by it. The Alcohol Act was modified with restrictions on quantity discounts, special price ads, and TV commercials. The alcoholic beverage tax was increased, on average, by 11.5 per cent. In addition, the Parliament approved an increase of 10 per cent in the tax of alcoholic drinks starting from the beginning of 2009. Use of warning labels on alcohol containers had to be abandoned due to the EU Commission's unfavourable attitude towards the practice. During the latter part of the year, discussions started taking place about extending farm wineries' retail sales rights from wines to liquors.

In Government programs that deal with public health and internal security, alcohol and its harmful effects have been taken into account both in their aims as well as in their actions. A national program for social and health care (KASTE 2008–2011) started. One of its main aims is to prevent alienation by timely interference and action taking. The program on internal security, on the other hand, stressed the importance of reduction in alcohol consumption in order to arrest alienation, and reduce accidents and violence.

Discussions on alcohol policy brought in the limelight various means to repel the harmful effects of alcohol and alcohol consumption. There were brisk exchanges of ideas about how to reduce the consumption of medium strength beer by lowering its alcohol content or by restricting its availability. Opinions were expressed for and against the effects of mental imagery, which is employed by advertisers, on young people's alcohol use. Alcohol is a significant cause of accidents in traffic. As a solution to the problem, it was suggested that the blood alcohol content limit could be reduced and that the use of ignition interlocks to stop drunk driving could be made more widespread.

Total consumption of alcohol decreased

The total consumption of alcohol went down in Finland in 2008. Per capita consumption was 10.4 litres of one hundred per cent alcohol, down 0.1 litres on the previous year.

Sales of alcohol decreased in Finland

In 2008, documented consumption of alcohol totalled 45 million litres in one hundred per cent alcohol, down 1.3 per cent on the previous year. Documented alcohol consumption accounted for less than 82 per cent of its total consumption. Documented consumption is divided into retail sales and licensed sales, i.e. alcohol consumed in restaurants, for example.

Retail sales still increased to 85 per cent of documented consumption. Alko shops accounted for 50 per cent of total retail sales and 43 per cent of all alcohol sales in Finland. Restaurant sales decreased and were less than 15 per cent of the documented alcohol consumption.

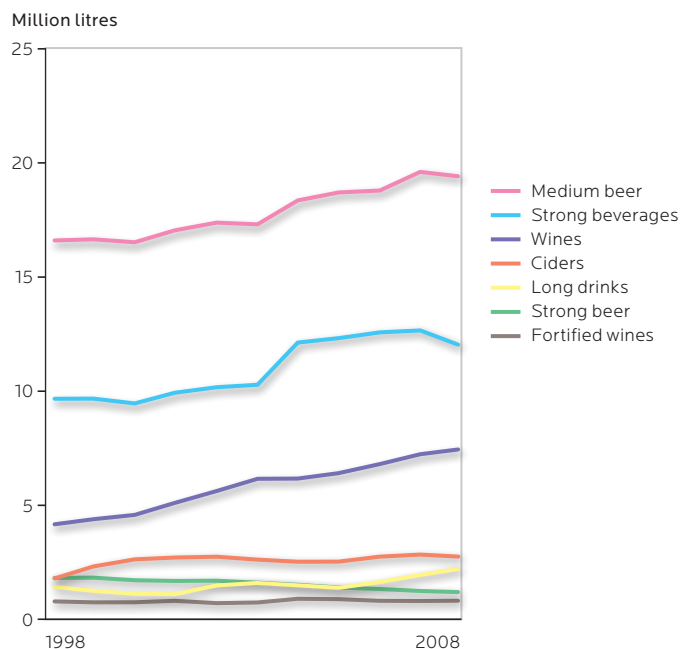
The development of Alko's distribution network continued along the same lines as in previous years. The number of Alko shops had risen to 344 at the end of 2008, and the number of order points fallen to 124. The number of other retail sales points decreased. In the restaurant sector, the number of enterprises with A and B rights increased; particularly the number of restaurants serving food, while the number of restaurants with C rights serving mostly beer continued to decrease. At the end of 2008, there were 44 farm wineries in Finland, producing and selling some 0.3 million litres of alcoholic beverages.

CONSUMPTION OF ALCOHOLIC BEVERAGES IN FINLAND
litres per capita, in 100% alcohol

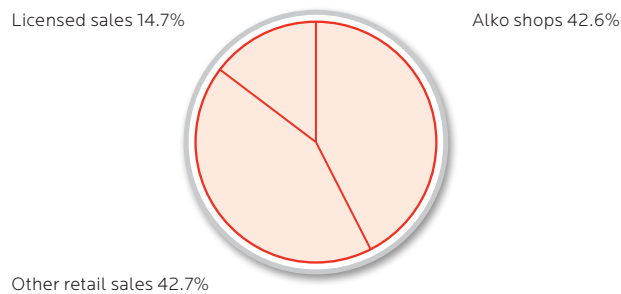
	2006	2007	2008
Documented consumption	8.4	8.7	8.5
Undocumented consumption*)	1.9	1.8	1.9
Total	10.3	10.5	10.4

*) Undocumented consumption means alcohol imported by travellers, homemade legal and illegal alcohol, smuggling and alcohol substitutes, and alcohol drunk by Finns abroad.

ALCOHOL CONSUMPTION IN FINLAND
In 100% alcohol, by beverage category, 1998–2008



2008 SALES OF ALCOHOLIC BEVERAGES in 100% alcohol



Increased imports of alcohol by travellers

Travellers arriving in Finland brought more alcoholic beverages with them than in the previous year. Altogether, undocumented consumption totalled 1.9 million litres of one hundred per cent alcohol. Traveller imports accounted for some 75 per cent of all undocumented alcohol consumption.

Finns are switching to milder drinks

No big changes took place in the structure of alcohol consumption in 2008. However, since 2006 Finns have oriented their consumption towards milder drinks. While the consumption of spirits has decreased from the record figures of 2005, the consumption of wine has increased.

The consumption of strong alcoholic beverages in one hundred per cent alcohol decreased by more than five per cent on the previous year, accounting for 26 per cent of all documented alcohol consumption in one hundred per cent alcohol.

The consumption of wine grew by more than two per cent, accounting for 16 per cent of documented consumption.

Beer consumption fell by one per cent, and its share of the consumption remained at 45 per cent.

Consumption of the ethyl-alcohol-based long drinks sold by Alko and restaurants and of the fermented long drinks sold by supermarkets increased. Long drinks accounted for five per cent of documented consumption.

Alcohol taxes in the neighbouring countries went up

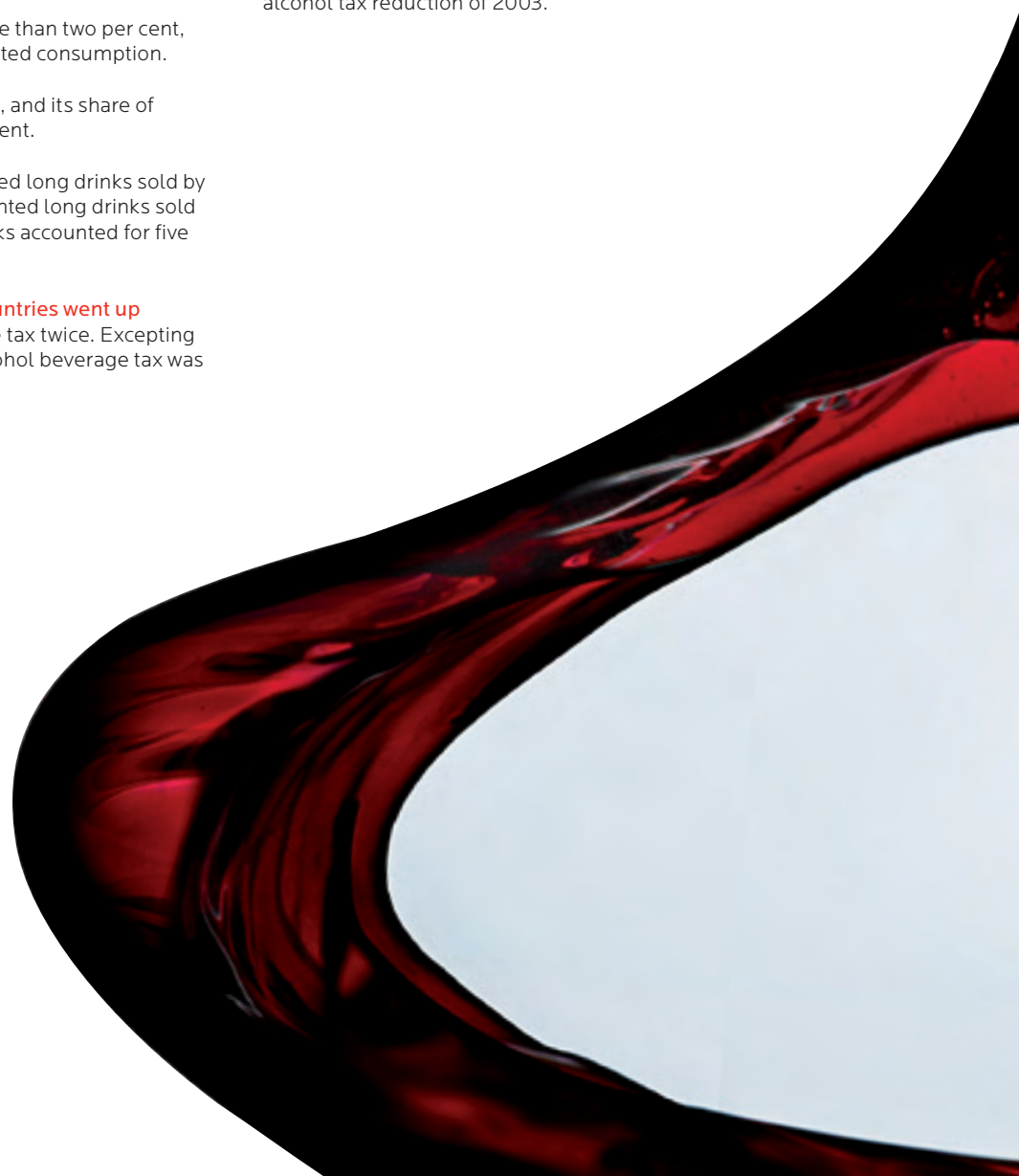
Estonia increased its alcohol beverage tax twice. Excepting the taxation category for wine, the alcohol beverage tax was

increased by 10 per cent on 1st January 2008, and on 1st July 2008 the alcohol beverage tax was increased by 20 per cent for all taxation categories. In Sweden, the beer tax was increased by 13 per cent, and the wine tax by two per cent on 1st January 2008. The weakening of Swedish and Norwegian exchange rates at the end of 2008 finally evened out the price differences among Finland and the neighbouring countries in the west.

Alcohol prices in Finland

The nominal prices of alcoholic beverages were, on average, six per cent higher in 2008 than in the previous year. The nominal price level of Alko's retail sales was 8.4 per cent higher than in the previous year. Foodstuff prices went up by less than five per cent.

In relation to consumer prices, the real prices of alcoholic beverages were almost two per cent higher than in the previous year and twelve per cent lower than before the alcohol tax reduction of 2003.





Opinions on alcohol policy

Since 1984, a yearly survey has been conducted in Finland: among other things, people have been asked about their opinions of the prices of alcoholic drinks, age limits regulations pertaining to sale of alcoholic drinks and about the current sales system.

According to a Gallop poll carried out in January 2009, nearly 90 per cent of all Finns find the current alcohol policy restrictions appropriate or want stricter restrictions. Even a bigger proportion of the population is of the opinion that strong alcoholic beverages should only be available at Alko. Some two-thirds of all Finns feel that wines should be sold by Alko alone. Nearly three out of four respondents have that same opinion about strong beer. Nevertheless, nine out of ten Finns still want to be able to buy medium strength beer from supermarkets.

Slightly more than 70 per cent of Finns are of the opinion that Alko and its sole right to sell alcoholic beverages are a good way of controlling the extent of the harmful effects of alcohol. Some 90 per cent of the population find the age limits regulating purchasing of alcohol either appropriate or too low. About half of all Finns consider the prices of alcoholic beverages to be appropriate. One-third of the population regards the price of beer too high, and a quarter thinks the price of wine is too high. While one-quarter of the population think the prices of alcoholic beverages are too high, nearly the same proportion is of the opinion that their prices are too low. This seems to indicate that, on the whole, Finns are satisfied with the current alcohol policy system, which includes the present price level of alcoholic beverages.

Prices of alcoholic drinks rose as taxation went up

The nominal price level of Alko's retail sales in 2008 was, on average, 8.9 per cent higher than in the previous year. The effect of the increase in the alcoholic beverages tax on Alko's retail prices was, on average, six per cent. The real price level of Alko's retail sales in 2008, proportioned to consumer prices, was on average 4.6 per cent higher than in 2007.

No changes were made in the pricing structure in 2008. The number of pricing categories was increased, and the level of pricing factors was revised. Central warehouse and shop distribution costs were updated.

The retail price adjustments made in January, April, July and October were due to an increase in the alcohol tax, Alko's own pricing adjustments, adjustments made in supplier prices, changes in the mode of delivery of the products or the transfer of products to a different volume category in the pricing of warehousing and transport services.

Alko's pricing is impartial and transparent. All suppliers and products are treated according to uniform principles, and the pricing is transparent to suppliers. The retail prices of products are the same in all Alko shops and at the order points, which supplement the shop network. The pricing rules and factors affecting the pricing are reviewed regularly. Any planned changes are discussed with suppliers on a yearly basis, and information about final price changes is made available.

Tax on alcoholic beverages increased

The alcoholic beverage tax was increased by 11.5 per cent starting from 1st January 2008. The increase affected mostly spirits, the tax on which was increased by 15 per cent. The tax in other drink categories rose by ten per cent.

In the budget of 2009, the Parliament approved an increase of ten per cent in the tax of alcoholic drinks starting from the beginning of 2009. Further, the Parliament decided to reduce the value added tax on foodstuffs (incl. non-alcoholic drinks) from 17 per cent to 12 per cent starting from 1st October 2009. This has the effect of reducing the prices of non-alcoholic drinks in Alko.

Alcoholic beverage tax, beverage packaging tax and general VAT are levied on alcoholic beverages.

The prices of alcoholic beverages in Alko in 2008 were as follows:

Strong beverages, 0.70 litres, 40% alcohol by volume		Retail price
	share	EUR 17.10
Purchase price + Alko's sales margin	23%	EUR 4.00
Taxes on alcoholic beverages and packaging	59%	EUR 10.02
Value added tax	18%	EUR 3.08
Wine, 0.75 l, with more than 8% alcohol by volume		Retail price
	share	EUR 7.21
Purchase price + Alko's sales margin	55%	EUR 3.98
Taxes on alcoholic beverages and packaging	27%	EUR 1.93
Value added tax	18%	EUR 1.30
Beer, 0.33 l, 5.2% alcohol by volume		Retail price
	share	EUR 1.43
Purchase price + Alko's sales margin	53%	EUR 0.76
Taxes on alcoholic beverages and packaging	29%	EUR 0.41
Value added tax	18%	EUR 0.26

Alko's sales by volume down

Alko's sales by volume totalled 112 million litres in 2008. Compared with the year 2007, the sales by volume went down by 1.2%. Converted to 100% alcohol, the sales added up to about 19 million litres, which is almost two per cent less than a year earlier. Alko's sales were affected by an increase in the alcohol tax and by the economic downturn at the end of the year.

Composition of mild alcohol sales

The relative proportion of mild alcoholic beverages (less than 22% alcohol by volume) in Alko's sales increased. The sales figures for wines showed a two per cent improvement. The sales of spirits decreased by four per cent; one of the reasons being the increase in the taxation of alcoholic beverages, which took effect from the beginning of 2008. The increase mostly affected the purchase price of spirits, which experienced the steepest rise.

There was a steady improvement in the sales of white wine, the increase being less than three per cent. In the case of red wine, however, the sales growth decreased to less than two per cent. The popularity of sparkling wine remained unchanged, and the growth in their sales was proportionally larger than in other product categories.

Brewery products sold less. The sales of beer decreased by five per cent, cider by 12% and long drinks by less than three per cent.

The sales of unflavoured spirits and vodkas decreased by 5.5 per cent. The sales of other spirits were down four per cent when compared with the previous year. The sales figures for fortified wines showed a two per cent improvement.

Spanish sparkling wine now the most popular

The sales of New World wines increased, and in 2008 more than half of the wines sold by Alko originated from the New World. The popularity of Chilean wines continued increasing, evidenced by the fact that more than 20 per cent of the wine sold came from Chile.

Of the red wine, the proportion of Chilean wine increased to almost one-third, and the sales of Argentinean and South-African wine strengthened also. Spain and France, the two traditional red wine countries, decreased their sales through Alko from the previous year.

The most popular countries of origin for white wine were Chile and South Africa. Of European white wines, the most popular were Italian and German white wine. The sales of sparkling wines underwent a historical change when Spain overtook the traditional sparkling wine country France as the most popular country of origin.

Markets receive a large number of new containers for the deposit return system

From the beginning of 2008, recyclable plastic bottles with redeemable deposit were introduced to be used as raw material in Finland. Altogether, Alko sold three million litres of spirits and brewery products in these plastic deposit bottles. On balance, in addition to other packaging introduced for the new millennium, a lot of new packaging has been provided for wines also. Bag-in-box wines appeared in Alko's selection in 2000, and have increased their popularity year by year. In 2008, 18 million litres of the bag-in-box wines were red, white or rose wines, and they made up 34% of all wine sold. The share of bag-in-box wines of the wine sales is at its highest in June and July when it exceeds 40 per cent. One-litre drink cartons made of tetrapak material have been a part of Alko's wine selection since 2005. Tetrapak sales totalled less than two million litres in 2008. The screw cap is now the favourite sealing type for bottled wines when measured by the amount of sales. Natural cork, however, continues to be the most common sealing type for wines.

Cans are a popular container form for long drinks and beers. Of the brewery products, 46% were sold in cans in 2008. The proportion accounted for by multipacks decreased to 47 per cent.

More expensive red, less expensive white

The price range that dominates in the sales of white wines is between EUR 5 and EUR 6 per bottle. In 2008, the medium price for a bottle of white wine was EUR 6.57. For red wines, the sales are more evenly distributed among products the price tag of which varies from five to ten euros. Their medium price is also higher than that of white wines: the medium price for a bottle of red wine is EUR 7.41. The considerable sales figures for bag-in-box wine is increasing the proportion accounted for by the less expensive price categories, especially in white wines. When buying sparkling wines, more expensive products, on average, are obtained than when buying other wines. The most popular price range is from eight to ten euros; in 2008, the medium price for a bottle of sparkling wine was EUR 10.05.

The sales in all regions went down

The sales of Alko's retail outlets decreased in all regions. The decline in sales was the steepest in Lapland. This was due to a decrease in the number of purchases by Swedish and Norwegian customers. The difference in alcohol prices in relation to Finland narrowed due to the increase of alcohol tax in Finland and weakening of Swedish and Norwegian currencies.

There are differences between region sales structures. Whereas wines are favoured in Helsinki and Uusimaa, the proportion of spirits is higher in the north of the country. For the past years, the proportion of wines of the sales has grown.

Customer service

Quality customer service, together with a comprehensive retail network with its order points, underpin the current alcohol system and its acceptability while meeting customers' requirements, citizens' demands for impartiality and the goals of alcohol policy.

At the end of 2008, Alko had 344 shops in 224 municipalities. The retail network was supplemented by 124 order points. Alko's services were available in 315 municipalities. In the beginning of 2009, there were 348 municipalities in Finland. This means that 90 per cent of people aged over 18 had Alko's services in a distance within 10 kilometers, and in Uusimaa within five kilometres.

When shops are being established, in addition to the Alcohol Act, attention is paid among other things on customer requirements, prevention of the harmful effects of alcohol, business environment, number of inhabitants, distance to the nearest Alko or order point, tourism and profitability. From the viewpoint of the customers, the best business location is where there is parking space available and where the location is visible from other shopping and commuting routes. Alko's Board of Directors decides yearly about the development of its retail network.

Companies' special needs are taken note of

Alko's acceptability is enhanced by its retail sales to companies. All Alko shops also serve companies. More than 50% of sales to companies take place in the metropolitan area. In other parts of Finland, company service shops are located in big population centres and holidaying areas.

Customers are listened to

Alko's shops were visited by approximately 65 million customers in 2008. The busiest times are before Easter, Labour Day and Christmas. The importance of responsible customer service is emphasised throughout the organization, and the quality targets for personal customer service process are carefully defined and communicated to the whole shop personnel. The role of shop managers as leaders of customer service and as coaches for their team is stressed and supported with the help of different instruments.

Customer feedback is received daily at the shops and at the head office through the customer advice phone service with 15,460 calls arriving from the customers in 2008. Alko is interested in its customers' needs, wishes and expectations about the quality of customer service. Both the shop managers as well as the salespersons are encouraged to forward customer feedback for the use of the whole company when needed. Customer feedback and improvement proposals play a significant role in developing the services and the product range.

Customer service improves

The personnel's customer service know-how, its professionalism, sense of responsibility, activeness, and friendliness are all being improved constantly, with regular product and service training, among other things. Monthly shop chain training is being complemented with shop-specific customer service training that started in 2008. The aim of the coaching by an outside trainer is to improve uniformity of the customer service. During the spring of 2008, each shop completed a follow-up part of the network-based customer training that had been started in 2007.

Customer surveys as monitoring tools

In addition to the feedback received and internal auditing, information about the quality of Alko's customer service process and customer satisfaction is obtained with the help of three customer surveys.

According to the results of the customer survey, Alko is regarded as a specialised company with a sense of responsibility and providing good quality and service.

In the national customer service feedback 2008 survey by Taloustutkimus (a market research company), Alko was rated sixth among 104 companies investigated (in 2007 it was rated 11th). The retail chain comparison of the same survey positioned Alko as the second best retail chain in Finland based on customer satisfaction.

TNS Gallup investigated Alko's customer satisfaction and commitment. The quality of service evaluated in the survey showed improvement in comparison with the previous year. According to the survey, Alko's main strengths are its sense of responsibility and smooth cash terminal service. There has been improvements in the salespersons' activity and professionalism. Here, development targets are adequacy regarding the number of salespersons, mapping of requirements and giving product recommendations.

TNS Gallup surveyed the quality of the customer service process in Alko's shops also with a Mystery Shopping survey. The targets of the investigation were the service event as a whole and realisation of sales supervision. The result for Alko, when compared with those of Finnish retail chains, was above average. According to the results the strengths of our customer service are, among others, friendliness of service, clarity and cash terminal service. In 2008, most of the progress achieved was in the activeness of offering help and providing additional services.

The shop as the most important communication channel

Communication using published materials is realised in Alko's shops with the help of various posters, presentations and of product publications, brochures, and circulars containing seasonal information. In 2008, Alko's price list appeared four times, its average print standing at 140,250 copies. The number of copies printed has been honed down or up as appropriate for reasons of environment and costs. Alko's Uudet tuotteet (New Products) leaflet appears ten times per year, and about 90,000 copies of each issue are printed at a time. The Etiketti (Etiquette) circular appears four times per year, with a print of approximately 250,000 copies, of which 220,000 are in Finnish and 30,000 in Swedish. All the shops make available nine different Alkoholit ja terveyst (Alcohol and Health) brochures. Alko's website was visited by about 30,000 individual visitors in 2008. There are close to 14,000 members in Alko's Etiquette Club.

Protection of privacy

As required by the Personal Data Act, Alko has compiled descriptions of all the data files containing information about customers. The descriptions are public documents.



The level of basic service exceeded in a shop

Kristiina Halme from Järvenpää thanks Alko's personnel for competent service. "I have always received superb service and good advice. I willingly ask for help, especially when it is the question of selecting among some of the more expensive wines. It is nice when a salesman recommends a product with which he is familiar or can perhaps recount other customer's experiences with that product."

Halme mainly visits shops in her home district but also in Heinola and Sysmä, in a holiday cottage area. "Last summer we fetched good sparkling wine from Alko in Lappeenranta for a present to a family with which we are friends. From a slightly unfamiliar shop we got, for ourselves, that extra service that is much in demand. And it is easy to visit any of the shops when the concept is uniform. I must admit that afterwards I sent my thanks for good service there, to Lappeenranta."

"There's been a great change in the Alko's service culture during the last ten years", Kristiina Halme points out. "Perhaps self-service shops have had some influence on that, but it is clear that the staff has had training and the employees are really knowledgeable about the products."

Halme praises the shop's appearance, which she regards as fresh. "All the wines can be easily found by their country. Also novelties and specialties are always prominently displayed." Halme regards Alko's product range as comprehensive. And if something is missing from the shelves, it will be ordered. "On a visit to the shop the level of basic service is exceeded manifold."

There has hardly been any purchase blunders. "In that there are no disappointing products on the shelves, Alko is a place that can be trusted. I have always left the shop with a wine that is suitable for my purpose."

Kristiina Halme (on the left) selects sparkling wines at the Arkadia shop in Helsinki. Sales assistant Suvv Sinivirta recommends trying out a new flavour.

Product selection constantly improved

The starting point for Alko's Selection Management Plan is the desire to provide the customers with an extensive and diverse drink selection that is constantly updated. The plan is based on statistical data about consumer habits and forecasts of the future trends in these habits.

Support for this plan is provided by statistical analyses, direct customer feedback and scrutiny of international trends. Cooperation with suppliers provides information for the planning. Selection plans are made on a product group basis by internal expert teams with sales personnel playing a significant role.

The Selection Management Plan on Alko's website is updated three times a year. The plan specifies the need for supplementing the selection by product group, and suppliers can offer their products on this basis. Purchasing complies with Alko's principles of transparency and equal treatment.

Screw cap still popular

The taste of cork is the most common quality defect in wines. Screw caps solve the problem and have, therefore, rapidly become more common. Alko's product range already has close to 450 screw cap wine bottles, including renowned quality wines. Customers have welcomed screw caps. Synthetic corks, on the other hand, have been found wanting. It is expected that this bottle sealing category will entirely disappear.

Bag-in-box wines have continually increased their popularity. The level of product quality has gone up, but at the same time customers have become more critical: Although the number of complaints about bag-in-box wines is on the increase, the number of products on sale that have been recalled due to quality problems is decreasing. Alko informs about the type of sealing used for the products both in its price list as well as on shelf-edge strips. In this way each customer can find a bottle closed in a desired manner.

Needs of different customer groups are taken into account

Consumers' wishes and behaviour in the purchase situation affect the range of products available in the shops. The products are grouped in accordance with their sales profile into product baskets and the shops are divided into categories on the basis of customer demand. In this way, we can make our supply meet the local demand.

Favourable customer feedback on the increasingly extensive quality-wine range has encouraged us to continue developing selections for various customer groups. Requests by enthusiasts have also resulted in the purchase of small quantities of products and products with limited availability for the general selection. In 2008, 28 products were listed for advance reservation. Alko's Arkadia flagship store in the centre of Helsinki also sells expensive rarities serving a small consumer group. During the second year of operations the store offered 294 of such rarities, which were well received.

Updating the beverage selection an ongoing process

Alko's product selection is being updated on a continuous basis, and new products acquired in accordance with the Product Management Plan enter the shops weekly. The shops may also delist products on the basis of limited demand. At the end of 2008, Alko's general selection comprised 2,194 brands. During that same year, 411 new brands were acquired. Beverages can be bought at Alko via the general selection, sale-to-order selection and special order.

Organic and Fair Trade

Consumers are increasingly interested in the origin and ethical nature of products. Ethical values, therefore, are also taken into account in Alko's product selection, which now contains 24 wines made of organically grown grapes. Alcoholic beverages that are made from organic agricultural ingredients and produced in accordance with international rules are labelled as organic products. Major wine-producing countries have various organizations supervising organic wine-making. In Finland, guidelines for organically produced alcoholic beverages fall within the responsibility of Valvira, the National Supervisory Authority for Welfare and Health (former STTV, the National Product Control Agency for Welfare and Health).

Fair Trade wines have also been well received, and wines are in fact one of the fastest-growing Fair Trade product groups. Fair Trade includes, among other things, principles concerning pay and working conditions that vineyards must follow. Workers have the right to organise and participate in company decision-making, and the companies are obliged to train their employees.



Product safety in no doubt

Alko's Quality Matters unit controls the quality of alcoholic beverages by human sensory perception.

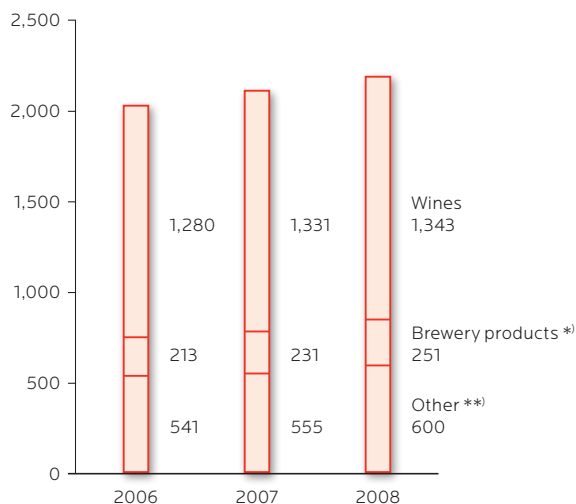
The unit controls the quality of alcoholic beverages that are on sale. The group forming the monitoring unit consists of five people who focus on using human senses for evaluation. The taste and flavour of drinks inform about the quality of the products and of their possible imperfections.

Together with tastings in connection with the purchase of novelty products, approximately 10,000 samples are evaluated yearly. It is not possible to discover all product imperfections by senses only. For this reason, more than 2,400 products are analysed yearly in Alko's Alcohol Control Laboratory (ACL). Some of these analyses are performed using a human sense to verify a discovery of an imperfection.

During 2008, Alko received 19,800 customer complaints, of which 89% were about wines. The most common reason for complaints about wines, in 45%, was taste of cork.

In that year, altogether 36 product batches that were on sale were recalled. The main reasons for these recalls were faulty label information, weakened quality and, in some cases, inability to reach the sales targets that had been set for contract products for their trial period.

NUMBER OF ALCOHOLIC BEVERAGE BRANDS IN THE PRICE LIST



*) Primarily beers, ciders and long drinks

**) Primarily fortified wines, cocktails and strong beverages

Figures do not include non-alcoholic drinks.

Standard selection is Alko's main selection: its normal products are presented in Alko's price list and novelties in the New Products leaflet.

Alko's Alcohol Control Laboratory (ACL) controls the chemical and microbiological quality of alcoholic beverages.

Its main task is to perform inspections related to the chemical and microbiological quality of the products on sale, as assigned to it by Alko's Quality Matters unit.

To ensure consumer protection, products that form part of the standard selection are inspected regularly and more extensively than the current official requirements in the area of the EU stipulate. In 2008, in addition to basic surveys, resources were invested in investigations related to preservatives and so-called foreign matter. Master's theses were produced as a result of investigations on sulphur compounds added as preservatives, on wine acids, and changes that take place in red wines with aging. A revised edition of the "Lisä- ja vierasaineet alkoholijuomissa sekä yliherkkyys" (Additives and foreign matter in alcoholic beverages and hypersensitivity) booklet were published in 2008 in cooperation with the authorities and Alko's other units.

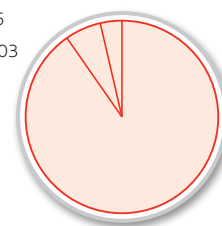
ACL markets its services also outside Alko. Approximately half of the analyses were performed as chargeable analysis services to external customers: companies and public authorities. Altogether, about 9,200 alcohol samples were analysed in 2008, which is seven per cent less than during the previous year. The change is due partially to yearly fluctuations and partially to the laboratory transfer which consumed resources.

ACL takes part in meetings of the subdivision for wine and alcohol matters at the Ministry of Agriculture and Forestry, cooperates with the other Nordic alcohol companies in quality issues and represents Finland at OIV (Organisation Internationale de la Vigne et du Vin) in activities related to methods of analysis and the safety of wines as well as additives and foreign matter in wine. Pekka Lehtonen, the laboratory director, is President of the Subcommittee of Methods of Analysis of OIV in the three-year period 2006–2009.

ACL is accredited by the Centre for Methodology and Accreditation as an officially recognised and impartial testing unit for the testing of alcohol-containing beverages, industrial alcohol and techno-chemical products. It has also been appointed Finland's official laboratory for the analysis of alcoholic beverages to the EU by the ministry of foreign affairs.

CUSTOMER COMPLAINTS BY PRODUCT CATEGORIES

Brewery products: 676
Strong beverages: 1,203

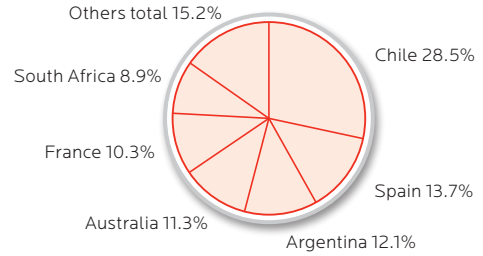


Wines: 17,724

WINE SALES BY COUNTRY OF ORIGIN 2008

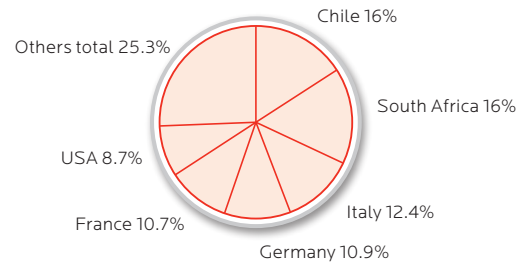
Red wines

	Sales 1,000 l	Change on previous year, %	% of sale
Chile	7,668	9.3	28.5
Spain	3,690	-3.3	13.7
Argentina	3,265	13.8	12.1
Australia	3,038	-14.6	11.3
France	2,787	-11.5	10.3
South Africa	2,393	35.6	8.9
Italy	2,304	1.7	8.6
USA	515	1.1	1.9
Portugal	318	7.4	1.2
Others	954	-21.3	3.5
Total, all countries	26,932	1.8	100.0



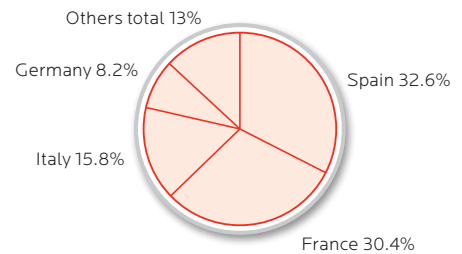
White wines

	Sales 1,000 l	Change on previous year, %	% of sale
Chile	3,194	12.3	16.0
South Africa	3,191	7.6	16.0
Italy	2,484	1.1	12.4
Germany	2,177	-2.3	10.9
France	2,145	-9.8	10.7
USA	1,730	4.5	8.7
Spain	1,336	6.7	6.7
Hungary	1,209	-6.8	6.1
Australia	1,163	5.0	5.8
Others	1,344	4.1	6.7
Total, all countries	19,975	2.5	100.0



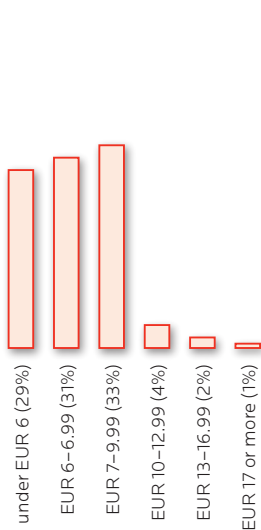
Sparkling wines

	Sales 1,000 l	Change on previous year, %	% of sale
Spain	1,263	10.8	32.6
France	1,176	-2.1	30.4
Italy	613	4.5	15.8
Germany	318	43.1	8.2
Hungary	191	2.3	4.9
Australia	83	10.2	2.1
Others	228	27.4	5.9
Total, all countries	3,873	7.8	100

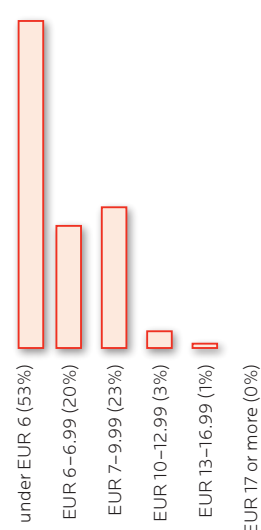


SALES BREAKDOWN BY PRICE CATEGORY*) IN 2008, % OF SALES

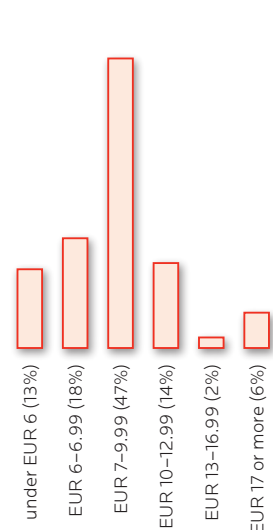
Red wines



White wines

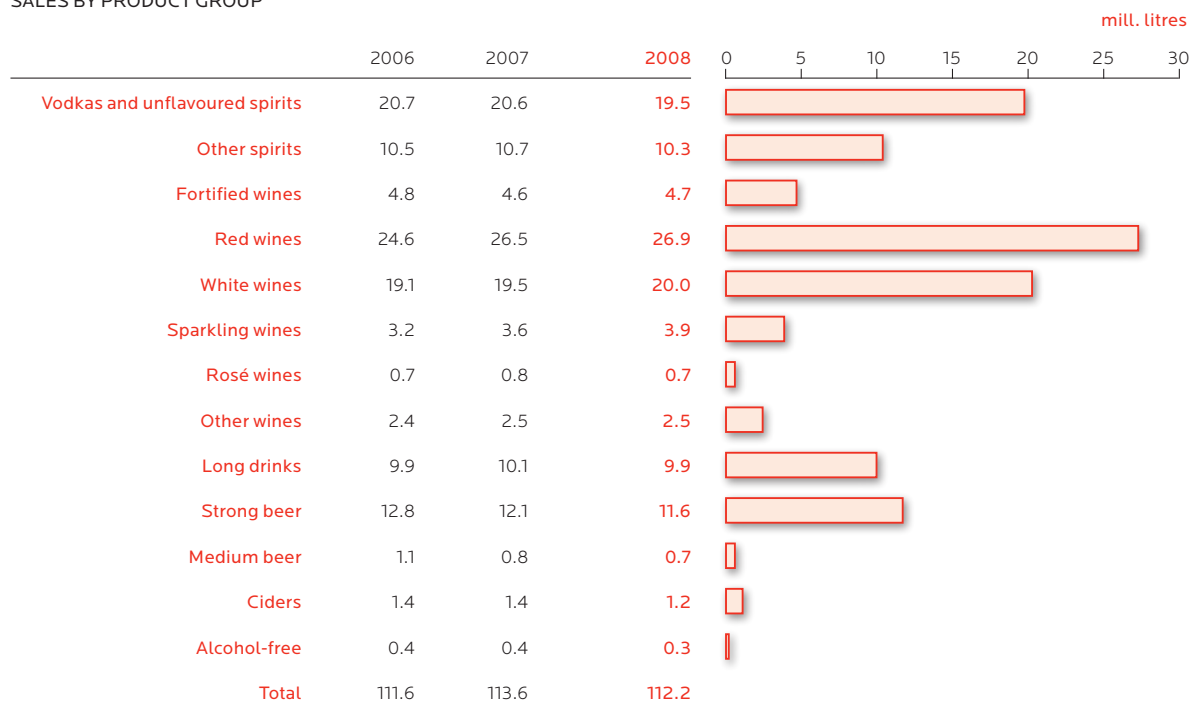


Sparkling wines



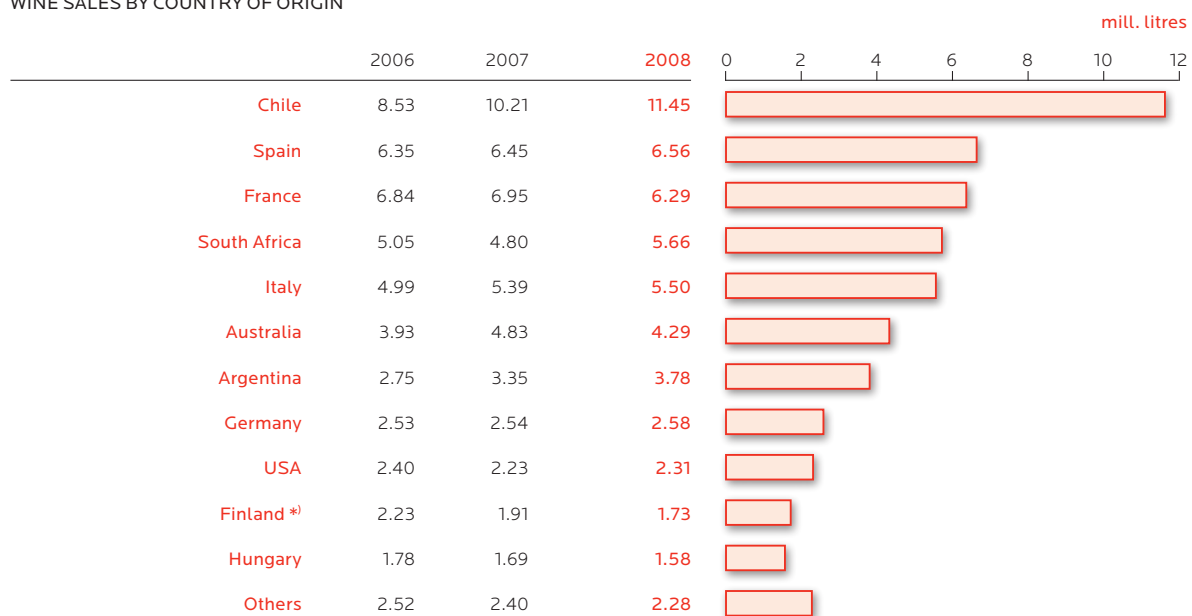
*) Price/bottle

SALES BY PRODUCT GROUP



Total in 100% alcohol 19,4 mill. litres

WINE SALES BY COUNTRY OF ORIGIN



*) Finnish berry and fruit-based wines

Carrying the responsibility is our only choice

Vision of corporate social responsibility

As an important part of the Finnish alcohol system, Alko combines good customer service and responsible sale of alcohol based on social and health policy objectives.

With its responsible, customer-oriented operations, Alko seeks to maintain and reinforce the functionality and sustainability of the alcohol system, which aims at well-being in Finland. The objective is for Finns to understand and approve Alko as a responsible retailer of alcoholic beverages whose operations are geared to support the prevention of the harmful effects of alcohol.

Involvement in National Alcohol Programme in 2008–2011

The Government started the National Alcohol Programme in 2004. The programme was pushed forward by the Government's policy decision about alcohol policy alignments. Prime Minister Matti Vanhanen's second government went ahead with the implementation of the programme in 2008–2011. The main coordinator of the programme is the National Institute for Health and Welfare (Stakes until 31st December 2008), which supervises the municipalities in the implementation of the alcohol programme. The Government's support for the programme is channelled through the Policy Programme for Health Promotion. There are some common elements in the Alcohol Programme with the political programme dealing with welfare of children, young people and families.

Alko still participates in this cooperation as an expert in its field or takes part in other ways in several national, regional or local cooperation projects that support the goals of the Alcohol Programme.

Annual plan to reduce the harmful effects of alcohol

Alko's Board of Administration confirms an annual plan for action to prevent the harmful effects of alcohol.

Action based on strategy

An operating plan based on strategy is drawn up each year to steer the company towards responsible, cost-effective action and good customer service. The general objective is a restriction of the harmful effects of alcohol through a smoothly functioning sole-right retail status.

In accordance with its strategy, Alko initiated its Responsibility Programme, the aim of which is to reduce the harmful effects that consumption of alcohol by parents and adults directly or indirectly can cause to children and young people and to strengthen Alko's corporate social responsibility.

Research findings

A lot of research has been done which shows that there is a direct relation between alcohol consumption and its harmful effects, i.e., the higher the consumption the greater the harmful effects. Research shows that the sole right in the retailing of alcoholic beverages reduces alcohol consumption, harmful effects and social costs. Research also confirms that expanding the retail sales of wines will cause an increase in the use of alcohol and in problems caused by alcohol among children and young people.

Responsibility areas at Alko

Responsibility for alcohol policy and social issues

- responsible listing and retail sale
- product safety and quality
- customer service in specialised business with expertise and responsibility
- prevention of harmful effects of alcohol consumption
- close cooperation with stakeholders in order to develop activities that reduce harmful effects
- responsibility for the personnel, their well-being at work and expertise

Environmental responsibility

- continuous improvement in the recovery of packaging
- increasing the efficiency of recycling in, e.g., transportation packaging
- improving transportation and reducing energy consumption
- continuous development of an environment-friendly product selection

Economic responsibility

- operations that are as cost-efficient as possible
- a high-grade and responsible customer service and top-quality product selection in a sales network covering the entire country
- a good, profitable partner for suppliers of goods and services

Corporate social responsibility from the viewpoint of Alko

Alko's responsibility is based on the alcohol legislation, which stipulates that in alcohol retail sales the aim should be to reduce the harmful effects of alcohol consumption. In addition, according to the legislation, in its activities Alko must also pay special attention to the intelligent use of natural resources and on environmental protection requirements. Responsibility plays a central role in Alko's strategy, according to which Alko must take responsibility for its actions on all sectors it is involved with.

Alkos's Board of Administration, its Board of Directors and its Management Team assume liability for Alko's responsible company operations. An annual plan to reduce the harmful effects of alcohol is approved by the Board of Administration. The Board of Directors gives its approval to the company's strategy, its business plan and its central programs and principles. On the company level, the Management Team assumes liability for corporate social responsibility. The team ensures that the strategy and policies and principles supporting them are implemented and complied with in the company.

The director who looks after relationships with the society takes the responsibility for the development of Alko's corporate social responsibility and exercises the chairmanship of the Responsibility Team. The task of the Responsibility Team is planning of contents, their implementation, evaluation and continuous improvement as well as reporting to the company management. All the company activities are represented in the Responsibility Team. The Responsibility Team meets quarterly.

Alko's responsible business activities are directed – in addition to Alko's values, its strategy and leadership organization – by Alko's internal operating principles, which include principles related to business practices, administration, procurement, product safety, personnel, and environment as well as financial administration.

Alko's business method principles approved at the end of 2007 include instructions on how to ensure equal treatment of suppliers. Alko is committed to act ethically and comply with the society's norms in all its activities and expects the same of its business partners. All Alko's personnel must comply with the company's business method principles. It is the responsibility of the supervisors at all levels to make sure that the personnel is familiar and understands the requirements of those business method principles. The supervisors must also ensure that business method principles are adhered to and show a good example themselves.

The principles of risk management, internal control and internal supervision are described in Alko's administration principles. In the procurement of alcoholic beverages, the principles presented in the publication titled Listing Procedure and Retail Sale of Alcoholic Beverages must be observed. The guide is available at Alko's website. Alko's product safety and quality assurance is looked after by the purchase department's quality assurance unit and the Alcohol Control Laboratory ACL. Alcohol policy actions to be taken to reduce the harmful effects of alcohol are decided upon yearly. The principles of personnel administration are described in the Social Responsibility section and environmental policies and the most significant environmental impacts are described in the Environmental Responsibility section.

Interaction with stakeholders

Alko's stakeholders are an extensive, multifaceted group. Cooperation with stakeholders calls for constant interaction. It is particularly important to try and use stakeholder cooperation to underline the important role of sole right status in the retailing of alcoholic beverages.

Alko's key stakeholders

Stakeholder	Stakeholder expectations	Action by Alko	Gauges
Customers	Wide range of products in a shop network with an extensive coverage. Specialty stores always provide friendly, accessible and responsible customer service with ease. The safety of the products can be trusted.	Nationwide shop network. The extensive, constantly updating product range takes into account current trends and provides special products for the most demanding of users. The personnel receive training in product expertise, service and responsibility.	Corporate image and customer satisfaction surveys. Shop accessibility survey.
Owner, political decision-makers	Retail sales of beverages containing more than 4.7 per cent alcohol so that harmful effects are minimized.	An adequate, reasonable-sized shop network, responsible sales.	Number of shops. National image survey concerning alcohol.
Personnel	Inspiring work and a good working community. A safe and challenging job. An opportunity to improve and develop one's work. Safe working conditions. Equal, participatory supervisor work. Fair rewarding practice.	Cost-effective operations. Multifaceted training system. Attention paid to well-being at work and ergonomics. Continuous development of supervisor work. Gender equality plan. Incentive rewarding systems.	Personnel surveys, development discussions. Personnel turnover and exit interviews. Training and education. Sickness absences, age group check-ups. Comparison of systems of rewarding.
Citizens	Responsible alcohol sales.	Age limit, suspected intoxication and hand-over checks in shops, advancement of social responsibility in order to reduce the harmful effects of alcohol.	National image survey concerning alcohol. Companies and corporate social responsibility study.
Suppliers	Equal, non-discriminatory treatment and transparent communication.	Public Selection Management Plans and guidelines for retailing. Reports and information bulletins available on the partnership network and at www.alko.fi .	Number of admonitions given by authorities concerning the correctness of decisions. Ministry of Social Affairs and Health administrative branch stakeholder survey.
Media	Correct and timely information on the company's operations and sector of operations.	Extensive, systematic cooperation.	Monitoring press on public debate. Corporate image and communication studies.

Other key stakeholders

Authorities

The authorities that are Alko's stakeholders include the National Supervisory Authority for Welfare and Health, Valvira (until 31st December 2008 The National Product Control Agency for Welfare and Health), the state provincial offices, the police, the judicial system and the EU authorities. In addition to compliance with decisions based on legislation, the company engages in extensive cooperation in social and health policy matters in order to prevent the harmful effects of alcohol.

Cooperation partners

The company engages in extensive cooperation with subcontractors and service providers. Lasting, reliable cooperation relations and expertise in the sector facilitate business.

International contacts

Alko takes part in a Nordic Borealis Partnership cooperation project, which gathers information on and analyses EU projects concerning alcohol and alcohol matters. The company also cooperates with Nordic and North American sole right retailers of alcoholic beverages.

Other important stakeholders include the social and health sector, preventive substance abuse-work, the education authorities, the Customs, other alcohol industries and the sector's administrative authorities.

Good partnership cooperation with supermarkets, for instance, guarantees that Alko is in a position to continue to develop its network in the future.

Alko actively participates in the practical alcohol policy

The practical alcohol policy means cooperation and networking between different national, regional and local cooperation projects. The current Finnish Government decided to continue the Alcohol Programme initiated in 2004 by the national government of that time. The Alcohol Programme will be in force between 2008 and 2011.

The Alcohol Programme, the aim of which is cooperation to prevent harmful effects caused by alcohol, brings together the national government, districts, municipalities and organizations to implement a preventive alcohol policy. The programme reduces the harmful effects of alcohol through three strategic part goals: harmful effects due to alcohol as experienced by children and families are reduced, harmful effects due to at-risk alcohol use decrease, and the total alcohol consumption becomes lower.

Alko still participates in this cooperation as an expert in its field or takes part in other ways in several national, regional or local cooperation projects that support the goals of the Alcohol Programme and create new operating models. In selecting its cooperation partners, Alko requires that the society or organization has a valid partnership agreement with the Alcohol Programme.

PAKKA

The general goal of PAKKA, a local research and development project on the alcohol policy, is to increase and extend the responsibility of various parties concerned in the implementation of preventive regional alcohol policy. This is done by developing a local and regional organization that focuses on the prevention of alcohol's harmful effects. The experimental research stage of the PAKKA project in various sub-regions ended in 2007. During 2008, information about the PAKKA model was distributed to other localities also, and more training material and research results were published. The aim is to continue the project also in the coming years. Alko participated in the planning and funding of the project, and the company is represented in the project's steering group. Alko has introduced, to the project, operating methods that have worked well in its own sales monitoring in functions such as registering the number of checks or informing customers about age limits. The supervisors of the shops in Hämeenlinna and Jyväskylä attended the project's seminars and meetings. They have also acted as members in working groups, which together with interested local parties have discussed the sales supervision problems in retail sales.

Important cooperation with the National Institute for Health and Welfare

Alko also has wide-ranging cooperation with the National Institute for Health and Welfare (Stakes until 31st December 2008). An alcohol policy opinion survey, the PAKKA project, and the support given to Yhteiskuntapolitiikka and Nordisk Alkohol & Narkotiktidskrift publications are among examples of this cooperation.

Alko participating in preventive campaigns

Preventive Drug Work Week

Preventive Drug Work Week took place during week 45. The week's events are coordinated by the Finnish Centre

for Health Promotion. The aim was to have a positive impact on substance abuse locally, provoke wide ranging discussions on current topics about intoxicant substances, make preventive substance abuse work and people involved in it better known, and improve cooperation between those involved.

Since 2001, Alko has participated in the implementation of Preventive Drug Work Week, for example, by supporting it financially. During the week, age limit checks in Alko's shops were intensified.

National Injury Prevention Day

National Injury Prevention Day is held annually on Friday the 13th. The theme in 2008 was correct use of safety improving devices and appliances. The day is organised by the national injury prevention working group of which Alko is a member. Alko also supported the implementation of the National Injury Prevention Day financially.

A-Clinic Foundation

Alko took part in the planning and funding of a seminar on substance abuse organised by the A-Clinic Foundation. The seminar was aimed at reporters and information officers in psycho-social services. During the seminar, a yearly substance abuse communication prize is awarded.

Publications informing about the harmful effects of alcohol

Alko produces booklets about the social significance of alcohol and harmful effects of alcohol consumption. The Alcohol and Health (Alkoholi ja Terveys) publication series is meant to be distributed to customers mainly through Alko shops. With its Alcohol and Health publications, Alko wants to provide its customers with researched and readable information about the effects of alcohol. The purpose is to increase people's knowledge about alcohol and serve those involved locally. The booklets are produced in cooperation with the best experts in each subject area. So far, information booklets have been issued on nine different subjects. During 2008, a revised edition of "Lisä- ja vierasaineet alkoholijuomissa sekä yliherkkyys" (Additives and foreign matter in alcoholic beverages and hypersensitivity), and a new booklet "Ravitsemus, liikunta ja alkoholi" (Nutrition, exercise, and alcohol) were published. The Alcohol and Health series booklets are available free-of-cost both in Finnish and Swedish in Alko's shops. Information on the harmful and other effects of alcohol is also available in Alko's other publications and in the section on alcohol and health on Alko's website.

Member of cooperation networks and supporter of a variety of projects

Policeman of the Year

Policeman of the Year is an important social project implemented by the Junior Chamber International Helsinki in cooperation with the Police Department at the Ministry of the Interior and the Finnish Police Federation. The purpose of the Policeman of the Year is to choose a policeman who has excelled in his/her task and increase appreciation for police work. Alko has been one of the most long-standing supporters of the project.

Youth Academy

The Youth Academy and its cooperation partners work together to promote young people's well-being. The aim is to offer young people meaningful opportunities in doing, learning and succeeding both with hobbies and at school. The Youth academy together with its cooperation partners supports youth activities with different materials, grants and by training adults to participate in youth activities. Alko has participated in the Youth Academy's Mahis activity, the purpose of which is to motivate young people in adverse life situations to plan free time activities for themselves. Alko has been participating in the activities of the Youth Academy since 2000 and has supported the organization financially.

Young Finland Association

The Young Finland Association is an independent organization, whose objective is to promote children's and young people's well-being and joy of life by physical activity. Alko and Young Finland have had cooperation since 2007. The aim of the cooperation between Young Finland and Alko is to preventively influence young people's substance abuse. During the year of this Annual Report, Alko donated a weekend camping trip to one of the Seal Clubs (Sinettiseura) which had done exemplary work against substance abuse in its own club.

Pohjola-Norden

Pohjola-Norden is a non-governmental organization whose most important task is to promote Nordic cooperation, for example, with seminars in which differences between the

Nordic countries are examined. The association has cooperation agreements with about 40 companies that have a Nordic identity, and Alko is one of them.

The Borealis Partnership

Since 2006, Alko has been a member of the Borealis Partnership, a Nordic cooperation project. The other members of the cooperation project are Systembolaget AB, Statens folkhälsoinstitutet and IOGT-NTO, all from Sweden, and AS Vinmonopolet from Norway. In 2009, Iceland's alcohol and tobacco monopoly, ATVR, will also join.

The task of the cooperation body is to actively gather and analyse information about EU projects dealing with alcohol and related matters that may be important to Nordic alcohol policy. The person responsible for the practical side of information gathering and analysis in the project is a consultant who previously worked for the European Union and now works for the project. The cooperation body meets four times yearly.

International Council on Alcohol and Addictions (ICAA)

The International Council on Alcohol and Addictions is an international organization aiming at preventing and reducing the use of addictive substances. ICAA's yearly congress deals with substance abuse topics by communicating information and by discussions. Its particular focus is on applying knowledge in practice and on outlining future directions. Alko is a long-standing member of ICAA.



Wise parenthood responsibility programme starts

Alko will start its "Wise parenthood" responsibility programme at the beginning of March 2009.

The Minister of Health and Social Services, Paula Risikko, announced this responsibility programme, which aims to reduce the harmful effects of alcohol, in the Hyvä Suomi 2020 ("Good on you Finland 2020") seminar which took place on December 2008.

The programme will last several years, and it aims to affect Finnish alcohol culture by different means. The target group will be adults and parents from all walks of life. The programme wants to encourage us adults to consider our own alcohol use from the children's viewpoint and ask: "What kind of model are we giving to our children?"

Efficient sales supervision

Alko's actions related to responsibilities have changed during the company's existence from strict sales control to ensuring purchase validity that emphasises customer service quality.

Sales supervision forms an important part of Alko's social responsibilities and of its customer service and sales work. A central part of the sales supervision and development in Alko is registration of its sales supervision actions in the cash terminal system. This has been the case in Alko since 1999.

The number of control checks in 2008 were:		Growth/per cent
Age-limit checks	2,240,500	(+14)
Suspected intoxication checks	343,700	(+10)
Suspected handover checks	81,800	(+22)

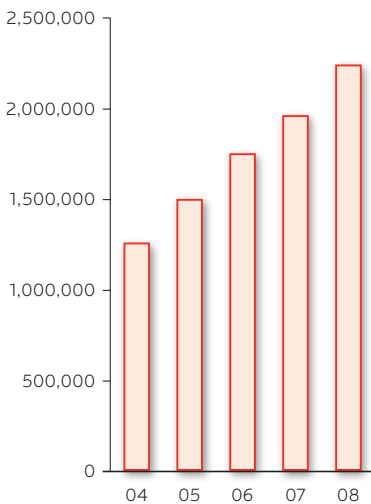
The 10 millionth age-limit check was reached

In 2008, the 10 millionth age-limit check was registered in the Alko's cash terminal system. This historical moment took place on 10th August 2008. With the current reporting system, it is not possible to pin the event down to a unique shop, customer, or time.

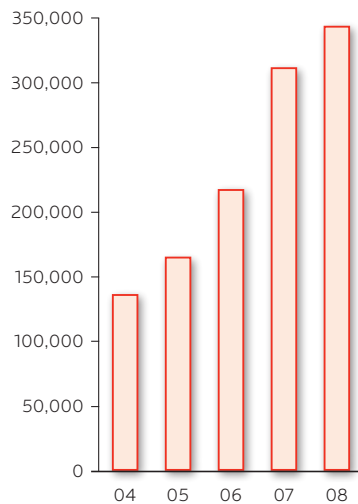
In 2008, approximately 3.4 per cent of Alko's customers showed a proof of adulthood when visiting an Alko shop. That portion in 2007 was three per cent. About 5–10 per cent of age-limit checks lead to a refusal to sell.

In 2008, each Alko shop was given a percentual goal about the number of age-limit checks that had to be accomplished in relation to the total number of customers per year. The goal setting was based on the number of carried-out age-limit checks in previous years and on a comparison between similar shops. Each shop has also be given, for the purpose of age-limit checks, a so-called underperformance limit, which each regularly employed staff member must exceed. Reaching these goals is tied up with the shop's incentive reward.

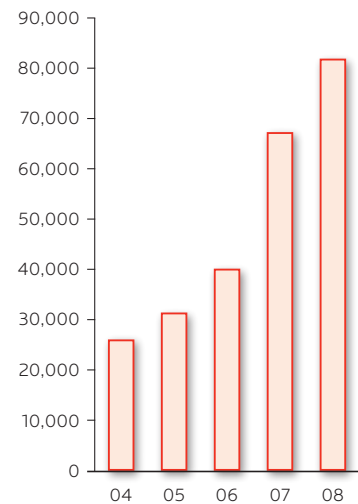
AGE-LIMIT CHECKS



SUSPECTED INTOXICATION CHECKS



SUSPECTED HANDOVER CHECKS



The aim of developing the age-limit checks was no longer their numerical growth, but that the quality of age-limit checks would become even more uniform between the shops and the sales people. Another aim is that also the so-called under-performers would stay on the average level of the shop in question. Nevertheless, there was a clear increase in the growth of checks towards the end of 2008. No singular reason for the growth could be pointed out, however.

The definition of a shop-specific underperformance limit has had a clear effect on the improvement in uniform quality in 2008.



The number of suspected handover checks increased

To verify a suspected handover is more difficult than is the case with other sales supervision activities. The recorded number of suspected handover of alcohol to persons not allowed, nevertheless, grew more than the number of suspected age-limit and suspected intoxication that were registered in 2008. This may be due to the Alko's "rules of the game in business transactions" communication campaign realised during the spring and the autumn. The youth sector's conduct in the business area and sales supervision were clarified with the help of communication. The message of the campaign did reach the young people, which was apparent also in Alko shops' cash terminals. This in part helped in managing the difficult customer service dimension.

Responsibility guide and test are important for Alko's employees

Alko's responsibility guide was updated in the spring of 2008. The biggest modification was a new common alignment in the sales area, according to which non-alcoholic (very small alcohol content) drinks would not be sold to customers aged below 18 years even if allowed by the Alcohol Act.

In August–September 2008, Alko's responsibility test was revised, and in October–November 2008 Alko's personnel completed the responsibility test again. Passing the test was one of the measurements in Alko's incentive scheme. A shop team was allocated 5 incentive reward points (out of 100) if the whole team retook the responsibility test. The responsibility test reexamination took place during the autumn and could be one of the factors of the increase of checks towards the end of the year.

Mystery Shopping also tests responsibility

Alko measures service quality success with the Mystery Shopping -test customer method created by TNS-Gallup: Four visits were paid to each shop in 2008. During one of these visits the test customer, aged between 18 and 24, in addition to observing service quality also observed how the responsibility in question became realised; i.e., whether the young customer's age was checked in the service situation at the cash terminal. Once the lower-than-expected number of the checks reported after the summer of 2008 started becoming known, the importance of the matter was re-emphasised and the number of checks started increasing towards the end of the year.

Social responsibility

The aim of Alko's personnel management is to ensure that each of its employees values his or her work, is willing to serve, competent and committed.

This means paying more attention on service orientation when choosing new employees, substantial investment to improve the expertise and service skills of the personnel and keeping the eye on the security and ergonomics of the work place. Good supervisory practices ensure that the number and quality of our personnel meet the requirements of customer service and responsible, efficient operations.

The number of person-workyears increased

At the end of 2008, the number of personnel stood at 2,779 (2,771), or just slightly higher than the year earlier. The number of permanent personnel increased by just over two per cent. Because of the Christmas season, there were more fixed-term employees than usual at the end of the year.

In the autumn of 2007, an agreement was reached during collective bargaining: sales staff working on average at least 30 hours weekly would have their status as hourly paid part-time workers changed into monthly paid. As the result of this change, during the year almost 200 part-time employees started drawing monthly pay. In the retail sector, this category is classified as permanent employees, thus the number of personnel doing permanent part-time work decreased by almost seven per cent. This was a bit more than half of the permanent staff at the end of the year.

The average minimum working hours for part-time employees were increased further. Extra work is always first offered to Alko's part-time staff. Methods for offering extra work were developed, and in the south-east of Finland a new electronic work offering system was piloted. The first experiences were positive, and a future goal is to extend the system for national use. Experimentation to develop work shift planning began in 11 shops. In terms of computational person-workyears, the total for full-time and part-time work was 2,015 (1,957), an increase of three per cent.

The predominance of older age groups in the age structure of Alko is evening out. The average age among the personnel is slightly below 40 years. Retirement has reduced the proportion for the oldest age group. Personnel selection is used to balance the age structure.

Women still account for more than 70 per cent of the sales personnel. The proportion of shop managers accounted for by women has continued to increase and is one-third now. The proportion of women also increased among the senior management and in other supervisory duties. There is an equal number of men and women in Alko's Board of Directors.

A gender equality plan has been drawn up for Alko. To further balance out any difference in gender distribution, for tasks available and for examination based education an applicant from the minority gender is preferred, supposing that the applicants otherwise have equal competence and are equally suitable.

Rewarding based on responsibility and customer service

Alko's personnel costs for 2008 totalled EUR 81.8 (EUR 74.6) million. Alko paid a total of EUR 65.6 (EUR 61.0) million in wages, salaries and remuneration. The pay system of sales assistants and shop managers is based on the principle of job-specific equality in pay. The bases for determining the personal pay component include professional skill, professional responsibility, service, cooperation and communication skills, and development orientation. The assessment of the requirements for managerial and office duties is based on how demanding the duties are.

Work experience bonus, which is used in retail and restaurant sectors, was introduced in the beginning of March for the sales staff. With it, the wages of almost five-hundred members of the sales staff increased.

The company's incentive scheme encompasses all the personnel except the Management Team. The prerequisite for the payment of a reward incentive is a defined cost efficiency, and the reward itself is based on measurements describing customer service, responsibility, efficiency in operations, improvement of well-being at work and Alko's acceptability. The measurements are applied to groups. The incentive reward is defined in relation to a person's yearly earnings and is paid once a year. Alko's Board of Directors decides yearly about the precondition for the payment of any incentive reward and about the structure of the system. There is a separate incentive scheme for the members of the Management Team. In 2008, the amount reserved for the incentive scheme with its personnel expenses was 3.9 (3.2) per cent of the personnel costs.

Good results from the recruiting campaign

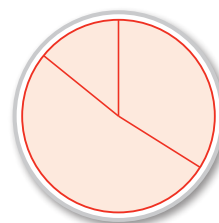
Recruitment for shop duties was still brisk. Over 700 persons were recruited for fixed-term duties of varying duration during seasonal times. There were 600 open vacancies, in other words, twice the number of the previous year. To ensure finding enough adequate employees, an extensive recruiting campaign was organized. The theme of the campaign was "Test to see whether you've got what it takes to become Alko's salesperson!", and it was made public through the company's website, the press, and other recruiting channels. For the summer and for the Christmas season, there was a recruiting day in the metropolitan area during the spring and during the autumn respectively. Due to these campaigns, the number of applicants doubled from the previous year.

PERSONNEL BREAKDOWN 31ST DECEMBER 2008

Fixed term 13.9%

Permanent full-time*) 33.9%

Permanent part-time 52.1%



Total 2,779, computed full-time 2,015.

*) Includes sales staff working at least 30 hours per week.

WOMEN IN VARIOUS DUTIES %

	2006	2007	2008
Sales staff	72.2	72.2	72.9
Shop managers	22.6	29.7	33.2
Other management and supervisory personnel	45.8	38.5	44.4
Experts and support staff	60.9	63.3	64.6
Senior management	20.0	22.2	36.4
Board of Directors	50.0	50.0	50.0

TRAINING DAYS

	2006	2007	2008
Training days per person	3.9	4.3	4.3
Training days in relation to person/workdays	2.6	2.8	2.9

PERSONNEL COSTS, MILLIONS OF EUROS

	2006	2007	2008
Wages, salaries and remuneration	59.0	61.0	65.6
Personnel-related expenses	20.4	13.6	16.2
Total	79.4	74.6	81.8

INPUTS IN WELL-BEING AT WORK, EUR 1,000

	2006	2007	2008
Promotion of well-being at work *)	468	484	574
Medical care	573	486	488
Personnel catering	2,605	2,695	2,736
Total investment	3,646	3,665	3,797
Inputs per employee, EUR	1,438	1,405	1,438

*) Incl. medical care, support for recreation and hobbies

PERSONNEL TURNOVER

	2006	2007	2008
New employment relationships excl. fixed-term	229	268	337
Terminated employment relationships excl. fixed-term	240	289	363
Turnover %	21.6	24.5	30.0
Average retirement age *)	59.2	59.2	59.4
Those granted invalidity pension	8	9	8
Those granted part-time pension	3	13	9

*) The retirement age for female sales assistants with long-term service at Alko is 58 years, and for the rest of the personnel 61 or 63 years, depending on the number of service years at Alko.

AGE BREAKDOWN 31ST DECEMBER 2008

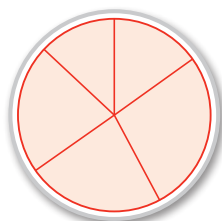
over 55 years 13.0%

under 26 years 15.2%

46-55 years 21.5%

26-35 years 27.2%

36-45 years 23.0%



Regular training motivates the staff

The emphasis of Alko's all-year-round training is on service and products. Alko's own service and product trainers train the personnel. The training is divided into three different levels: basic training, advanced training, and supplementary training.

Right at the beginning, the sales assistant participates in the induction day where she gets the basic facts about the company, customer services and product ranges. As the employment continues, she will be admitted to the basic training course where products and service are the main topics. This gives the sales personnel the basic skills for customer service where they can make use of their product know-how. The course also gives training in combining food and drink with the help of basic tastes. The more advanced courses focus on different drink categories. The courses help improve application of product related information on customer situations. During the course, drinks are experimented with and combined with foods.

Almost every month, training is arranged for all the sales staff. The aim is to ensure service know-how in respect to seasonal themes and novelty products. The products are introduced by tasting them and by completing exercises. In the supplementary courses, for example, the trends in food and drink cultures are introduced, the ways to use different drink ranges are revised and special topics related to the products are discussed.

The drink category course is a separate food and wine course where in addition to combining wine and food, current food and drink themes are brought up. Product expert Kenneth Karlsson guiding Satu Lintonen, one of the shop assistants, in drink profiling.



The average duration of permanent employment relationships in Alko was 11.5 years. More than a quarter of these employment relationships has lasted over 20 years. Retirement accounted for 22 per cent of the terminated employment relationships. There were 17 employment relationships that were terminated by the employer. The total turnover of permanent personnel was 30.0 (24.5) per cent.

Training focusing on responsible customer service

Training focused on customer service and product education. Customer service training was started as a new training form to train whole shop teams. As part of the training, shop managers were trained in coaching supervisory work.

To ensure responsibility in operations, each of Alko's employees completed the restructured responsibility test. Electronic quizzes were developed as a new form to practice responsibility.

The number of training days per person remained unchanged (4.3 days). The portion of information technology in training was reduced, because modifications to Alko's systems became completed. The proportion of customer service training increased due to our new shop-specific customer service training. Apart from separate training days, key instruments in improving expertise included guided on-the-job learning and independent studying. Independent study is supported by a separate grant.

The popularity of vocational examinations in the retail area was maintained. Up to 50 persons yearly complete a vocational degree on sales or a shop supervisor's specialized vocational degree. These degrees are tailored for Alko. The International WSET Certificate was obtained by 21 Alko employees. Also, voluntary degree level study was popular.

During the spring, a survey was carried out among the supervisors. The survey helped them to obtain feedback of their work both from their employees as well as from their own supervisors. The development of supervisory work was also supported by training and by supervisor days.

Work to improve safety expertise continued in cooperation with the Finnish Red Cross in a form of a safety training course. Network-based information security training started at office work stations, and it will expand to shops in 2009.

Relations with organizations

As an employer, Alko became organized as a member of the Federation of Finnish Commerce. President and CEO Jaakko Uotila is the Vice Chairman of the Board of the Federation of Finnish Commerce.

Alko's personnel are mainly organized into two trade unions, the sales staff in Alkoholikaupan ammattiliitto ALV and office staff in Alkoholialan toimihenkilöt. Both organizations belong to the Trade Union Suora. The working conditions are defined by company-specific agreements that apply to sales assistants and office staff. These are supplemented by the trade sector's collective agreement. Collective bargaining itself takes place on the union level. To give advice on cooperation on a company level, there is a consultative committee, which meets as required but at least three times a year.

Personnel feedback put into good use

Regular workplace meetings ensure that the personnel have the opportunity to receive information and express opinions on issues related to their work and its development. Employees have a personal development review at least once a year with their own supervisors. For the first time, Supervisor of the Year was selected. Anyone could nominate their candidate, and the winner from among the candidates was selected by a broadly based expert team.

Members of Alko's senior management went around visiting different retail locations to engage in free form conversations with the personnel. Development proposals were also collected during the supervisor day and through the intranet's feedback channel. On the basis of the feedback, a number of development targets for the following year took shape, and the feedback was also considered in the preparation of the strategy. The personnel participated in working groups that discussed the management system and rewarding.

The follow-up evaluation of the personnel survey mapped out the personnel's commitment, satisfaction with supervisory work, changes in the atmosphere, and as a new area, how the actions proceeded with on the basis of the results of the previous survey had been realized. In addition, the personnel could express their views about development actions considered necessary.

There was an active response to the personnel survey, and the response rate rose to 77 per cent. There has been a clear increase in the commitment of the personnel during the year, although Alko's employees are still less committed than Finnish employees on average. The work of supervisors has taken a positive turn, even though the estimates between different offices vary. Four-fifths of the respondents felt that their work atmosphere had either improved or remained unchanged. Based on the results, each office selected their development targets for the following year.

Well-being at work promoted by various means

Alko offers extensive occupational health care services with the emphasis on preventive action and local cooperation between the workplace and the occupational health care centre. Representatives of occupational health care participate in the work of the occupational safety committee on a regular basis.

Occupational health care centres gather information on the health and well-being of the employees in connection with age group checks. This information and information relating to sickness constitute a benchmark for measuring health status, which allows better identification of the measures required for the promotion of well-being and health among Alko personnel.

Two fitness overhaul courses lasting a week each were arranged for the employees: one had an emphasis on ergonomics and the other one on weight management. Individual workplaces also arranged their own recreation and physical exercise events. Individual exercise pursuits are supported, for example, by vouchers.

The "Smokeless Alko" campaign to reduce smoking continued. Alko's employees are entitled to receive nicotine replacement

therapy. Weight management was sponsored by reimbursing a part of Painonvartijat's (Weight Watchers) weekly fees. Occupational health care also offered an opportunity to obtain advice from a nutrition therapist.

Alko participates in the national Kulttuurikunto (cultural fitness) campaign. Different communicational means are being used to promote cultural pursuits as enhancers of well-being at work. The cultural fitness card has been issued.

Sickness absenteeism was 3.7 per cent of the total working time. The monitoring of sickness absences was made more exact; therefore, the current value is not directly comparable with the data from the previous years. Sickness absenteeism is less than in the service sector on average (4.4% in 2007 according to the inquiry on working time and absences by the Confederation of Finnish Industries EK). Slightly more than one-quarter of the sickness absenteeism is due to musculoskeletal disorders. During the year, 8 (9) persons were granted invalidity pension.

The monitoring of sickness absences and support for the disabled were intensified. A model was developed for supervisors to help them take up issues for discussion in order to ensure early intervention in sickness absenteeism and proper support for the sick person. Management of well-being at work and ways to support disabled were topics that were considered at the supervisor day event.

A holiday destination in Luosto, Sodankylä, is available for the personnel. Personnel's recreational activities by 13 hobby clubs received support from Alko. All Alko employees receive a meal benefit. The total investment for well-being at work was EUR 3.8 million, which is about EUR 1,440 per employee.

Ergonomic work practices and safety skills enhance well-being at work

Guidance in choosing correct and safe work procedures and tools is provided on a continuous basis, and ergonomics is dealt with at all stages of sales assistant training. Alko's ergonomics guide was revised and distributed to all personnel. All supervisors were instructed in correct work practices and positions by occupational physiotherapists. Training of those to be made responsible for ergonomics in the shops was tested in three areas.

In addition to ergonomics, prevention of work accidents was focused upon, for example, by introducing standard safety knives for all the shops. This emphasis brought about good results: in comparison with the previous year, work accidents significantly decreased both in actual numbers as well as when measured as numbers of days taken off due to ill health. Also, the frequency of accidents remained lower than generally is the case in the retail trade.

Alko has a work protection committee, in which the sales staff has four, office staff two, and the employer two representatives. Also an occupational health doctor and a nurse participate in their meetings. In 2008, the work protection activities included updating of the work protection activity program, an evaluation form for risks and hazards, as well as revision of guidelines related to harassment and use of intoxicants. Work protection was introduced by drafting an extensive article for the personnel magazine.

Safety in shop work and service situations is a major factor affecting occupational well-being. Threatening situations in shops are reported to the regional managers and the occupational safety organization, which ensures that the situations are processed properly and provides information for improving safety. Work to improve safety expertise continued in cooperation with the Finnish Red Cross, and close to 700 sales staff members and shop managers completed a safety training course.

All shops and offices have a statutory rescue plan for fire and other emergencies. All shops are inspected using the security inspection method of the Federation of Finnish Commerce, and all have safety camera surveillance.

Responsible purchase in short

Purchasing is guided by practices, and control of the production chain plays an important part in it also.

Indirectly, through the products obtained for sale, Alko may come across human rights issues in alcohol-producing countries.

The company observes all the regulations about monitoring the social and ethical impacts caused by the products, as businesses are required to do in all EU countries.

The decree on alcohol company and the principles decreed by the EU, restrict Alko's range of options in its purchasing decisions. Decisions on the selection and pricing are made on grounds that are impartial and non-discriminating, regardless of the manufacturer's or seller's nationality or domicile, as described in the Decree on the Operation of the Alcohol Company.

In the autumn of 2008, the sole-right owners in the Nordic Countries decided to cooperate in the framework of a responsible procurement strategy for alcoholic beverages. The aim of that cooperation in the coming years is to consider social, ethical and environmental issues related to the chain of alcoholic beverages production. The principles to be followed are backed by the United Nations' Global Compact principles.

Environmental responsibility

Alko is a company engaged in the retailing of alcoholic beverages. It does not have production, products or land. It acquires the alcoholic beverages it sells from foreign and Finnish producers and wholesalers.

Environmental impacts of alcoholic drinks should be considered over their entire life cycle. Information available about this matter is still very rudimentary. For producers the issue in question is, in terms of communication, mainly about environmental marketing. For example, organizations that would be widely accepted and recognized to be able to verify commensurateness of the environmental awards presented by various labels do not exist yet.

Nevertheless, the importance of the environmental impacts caused by products is appreciated. Among producers and suppliers of alcoholic beverages and among organizations that represent them, the trend is towards taking note of environmental effects. This makes it easier to obtain information that is needed during the coming years. At the moment, Alko has 24 organic products and seven Fair Trade products in its general selection.

Alko cooperates with other Nordic alcohol companies that have sole rights: their aim is to draw attention to ethical operating methods within the supplier chain of alcoholic drinks and to the principles of sustainable development. A lot of emphasis started to be placed on cooperation between Nordic sole-right owners in this area in 2008.

The importance of environmental viewpoints in Alko's selection strategy is increasing. Taking note of the environmental viewpoints in the selection strategy requires, however, that the principles of even-handedness and impartiality are not allowed to become endangered.

Cooperative transport is an everyday occurrence already

In 2008, Alko sold a total of 182.4 million packages containing various alcoholic beverages (cans, bottles, bag-in-boxes and cartons). Of these, suppliers delivered 162.8 million packages directly to the shops, and 19.6 million packages were delivered via Alko's warehouse at Viinikkala (Kuninkala until 1st March). Warehousing service is purchased from outside parties.

Alko does not have its own transport fleet, so the services to transport products to the shops are purchased also. The aim is to locate the shops next to other services, so that the customer could combine his or her visits, paying thus attention to the environmental viewpoints.

Since products are being delivered to Alko's shops on an almost daily basis, it is important that distribution and scheduling are economical and place a minimum load on the environment. Return transportation leaving the shops carries as many products as possible (reusable bottles, other recyclable material) in order to minimise emissions from transportation. Alko has started keeping the eye on its CO₂ footprint in relation to transport. Due to inaccuracies in the related values, they cannot be published in this report yet.

In domestic transport, four transport companies, of which one has the ISO 14001 environmental standard, are employed. Another one of them will have the standard in 2009. Two of the transport companies do not have the ISO 14001 environmental standard, but one of them has its own Quality Manual and the other one will have its "EMISTRA energy and environment program" in 2009.

For transport to Finland from abroad, Alko uses the services of nine companies, of which three have obtained the ISO 14001 environmental standard. The rest of them have their own environmental program. The company has succeeded in cutting costs and reducing exhaust fumes by using cooperation agreements in transportation.

Efficient recycling for packages and containers

The most conspicuous way for Alko to put environmental responsibility into effect is the collecting of empty bottles and cans through automatic recovery machines located near its shops. Recycling is mostly arranged in cooperation with supermarkets: Of Alko's shops, 75 handled their recycling on their own, while 269 shops jointly managed their collection points. Recovery points operated jointly with other retail chains promote recycling by making it easy to return containers.

Alko accepts from consumers all Finnish and foreign bottles purchased at Alko, alcoholic-beverage and soft-drink bottles from domestic breweries, alcoholic-beverage bottles containing less than 4.7 per cent alcohol by volume purchased from supermarkets and belonging to the recycling system, and metal cans.

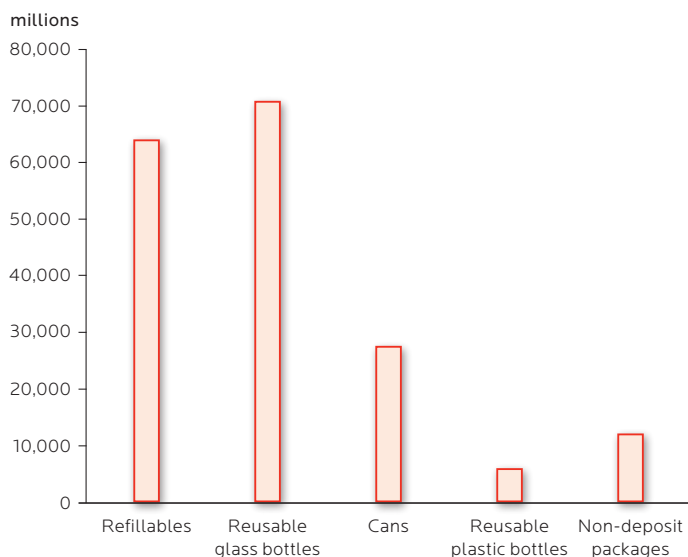
Finland's alcoholic beverage industry and brewery industry use more than a billion refillable and recyclable bottles every year. About 90 per cent of packaging in the deposit system sold at Alko is returned.

In 2008, more than 41.7 million kilos (40.7 million kilos in 2007) of smashed disposable bottles, i.e. glass waste to be used by industry, were supplied from Alko's own bottle-recycling system. In Finland, altogether 53.8 (54.7) million kilos of glass waste were delivered for industrial use, thus Alko accounted for 78 per cent of the total.

The amendment to the beverage packaging tax in 2008 increased the amount of disposable packaging within the deposit system because only beverage packaging that cannot be returned within the deposit system is now subject to the tax. The Finnish beverage industry increased its production in disposable packaging within the deposit system, because the refilling system and disposable packaging within the deposit system now have the same tax advantage. Because of the amendment to the beverage packaging tax, bottles and cans will be used more efficiently.

Cans are constantly increasing their popularity. For example, approximately 400 million cans were sold in 2006, and in 2008 the number was already about 800 million. The sale of recyclable plastic bottles amounted to approximately 300 million in 2008.

PACKAGES SOLD FROM ALKO IN 2008



Refillable bottles:

Refillable glass and plastic bottles are washed and refilled.

Reusable glass bottle:

Reusable material that has practical utility is cleaned, colour separated and crushed. The scrap glass is used to produce glass packages or glass wool.

Cans:

Returned aluminium cans are melted, and new cans are made of the aluminium.

Reusable plastic bottles:

Reusable plastic bottles are made of PET plastic (Poly-Ethylene Terephthalate). PET is light and chemically durable and a wholly reusable material.

Non-deposit packages:

Minibottles less than 15 cl., glass bottles over 2 litres, bag-in-box packages, cartons

The increase in the sales of cans and the appearance of the recyclable plastic bottle have reduced the popularity of refillable packages and containers. Also the sales of disposable glass packaging within the deposit system have risen moderately.

Almost all the pallets, cases or similar equipment for transporting alcoholic beverage products and other products sold by Alko are reused. It is extremely important to recover the packaging which is used in transportation of alcoholic beverage consignments. It can be utilized for recycling or the reuse of disposable packaging can be arranged in other ways. The company is constantly developing systems that improve life-cycle control of packaging and various transportation pallets, among other things.

Cooperation in further use of returned bottles

Refillable bottles are taken from Alko shops to A-pullo Oy or to breweries for reuse. Disposable glass bottles are smashed, cleaned and sent to the glass industry for reuse. In all, there are almost 160 firms that have joined Alko's deposit system. The smashed glass fragments are used in the production of glass bottles and insulation wool in Finland.

Cans returned to Alko shops or joint recovery points are sent forward via Palpa. The cans are baled and taken to an aluminium smelter.

Most, i.e. some 90 per cent, of the cans sold in Finland are recovered via automatic machines.

Packaging that cannot be returned to Alko can be returned via the municipal glass recovery system. Bag-in-box

packaging sold by Alko can be returned to recovery bins for board. A company responsible for board waste separates any inner packaging. The inner packaging of Alko products does not contain PVC plastic.

In the selection of packaging and gift articles, environmental factors are considered.

Besides beverages, Alko sells packaging and gift articles. The most significant of the ancillary items sold at Alko, in terms of their environmental effects, are the plastic bags, for very large quantities are sold. The bag is made of recyclable plastic and can be destroyed by burning. In the manufacture of Alko's paper and plastic bags, paper made by UPM is used. That paper has been awarded the EU Flower eco-label, which guarantees that in the manufacturing process of the paper strictly defined environmental responsibility factors are taken into account. The material of the paper bag is decomposable, which allows it to be used as a composting cover or recycling cover for newspapers. Cloth bags are an ecological option as carrier bags due to their recyclability. If so required, the bag can be destroyed as energy waste. In the autumn of 2008, a bag made of seasons' cloth posters was designed in cooperation with Globe Hope. It was put on sale in the beginning of 2009.

Customers can find information about the recycling of beverage packaging in Alko's Price List. Information on returning empty bottles is provided on Alko's website at www.alko.fi.

The direct environmental effects caused by the operating premises, i.e. the shops, head office and regional offices, are the consumption of heat, electricity and minimal consumption of water. The shops, head office and regional offices operate primarily in leased facilities. Most of the environmental impacts are generated at the shops. The significance of the other operating premises is quite small, though their impact is the easiest to measure.

Heating, water and waste management are mostly included in the rent for the operating premises, which is why their consumption can only be estimated. Precise consumption figures on a property-specific basis are monitored by the boards of the property companies.

Electricity consumption at the shops can also be monitored quite accurately. In 2008, the shops used approximately 18.2 GWh of electricity. The increase in the consumption of electricity has been moderate in spite of the fact that the number of shops has increased. Electricity consumption by the shops is brought down by reducing night-time lighting to the lowest permitted safety level. Alko's some 1,000 illuminated signs use for the most part LED technology, which reduces energy consumption by 75 per cent compared with neon lighting.

The company buys electricity that has the Fortum Renewable eco-label. The companies which have acquired the eco-label are anxious to maintain a high environmental profile and invest in sustainable development.

During 2008, refrigerated units, cabinets and drawers have been removed from Alko's shops. Those still remaining contain very little Freon, and the amount will decrease with the removal of cabinets. On the other hand, air-conditioning in the shops has increased somewhat, which has increased power consumption.

Apart from local government guidelines and regulations, the head office, shops and regional offices all follow Alko's own waste management recycling guidelines.

Alko's operating points sort, save energy and acquire environment-friendly office products in line with consistent guidelines.

The leases for the shops usually include waste management, apart from hazardous waste, the treatment of which has its own environmental programme. Alko's Alcohol Control Laboratory (ACL) sends all harmful chemicals to a hazardous waste treatment plant.

Installation of a new cash terminal system for the shops was completed in March 2008. The equipment taken out of operation and other decommissioned equipment were sent to special handling facilities that recover all the recyclable material.

The renovation of operating premises and furnishing are handled centrally. The partners handling demolition recycle

the material generated in accordance with the guidelines. The need to replace furniture and fittings, which were chosen with the environmental perspective in mind, has been moderate. The materials for the furniture of the shops and other work premises are selected keeping in mind that they should be harmless to health, recyclable and reusable.

Alko's new head office is located in Salmisaari. In communal user meetings, environmental issues are discussed with the other tenants and lessees who operate from the same premises. The maintenance company's service concept also pays attention to environmental issues. The main office has planned to start using the WWF's Green Office environmental service in 2009. The service aims to reduce the environmental load generated by the head office and create savings in material and energy costs. The focus of all activities in the property's waste management and sorting is the environment. This applies equally on waste transport and collection, on efficient sorting and handling, on delivery of collection tools and on customer-specific waste management surveys. The company in charge of the property's environmental maintenance also looks after AC Salmisaari Oy's waste collection and transport. The property recycles mixed and energy waste, biowaste, as well as paper and cardboard. Each tenant or lessee takes care of the disposal of their waste that requires data protection and of possible hazardous waste such as car batteries, fluorescent lamps and batteries.

To monitor the head office's energy consumption, there is the YIT Niagara automation system by YIT Kiinteistötekniikka. Alko's own employees or cleaning companies clean the shops. The head office premises are cleaned by companies that have an ISO 14001 environmental programme.

Solid cooperation in organizing recycling that works

- Alko is a founding member of Suomen Palautuspakkaus Oy (Palpa), which administers the recycling of beverage cans and recyclable plastic bottles covered by the deposit system in Finland. The deposit system for cans started in 1996 and that for recyclable plastic bottles at the beginning of 2008.
- Alko is a member of the Finnish association for promoting the recycling of glass. The association is responsible for achieving the recycling targets set for glass packaging in the Finnish packaging decrees and the EU Packaging Waste Directives.
- Alko compiles statistical information about the recycling of packaging for the Ministry of the Environment, environment centres, associations of municipal waste management companies and the Customs.

Alko is involved in projects developing recycling on a national scale, e.g. planning a recycling system for disposable plastic bottles with Palpa. The system would be managed by Palpa. If and when such a system is created, Alko will join it, at the same time giving up, as unnecessary, the disposable glass system it manages.

Managing environmental responsibility

The Decree on the operation of the alcohol company (234/2000) says that part of its general obligations includes specifically taking into account in its operations the requirements of the sensible utilisation of natural resources and environmental protection. Alko actively keeps an eye on environmental legislation and reacts to amendments, when necessary.

Alko's environmental responsibility management is based on the ICC Business Charter for Sustainable Development. The charter, which was published by the International Chamber of Commerce (ICC), gives 16 principles for environmental protection through which the companies that are signatories to the charter commit themselves to drawing up rules for good practice in environmental issues.

Practical actions are guided by Alko's environmental policy and the objectives and responsibilities laid down in the company's environmental programme. This programme takes into account issues related to occupational safety and protection, as well as product safety and quality. The programme is complemented by recycling guidelines for the head office, regional offices and the shops.

Alko's Responsibility Team was established in 2008. The task of the team is planning of contents, their implementation, evaluation and continuous improvement as well as reporting to the company management.

Alko's environmental policy

Alko aims to be the best retailer when it comes to responsibility and service. This requires that its product selection, know-how, service and responsibility are being kept under constant development and improvement. In the development of its operations, attention is paid to the environmental viewpoint: saving of natural resources and reduction in their use.

In environmental issues, as it is the case with other issues also, Alko abides by the legislation, takes a keen interest in its development, and in its actions conforms to the expectations of consumers, stakeholders and the society.

The environmental programme covers the following sectors

- Use of materials in the selection of which environmental issues have been taken into account.
- Economical and efficient use of energy and orientation towards renewable energies.
- Recycling of labels and other materials and efficient logistics in transport.
- Environmental viewpoint in product selection (e.g., organic wine).
- Product safety.
- Customer and personnel safety.
- Constant development of the personnel's competencies.
- Maintenance of close cooperation with the stakeholders who are being kept informed about the company's goals.

For the management of environmental issues, Alko intends to join the international ISO 14001 environmental management standard system.

The main office has planned to start using the WWF's Green Office environmental service in 2009. Alko reports about environmental effects on its website and yearly in its Annual Report.



Economic responsibility

In 2008, Alko's net sales totalled EUR 1,133.4 million (+6.2%) and the net sales excluding tax EUR 605.5 million (+4.0%). The profit for the financial year came to EUR 56.6 million. In 2008, Alko shops sold a total of 112.2 (113.6) million litres. The sales by volume decreased, but the sales by value increased.

The company distributes the profit, which is EUR 56.6 million, entirely to the State of Finland, which owns the company 100 per cent. In 2008, an allocation of about EUR 700,000 was made for the "Wise parenthood" project. With this the company, on its part, participates in the support for the 2008–2011 alcohol program. Alko's financial statements for the year accompany this annual report. In addition, interim reports (January–April and May–August) and sales figures are published each month on Alko's website.

Investment and shop network

Alko's gross investment for 2008 totalled EUR 9 millions. The main part of the investment was used for improving and expanding the shop network. Alko's investment is financed from its income.

Alko outlets are specialist shops with uniform prices and design that operate under a centralised chain model. The design of 47 shop was modernised to correspond to the design remake started in 2007. The shops focus in particular on a consistent service of even quality.

Although the Alcohol Act does not require consultation with a municipality about the setting up or location of a shop, Alko finds out the opinion of the municipality before an application for a decision of approval is submitted to the State Provincial Office concerned. Above all else, Alko holds discussions with the municipality's management and social authorities so that a socially responsible opinion is obtained about the location of a shop. A good partnership network guarantees that Alko will be able to develop its network in the future. Cooperation has made it possible for Alko to expand its shop chain economically in a way that is sensible and brings added value to the customer. Also local entrepreneurs benefit from investments made in the shops and from their business activities.

At the end of 2008, Alko had 344 shops in 224 municipalities and 124 order points that complement the service network. The number of order points has been reduced as new shop outlets have been opened. In 2008, ten shops were transferred to locations where it is easier for customers to transact their business at the same time, e.g., at a supermarket and our shop.

Impartiality and transparency ensured in all Alko's procurement

Alko buys products from some 224 suppliers abroad and 85 manufacturers and importers in Finland. All suppliers are treated equally. Alko's pricing is impartial and transparent.

The fact that Alko has the sole right to sell alcoholic beverages in Finland calls for impartiality, consistency and transparency in purchasing the selection. Alko issues annual listing procedure guidelines to provide a foundation for equal treatment. The guidelines are available at Alko's website. They give suppliers information on Alko's purchasing conditions and operating models. Feedback from suppliers and their representatives and the views of the authorities affect the contents of the guidelines, which ensure that procedures and practices comply with the Decree on alcohol company operations. Suppliers are allowed to alter their prices four times a year. Alko transfers the changes in purchase prices directly to its consumer prices.

Suppliers can join a partnership network. Also, on the website there is a price calculator, which is meant for price estimate calculations.

Even wider product selection

At the end of 2008, there were approximately 2,200 product brands from some 60 different countries. Different bottle sizes increase the number of products.

In December 2008, there were well over 1,400 products in the sale-to-order selection, i.e. products the customer obtains separately by ordering. In addition to this, Alko's flagship in Helsinki carries a special selection of almost 300 products. These products that include quality wines, spirits and beer as well as rarities are not available in other Alko shops.

Personnel costs in 2008 increased

Alko's personnel costs for 2008 totalled EUR 81.8 million. Alko paid a total of some EUR 65.6 million in wages, salaries and remuneration, up 7.6 per cent on 2007. About 3.9 per cent of the personnel costs were accounted for by incentive pay. The entire personnel is covered by the incentive system, and incentive pay is based on the quality of customer service, cost-effectiveness and the implementation of unit-specific development projects.

ECONOMIC EFFECTS ON SOCIETY



Small, but economical

On 16th of June, Alko opened a shop in the Southern Savonian municipality of Sulkava, which is known for its yearly rowing event. The customer space in the shop is 58 square meters, and the space for storage is 42 squares. The product range in the shop consists of 350 products.

An Alko shop can be established in a small locality if it is profitable also outside busier periods. Business can be made more efficient and economic by customizing the shop's opening hours: making them shorter in quiet periods, as in summer, and longer in busier periods, as in wintertime.

Moreover, the Sulkava shop relies on technological solutions specifically tailor-made for it: more shelf space is allocated for busy periods; outside these periods shelf space can be reduced. Special attention is paid to the security of the personnel.

Marjut Lappalainen, employed by Alko in Sulkava, knows Kaarina Hintsanen very well, a K-Kauppa's sales assistant working in the same building: now and then product instructions are exchanged between these two.



As part of the Finnish alcohol system, the company by its existence already restricts the availability of alcohol and so reduces the harmful human and economic effects caused by its use.

The aim is to keep the sole right to retail sales because it is a significant tool in the alcohol policy. It is also financially effective and it gives its profit to society for the latter to use.

Alko's task is also, through its special position, to guarantee the availability of alcohol equally throughout the whole of Finland.

In spite of its sole right to alcoholic beverages with an alcohol content of more than 4.7 per cent by volume and in spite of other responsibilities arising from it, Alko must act economically and cost-effectively.



Alko's management principles

1st January 2009

Alko Inc. is a Government-owned company limited by shares. Alko's business activities wholly comply with the Alcohol Act (1143/1994) and the Decree on the Operation of the Alcohol Company (243/200) as well as with the Companies Act and the Articles of Association. According to the Alcohol Act, Alko's task is to carry on retail trade of alcoholic beverages while aiming at the prevention of the adverse effects of alcohol consumption. The act stipulates Alko to have the sole right for such trade with some exceptions.

On the 1st of May 2007, the ownership steering of the Government-owned, market-based companies was transferred to the Ownership Steering Department of the Prime Minister's Office. The ownership steering of the companies carrying out the Government's special activities remained the task for each ministry responsible. Due to the special task defined for Alko in the law, its ownership steering and control belong to the ministry concerned. The Ministry of Social Affairs and Health, together with the Ownership Steering Department of the Prime Minister's Office, takes the responsibility for ownership steering in Alko. In this task, it follows the basic principles of the Act (1368/2007) dealing with the Government's company ownership and ownership steering.

Annual General Meeting

Alko's Annual General Meeting is the company's highest deciding body, and it meets at least once a year. The Annual General Meeting must take place yearly before the end of June. The Ministry of Social Affairs and Health appoints its representative for the Annual General Meeting. That person is the minister in charge of matters related to alcohol.

The Annual General Meeting, in accordance with the Companies Act and Articles of Association, decides on matters within its scope, such as approval of financial statements, distribution of a dividend, exemption from liability, election of the members of the Board of Directors and their fees, as well as on amendments of the Articles of Association.

Alko's Annual General Meeting was held on 12th May 2008 in Helsinki. In addition, its Articles of Association were amended on 13th November 2008 in accordance with the Section 5:1 subsection 2 of the Companies Act.

Board of Administration

Alko's Board of Administration consists of twelve members, which the Government appoints for four calendar years at a time. The Government also appoints the Chairman and the Vice Chairman. In 2008, the Board of Administration met six times.

The task of the Board of Administration is to oversee the administration and management of the company by the Board of Directors and the President and CEO and provide a statement about consolidated financial statements and the auditor's report. Moreover, the Board monitors alcohol-related trends both in Finland and abroad and, on the basis of this, may issue general guidelines on the development of the alcohol company's operations. As required by the Decree on the Operation of the Alcohol Company, the Board of Administration approves an action plan, for one calendar year at a time, about preventing the harmful effects of alcohol. The Board also issues a report, in accordance with the Alcohol Act, about the development of its retail operations and the measures the company has taken under the Alcohol Act.

Board of Directors

The Annual General Meeting elects the Chairman and Vice Chairman of the Board and a minimum of three and maximum of six members. The Annual General Meeting of 2008 elected four members in addition to the Chairman and Vice Chairman. Two personnel representatives take part in the meetings.

The functions of the Board of Directors are to direct and oversee the company administration and proper arrangement of operations in accordance with the law, the Articles of Association and instructions given by the Board of Administration. For itself, the Board has created a written agenda that defines the main tasks and operating methods. The Board of Directors elects a President and CEO, a deputy President and CEO and other higher executives, and specifies

their salaries and other benefits. In addition, the Board also decides on matters relating to substantial changes in the company's operations or organization and on other matters resting with the Board under the Companies Act.

The Board of Directors met 12 times in 2008, and the average participation rate was 98%. The Board evaluates its activities and working methods every year.

Committees of the Board of Directors

Alko's Board of Directors has appointed four committees: a working committee, an auditing committee, a rewards and appointments committee, and a working group on alcohol policy. The Board appoints the members of the committees and the Chairman. The committees and the working group report about their activities to the Board.

Working Committee

The task of the Working Committee is to prepare the agendas for the Board of Directors' meetings. The committee is formed by its Chairman and its Vice Chairman. The company's President and CEO acts as the presenting official and secretary in the committee's meetings. The committee met 11 times during 2008.

Auditing Committee

The task of the Auditing Committee is to help the company's Board of Directors to ensure that the supervision of the company's bookkeeping and finances is properly looked after. The committee also helps in ensuring that the company's internal supervision and risk management, auditing of its accounts and internal auditing are arranged in accordance with the law, decrees and the operating principles approved by the company's Board of Directors. The committee consists of at least three and at most five members of the Board of Directors. The Chairman's knowledge about economic issues must be adequate. The auditing manager acts as the secretary for the committee. The committee met seven times in 2008.

Rewards and Appointments Committee

The function of the Rewards and Appointments Committee is to help the Government to control and prepare the company's personnel policies and practices, the development of the organization, the activities of the company's pension fund and, in addition, help the government in all the tasks related to reward schemes and employment relationships. The committee consists of three members of the Board of Directors. The company's President and CEO acts as the secretary for the committee. The committee met 11 times during 2008.

Working Group on Alcohol Policy

The function of the Working Group on Alcohol Policy is to act in an advisory role to help and support the company's Board of Directors in achieving the aims of social and health policies. The working group consist of two members of the Board of Directors, two representatives from the Ministry of Social Affairs and Health, and two company's representatives. The director responsible for relationships with the society acts as the secretary for the working group. The working group met six times during 2008.

President and CEO

The President and CEO's task is to manage the business in which the company is engaged in accordance with the law, the Articles of Association and the instructions given by the Board of Directors. He also ensures that decisions taken by the Annual General Meeting, Board of Administration and Board of Directors are carried out. The President and CEO has a deputy.

In 2008, President and CEO Jaakko Uotila was paid EUR 273,172 in salary, fringe benefits and incentives.

The President and CEO is entitled to retire at the age of 63. A full pension is 60 per cent of the pensionable salary. The notice of termination period to be observed in the President and CEO's employment is six months, and in addition to the salary for the notice of the termination period he must be paid dismissal compensation corresponding to six month's salary if the termination of employment is no fault of his own.

Management Team

The Management Team at Alko consists of seven members. Its tasks include dealing with the company's development projects, company-level principles and procedural methods. In addition, the Management Team deals, among other things, with profit performance and concerns discussed by the Alko's Board of Directors. It also participates in the preparation of those matters. The Management Team met 22 times during 2008.

The President and CEO and the members of the Management Team are appointed by Alko's Board of Directors. All the members of the company's Management Team and other key persons declared their commitments. Based on the statements received, all the Management Team's representatives and key people appointed are found to be independent of any interest groups.

Benefits, rewards and rewarding

The monthly fees decided for the Board of Administration by the Annual General Meeting in 2008 were:

- Chairman's monthly fee EUR 900
- Deputy Chairman's monthly fee EUR 500
- member's monthly fee EUR 400

The monthly fees decided for the Board of Administration by the Annual General Meeting in 2008 were:

- Chairman's monthly fee EUR 2,750
- Deputy Chairman's monthly fee EUR 1,300
- member's monthly fee EUR 1,100.

Moreover, the Annual General Meeting has decided that a meeting fee of EUR 600 is to be paid to the members of the Board of Administrators and observer members participating in a Board of Administrators meeting. Also, a meeting fee of EUR 600 is to be paid to the Board of Directors' Chairman, its Deputy Chairman and members participating in a Board of Directors meeting. For other separate meetings in which the members of the Board of Directors' Working Committee and members of other committees that may be established participate, a fee of EUR 600 is to be paid to each participant.

In the company's incentive scheme for the Management Team, rewards are based on the aims selected from the company's performance card and on measurements describing how these aims have been realised (personnel and customer satisfaction, responsibilities and cost effectiveness) as well as on strategic personal development goals.

The personnel belongs within the scope of an incentive scheme where a level of cost effectiveness that has been defined beforehand is regarded as a justification for a reward payment. The reward incentive is based on measurements describing customer service, responsibility assumed, efficiency in operations, improvement of well-being at work and Alko's acceptability. The measurements are applied to groups. The incentive reward is paid once a year, and the reward is defined in relation to a person's monthly or yearly earnings.

Alko's Board of Directors decides yearly about the structure of the personnel incentive scheme and about the precondition for the payment of any incentive reward as well as about the Management Team's rewards.

Supervision and risk management

The Ministry of Social Affairs and Health supervises compliance with the Alcohol Act and rules and regulations issued under it. The National Supervisory Authority for Welfare and Health, Valvira (until 31st December 2008 The National Product Control Agency for Welfare and Health) under the Ministry reports annually to the EU commission on how fully Alko, as a holder of a sole right to sales of alcoholic beverages 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 Finnish Competition Authority. National Supervisory Authority for Welfare and Health, Valvira, monitors Alko's retail sales. Any Alko decision concerning retail of alcoholic beverages can be appealed to Valvira, and further to the Supreme Administrative Court.

Alko has an internal supervision system, the aim of which is to ensure that operations serve their purpose and are efficient, that economic and operative reporting is reliable, and that regulations and operating principles are being complied with. The most important parts of the internal supervision are: management methods culture and organization culture, reporting and internal communication and monitoring and supervision. Alko's values, its business method principles and impartiality guidelines as well as its instructions on listing alcoholic beverages in its product range and on retail sales form the basis of the company's management and cooperation with central interest groups.

The company's internal auditing, in accordance with the operating principles approved by the Board of Directors, evaluates, in different Alko divisions, the adequacy and

efficiency of supervision, risk management, quality of operations and the management process. The internal auditing is an independent function that is placed, administratively, under the President and CEO and reports, operationally, to the Board of Directors.

Alko's Board of Directors is responsible for the company's risk management policy and monitors its implementation. The President and CEO, together with the Management Team, ensures that risk management is appropriately taken care of. Alko's risk management is based on analysing and managing threats related to its activities in a systematic and anticipatory way. Strategic and operational risks are classified into risks related to operational environment, process risks, and risks involved with operational supervision and decision making.

In compliance with the Articles of Association, the Annual General Meeting selects one auditor which must be an auditing corporation authorised by the Central Chamber of Commerce in Finland. The company's auditors are selected yearly as stipulated in the Articles of Association. Auditing is usually put out for tender once every five years. In the spring of 2008, the Annual General Meeting appointed Authorised Accounting Firm KPMG for the task. The auditor with the main responsibility is Reino Tikkanen, Authorised Public Accountant.

In 2008, KPMG's auditing related remuneration amounted to EUR 26,075.51 and its remuneration not related to auditing to EUR 71,654.99.

Economic aims and supervision

According to the Decree on the Operation of the Alcohol Company, Alko's responsibility is to harmonise its retail sales of alcoholic beverages with the aim of preventing the harmful effects of alcohol consumption. An annual plan to reduce the harmful effects of alcohol is approved by the Board of Administration.

Alko must be managed with efficiency, in accordance with the ownership strategy outlined by the Ministry of Social Affairs and Health. The use of resources for the company's investments and operations must be appropriate and cautious, as required by the company's sole right status.

On the basis of the strategy approved by the company's Board of Directors, a yearly plan of action is devised, performance card outlined and budget drawn up. The board regularly monitors the realisation of these. For the time being, Alko's financial statements are drawn up in accordance with the Finnish accounting principles. The Government has not taken any responsibility for the company's commitments that exceed its share capital.

Alko, where applicable, complies with the recommendation on listed companies' corporate governance issued on 2nd December 2003. The company's management principles will be remodelled in the spring of 2009 to follow, where applicable, the Finnish Corporate Governance Code issued on 20th October 2008 by the Securities Market Association.

Board of Directors



Six members were elected to the Board of Directors at the AGM on 12th May 2008:

Personnel representatives



Soili Suonoja
Chairman
b. 1944
Commercial Counsellor
Member of the Board
since 2004



Pekka Puska
Vice Chairman
b. 1945
Professor, Doctor of Medicine and Surgery,
Master of Political Sciences
Director General of the National Institute
for Health and Welfare
Member of the Board since 2007



Arto Honkaniemi
Member of the Board
b. 1946
Master of Laws, Master of Science
(Economics and Business Administration)
Senior Financial Counsellor, Ownership
Steering Department, Prime Minister's Office
Member of the Board since 2007



Juri Helmiö
b. 1952
Chairman of Alkoholialan
toimihenkilöt ry



Liisa Jauri
Member of the Board
b. 1961
Master of Laws
Head of unit, Nordea
Member of the Board since 2007



Marilene Mäkipää
Member of the Board
b. 1950
Bachelor of Science (Economics and
Business Administration), APA
Vice President, Finances, Veikkaus Oy
Member of the Board since 2007



Reijo Väärälä
Member of the Board
b. 1950
Doctor of Social Sciences,
Deputy Director General at the Ministry
of Social Security and Health
Member of the Board since 2003



Saku Salonen
(from 25.5.2008)
b. 1977
Chairman of Alkoholiikunnan
ammattiliitto ALV ry

Board of Administration

The term of office for the company's Board of Administration is from 1st January 2008 to 31st December 2011.

The Board of Administration as of 1st January 2008

Petri Salo Chairman, MP
Markku Rossi Vice Chairman, MP

Other members

Janina Andersson MP
Christina Gestrin MP
Hanna-Leena Hemming MP
Reijo Kallio MP
Saara Karhu MP
Mikko Kuoppa MP
Jari Larikka MP
Heli Paasio MP
Klaus Pentti MP
Pekka Vilkuna MP

Director Kari Paaso represents the Ministry of Social Affairs and Health.

Management Team



Mika-Pekka Miettinen Tiina Lukkari

Jaakko Uotila

Antero Halme

Maritta Iso-Aho

Erkki Tommila

Kari Pennanen

Mika-Pekka Miettinen

Executive Vice President,
Communications and Marketing
b. 1964
Master of Economics and
Business Administration

Tiina Lukkari (from 1.6.2008)

Executive Vice President,
Purchases
b. 1954
Master of Philosophy

Jaakko Uotila

President and CEO
Chairman of the Management Team
b. 1949
Qualified Chemist

Antero Halme

Controller
Deputy for the President and CEO
b. 1948
Economist

Maritta Iso-Aho (from 1.6.2008)

Executive Vice President,
Social Relations
b. 1964
Master of Administrative Sciences, eMBA

Erkki Tommila

Executive Vice President,
Personnel
b. 1961
Master of Education, eMBA

Kari Pennanen

Executive Vice President,
Customer Services
b. 1964
Master of Social Sciences, eMBA

Report by the Board of Directors

Operating environment

In the latter part of 2008, the international economic situation was mirrored in Finland's economy. The rise in consumer prices during the first half of the year levelled down when there was a downturn in economic development. Private consumption went up, because household income increased.

To reduce alcohol consumption, amendments were introduced to the alcohol legislation in 2008. First, the alcohol beverage tax was increased on average 11.5 per cent on 1st January 2008. Second, the Alcohol Act was modified with restrictions related to quantity discounts, special price ads, and TV commercials. In addition to these, the Parliament decided to increase the tax of alcoholic drinks by ten per cent starting from the beginning of 2009. Use of warning labels on alcohol containers had to be abandoned due to the EU Commission's unfavourable attitude towards the practice. A national programme for the development of social and health care (KASTE 2008–2011) started. One of the aims of the programme is to reduce alcohol consumption to the level of 2003.

A decree by the EU on distilled spirit drinks came into power as of 22nd May 2008. The decree (EC 110/2008) provides the regulations for the definition, description, presentation, labelling and the protection of geographical indications of distilled spirit drinks. In this annual report the change in the decree is taken into account in the table related to sales.

The total per capita consumption of alcoholic beverages converted to hundred per cent alcohol was 10.4 litres, the corresponding figure being 10.5 litres in 2007. The total documented consumption of alcoholic beverages in 2008 was 8.5 litres per capita, and the corresponding figure for 2007 was 8.7 litres. Imports of alcoholic drinks by travellers went up, and as a result of this, undocumented alcohol consumption started to grow. Retail sales accounted for 85.3 per cent of the documented alcohol consumption. Alko's share of the sales was 42.6 per cent, and the share of supermarkets was 42.7 per cent. Restaurant sales made up 14.7 per cent of the documented alcohol consumption.

A so-called alcohol policy survey is conducted in Finland yearly: among other things, people are asked about their opinions of the prices of alcoholic drinks, age limit regulations pertaining to sale of alcoholic drinks and about the current sales system. According to a survey carried out in January 2009, nearly 90 per cent of all Finns find the current alcohol policy restrictions appropriate or want stricter restrictions. Slightly more than 70 per cent of Finns are of the opinion that Alko and its sole right to sell alcoholic beverages are a good way of controlling the extent of the harmful effects of alcohol.

Economic development in 2008

Sales of alcoholic beverages

In 2008, the sales by volume of alcoholic beverages in Alko were 112 million litres, which is 1.2 per cent less than during the previous year.

The sales of strong alcoholic beverages and brewery products in Alko decreased, and of the individual product groups wine sales increased.

Product group	Sales (thousand litres)		Change in sales (%)
	2008	2007	
Vodkas and unflavoured spirits	19,484	20,619	-5.5
Other strong alcoholic beverages	10,348	10,745	-3.7
Fortified wines	4,729	4,633	2.1
Red wines	26,931	26,456	1.8
White wines	19,974	19,478	2.5
Sparkling wines	3,872	3,585	8.0
Rose wines	722	772	-6.5
Other wines	2,526	2,457	2.8
Long drinks	9,890	10,136	-2.4
Ciders	1,198	1,366	-12.3
Beers	12,250	12,909	-5.1
Non-alcoholic drinks	297	394	-24.7
Total sales by volume (litres)	112,225	113,553	-1.2
Sales as 100% alcohol	19,412	19,713	-1.5

Prices and taxation of alcoholic beverages

The prices of alcoholic beverages in Alko changed in the beginning of the months of January, April, July and October. In 2008, Alko's nominal retail prices went up nine per cent on average from the previous year. The effect of the alcohol tax rise on the prices was eight per cent.

The changes in retail prices were due, in addition to the hike in the tax, to the removal of the 8.5 cent tax category from the beverage packaging tax, which decreased the prices of cans and drinks sold in recyclable glass bottles. There were changes to Alko's pricing regulations, which increased the retail prices of some products and decreased the retail prices of some others. In addition, changes in the purchase prices of product suppliers and in product distribution methods or quantity changes affected the development of the retail prices.

Financial performance, balance sheet and key figures

Indicators	2008	2007	2006
Net sales EUR million	1,133.4	1,067.5	1,026.5
Operating profit/loss EUR million	71.5	70.9	60.3
Operating profit (proportion of net sales)	6.3	6.6	5.9
Profit before appropriations and taxes EUR million	74.5	73.7	61.9
Return on equity %	64.3	67.5	62.4
Equity ratio %	34.1	34.9	32.6
Balance sheet total EUR million	252.9	242.1	234.6
Investment in fixed assets EUR million	9.0	12.6	5.9
Average number of personnel during the financial year	2,640	2,609	2,535
Wages, salaries and rewards for the financial year EUR million	65.6	61.0	59.0

When compared with the previous year, the company's net sales grew by EUR 65.9 million, or 6.2%. A major part of the growth was due to the increase in the alcohol tax. Wages and salaries

increased by EUR 4.6 million, or 7.5%, from the previous year. This was mainly due to the increases in line with collective agreements. Profit before appropriations and taxes amounted to EUR 74.5 million, which was on the same level as in the previous year.

Financial position

The company has no interest-bearing liabilities. The sales in December being clearly higher than the monthly average, the liquidity situation of the company at the time of the financial statements is better than usual when compared with the situation at the end of other months.

Investment

The company's total investments were EUR 9.0 million (EUR 12.6 million in 2007), of which the share of the shop network was EUR 7.2 million (EUR 11.3 million in 2007). Six new shops were opened: in Järvenpää, Hämeenlinna, Sulkava, Ylläs in Kotari, Kuopio and in Jyväskylä. New premises were found for 17 shops. Implementation of a new cash terminal system increased depreciations by EUR 2.3 million. In 2007, Alko was given a new look. The new look applied, among other things, to the company's logo and to other basic visual elements. The changes related to the new appearance will be gradually implemented. By the end of 2008, 47 shops had been renovated in line with the new look.

Products

Alko's selection consists of products from 59 countries: from 85 importers or manufacturers in Finland, and from 224 product suppliers from abroad.

There were 2,086 brands (2,127 in 2007) in the year's last price list. Apart from buying from the general selection, consumers can buy products from the sale-to-order selection, which in December had 1,412 brands. In addition to this, Alko's flagship shop in Helsinki carries a special selection of almost 300 products. Alko lists new products for sale on a weekly basis. Alko shops also carry non-alcoholic beverages and a range of accessories.

Services and customers

There were approximately 65 million customer visits to Alko, which is about the same number as last year. To continuously improve service, the staff undergoes regular product and service training, among other things. In addition to the feedback received and internal auditing in 2008, the quality of Alko's service process and customer satisfaction was monitored with the help of three surveys.

Shops and order points

At the end of 2008, Alko had 344 shops (338 in 2007). The number of order points supplementing the shop network was 124 (130 in 2007).

Personnel

During the financial period, Alko had on average 2,015 (1,957 in 2007) employees in terms of person work years, or three per cent more than in the previous year. The figure has been calculated as an average of the end-of-month figures for the year (the work hours of those in part time or in fixed-period employment have been converted to full-time work days for the purpose of calculations).

The average minimum working hours for part-time employees were increased further. Work experience bonus, which is used in retail and restaurant sectors, was introduced in the beginning of March for the sales staff. With it, the wages of almost five-hundred members of the sales staff increased. In July, experimentation to develop work shift planning began in 11 shops.

The entire personnel is covered by an incentive scheme. Rewarding is based on the quality of customer service, acceptability and responsibility of actions, cost efficiency and promotion of work well-being.

Wages, salaries and rewards to the personnel amounted to EUR 65.6 million (EUR 61.0 million in 2007). A general increase resulting from a collective agreement and the sales staff's work experience bonus had an effect of slightly over seven per cent on the increase in monetary remuneration. An incentive provision of EUR 3.2 million in 2009 (EUR 2.4 million in 2007) for the personnel was recorded, inclusive of personnel-related expenses, accounting for 3.9 per cent (3.2 per cent in 2007) of personnel costs.

Alko Pension Fund

Alko's earnings-related pensions are managed by the company's own pension foundation. Alko Pension Fund is made up of two divisions: A and B. The members belonging to the B division are offered a pension cover as required by the earnings-related pension scheme legislation. Alko Pension Fund has a Board of Directors and a representative. The solvency of Alko Pension Fund remained good in spite of the strong downturn in the general economic situation. The change in investment allocations towards less risky investment targets was commenced already at the end of 2007. During this financial period, statutory pension contributions to the pension fund registered by Alko were EUR 1.6 million (EUR 6.3 million in 2007) and voluntary pension contributions EUR 10.0 million (EUR 2.0 million in 2007). The total contributions amounted to EUR 11.6 million, which is 17.7 per cent of the wages, salaries and remunerations in the balance sheet.

Responsible business activities and environment

With its responsible, customer-oriented and efficient operations, Alko seeks to maintain and reinforce the functionality and sustainability of the alcohol system, which aims at well-being in Finland. Another objective is for Finns to understand and approve Alko as a responsible retailer of alcoholic beverages whose operations are geared to support the prevention of the harmful effects of alcohol.

Sales supervision is an essential part of Alko's daily customer service, where the emphasis is aimed equally towards responsibility and service.

Sales supervision includes checks for age limits, for suspected intoxication and for suspected handovers. Alko started registering age limit checks in its cash register system in 1999, and the 10 millionth age limit check was registered on 7th August 2008. In 2008, there were 2,240,510 age limit checks (a growth of 14.3% compared with 2007), 343,698 suspected intoxication checks (a growth of 10.3%), and 81,793 suspected handover checks (a growth of 21.8%) registered. The shops' sales supervision and monitoring was supported, among other things, by media campaigns.

Alko commenced a long-term "Wise parenthood – What kind of model are we giving to our children?" project which supports the Alcohol Programme 2008-11 by the Ministry of Social Affairs and Health. The programme will be announced in March 2009. The aim of the responsibility programme is to influence parents' and adults' alcohol use in such a way as to lessen the harmful effects of alcohol to children and young people.

The Decree on the operation of the alcohol company (243/2000, Section 1) says that part of its general obligations includes specifically taking into account in its operations the requirements of the sensible utilisation of natural resources and environmental protection. The requirements of the law have been taken into account in Alko's environmental policy and environmental programme.

The central components of Alko's environmental programme are: the shops' environment-friendly materials, efficient energy use, recycling of packing and other materials, efficient transport logistics, product safety and heeding environmental considerations in product selection (for example, organic products).

Alko cooperates with other Nordic alcohol companies with sole rights in a project started during the winter of 2008: their aim is to contribute to ethical operating methods within the supplier chain of alcoholic drinks while taking into consideration the principles of sustainable development.

Shares and share holders

The Government is the owner of the entire share capital (10,000,000 shares).

Administration and auditors

The Board of Administration consists of twelve members, which the Government appoints for four calendar years at a time. The Board of Administration for 2008–2011 consists of Petri Salo (Chairman), Markku Rossi (Vice Chairman) and, as members, Janina Andersson, Christina Gestrin, Hanna-Leena Hemming, Reijo Kallio, Saara Karhu, Mikko Kuoppa, Jari Larikka, Heli Paasio, Klaus Pentti and Pekka Vilkuna. Director Kari Paaso represents the Ministry of Social Affairs and Health in the Board of Administration. The representation of the Ministry of Social Affairs and Health in the company's Board of Administration is decreed by Section 38 of the Alcohol Act. In 2008, the Board of Administration met six times.

The Chairperson of the Board of Directors is Soili Suonoja, the Vice Chairperson is Pekka Puska, and as members there are Arto Honkaniemi, Liisa Jauri, Marilene Mäkipää and Reijo Väärälä. Representing the personnel is Saku Salonen, who is the Chairman of Alkoholiikaupan Ammattiliitto ALV (starting from 25th of May, until then Maili Kekki) and the Chairman of Alkoholiikan Toimihenkilöt ry, Juri Helmiö. The Board of Directors met 11 times.

The Board of Directors have appointed two committees from among its own members to prepare matters within its scope for the Board to consider and decide upon. The Chairperson of the Auditing Committee is Marilene Mäkipää and its members are Arto Honkaniemi and Soili Suonoja. The Rewards and Appointments committee is chaired by Liisa Jauri, and its members are Soili Suonoja and Reijo Väärälä. In addition to the committees, the Board of Directors has appointed a Working Group on Alcohol Policy. Its Chairman is Pekka Puska and its members are Reijo Väärälä, Kari Paaso, Ismo Tuovinen (Ministerial Councillor, Ministry of Social Affairs and Health) and Jaakko Uotila, and its secretary is Maritta Iso-Aho.

The company's Annual General Meeting was convened on 12th May 2008. In addition, its Articles of Association were amended on 19th November 2008 in accordance with the Section 5:1 subsection 2 of the Companies Act.

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

General observations 2008

The company's head office was transferred from Kuninkaala in Vantaa to Salmisaari in Helsinki on 29th February 2008. Alko's central warehouse moved from Kuninkaala to Viinikkala in Vantaa.

Alko's regional division was reorganised from 1st June 2008: the new regions are Lappi and Päijät-Häme. The increase in the number of regions was due to practical considerations. The reorganisation strengthened immediate supervisory functions.

Strategy 2009–2012

Alko's Board of Directors approved the company's new strategy in August 2008. Alko's strategy and operations, in all of their aspects, provide support to the current alcohol system as well as to the maintenance of the special status of Alko and its widespread social acceptability.

Our vision is that Alko in 2012 is seen as Finland's best retailer when it comes to responsibility and service. This means that the company will act in an exemplary way in its responsibilities towards alcohol policy, and social, environmental and economic matters.

The company's risk management

The Board of Directors is responsible for the company's risk management policy and monitors its implementation. The President and CEO, together with the Management Team, ensures that the risk management policy is complied with and risk management is appropriately taken care of.

Alko's risk management means analysing and managing threats related to its activities in a systematic and anticipatory way. Strategic and operational risks are classified into risks related to operational environment, process risks, and risks involved with operational supervision and decision making information.

The company has defined potential risks that can influence its future development and profitability.

- Changes in the Alcohol Act might have a significant impact on the company's operations.
- The current economic slump may affect the demand of products and through this also profitability in our society.
- An increase in the alcoholic beverage tax may bear an influence on the increase of imports of alcoholic beverages by travellers and thus may also have bearing on decrease in product demand.
- Responsible customer service forms a central part of Alko's operations, for example, we do not sell alcohol to minors or intoxicated people. Possible deviations from this policy will result in a temporary closure of the shop in question.
- Competition in the labour market for skilled and talented employees has increased. Our activities require knowledgeable, committed and responsible personnel. There is a risk that retail trade does not attract the most skilled and talented people.
- The company's business is based on efficient and responsible information systems. Possible malfunctions in these information systems or their incompatibility with business demands can cause interruptions in the business.

Prospects in the near future and after this financial period

The Board feels that the alcohol company can perform the function laid down for it by law through its current operations. Good service and responsible sales are not contradictory concepts. Apart from responsibility and good customer service, acceptability requires economic efficiency. By regulating the density of its retail network, the company ensures the availability of alcoholic beverages in a way that increases its acceptability without causing excessive growth in total alcohol consumption.

Board of Directors' proposal on the use of profits

The parent company has EUR 68.3 million (EUR 65.0 million in 2007) in distributable profit funds, of which the profit for the year accounts for EUR 56.6 million (EUR 54.8 million in 2007).

The Board of Directors proposes that the profit of this financial period should be used as follows:

– distributed as a dividend	EUR 55.0 million
– retained under equity	EUR 1.6 million
	<hr/>
	EUR 56.6 million

Helsinki, 3rd March 2009

Board of Directors

Income statement, FAS

EUR million	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
NET SALES	1,133.4	1,067.5
Other operating income	1.0	1.6
Materials and services	-902.7	-846.7
Personnel costs	-81.8	-74.6
Depreciation and writedowns	-9.9	-8.6
Other operating expenses	-68.5	-68.3
OPERATING PROFIT	71.5	70.9
Financial income and expenses	3.0	2.8
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	74.5	73.7
PROFIT/LOSS AFTER EXTRAORDINARY ITEMS	74.5	73.7
Appropriations	2.4	0.5
Income taxes	-20.3	-19.5
PROFIT/LOSS FOR THE YEAR	56.6	54.8

Balance sheet, FAS

EUR million	31 Dec. 2008	31 Dec. 2007	EUR million	31 Dec. 2008	31 Dec. 2007
Assets			Shareholder's equity and liabilities		
NON-CURRENT ASSETS			SHAREHOLDER'S EQUITY		
Intangible assets	5.5	6.2	Share capital	16.8	16.8
Tangible assets	22.3	23.6	Retained profit	11.7	10.2
Investments	9.6	10.7	Profit/loss for the financial year	56.6	54.8
NON-CURRENT ASSETS	37.4	40.6	TOTAL SHAREHOLDER'S EQUITY	85.1	81.8
CURRENT ASSETS			TOTAL APPROPRIATIONS		
Inventories	64.6	61.2		1.4	3.8
Non-current receivables	6.5	0.0	PROVISION FOR FUTURE LIABILITIES AND CHARGES		
Current receivables	20.3	20.1		1.0	
Cash in hand and on deposit	124.1	120.3	LIABILITIES		
CURRENT ASSETS	215.5	201.6	Current non-interest-bearing liabilities	165.4	156.6
ASSETS	252.9	242.1	LIABILITIES	165.4	156.6
			SHAREHOLDERS EQUITY AND LIABILITIES		
				252.9	242.1

FAS = Finnish Accounting Standards

All the figures are rounded. As a result, the totals might not agree precisely with the accumulated sum of the figures they are based on.

Cash flow statement, FAS

EUR million	1 Jan.–31 Dec. 2008	1 Jan.–31 Dec. 2007
Cash flow from operations		
Operating profit	56.6	54.8
Adjustments:		
Depreciation according to plan	9.9	8.6
Non-current asset items: sales profits(-)/losses(+)	1.3	0.3
Financial income and expenses	-3.0	-2.8
Income taxes	20.3	19.5
Other adjustments	-1.4	-0.5
Cash flow before change in working capital	83.7	79.8
Change in working capital:		
Increase(-)/decrease(+) in inventories	-3.4	-9.3
Increase(-)/decrease(+) in current non-interest-bearing accounts receivable	-5.7	-4.1
Increase(+)/decrease(-) in current non-interest-bearing liabilities	11.0	-0.6
Change in provision	-1.0	
Cash flow from operations before financial items and taxes	84.7	65.9
Interest paid and payments on other financial operating expenses	-0.1	-0.2
Dividends received on operations	0.1	0.1
Interest received from operations	3.0	2.8
Other financial items from operations	0.0	0.0
Direct taxes paid	-22.5	-19.2
Cash flow before extraordinary operating items	65.1	49.5
CASH FLOW FROM OPERATIONS	65.1	49.5
Cash flow from investments		
Investments in tangible and intangible assets	-9.0	-12.4
Income from surrender of tangible and intangible assets	1.0	1.7
CASH FLOW FROM INVESTMENTS	-8.0	-10.6
Cash flow from financial operations		
Dividend paid	-53.3	-46.4
CASH FLOW FROM FINANCIAL OPERATIONS	-53.3	-46.4
CHANGE IN FINANCIAL POSITION	3.8	-7.5
Financial resources at the beginning of the year	120.3	127.8
Financial resources at the end of the year	124.1	120.3

Notes to the financial statements

Consolidation principles

No consolidated financial statements have been prepared, since the subsidiaries have no significance in providing a fair and true view of the financial performance and position. The group comprises the real estate companies Hanko Vuorikatu 9, Nastonharjun Liiketalo, Puolangan Keskus, Raahen asemakatu 12 and Vuoksenniskan Harjulanrinne.

If consolidated financial statements had been prepared, the effect would have been insignificant on the profit for the financial period and on the balance sheet total.

Comparability of the financial statements

The financial statements are comparable.

Valuation principles

Net sales

Net sales includes excise taxes.

Measurement of fixed assets

Fixed assets have been recognised in the balance sheet at historical cost including variable costs caused by acquisitions minus accumulated depreciation according to plan. The depreciation according to plan has been calculated on a straight-line basis over the useful life of the item concerned. The depreciation plan is the same as in the previous year.

Estimated depreciation periods are as follows:

	Years
Buildings	25–40
Constructions	20
Machinery and equipment (purchased before 2002)	10
Machinery and equipment (purchased in or after 2002)	7
Transport equipment	5
Computer hardware	3
Computer software	3
Renovation of shop premises	5

Valuation of inventories

Inventories have been measured with variable costs according to the average price principle. The value of shop inventories includes excise duty. The central warehouse in Viinikkala, Vantaa, is tax-free, thus the value of the alcoholic beverages there does not include excise duty.

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, FAS

EUR million	2008	2007	EUR million	2008	2007
Total other operating income			Other operating expenses		
Rental income	0.5	0.7	Rental expenses	-20.0	-19.5
Other operating income	0.4	0.4	Voluntary personnel-related expenses	-3.9	-4.0
Profit on sale of fixed assets	0.1	0.6	Capital losses on non-current assets	-1.4	-1.0
Total other operating income	1.0	1.6	Support given	-0.1	-1.3
Materials and services			Energy	-1.5	-1.6
Purchases during financial period	-901.7	-851.4	Work outfits and equipment	-4.6	-5.3
Increase/decrease in inventories	3.4	9.2	Construction and repair services	-3.3	-2.3
Materials, consumables and supplies	-898.3	-842.2	IT services	-6.4	-7.7
Outsourced services	-4.4	-4.5	Transportation	-6.8	-6.9
Total materials and services	-902.7	-846.7	Other outsourced services	-8.9	-7.8
Average personnel during financial year			Communications and marketing	-3.6	-3.3
	2 015	1 957	Telecommunications	-2.7	-3.1
Personnel costs			Credit card commissions and the handling of cash	-2.4	-2.1
Wages, salaries and remuneration	-65.6	-61.0	Other expenses	-2.8	-2.6
Pension expenses	-11.9	-8.7	Total other operating expenses	-68.5	-68.3
Other personnel-related expenses	-4.3	-4.9	Financial income and expenses		
Total personnel costs	-81.8	-74.6	Financial income		
Salaries, remunerations and fringe benefits paid to the management			Dividend	0.1	0.1
Chief Executive Officer and Deputy	0.4	0.4	Other interest and financial income	3.0	2.9
Members of the Board	0.2	0.1	Total financial income	3.1	3.0
Salaries and remunerations for the Board of Administration	0.1	0.1	Financial expenses		
Total	0.7	0.6	Interest and other financial expenses	-0.1	-0.1
Pension arrangement for the management			Other financial expenses	0.0	0.0
The President and CEO is entitled to retire at the age of 63.			Total financial expenses	-0.1	-0.2
A full pension is 60 per cent of the pensionable salary.			Total financial income and expenses	3.0	2.8
Depreciation and writedowns			Exchange rate profit	0.0	0.0
Depreciation according to plan	-9.8	-7.5	Exchange rate loss	-0.1	-0.1
Depreciation according to plan on non-current assets and goodwill	-9.8	-7.5	Total exchange rate profit/loss	0.0	0.0
Writedowns on non-current asset	-0.3	-1.3	Appropriations		
Exceptional writedowns on and returns of non-current assets	0.1	0.2	Increase (-) or decrease (+) in depreciation difference	2.4	0.5
Reversed impairment on non-current asset items	-0.1	-1.1	Total appropriations	2.4	0.5
Total depreciation and writedowns	-9.9	-8.6	Direct taxes		
Auditor's fees			Income taxes on operations	-20.3	-19.5
KPMG Oy Ab			Taxes from previous financial periods	0.0	0.0
Audit	0.1	0.0	Total income taxes on operations	-20.3	-19.5
Other fees	0.1	0.0			

Notes to the balance sheet

EUR million	2008	2007
Non-current assets		
Intangible assets		
Other capitalised expenditure	5.4	2.8
Advance payments on intangible assets	0.1	3.4
Total intangible assets	5.5	6.2
Tangible assets		
Land and water areas	0.0	0.0
Buildings and constructions	0.0	0.0
Machinery and equipment	22.0	23.3
Other tangible assets	0.3	0.3
Total tangible assets	22.3	23.6
Investments		
Holdings in Group companies	0.8	0.8
Holdings in associates	3.5	3.6
Other shares and holdings	5.3	6.2
Total investments	9.6	10.7
Total non-current assets	37.4	40.6

Intangible assets 2008

EUR million	Other capitalised expenditure	Advance payments	Total
Acquisition cost 1st January	5.8	3.4	9.3
Increase	4.5	0.0	4.5
Decrease	-0.1	-3.3	-3.5
Acquisition cost 31st December	10.2	0.1	10.3
Accumulated depreciation 1st January	-3.0		-3.0
Accumulated depreciation on decrease and transfers	0.1		0.1
Depreciation for financial year	-1.9		-1.9
Accumulated depreciation 31st December	-4.8		-4.8
Book value 31st December	5.4	0.1	5.5

Tangible assets 2008

EUR million	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1st January	0.0	0.1	61.2	0.3	61.6
Increase	0.0	0.0	7.9	0.0	7.9
Decrease	0.0	0.0	-10.8	0.0	-10.8
Acquisition cost 31st December	0.0	0.1	58.2	0.3	58.7
Accumulated depreciation 1st January	0.0	-0.1	-37.9	0.0	-37.9
Accumulated depreciation on decrease and transfers	0.0	0.0	9.5	0.0	9.5
Depreciation for financial year	0.0	0.0	-7.9	0.0	-7.9
Accumulated depreciation 31st December	0.0	-0.1	-36.3	0.0	-36.3
Book value 31st December	0.0	0.0	22.0	0.3	22.3

Acquisition cost does not include upward value adjustments

Notes to the balance sheet

Investments

EUR million	Holdings in Group companies	Holdings in associates	Other shares and holdings	Total
Acquisition cost 1st January	1.4	4.8	6.7	12.9
Increase	0.0	0.0	0.0	0.0
Decrease	0.0	-0.2	-0.8	-1.0
Transfers between items	0.0	0.0	0.0	0.0
Acquisition cost 31st December	1.4	4.7	5.9	12.0
Accumulated writedowns and adjustments to capital proportion 1st January	-0.5	-1.2	-0.5	-2.2
Accumulated writedowns on decrease and transfers	0.0	0.0	0.1	0.1
Writedowns for the period	0.0	-0.1	-0.2	-0.3
Accumulated writedowns 31st December	-0.5	-1.2	-0.7	-2.4
Book value 31st December	0.8	3.5	5.3	9.6

Acquisition cost does not include upward value adjustments.

Holdings in groups companies

	% owned by parent company	Proportion of equity EUR 1,000	Equity EUR	Number of shares	Nominal value EUR /share	Total 31.12.2008		Profit/loss acc. to the latest Financial Statements
						Nominal value EUR 1,000	Book value EUR 1,000	EUR 1,000/share
Kiinteistö Oy Hanko Vuorikatu 9, Hanko	58.26	179	307,263.02	882	168.00	148	188	-5.7
Kiinteistö Oy Nastonharjun Liiketalo, Nastola	75.60	169	223,695.52	7,560	1.70	13	100	-0.4
Kiinteistö Oy Puolangan Keskus, Puolanka	50.48	187	371,423.27	275	56.00	15	118	1.1
Kiinteistö Oy Raahen Asemakatu 12, Raahе	57.90	231	398,196.78	14,476	17.00	246	140	-0.2
Kiinteistö Oy Vuoksenniskan Harjulanrinne, Imatra	73.08	698	955,360.08	7,308	0.30	2	300	3.6
TOTAL HOLDINGS IN GROUPS COMPANIES		1,464					845	-1.6

Holdings in participating interest companies

Real estate and housing companies	6,052	3,477
TOTAL HOLDINGS IN PARTICIPATING INTEREST COMPANIES	6,052	3,477

Other shares and holdings

Real estate and housing companies	5,134
Commercial companies	83
Other non-itemised shares and holdings (in telephone companies)	46
TOTAL OTHER SHARES AND HOLDINGS	5,262
TOTAL SHARES	9,585

EUR million 1.1.–31.12.2008 1.1.–31.12.2007

Cash in hand and on deposit

Shops' cash registers	18.1	18.2
Short-term deposits	8.7	4.4
Interest funds		1.0
Bonds	92.1	90.7
Bank accounts	5.3	6.1
Total	124.1	120.3

Inventories

Materials and equipment

Finished products and goods	64.3	60.9
Advance payments on inventories	0.3	0.3
Total	64.6	61.2

Non-current receivables

Security deposits	6.5	0.0
Total	6.5	0.0
Non-current receivables	6.5	0.0

Current receivables

Accounts receivable	14.7	18.2
Current receivables (from others)	5.5	1.9
Other	0.0	0.0
Total	20.3	20.1
Current receivables	20.3	20.1

Major items in prepaid expenses and accrued income

Lunch vouchers in 2009	1.0	
Social Insurance Institution compensation for occupational health care	0.5	0.5
Collection system payments	0.5	0.6
Interest receivable	0.5	0.4
Change money on transit	0.3	0.2
Invoice paid – goods not available	2.5	
Other prepaid expenses and accrued income	0.3	0.2
Total	5.5	1.9

Change in shareholders' equity 2007

EUR million	Restricted equity Share capital	Spare equity capital	Total
EQUITY 1st January	16.8	56.6	73.4
Dividend		-46.4	-46.4
Profit for financial year		54.8	54.8
TOTAL EQUITY 31st December 2007	16.8	65.0	81.8

Change in shareholders' equity 2008

EQUITY 1st January	16.8	65.0	81.8
Dividend		-53.3	-53.3
Profit for financial year		56.6	56.6
TOTAL EQUITY 31st December 2008	16.8	68.3	85.1

EUR million 1.1.–31.12.2008 1.1.–31.12.2007

Distributable funds

Retained profit	11.7	10.2
Profit/loss for financial year	56.6	54.8
Distributable funds	68.3	65.0
Alko Group's spare equity capital is	68.7	67.2

Accumulated appropriations

Depreciation difference	1.4	3.8
Total appropriations	1.4	3.8

Provision for future liabilities and charges

Provision for accountability	0.7	
Other short-term provisions	0.3	
Short-term provisions	1.0	

Current liabilities

Accounts payable	134.3	121.3
Accrued expenses and deferred income	18.0	18.7
Other liabilities	13.1	16.6
Total	165.4	156.6

CURRENT LIABILITIES 165.4 156.6

Major items in accrued expenses and deferred income (non-current and current)

Payroll timing items including social insurance costs	16.6	15.0
Timing of employer insurance	0.2	0.1
Timing of income tax	0.9	3.1
Other current accrued expenses and deferred income	0.3	0.5
Total	18.0	18.7

Notes to the balance sheet

Other notes

Securities given, contingent and other liabilities
Other securities given

The leasing contracts are predominantly
3-year contracts with redemption items **0.3** 0.4

Leasing liabilities

EUR million	2008	2007
Maturing during the year following the financial year	0.3	0.3
Maturing later	0.2	0.3
Total	0.4	0.5

Rental liabilities

EUR million	2008	2007
Payable the following the year	17.8	16.4
Payable later	98.2	65.8
Total	116.0	82.2

Indicators

		2008	2007	2006	2005	2004
Net sales	EUR million	1,133.4	1,067.5	1,026.5	984.5	1,004.5
Operating profit	EUR million	71.5	70.9	60.1	50.9	42.8
Proportion of net sales	%	6.3	6.6	5.9	5.2	4.3
Profit before extraordinary items, voluntary provisions and income taxes	EUR million	74.5	73.7	61.9	52.0	43.8
Proportion of net sales	%	6.6	6.9	6.0	5.3	4.4
Profit before extraordinary items and income taxes	EUR million	74.5	73.7	61.9	52.0	43.8
Proportion of net sales	%	6.6	6.9	6.0	5.3	4.4
Return on equity	%	64.3	67.5	62.4	57.8	51.4
Return on investment	%	87.4	91.7	84.7	78.3	73.8
Equity ratio	%	33.7	35.3	33.1	31.6	30.7
Current ratio		1.3	1.3	1.3	1.2	1.1
Gross investment in fixed assets	EUR million	9.0	12.6	5.9	6.4	7.6
Proportion of net sales	%	0.8	1.2	0.6	0.7	0.8
Average personnel during financial year		2,640	2,609	2,535	2,456	2,453

Calculation formulae

Return on equity, % $\frac{(\text{Profit before extraordinary items} - \text{income taxes of the actual operations}) \times 100}{\text{Equity (average*)}}$

Return on investment, % $\frac{(\text{Profit before extraordinary items} + \text{financial expenses for current liabilities}) \times 100}{\text{Balance sheet total (average*)} - \text{non-interest-bearing liabilities (average*)}}$

Equity ratio, % $\frac{\text{Equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$

Current ratio $\frac{\text{Inventories} + \text{Financial assets}}{\text{Current liabilities}}$

* Averages have been calculated as averages of final monthly balances.

Proposal for the distribution of profit

The parent company's distributable funds on 31st December 2008 totalled EUR 68,276,554.27, of which the profit for the year accounts for EUR 56,592,088.52.

The Board of Directors proposes that the distributable funds be disposed of in the following manner:

– distributed as a dividend	EUR 55,000,000.00
– carried over in equity	EUR 1,592,088.52
	<hr/>
	EUR 56,592,088.52

No substantial changes have taken place in the company's financial situation since the end of the financial year. The company's liquidity is good and, in the opinion of the Board, the proposed distribution of profit does not put the company's liquidity at risk.

Helsinki, 3rd March 2009

Soili Suonoja Pekka Puska

Arto Honkaniemi Liisa Jauri

Marilene Mäkipää Reijo Väärälä

Jaakko Uotila
President and CEO

Auditors' report

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

Helsinki, 4th March 2009

KPMG Oy Ab
APA Institute

Reino Tikkanen
APA

Statement by the Board of Administration

The Board of Administration of Alko Inc. has studied the company's financial statements and auditors' report for 2008 and proposes to the 2009 Annual General Meeting that the company income statement and balance sheets for the 2008 financial year be approved. The Board of Administration agrees with the Board of Directors' proposal for disposal of the profits.

Helsinki, 5th March 2009

Petri Salo
Markku Rossi
Janina Andersson
Christina Gestrin
Hanna-Leena Hemming
Reijo Kallio
Saara Karhu
Mikko Kuoppa
Jari Larikka
Heli Paasio
Klaus Pentti
Pekka Vilkuna

Comparison with the GRI Guidelines' recommendations

Identifier	The contents and the reporting principles of Alko's Annual Report are, where applicable, in line with the recommendations of the GRI Guidelines	Included	On page(s)	Observations
1.	Strategy and analysis			
1.1	Review by the President and CEO	yes	4–5	
1.2	Description of key impacts, risks and opportunities	partially	4–5, 8–13, 20–21, 40–41, 44–46	
2.	Organizational profile			
2.1–2.9	Basic information about Alko	yes	6–7, 12–13, 16–17, 28, 44–46	
3.	Report parameters			
3.1–3.4	Report profile and reporting period	yes	2	
3.5–3.11	Report content and scope	partially	2	
3.12	Comparison with the GRI reporting recommendations	yes	56	
3.13	External assurance for the report	no		No third party has verified the information in the report on corporate social responsibility, which deals also with sustainability, except for the audited details in the financial statements.
4.	Governance, commitments, and engagement			
4.1–4.10	Governance	yes	6–7, 30, 38–43	
4.11–4.13	Commitments to external initiatives in corporate social responsibility	partially	17, 24–25, 30, 34	
4.14–4.17	Stakeholder engagement	yes	4–5, 11, 14, 20–22, 24–25	
5.	Management approach and the organization's economic goals			
	Economic performance indicators			
EC1	Direct economic value that is generated and distributed	yes	28, 36, 44–55	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	no		
EC3	Coverage of the organization's defined benefit plan obligations	yes	28, 40, 45	
EC4	Significant financial assistance received from government	no		Alko does not receive the support referred to by GRI.
EC6–EC7	Locally based procurement and recruiting	no		Principles of impartiality and non-discrimination.
EC8	Development and impact of infrastructure investment provided primarily for public benefit	partially	24–25	
EC9	Indirect economic impacts and their extent	partially	28–29	
	Environmental performance indicators			
EN1–EN2	Used and recycled materials	partially	32–34	
EN3	Direct energy consumption by primary energy source	partially	34	
EN4	Indirect energy consumption by primary energy source	partially	34	
EN5	Energy saved due to conservation and efficiency improvements	partially	34	
EN16–EN17	Greenhouse gas emissions	no		
EN19–EN20	Emissions of ozone-depleting substances as well as NO and SO emissions	no		Not relevant to Alko's operations
EN21	Effluent discharges	no		Not relevant to Alko's operations
EN22	Total weight of waste by type and disposal method	partially	32–34	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	partially	5, 20, 32–35	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	partially	33	
EN28	Sanctions for non-compliance with environmental laws and regulations	no		Alko has never been fined or sanctioned on environmental matters.
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and of transporting members of the workforce	partially	32–25	

Labour practices and decent work performance indicators				
LA1	Total workforce by employment type, employment contract, and region	yes	28–30	
LA2	Employee turnover	yes	29	
LA4–LA5	Percentage of employees covered by collective bargaining agreements and minimum notice period(s) regarding operational changes	partially	28, 30	
LA7	Rates of injury, occupational diseases, lost workdays and absenteeism	partially	31	
LA8	Education, training and counselling to assist workforce members, their families, or other community members regarding serious diseases	partially	31	
LA9	Health and safety topics covered in formal agreements with trade unions	partially	28	
LA10	Average hours of training per year per employee per employee category	partially	29	
LA11	Programs for skills management and lifelong learning for employees	partially	30	
LA12	Percentage of employees receiving regular performance and career development reviews	yes	30	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	partially	28–29	
LA14	Ratio of basic salary of men to that of women by employee category	partially	28	Gender equality plan.
Human rights performance indicators				
HR1–2, 4–7	Human rights indicators	partially	16, 31	
HR 3, 8–9	Human rights	no		
Society performance indicators				
SO1	Programs and practices that assess and manage the impacts of operations on local communities	partially	31, 24–25	
SO2	Percentage and total number of business units analysed for risks related to corruption	no		Ethical principles do exist.
SO3	Percentage of employees trained in anti-corruption practices partially	partially	29	
SO4	Actions taken in response to incidents of corruption	no		No cases of corruption have been detected in Alko.
SO5	Participation in public policy development and lobbying	yes	20, 22–25	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	partially	20, 22–25	
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	no		Alko has not been fined or sanctioned in related matters.
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	no		
Product responsibility performance indicators				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	yes	8, 16, 24–27, 37	
PR3	Type of product and service information required and their percentage	partially	17	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	yes	5–7, 11, 14, 16, 22, 27, 45	
PR6	Programs for adherences to laws, standards, and voluntary codes related to marketing communications	yes	8, 14, 20, 21, 24, 26–27, 44	
PR9	Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	no		Alko has not been fined or sanctioned for breaches of regulations in matters related to products, safety or marketing.

Alko Inc.**Head office**

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www.alko.fi

Customer Service (weekdays 9am–4pm)

Tel. 020 711 711
Fax 020 711 5231
email: palaute@alko.fi

Details of shops' opening hours and
locations, Tel. 020 711 712
(Mon–Sat 8am–9pm)

Helsinki area

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Uusimaa area

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