

# ANNUAL REPORT 1994



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## FIVE-YEAR GROUP STATISTICS

	1994	1993	1992	1991	1989-90
Net sales, FIM million	8,578.0	8,624.8	7,369.9	7,566.6	7,295.6
Change %	-0.5	+17.0	-2.6	+3.7	+14.9
– Domestic, FIM million	6,416.3	6,527.1	5,366.7	5,551.2	5,270.1
Change %	-1.7	+21.6	-3.3	+5.3	+7.8
– International operations, FIM million	2,161.7	2,097.7	2,003.2	2,015.4	2,025.5
Change %	+3.1	+4.7	-0.6	-0.5	+38.4
Balance sheet total, FIM million	5,364.3	4,348.2	3,898.4	3,525.9	3,951.7
Liabilities as a % of the balance sheet	61.3	64.8	64.4	63.0	67.5
Equity + provisions as a % of the balance sheet	38.7	35.2	35.6	37.0	32.5
Personnel expenditure, FIM million	752.5	597.8	560.1	616.6	622.4
Personnel, average	4,265	3,234	3,165	3,804	4,110
Inventories, FIM million	874.1	679.9	741.9	759.8	1,333.7
Capital expenditure, FIM million	194.2	227.1	291.3	243.9	194.3
Total depreciation, FIM million	264.1	216.9	191.9	198.4	170.9



## REVIEW BY THE CEO

*For Valio Ltd, 1994 was a year of rapid changes in corporate structure and of preparation for Finland's membership in the European Union. Under these circumstances, Valio recorded satisfactory financial results. The significant mergers effected during the year make a comparative analysis of the financial statements for 1993 and 1994 difficult. However, definite gains in profitability were made and will enable us to reach the price targets we have set in the new operating environment.*



*Membership in the EU will considerably reduce the export subsidies received by Valio and alter market prices. Losses in income of approximately half a billion Finnmarks will result, and adequate profitability and a good equity ratio will be required at the outset to make the necessary adjustments.*

*The markets for Finnish dairy products changed during the year. Domestic competition increased, and the growing potential for imports began to bring Finnish prices into line with European price levels. Valio held on to its market share, when the structural development choices made by the owners are taken into account. The pace of exports was brisk, and the inventory situation at the end of the year was favorable to Valio. This contributed to the fact that Valio's cash reserves were larger than planned.*

*The mergers completed during the year altered Valio's balance sheet structure, mainly as a result of an increase in fixed assets. Solvency improved as a result of the mergers and satisfactory financial performance. The equity ratio was good, particularly when the substantial liquidity reserve bound to current investments assets is taken into account.*

*Valio was reorganized during the year. Transition to the new mode of operation took place gradually during the autumn, as profit-center type divisions were set up on the basis of product lines. The aim is to focus more clearly on the market and financial performance. Divisions by product line*

*seek to stress development of Valio brands, the ability to respond effectively to initiatives taken by competitors, customer-oriented product development and quality.*

*A further goal of the new organization has been to link owner-management more closely to operational planning and control. Elected boards were set up for the divisions; their function is to bring owners in touch with the market and enable them to monitor financial performance.*

*Considering the circumstances, Valio begins 1995 from a reasonably strong position. The first weeks of the year have shown us that our earlier assessments of the market situation after Finland joined the EU have been realistic. However, the transition period has only begun, and there will be strong pressure on profitability in our sector. This pressure will be caused on the one hand by rapid decline in the support prices received by producers and on the other by agreements to liberalize world trade, which will result in a significant increase in the supply of milk products on the European internal market.*

*The cornerstone of the competitiveness of our dairy industry is a healthy cost structure compared with that of our competitors. Years of effort have been put into achieving this goal, and the mergers carried out last year served this end.*

*Rationalization of our production structure is an urgent task, and we must act wisely and with determination. This will require persistence and a willingness to accept criticism. Progress will constantly necessitate clear thinking that stands the test of time.*

*I would like to thank all Valio milk producers and Valio employees for their contribution during the fiscal year. We can face future challenges with confidence by putting our expertise together.*

*Matti Kavetvuo*



## VALIO LTD – FINNISH DAIRY PRODUCTS

Finnish butter was already an important export product at the beginning of this century. The co-operative dairies wished to assure the quality of Finnish butter and in 1905 they established Valio to take responsibility for the quality and exports of their butter. This butter bore the Valio mark, which was a sign of quality.

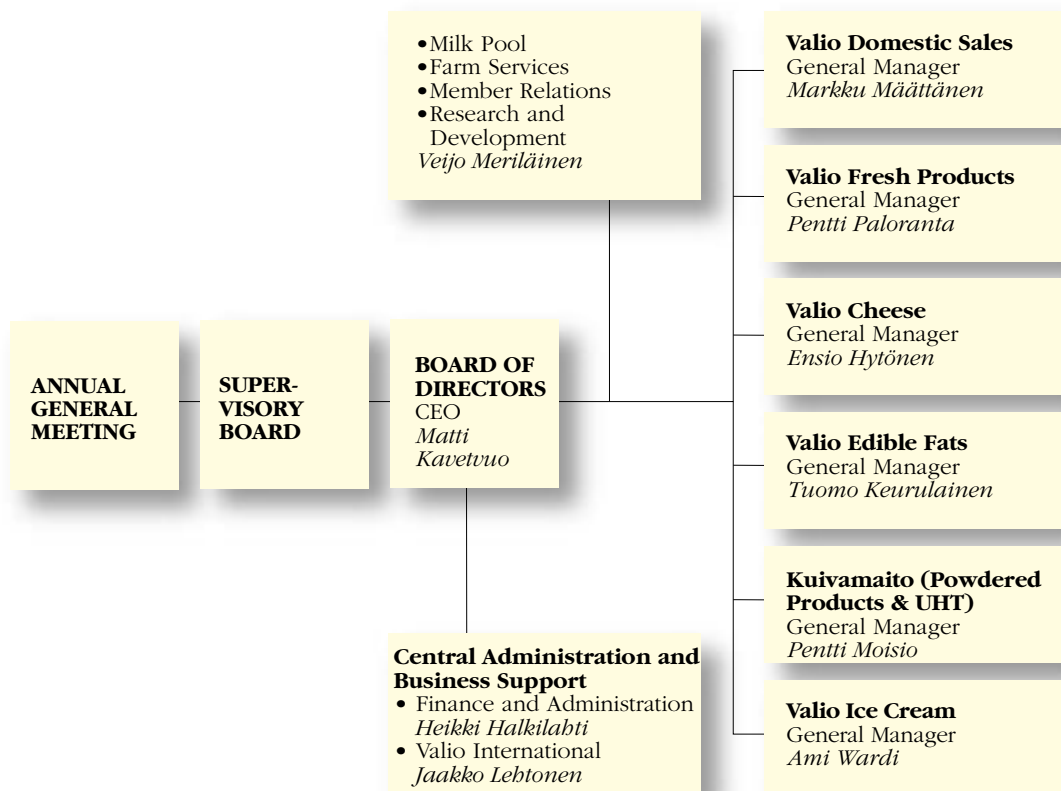
Today Valio processes and markets dairy products in Finland and abroad, and is owned by 47 Finnish co-operative dairies. After 90 years the product range has expanded tremendously, and production technology and the modes of trade have been transformed completely. Nevertheless, the principles adopted early this century remain: quality for customers who recognize good products from the Valio

logo.

Valio is the best-known food brand in Finland. Products are manufactured from a pure raw material, Finnish milk; its production conditions are safe and familiar. Milk is supplied to Valio dairies by 25,600 Finnish milk producers and processed with state-of-the-art technology into a wide range of products sought by consumers. These products are delivered in a continuous refrigerated chain directly to store shelves.

Valio employs a staff of 5,000 who make certain that Finnish brand name products known for their quality are available to consumers. Fresh everyday.

## VALIO, GROUP ORGANIZATION JANUARY 1, 1995



## VALIO LTD SUPERVISORY BOARD

	Term began	Term ends
Niilo Mäki dairy farmer, Korteesjärvi Chairman	1982	1997
Markku Heikkinen dairy farmer, Tohmajärvi Vice Chairman	1991	1997
Seppo Hakola dairy farmer, Kuortane as of July 19, 1994	1994	1996
Pertti Heinonen dairy farmer, Oripää	1992	1996
Eero Hiironen dairy farmer, Saarijärvi	1991	1995
Matti Hämäläinen managing director, Liperi until April 21, 1994	1992	
Eero Jukkara dairy farmer, Savitaipale	1989	1995
Timo Kalli dairy farmer, Kiukainen until July 19, 1994	1986	
Matti Karvo dairy farmer, Rovaniemi as of April 21, 1994	1994	1995
Olavi Kokko dairy farmer, Jalasjärvi until April 21, 1994	1992	
Olli Laaninen dairy farmer, Liperi April 21, 1994 - July 19, 1994		
Juhani Myllykangas dairy farmer, Leivonmäki	1987	1996
Martti Määttä dairy farmer, Kuhmo until July 19, 1994	1990	
Jussi Mönkkönen dairy farmer, Kaavi	1992	1995
Martti Nevalainen dairy farmer, Valtimo as of July 19, 1994		1996
Antti Nikkilä dairy farmer, Valkeakoski until April 21, 1994	1991	
Into Nummila dairy farmer, Iitti	1992	1997
Olli Oikarainen dairy farmer, Sodankylä until April 21, 1994	1989	
Heikki Olkkonen dairy farmer, Alavus	1988	1996

	Term began	Term ends
Riku Ollikainen dairy farmer, Lapinlahti	1981	1997
Terho Paavola dairy farmer, Kaustinen	1992	1995
Pirkko Peltola-Kauppinen laboratory technician, Suonenjoki personnel representative	1993	1995
Esko Pohjala dairy farmer, Orivesi	1992	1995
Katariina Pouta bookkeeper, Jyväskylä personnel representative	1993	1995
Kauko Puurula dairy farmer, Reisjärvi	1992	1996
Osmo Sikanen dairy farmer, Joroinen	1991	1996
Veikko Sinkkonen dairy farmer, Parikkala as of July 19, 1994		1997
Matti Suntela dairy farmer, Asikkala	1988	1995
Reino Tapani managing director, Turku	1992	1997
Tauno Uitto dairy farmer, Tyrnävä	1992	1997

## BOARD OF DIRECTORS

Ilmari Tuovinen dairy farmer, Varpaisjärvi Chairman as of October 20, 1994	Matti Kavetvuo President, CEO, Helsinki
Tauno Mikkola dairy farmer, Vilppula Vice Chairman	Jarno Mäki dairy farmer, Hausjärvi Chairman until October 20, 1994
Jouko Kallio dairy farmer, Nivala	Matti Rinta-Kohtamäki dairy farmer, Isokyrö

## AUDITORS

Tauno Haataja, Authorized Public Accountant, Espoo  
Martti Pynninen, dairy farmer, Karkkila  
Juha Nivala, dairy farmer, Toholampi, until July 19, 1994  
Matti Timlin, dairy farmer, Ylivieska, as of July 19, 1994

### Deputy auditors:

Pekka Luoma, Authorized Public Accountant, Espoo  
Pekka Isohanni, dairy farmer, Kannus  
Jukka Hölttä, dairy farmer, Pertunmaa

Mehis®

Turunmaa

La Gala

HYLE®

Yoplait



VIOLA  
I-luokkainen sulatejuusto

POLAR

Voimariini

Tutteli®



HOVI®

Gefilus™

CLASSIC



grandi



VALIO



Voilevi®



UUSI  
JOGY



SINIHOMEJUUSTOA  
BLÄMÖGELOST



Fons

Pehmis®



Nami  
nami



# ANNUAL REPORT BY THE BOARD OF DIRECTORS

## January 1, 1994 to December 31, 1994

### CHANGES IN THE VALIO GROUP

Negotiations concerning the forms of co-operation stipulated in the shareholder agreement of autumn 1993 were concluded during 1994.

The mergers of Maitokaari Oy and Normilk Oy with Valio were entered in the Trade Register on June 29, 1994. The mergers of Nilsian Meijeriteollisuus Oy, Promilk-Teollisuus Oy and Vieremän Meijeriteollisuus Oy with Valio, which were decided at the annual general meeting on April 21, 1994, were entered in the Trade Register on December 28, 1994.

The lease agreements signed with Etelän Maitokunta, Finnmilk Oy, Hämeen Osuusmeijeri and Osuuskunta Maito-Aura took effect on June 1, 1994. The lease agreement with Kauhajoen Osuusmeijeri took effect on July 1, 1994. The agreements transferred the processing, sales and distribution functions of the above companies to Valio.

Leases concluded with Iisalmen Osuusmeijeri, Kiuruveden Osuusmeijeri and Suonenjoen Ympäristön Osuusmeijeri took effect on January 1, 1995.

Some shareholders continued

their co-operation with Valio on the basis of marketing agreements.

Ten shareholders terminated co-operation with Valio during the fiscal year or at year end, either entirely or to a significant extent.

### SHAREHOLDERS AND SHARE CAPITAL

There were 47 shareholders at the end of the year after the mergers, as opposed to 51 a year earlier.

Share capital was increased at the annual general meeting by FIM 19,820,000 against the assets of the merging companies.

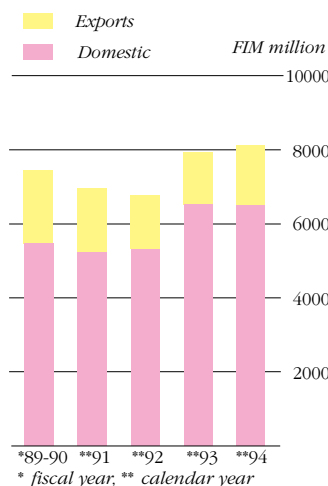
The total paid-up share capital of Valio Ltd is FIM 586,340,000.

### CHANGES IN THE GROUP STRUCTURE

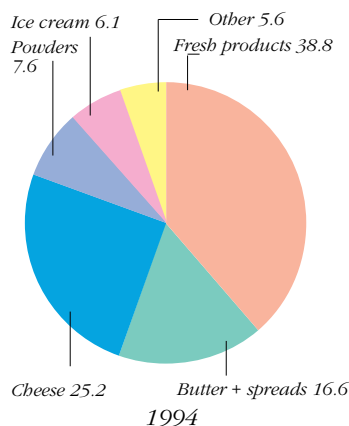
Both Kuivamaito Oy and Valio Data Oy became Valio subsidiaries after the mergers with Maitokaari Oy and Normilk.

Valio Engineering Ltd was reorganized at the beginning of the year into a new company in which Valio has a 60 percent holding and the Jaakko Pöyry Group a 40 percent holding, and into Rakennus- ja Ener-

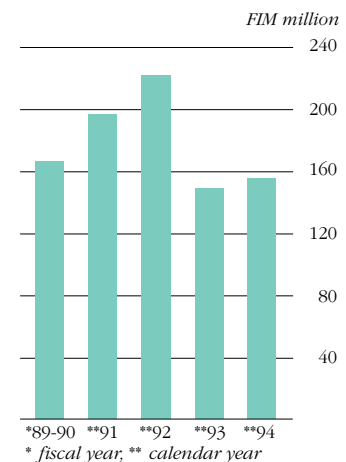
VALIO LTD NET SALES



VALIO LTD NET SALES BY PRODUCTS (%)



VALIO LTD CAPITAL EXPENDITURE





giatekniikka Oy, which is the result of a buyout by employees.

A new company was set up to continue the business operations of Valio Bioproducts Ltd, in which Valio has a 43 percent holding, Sitra 43 percent and Kainuun Osuusmeijeri 14 percent.

Valio sold its holding (40%) in Merikampin Hotelli Oy.

Valio founded subsidiaries (100%) in Sweden (Valio Sverige Ab), in Russia (AOZT Valio St. Petersburg) and in Lithuania (Valio International UAB).

As a result of negotiations undertaken during the fiscal year, the entire capital stock of Valio International UK Ltd was sold in February 1995. The sale will result in an extraordinary gain in 1995.

#### COMPARATIVE DATA

Because of significant changes in the Valio Group and the Group structure, the figures for the two fiscal years, 1993 and 1994, are not comparable.

#### NET SALES/CONSOLIDATED

Consolidated net sales totaled FIM 8,578 million (FIM 8,625 million).

Domestic net sales amounted to FIM 6,416 million (FIM 6,527 million). Net sales from international operations (exports from Finland and foreign subsidiaries) came to FIM 2,162 million (FIM 2,098 million).

#### NET SALES/PARENT COMPANY

Net sales by Valio Ltd totaled FIM 8,111 (FIM 7,942 million).

Domestic net sales amounted to FIM 6,510 million (FIM 6,512 million). Net sales from exports amounted to FIM 1,601 million (FIM 1,430 million).

#### CAPITAL EXPENDITURE

Consolidated gross capital expenditure amounted to FIM 194 million (FIM 227 million) or 2.3 percent (2.6%) of net sales. FIM 34 million were invested in buildings and land; the most significant was the warehouse completed in Helsinki. Outlays for machinery and equipment amounted to FIM 154 million, of which the most important were at production facilities in Turenki, Seinäjoki, Oulu, Herajoki and Joensuu and in the regional profit centers.

Investment in stocks and shares totaled FIM 3 million and in other

long-term expenditure FIM 3 million. Consolidated net capital expenditure amounted to FIM 161 million (FIM 225 million).

#### PERSONNEL

The Group employed an average of 4,265 persons during the fiscal year and 3,234 the previous year. The respective figures at the end of the fiscal year were 5,013 and 2,970.

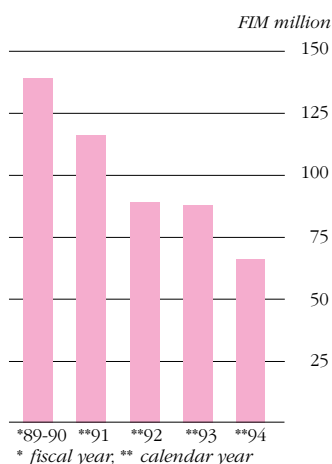
The Parent Company employed an average of 3,413 persons at the end of the fiscal year and 2,636 the previous year. The respective figures at the end of the fiscal year were 3,952 and 2,370.

#### WAGES AND SALARIES

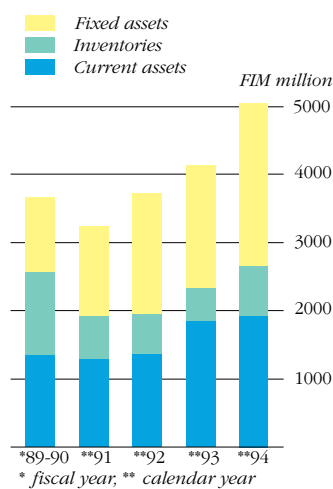
Salaries paid to Valio Group boards of directors, supervisory boards and managing directors totaled FIM 7.9 million (FIM 6.1 million). Other wages and salaries amounted to FIM 578.8 million (FIM 440.4 million).

The respective figures for Valio Ltd were FIM 1.7 million (FIM 1.5 million), and FIM 458.3 million (FIM 337.8 million).

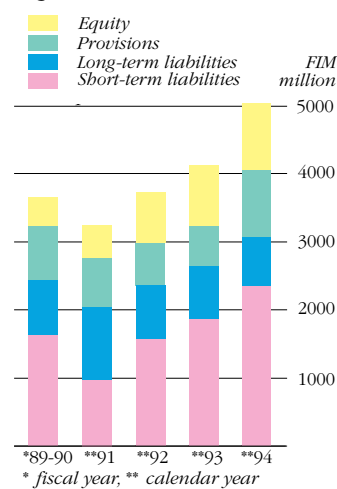
VALIO LTD NET INTEREST EXPENSE



VALIO LTD BALANCE SHEET ASSETS



VALIO LTD BALANCE SHEET EQUITY AND LIABILITIES



## FINANCE

The liquidity of both the Group and the Parent Company was good throughout the fiscal year. Cash and bank and short-term deposits totaled FIM 1,089 million at the end of the fiscal year, while the corresponding figure at the beginning of the year was FIM 782 million. Inventories at the end of the year totaled FIM 874 million and FIM 680 million at the beginning. Interest-bearing liabilities amounted to FIM 1,377 million at the end of the fiscal year and FIM 1,070 million at the beginning.

Net financing expenses were FIM 72 million or 0.8 percent (1.4% the previous year) of consolidated net sales. Net interest was FIM 83 million.

## FINANCIAL PERFORMANCE

The consolidated profit before extraordinary items is FIM 232 million (FIM 93 million). Extraordinary items consist mainly of merger losses and extra write-off of certain assets. Extraordinary net expenses total FIM 70 million (FIM 12 million).

The difference between planned and book depreciation was FIM 5.7 million (FIM 27.4 million). Depreciation is the maximum permitted un-

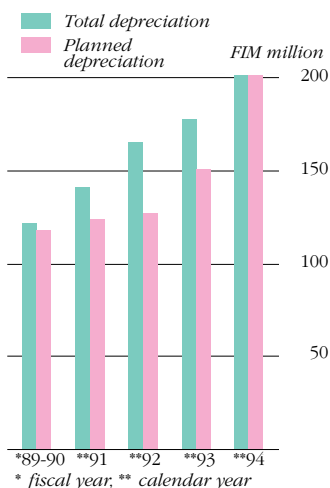
der the Business Taxation Act. Income tax totals FIM 52.0 million (FIM 35.7 million). The consolidated net income for the fiscal year is FIM 96.0 million (FIM 90.1 million).

The Parent Company net income before extraordinary items is FIM 279.7 million (FIM 107.8 million). Extraordinary items – apart from those mentioned above – include write-off of subsidiary shares.

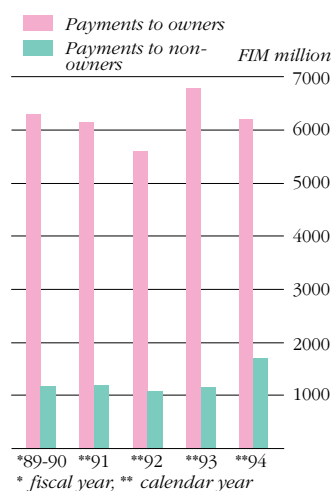
Planned and book depreciation were equal (the difference for the previous year FIM 26.6 million). FIM 16 million were allocated to optional provisions. Taxes for the fiscal year totaled FIM 52.1 million (FIM 30.1 million). The net income for the fiscal year is FIM 127.9 million (FIM 85.5 million).



VALIO LTD DEPRECIATION



VALIO LTD EXPENSES



## PROSPECTS FOR 1995

Finland's membership in the EU will mean a substantial reduction in the export subsidies received by Valio and changes in market prices, while the effects on financial performance of measures taken to lighten the cost structure will be visible only later. In consequence, the profit from operations for 1995 is expected to decline from the previous year but to remain positive.

## CONSOLIDATED STATEMENT OF INCOME

	1994	1993
Net sales	8,578,035	8,624,821
Increase (+)/decrease (-) in finished goods	(28,676)	(45,190)
Other income from operations	60,816	18,463
Variable expenses:		
Materials and supplies:		
Purchases	6,491,718	6,977,193
(Increase)/decrease (+) in inventories	27,341	62,236
Outside services	47,649	20,089
Personnel expenses	393,123	139,325
Other variable expenses	265,183	173,671
	(7,225,014)	(7,372,514)
Gross profit	1,385,161	1,225,580
Fixed expenses:		
Personnel expenses	359,372	458,445
Rents	67,620	60,052
Other fixed expenses	417,400	322,706
Operating fees	(21,280)	(21,681)
	(823,112)	(819,522)
Net income before depreciation	562,049	406,058
Depreciation on fixed assets and other capitalized expenditure	245,238	173,121
Amortization of goodwill	13,138	16,328
	(258,376)	(189,449)
Net income from operations	303,673	216,609
Financing income and expenses:		
Dividend income	3,431	3,255
Interest income	86,824	84,518
Other financing income	2,434	275
Net income from affiliated companies	6,724	9,380
Interest expense	(169,497)	(191,824)
Other financing expenses	(1,523)	(28,917)
	(71,607)	(123,313)
Net income before extraordinary items, allocations and taxes	232,066	93,296
Extraordinary items:		
Income	1,692	9,350
Expenses	(71,530)	(21,358)
	(69,838)	(12,008)
Net income before allocations and taxes	162,228	81,288
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	(5,744)	(27,405)
Allocation (to)/from (+) optional provisions	(7,204)	83,280
Taxes		
Current period	(51,984)	(35,733)
Previous periods	(140)	(10,724)
Net income before minority interest	97,156	90,706
Minority interest	1,174	649
Net income	95,982	90,057

All figures in FIM 1,000

## CONSOLIDATED BALANCE SHEET

<i>Assets</i>	Dec. 31, 1994	Dec. 31, 1993
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	3,716	4,556
Goodwill	101,844	124,960
Other capitalized expenditure	38,653	78,249
	144,213	207,765
Tangible assets		
Land and water areas	78,649	63,202
Buildings and constructions	1,066,288	510,562
Machinery and equipment	887,678	556,948
Other tangible assets	48,204	19,616
Advance payments and construction in progress	43,167	24,858
	2,123,986	1,175,186
Investments and non-current assets		
Investments in affiliated companies	7,798	30,153
Stocks and shares	183,120	232,594
Loans receivable	9,057	106,165
	199,975	368,912
CURRENT ASSETS		
Inventories		
Materials and supplies	159,933	41,831
Semifinished goods	57,693	2,613
Finished goods	650,942	635,503
Other inventories	5,562	-
	874,130	679,947
Receivables		
Accounts receivable	746,683	802,510
Accrued income and prepaid expenses	154,450	174,463
Other receivables	31,881	157,168
	933,014	1,134,141
Current investments	927,608	615,000
Cash and bank	161,393	167,208
	5,364,319	4,348,159

All figures in FIM 1,000

*Shareholders' Equity and Liabilities*

Dec. 31, 1994

Dec. 31, 1993

## SHAREHOLDERS' EQUITY

## Shareholders' equity

Share capital and legal reserves		
Share capital	586,340	431,740
Share issue	-	134,780
Legal reserves	42,555	88,949
	<hr/>	<hr/>
	628,895	655,469

## Distributable earnings

Retained earnings	233,663	186,349
Net income for the fiscal year	95,982	90,057
	<hr/>	<hr/>
	329,645	276,406

## MINORITY INTEREST

	24,023	4,587
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## PROVISIONS

Consolidation difference	22,177	-
Accumulated difference between planned and book depreciation	780,879	368,535
Optional provisions		
Replacement provisions	16,000	-
Other provisions	300,609	226,282
	<hr/>	<hr/>
	1,119,665	594,817

## LIABILITIES

## Long-term debt

Bonds payable	-	113,250
Loans from financial institutions	692,781	552,957
Pension loans	-	497
Other long-term debt	146,926	165,830
	<hr/>	<hr/>
	839,707	832,534

## Current liabilities

Loans from financial institutions	406,655	222,263
Bonds payable	113,250	-
Advance payments received	17,456	14,199
Accounts payable	1,565,929	1,533,541
Accrued expenses and prepaid income	249,985	144,445
Other current liabilities	69,109	69,898
	<hr/>	<hr/>
	2,422,384	1,984,346

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	5,364,319	4,348,159

All figures in FIM 1,000

## CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1994	1993
<b>SOURCES OF FUNDS</b>		
Financing from operations		
Net income before depreciation	562,049	406,058
Financing income	99,413	89,162
	661,462	495,220
Capital financing		
Increase in long-term debt	596,104	33,166
Increase in minority interest	19,436	562
Increase in shareholders' equity	19,820	134,780
	635,360	168,508
	1,296,822	663,728
<b>APPLICATION OF FUNDS</b>		
Dividends	42,743	43,332
Financing and other expenses and taxes		
Financing expenses	171,020	220,741
Other expenses	3,468	6,061
Taxes	52,124	46,457
	269,355	316,591
Capital expenditure	194,219	227,069
Other change in fixed assets	441,760	(11,167)
Increase (+)/(decrease) in loans receivable	(97,108)	(655)
Repayment of capital		
Repayment of long-term debt	302,762	103,265
Decrease in shareholders' equity	37,854	-
	340,616	103,265
Change in working capital		
Increase (+)/(decrease) in inventories	+194,183	(62,236)
Increase (+)/(decrease) in current receivables	+105,666	+471,745
(Increase)/decrease (+) in current liabilities	(151,869)	(380,884)
	147,980	28,625
	1,296,822	663,728

All figures in FIM 1,000

## PARENT COMPANY STATEMENT OF INCOME

	1994	1993
Net sales	8,110,974	7,942,152
Increase (+)/(decrease) in inventories	(11,079)	-
Other income from operations	52,205	19,785
Variable expenses:		
Materials and supplies:		
Purchases	6,376,201	6,557,793
(Increase)/decrease (+) in inventories	31,849	131,570
Outside services	32,566	16,389
Personnel expenses	324,384	70,325
Other variable expenses	197,613	135,660
	(6,962,613)	(6,911,737)
Gross profit	1,189,487	1,050,200
Fixed expenses:		
Personnel expenses	271,189	397,384
Rents	57,301	52,652
Other fixed expenses	348,605	250,684
Operating fees	(21,280)	(21,681)
	(655,815)	(679,039)
Net income before depreciation	533,672	371,161
Depreciation on fixed assets and other capitalized expenditure	201,899	151,060
	(201,899)	(151,060)
Net income from operations	331,773	220,101
Financing income and expenses:		
Dividend income	3,761	3,281
Dividend income from subsidiaries	7,443	159
Dividend tax credit	1,254	1,052
Interest income	98,456	96,633
Other financing income	1,352	-
Interest expense <sup>1)</sup>	(164,367)	(184,968)
Other financing expenses	-	(28,482)
	(52,101)	(112,325)
Net income before extraordinary items, allocations and taxes	279,672	107,776
Extraordinary items:		
Income	1,551	8,491
Expenses	(84,566)	(43,195)
	(83,015)	(34,704)
Net income before allocations and taxes	196,657	73,072
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	(14)	(26,642)
Allocation (to)/from (+) optional provisions	(16,000)	80,000
Taxes		
Current period	(52,076)	(30,099)
Previous periods	(646)	(10,788)
Net income	127,921	85,543
<sup>1)</sup> Net interest expense	65,911	88,335

All figures in FIM 1,000

## PARENT COMPANY BALANCE SHEET

<i>Assets</i>	Dec. 31, 1994	Dec. 31, 1993
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	3,127	2,269
Other capitalized expenditure	34,757	67,466
	37,884	69,735
Tangible assets		
Land and water areas	71,443	58,321
Buildings and constructions	891,911	461,149
Machinery and equipment	699,562	438,697
Other tangible assets	33,219	33,013
Advance payments and construction in progress	39,888	15,909
	1,736,023	1,007,089
Investments and non-current assets		
Stocks and shares	165,877	240,553
Shares in subsidiaries	240,893	152,774
Loans receivable	220,938	337,860
	627,708	731,187
CURRENT ASSETS		
Inventories		
Materials and supplies	140,468	28,820
Semi-finished goods	55,428	-
Finished goods	493,635	452,881
Other inventories	5,562	-
	695,093	481,701
Receivables		
Accounts receivable	754,065	774,809
Accrued income and prepaid expenses	133,570	166,904
Share issue receivables	-	134,780
Other receivables	31,131	30,130
	918,766	1,106,623
Current investments	927,337	615,000
Cash and bank	102,942	119,766
	5,045,753	4,131,101

All figures in FIM 1,000



*Shareholders' Equity and Liabilities*

Dec. 31, 1994

Dec. 31, 1993

## SHAREHOLDERS' EQUITY

## Shareholders' equity

Share capital and legal reserves		
Share capital	586,340	431,740
Share issue	-	134,780
Legal reserves	35,580	54,617
	<hr/>	<hr/>
	621,920	621,137
Distributable earnings		
Distributable fund	247,303	205,366
Net income for the fiscal year	127,921	85,543
	<hr/>	<hr/>
	375,224	290,909

## PROVISIONS

Accumulated difference between planned and book depreciation	675,026	364,940
Optional provisions		
Replacement provision	16,000	-
Transitional provision	270,872	219,600
	<hr/>	<hr/>
	961,898	584,540

## LIABILITIES

## Long-term debt

Bonds payable	-	113,250
Loans from financial institutions	613,121	494,126
Other long-term debt	134,996	149,932
	<hr/>	<hr/>
	748,117	757,308

## Short-term debt

Loans from financial institutions	358,201	179,721
Bonds payable	113,250	-
Advance payments received	5,073	12,330
Accounts payable	1,624,480	1,512,606
Accrued expenses and prepaid income	197,457	128,822
Other current liabilities	40,133	43,728
	<hr/>	<hr/>
	2,338,594	1,877,207

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5,045,753 4,131,101

All figures in FIM 1,000

## PARENT COMPANY STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1994	1993
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	533,672	371,161
Financing income	112,266	101,125
	645,938	472,286
Capital financing		
Increase in long-term debt		
Increase in loans from financial institutions	483,536	100
Increase in shareholder loans	75,402	53,716
	558,938	53,816
Increase in shareholders' equity	19,820	134,780
	1,224,696	660,882
APPLICATION OF FUNDS		
Dividend	43,605	43,174
Financing and other expenses and taxes		
Financing expenses	164,367	213,450
Extraordinary items	3,071	28,669
Taxes	52,722	40,887
	263,765	326,180
Capital expenditure		
Fixed assets	673,132	150,059
Stocks and shares and intangible assets	126,520	29,971
Decrease of fixed assets	(161,970)	(17,526)
Increase (+)/(decrease) in advance payments	(6,657)	4,863
	631,025	167,367
Increase (+)/(decrease) in loans receivable	(116,922)	43,223
	(116,922)	43,223
Repayment of capital		
Repayment of long-term debt		
Decrease in loans from financial institutions	195,056	78,440
Decrease in shareholder loans	86,904	-
	281,960	78,440
Decrease in shareholders' equity	19,037	-
	300,997	78,440
Change in working capital		
Increase (+)/(decrease) in inventories	+213,392	(131,570)
Increase (+)/(decrease) in current receivables	+107,656	+477,761
(Increase)/decrease (+) in current liabilities *)	(175,217)	(300,519)
	145,831	45,672
	1,224,696	660,882

\*)Excluding repayment of long-term debt

All figures in FIM 1,000

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

The consolidated financial statements include the parent company and those domestic and foreign subsidiaries in which the parent company holds more than 50% of the voting rights, either directly or indirectly. Real estate companies in which the holding exceeds 50% are not included in the consolidated financial statements. Had they been consolidated the effect on consolidated distributable earnings would have been positive.

The consolidated financial statements have been prepared using the

acquisition method. All significant intercompany accounts and transactions and group internal profits have been eliminated.

Goodwill is amortized on a straight-line basis over a ten-year period.

Inventories are stated at the lower of cost on a first-in first-out basis, or market. Fixed assets are depreciated on a straight-line basis over their estimated economic lives. R & D costs have been charged to income as incurred.

The minority interest in consolidated net income and equity is disclosed as a separate item in the income statement and the balance sheet.

The financial statements of foreign subsidiaries have been translated into Finnmarks at the Bank of Finland year-end average rates of exchange. Gains or losses resulting from the translation are included in legal reserves as translation adjustments. Assets and liabilities of domestic group companies denominated in foreign currencies have been translated into Finnmarks at the Bank of Finland year-end average rates of exchange.

Significant affiliates have been accounted for using the equity method.

All figures in the notes are in FIM 1,000.

	CONSOLIDATED		PARENT COMPANY	
	1994	1993	1994	1993
<b>1. NET SALES BY SEGMENTS</b>				
Fresh products	3,064,854	2,702,504	3,146,999	2,702,504
Dairy fats	1,361,920	1,417,465	1,350,367	1,412,928
Cheeses	2,369,232	2,566,550	2,047,447	2,109,033
Powders	606,216	712,275	617,484	691,104
Ice creams	501,036	415,682	497,011	413,331
Others	674,777	810,345	451,666	613,252
<b>Total</b>	<b>8,578,035</b>	<b>8,624,821</b>	<b>8,110,974</b>	<b>7,942,152</b>
<b>2. PERSONNEL EXPENSES</b>				
Wages, salaries and benefits	534,376	417,346	403,219	310,064
Pension costs	84,475	77,265	72,279	69,198
Salary related expenses	141,198	110,830	126,829	93,809
<b>Total</b>	<b>760,049</b>	<b>605,441</b>	<b>602,327</b>	<b>473,071</b>
<b>3. PLANNED DEPRECIATION</b>				
Goodwill	13,138	16,328	-	-
Immaterial rights	2,079	822	336	531
Other capitalized expenditure	16,162	12,177	13,185	9,435
Buildings and constructions	60,554	37,922	50,162	34,731
Machinery and equipment	153,537	111,436	127,322	97,871
Other tangible assets	12,906	10,764	10,894	8,492
<b>Total</b>	<b>258,376</b>	<b>189,449</b>	<b>201,899</b>	<b>151,060</b>
<b>(INCREASE)/DECREASE OF ACCUMULATED DIFFERENCE BETWEEN PLANNED AND BOOK DEPRECIATION</b>				
Immaterial rights	88	33	48	33
Other capitalized expenditure	(2,673)	296	(2,682)	296
Buildings and constructions	(17,252)	25,526	(16,741)	25,526
Machinery and equipment	25,474	247	19,278	(516)
Other tangible assets	107	1,303	111	1,303
<b>Total</b>	<b>5,744</b>	<b>27,405</b>	<b>14</b>	<b>26,642</b>

Planned depreciation is calculated on the original acquisition cost of depreciable assets on a straight-line basis over their economic lives as follows:

	Years
Immaterial rights and other capitalized expenditure	10
Buildings and constructions	25
Machinery and equipment	10
EDP-equipment and programmes	5
Transportation equipment	5

	CONSOLIDATED 1994	1993	PARENT COMPANY 1994	1993
4. INTEREST INCOME ON LONG-TERM INVESTMENTS	15,851	13,061	27,966	26,019
5. INTERCOMPANY FINANCING INCOME AND EXPENSES				
Intercompany financing income				
Dividend income	-	-	7,443	159
Interest income	-	-	12,115	13,557
Intercompany financing expenses				
Interest expense	-	-	3,649	1,127
6. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Gain on sale of fixed assets	1,497	2,513	1,497	2,676
Revaluation of stocks and shares	-	5,814	-	5,814
Group contribution to subsidiaries	-	-	-	(22,000)
Losses on restructuring of business	(59,509)	(20,832)	(59,509)	(20,832)
Other extraordinary items	(4,634)	799	(4,754)	(60)
Write-down of stocks and shares	(7,192)	(302)	(20,249)	(302)
Total	(69,838)	(12,008)	(83,015)	(34,704)
7. ALLOCATION (TO)/FROM OPTIONAL PROVISIONS				
Inventory provision	-	33,102	-	33,000
Operating provision	-	1,630	-	-
Credit loss provision	-	27,215	-	26,000
Investment provision	-	21,333	-	21,000
Transitional provision	8,796	-	-	-
Replacement provision	(16,000)	-	(16,000)	-
Total	(7,204)	83,280	(16,000)	80,000
Deferred tax included in optional provisions	79,152	56,571	-	-

## 8. CONSOLIDATED AND PARENT COMPANY HOLDINGS

### 81. GROUP COMPANIES

#### GROUP OWNERSHIP

	Ownership and voting rights %	Share of equity FIM 1,000
AOZT Valio St. Petersburg	100	27
Jäätelöyhtymä Oy	100	2
Kuivamaito Oy	90	157,625
Maito-Mix Oy	90	9,944
N.V. Valio International		
Belgium - Nordic Foods <sup>1)</sup>	83	8,361
N.V. Nordic Immo	100	21,554
N.V. Marco Casodost	100	11,957
Pakkasukko Oy	100	1
Pohjolan Pakastamo Oy	56.1	234
Smeds & Co Oy	100	50
UAB Valio International	100	12
Valio Bioproducts Ltd	90.1	194
Valio Data Oy	68.8	4,341
Valio Eesti AS	100	781
Valio International (Poland) Ltd	100	11
Valio International UK Ltd	100	2,304
SHS International Ltd	97.8	17,281
SHS UK Ltd	100	17,167
SHS Gesellschaft für Klinische Ernährung mbH	100	6,527
SHS (Ireland) Ltd	100	2,230
SHS (Australia) Pty. Ltd	60	2,236
SHS Inc. (Delaware)	100	378
SHS (España) S.A.	98	1,452
Health Care Products Ltd	90	37
Young Nutrition Ltd	100	7
Valio International U.S.A. Inc.	100	66,915
McCadam Cheese Co., Inc.	100	66,888
Finlandia Cheese Inc.	99.5	(5,907)
Valio Middle East (Holding) S.A.L.	90	473
Finnish Dairy (Holding) S.A.L.	20	-
Valio Sverige Ab	100	(10,358)
Valio Engineering Ltd	60	517
VBF Trading S.A.	55	1,836
VBF France SARL	54.8	24
VKT-Konsultit Oy	100	2,275
Asunto Oy Vuorikummuntie 9	98.5	2,646
Kiinteistö Oy Hiirakkotie 6	100	792
Kiinteistö Oy Pähkinämetsä	100	1,216
Kiinteistö Oy Pähkinäpolku	100	795
Kiinteistö Oy Ratastie	100	232

<sup>1)</sup>Group company N.V. Marco Casodost holds the remaining 17%

PARENT COMPANY OWNERSHIP

	Ownership %	Number of shares	Face value	Book value	Net income/(loss) in latest year-end accounts
AOZT Valio St. Petersburg	100	100	RUR 10,000	15	12
Jäätelöyhtymä Oy	100	200	2	1	-
Kuivamaito Oy	90	32,382	32,382	120,638	7,941
Maito-Mix Oy	0				(333)
N.V. Valio International Belgium - Nordic Foods <sup>1)</sup>	83	83,000	BEF 83,000	13,044	(3,791)
N.V. Nordic Immo	0				885
N.V. Marco Casodost	0				378
Pakkasukko Oy	100	150	1	1	1
Pohjolan Pakastamo Oy	56.1	841	84	136	(11)
Smeds & Co Oy	100	25	50	50	-
UAB Valio International	100	100	LTL 10	12	-
Valio Bioproducts Ltd	90.1	631	6,310	210	(6,767)
Valio Data Oy	68.8	688	3,440	3,440	927
Valio Eesti AS	100	5	EEK 1	1	761
Valio International (Poland) Ltd	100	40	PZL 40,000	11	-
Valio International UK Ltd	100	200,000	GBP 200	2,352	13,862
SHS International Ltd	0				15,707
SHS UK Ltd	0				4,238
SHS Gesellschaft für Klinische Ernährung mbH	0				(1,682)
SHS (Ireland) Ltd	0				667
SHS (Australia) Pty. Ltd	0				1,437
SHS Inc. (Delaware)	0				(15)
SHS (Espana) S.A.	0				630
Health Care Products Ltd	0				-
Young Nutrition Ltd	0				-
Valio International U.S.A. Inc.	100	-	USD 19,501	83,502	(16,094)
McCadam Cheese Co., Inc.	0				(16,035)
Finlandia Cheese Inc.	0				(6,187)
Valio Middle East (Holding) S.A.L.	90	900	USD 90	531	62
Finnish Dairy (Holding) S.A.L.	0				-
Valio Sverige Ab	100	500	SEK 50	35	(10,390)
Valio Engineering Ltd	60	300	300	300	363
VBF Trading S.A.	55	330	CHF 330	890	33
VBF France SARL	0				-
VKT-Konsultit Oy	100	800	8,000	2,375	(6,742)
Asunto Oy Vuorikummuntie 9	98.5	2,325	2,462	9,988	-
Kiinteistö Oy Hiirakkotie 6	100	650	650	900	-
Kiinteistö Oy Pähkinämetsä	100	1,000	1,000	1,213	(3)
Kiinteistö Oy Pähkinäpolku	100	380	798	798	(2)
Kiinteistö Oy Ratastie	100	450	450	450	-
				240,893	

<sup>1)</sup>Group company N.V. Marco Casodost holds the remaining 17%

## 82. AFFILIATES

## GROUP OWNERSHIP

	Ownership and voting rights %	Share of equity FIM 1,000
Norstep Oy	47.3	1,658
Pakastamo Oy	50	3,303
Paljassaare Kalatööstuse AS	48	117
SSV-Säilöntä Oy	50	4,766
Suomen NP-Kierrätys Oy	25	25
Tietolaari Oy	50	50
Turengin Meijerikiinteistöt Oy	50	483
Uudenmaan Kunnossapito Oy	30	131
Viable Bioproducts Oy	43	2,021

## PARENT COMPANY OWNERSHIP

	Number of shares	Face value	Book value	Net income/(loss) in latest year-end accounts
Norstep Oy *	946	473	474	1,370
Pakastamo Oy *	660	3,300	3,300	3
Paljassaare Kalatööstuse AS *	336	USD 25	136	-
SSV-Säilöntä Oy *	5,000	5,000	2,725	1,728
Suomen NP-Kierrätys Oy *	10	10	25	-
Tietolaari Oy	50	50	50	-
Turengin Meijerikiinteistöt Oy **	50	500	500	11
Uudenmaan Kunnossapito Oy *	90	180	180	(149)
Viable Bioproducts Oy	43	430	2,021	-
			9,411	

\* Year-end accounts Dec. 31, 1994 and fiscal year 12 months

\*\* Year-end accounts Aug. 31, 1994 and fiscal year 12 months

## 83. PARENT COMPANY

## OTHER STOCKS AND SHARES

	Ownership %	Number of shares	Face value	Book value
Cultor Oy	2.1	481,672	5,780	43,393
Finnair Oy	0.0	28,080	140	391
Kansallis-Osake-Pankki	0.1	1,002,500	5,013	5,213
Lännen Tehtaat Oy	5.4	324,552	3,246	7,664
Metsä-Serla Oy	0.2	50,150	2,507	3,092
MTV Oy	1.6	877	438	1,742
Sampo Vakuutusosakeyhtiö	0.0	2,335	47	387
Oy Talentum Ab	0.6	23,400	234	1,426
YIT-yhtymä Oy	3.3	667,670	6,677	14,800
Meijerien Keskinäinen Vakuutusyhtiö	-	100	10,000	10,064
Kiinteistö Oy Biocity	5.5	1,246	12	24,266
Huoneistoarvopaperit	-	-	-	36,969
Helsingin Puhelinyhdistys	-	265	-	460
Other stocks and shares	-	-	-	2,385
				152,252

	CONSOLIDATED		PARENT COMPANY	
	1994	1993	1994	1993
9. TANGIBLE AND INTANGIBLE ASSETS				
Immaterial rights				
Acquisition cost at beginning of year	9,163	13,181	3,755	8,719
Increases	1,772	1,743	1,195	1,036
Decreases	(791)	(6,101)	-	(6,000)
Acquisition cost at year end	10,144	8,823	4,950	3,755
Accumulated depreciation at year end	(6,428)	(4,267)	(1,823)	(1,486)
Book value at year end	3,716	4,556	3,127	2,269
Other capitalized expenditure				
Acquisition cost at beginning of year	141,712	117,990	126,059	99,873
Increases	5,687	25,585	5,687	24,656
Decreases	(25,978)	-	(25,970)	-
Acquisition cost at year end	121,421	143,575	105,776	124,529
Accumulated depreciation at year end	(82,768)	(66,200)	(71,019)	(57,937)
Book value at year end	38,653	77,375	34,757	66,592
Buildings and constructions				
Acquisition cost at beginning of year	1,035,944	807,327	822,995	766,704
Increases	604,719	86,451	541,311	69,982
Decreases	(60,922)	(13,691)	(60,284)	(13,691)
Acquisition cost at year end	1,579,741	880,087	1,304,022	822,995
Accumulated depreciation at year end	(513,453)	(369,525)	(412,111)	(361,846)
Book value at year end	1,066,288	510,562	891,911	461,149
Accumulated difference between planned and book depreciation at beginning of year	180,404	109,984	135,510	109,984
Increase of accumulated difference between planned and book depreciation	150,064	25,526	150,064	25,526
Decrease of accumulated difference between planned and book depreciation	(17,005)	-	(16,494)	-
Accumulated difference between planned and book depreciation at beginning of year	313,463	135,510	269,080	135,510
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	1,785,802	1,293,401	1,288,907	1,182,436
Increases	551,045	161,574	474,187	108,002
Decreases	(103,848)	-	(74,244)	-
Acquisition cost at year end	2,232,999	1,454,975	1,688,850	1,290,438
Accumulated depreciation at year end	(1,297,117)	(877,537)	(956,069)	(817,854)
Book value at year end	935,882	577,438	732,781	472,584
Accumulated difference between planned and book depreciation at beginning of year	278,856	222,859	223,646	222,859
Increase of accumulated difference between planned and book depreciation	167,681	1,550	157,874	787
Increase of accumulated difference between planned and book depreciation	19,555	-	19,555	-
Decrease of accumulated difference between planned and book depreciation	(3,590)	-	-	-
Accumulated difference between planned and book depreciation at year end	462,502	224,409	401,075	223,646
Book value of machinery at year end	687,932	376,466	524,479	271,612



	CONSOLIDATED	PARENT COMPANY		
	1994	1993	1994	1993
10. TAXATION VALUES				
Land and water areas	107,818	92,896	102,888	88,015
Buildings and constructions	607,542	344,223	482,032	294,811
Stocks and shares				
Real estate subsidiaries	29,046	30,807	29,046	30,807
Subsidiaries	-	-	206,006	124,022
Other companies	134,662	196,289	125,448	187,455
	163,708	227,096	360,500	342,284

Where taxation value is not available, book value is used.

11. STOCKS AND SHARES AND LOANS RECEIVABLE INCLUDED IN LONG-TERM INVESTMENTS				
Group companies				
Stocks and shares	-	-	240,893	152,774
Loans receivable	-	-	212,898	231,677
Total	-	-	453,791	384,451
Affiliates				
Stocks and shares	-	-	9,411	22,580
12. RECEIVABLES DUE AFTER ONE YEAR OR LATER				
Accounts receivable	6,029	7,934	5,976	7,934
Other receivables	11,397	15,000	9,431	15,000
13. RECEIVABLES AND PAYABLES/ GROUP COMPANIES AND AFFILIATES				
Accounts receivable/Group companies	-	-	121,111	88,513
Accounts receivable/Affiliates	-	-	272	-
Other receivables/Group companies	-	-	6,157	4,878
Accounts payable/Group companies	-	-	115,784	31,387
Accounts payable/Affiliates	-	-	1,652	61,806
14. LOANS TO SHAREHOLDERS	-	-	5,000	104,882

	CONSOLIDATED	PARENT COMPANY		
	1994	1993	1994	1993
<b>15. CHANGES IN SHAREHOLDERS' EQUITY</b>				
Share capital Jan. 1, 1994/Jan. 1, 1993	431,740	431,740	431,740	431,740
Transfer from share issue	134,780	-	134,780	-
Share issue April 21, 1994	19,820	-	19,820	-
Share capital Dec. 31	586,340	431,740	586,340	431,740
Share issue Nov. 1, 1993	-	134,780	-	134,780
Legal reserves Jan. 1, 1994/Jan. 1, 1993	88,949	79,175	54,617	54,617
Net balance of mergers	(19,037)	-	(19,037)	-
Parent company shares held by subsidiary	(8,540)	-	-	-
Translation adjustments	(18,817)	9,774	-	-
Legal reserves Dec. 31	42,555	88,949	35,580	54,617
Distributable earnings				
Distributable fund Jan. 1	205,366	179,565	205,366	179,565
Transfer from retained earnings	41,937	25,801	41,937	25,801
Distributable fund Dec. 31	247,303	205,366	247,303	205,366
Retained earnings	71,040	50,116	85,543	68,975
Dividends	-	-	(43,606)	(43,174)
Transfer to distributable fund	(41,937)	(25,801)	(41,937)	(25,801)
Group distribution of retained earnings	(42,743)	(43,332)	-	-
Retained earnings	(13,640)	(19,017)	-	-
Net income for the fiscal year	95,982	90,057	127,921	85,543
Distributable earnings Dec. 31	329,645	276,406	375,224	290,909

	CONSOLIDATED	PARENT COMPANY		1993
	1994	1993	1994	
16. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from financial institutions	148,840	104,803	122,868	84,465
17. BONDS PAYABLE	-	-	113,250	113,250
The bonds payable have been paid on March 2, 1995				
18. ASSETS PLEDGED AND CONTINGENCIES				
For own liabilities				
Pledges	355,420	204,246	354,321	204,246
Mortgages	1,241,442	685,429	1,149,210	683,110
For liabilities of Group companies				
Guarantees	-	-	152,837	167,362
For other companies				
Guarantees	5,998	26,679	4,972	26,679
Joint guarantees	1,461	2,961	1,461	2,961
Other contingencies				
Leasing commitments	9,419	5,543	3,381	5,043
Pension liabilities	7,329	10,911	5,508	10,911
Total				
Pledges	355,420	204,246	354,321	204,246
Mortgages	1,241,442	685,429	1,149,210	683,110
Guarantees	7,459	29,640	159,270	197,002
Pension liabilities	7,329	10,911	5,508	10,911
Other contingencies	9,419	5,543	3,381	5,043
	<u>1,621,069</u>	<u>935,769</u>	<u>1,671,690</u>	<u>1,100,312</u>

## THE BOARD OF DIRECTORS' PROPOSAL TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31, 1994 are FIM 329,645,000.

The parent company distributable earnings at Dec. 31, 1994 are:

Distributable fund	FIM 247,302,806.49
Net income for the fiscal year	FIM 127,921,073.46
<hr/>	
Total	FIM 375,223,879.95

The Board of Directors proposes to the Annual General Meeting that a dividend of 12% on the nominal value of the shares or FIM 2,400 per share be declared	FIM 70,360,800.00
to the distributable fund be carried over	FIM 57,560,273.46
<hr/>	
Total	FIM 127,921,073.46

Further the Board of Directors proposes to the Annual General Meeting that the net balance of mergers be covered from legal reserves.

Should the Annual General Meeting approve the above proposal, company shareholders' equity would be as follows:

Share capital and legal reserves	
Share capital	FIM 586,340,000.00
Legal reserves	FIM 35,579,851.98
<hr/>	
	FIM 621,919,851.98
Distributable earnings	
Distributable fund	FIM 304,863,079.95
<hr/>	
Total shareholders' equity	FIM 926,782,931.93

Helsinki March 16, 1995

*Ilmari Tuovinen*

*Tauno Mikkola*

*Matti Kavetvuo*  
President, CEO

*Jarno Mäki*

*Jouko Kallio*

*Matti Rinta-Kobtamäki*

## **REPORT OF THE AUDITORS**

To the Shareholders of Valio Ltd

We have audited the accounts, the accounting records and the administration of Valio Ltd for the 1994 fiscal year. The accounts prepared by the Board of Directors and the President include, both for the group and the parent company, an annual report, an income statement, a balance sheet, a statement of sources and application of funds and notes to the accounts. We provide our opinion on the accounts and the administration based on our audit.

We have audited the accounting records, and the accounts, the disclosures and the presentation of information, including the accounting policies to the extent generally accepted auditing standards require. The audit of the administration has included obtaining assurance that the actions of the members of the Supervisory Board, the Board of Directors and the President have been in conformity with the regulations of the Companies' Act.

In our opinion the accounts have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the accounts, and give a true and fair view, as referred to in the Accounting Act, of the parent company's and the group's results from operations and financial position. The net income of the group for the fiscal year is FIM 95,982,000 and the parent company net income is FIM 127,921,073.46.

The accounts including the group accounts may be approved, and the members of the Supervisory Board, the Board of Directors and the President may be discharged from liability for the fiscal year audited by us.

The proposal of the Board of Directors concerning the disposition of the unrestricted shareholders' equity according to the balance sheet is in accordance with the Companies' Act.

Helsinki, March 17, 1995

*Martti Pynninen*

*Matti Timlin*

*Tauno Haataja*  
Authorized Public Accountant

## **STATEMENT BY THE SUPERVISORY BOARD**

We have examined the financial statements for January 1, 1994 to December 31, 1994 and the audit report.

We recommend approval of the Parent Company's income statement and balance sheet and the consolidated income statement and balance sheet and concur with the proposal of the Board of Directors for disposal of the profit.

Eero Hiironen, Eero Jukkara, Matti Karvo, Jussi Mönkkönen, Terho Paavola, Esko Pohjala and Matti Suntela are due to resign from the Supervisory Board.

Helsinki, March 22, 1995

On behalf of the Supervisory Board

*Niilo Mäki*

Chairman

## MILK PRODUCTION

In 1994 2,434 million liters of milk were produced in Finland, which is 48 million liters or 2 percent more than the figure for the previous year. Ninety-five percent of the milk produced, that is 2,316 million liters, was delivered to dairies. Valio Group dairies took delivery of 1,781 million liters in 1994. The Valio Group comprises all the co-operatives which have merged their industrial operations with Valio or leased their production facilities to it, and owner dairies<sup>1)</sup> which marketed their products through Valio during the entire fiscal year.

The average yield per cow rose considerably and amounted to 5,869 liters.

Measures undertaken to offset seasonal fluctuations continued to produce results. The seasonal fluctuation index for 1994 (the ratio of the June milk volume to that of November) was 112 as opposed to 115 the previous year.

At the end of 1994 there were 33,167 milk producers in Finland, and 1,068, or about 3 percent, terminated operations during the year. Milk producers in the Valio Group numbered 25,581 at the end of the year.

## PRODUCTION POLICY

There were no noteworthy changes in the quota system during 1994.

Milk producers were charged an export financing fee of FIM .004 per 0.1 percent in milk fat content when the fat content of the milk delivered exceeded 3.7 percent.

A milk production subsidy of FIM 0.32 per liter was paid on average during the year.

Operations of the milk fund maintained by Valio and Milka were terminated at the end of the year. Milk producers were charged FIM .05 per liter of milk to cover the costs of exporting during the year under review.



*Academician Artturi Ilmari Virtanen (1895-1973), winner of the Nobel Prize for chemistry, was director of the Valio Laboratory for nearly 50 years.*



## THE AGRICULTURAL MARKETING SYSTEM

The Agricultural Subsidies Act was replaced by the Agricultural Marketing System Act at the beginning of the year. Minimum prices were set in addition to the target prices. The target prices were used in setting the import fees and the minimum prices in determining the export subsidy. The target price for milk was FIM 2.82 per liter after March 1, 1991 and a minimum milk price of FIM 2.76 was introduced on July 1, 1994.

Quantitative limitations on imports were replaced by an import levy.

## TRADE POLICY

The EEA system was in effect during 1994. However, no compensation based on price differences between the EEA and EU countries was introduced during the year.

The GATT round was concluded. The present GATT agreement requires reductions in internal and export support to agriculture. In addition to subsidies, GATT also has an impact on the level of import duties. Changes affecting the agricultural trade will be implemented gradually until 2000. Pressures to adjust in EU farm policy are great and repercussions are also expected on the Finnish milk market.

## EFFECTS OF EU MEMBERSHIP ON THE MILK MARKET

Finland's coming accession to the EU was already evident at the end of 1994, when large volumes of agricultural produce were exported to avoid disrupting the market. Efforts were made to reduce inventories before the new year.

Trends in the dairy product market, the EU market system, subsidies during the transition period, elimi-

nation of the primary product deduction and exchange rates will all have an impact on the income received by the milk producer. The domestic price structure for milk products was brought into line with that of the EU. Prices for cheeses, butter and spreads in particular declined. Prices for some fresh products, mainly milks and fermented milk products, rose slightly, while those of creams decreased.

The substantial drop in export subsidies also had a great effect on the income base of milk producers. No support is paid for exports to the EU area at all, and support for exports outside the EU will be approximately one-third less than it is today.

The main changes in the quota system brought about by EU membership are a shift in the beginning of the quota year to April 1, annual adjustments to farm quotas on the basis of the average fat percentage and per-farm quotas for direct retailing. Bringing the producer quota into line with the country quota will cause problems in the transition period. Total producer quotas exceed the country quota by approximately 100 million liters.

## PROCESSING

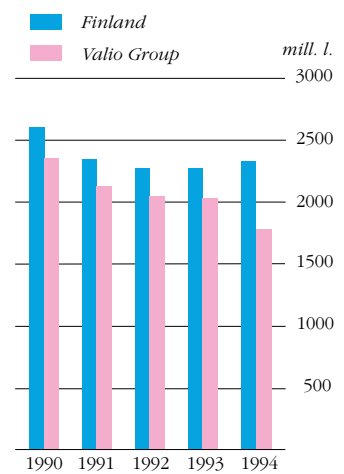
Forty-six percent of the milk received by Valio Group dairies was used in the manufacture of fresh products and 43 percent in the manufacture of cheeses. The proportion of cheeses increased from last year and that of fresh products remained constant. The proportion of raw material used in milk powders has increased slightly since 1993.

## FARM SERVICES

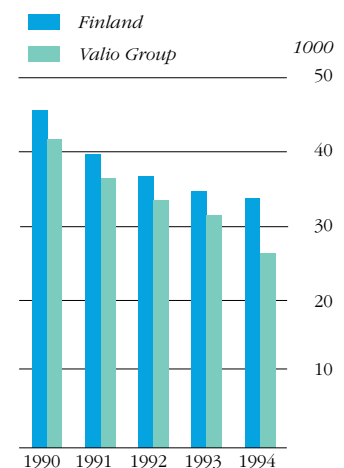
The function of Farm Services is to ensure an adequate volume of good-quality raw material for the dairy industry by researching and developing feed production and the feeding, care, health and production environment of dairy cattle, and milk handling, and by consulting with milk producers on all these factors.

Introduction of quality systems related to primary production was undertaken in all areas of Farm Services, both on farms and in the co-operatives. Milk quality improved, measured both bacteriologically and by the number of somatic cells. In fact, Finnish milk was judged best in a Nordic comparison made at the end of the year.

VOLUME OF DAIRY MILK



NUMBER OF MILK SUPPLIERS



### Production statistics for Valio Group Dairies

	Number of coops	Milk supply mill. l	Butter mill. kg	Cheese mill. kg	Milk powder mill. kg	Liquid milk products mill. l
1984	134	2,701.7	69.8	62.6	87.0	959.1
1985	127	2,585.5	61.3	65.9	74.5	947.8
1986	125	2,578.2	61.0	65.3	74.4	922.6
1987	124	2,471.3	56.6	67.1	62.5	912.8
1988	115	2,323.5	50.3	68.2	40.6	942.8
1989	104	2,319.9	50.7	71.1	35.7	951.2
1990	83	2,361.9	51.0	80.8	40.8	945.8
1991	58	2,116.1	47.5	73.0	26.1	922.6
1992	54	2,048.3	43.0	77.0	14.5	933.2
1993	51	2,023.3	40.9	76.7	11.8	916.1
1994 <sup>1)</sup>	34	1,781.1	37.4	72.0	13.7	775.9

<sup>1)</sup> Includes Härmän Seutu Co-operative Dairy, the Liperi, Kaustinen, Kyrönmaa and Lammi Co-operative Dairies and the Laaksojen Maitokunta Co-op of Ylivieska.

Courses in improving profitability of milk production were continued, and 7,500 producers took part. Services and training related to feed quality and production were continued. Consulting concerning construction of production buildings were provided together with the building consultant working groups and M-Rakennuskeskus Oy.

An association was established to oversee the feed and animal trade, with the aim of promoting cattle health. Valio is a founding member.

Development services concentrated on digestibility analysis related to the use of grass roughage and on new feed value systems and feeding schemes. The effects of feeding on the fertility of dairy cattle and future alternatives to concentrates were studied and the findings made available to farms.

Feeds marketed by the Farm Services were manufactured at the Kuitamaito Oy facility in Varkaus and were mainly sold in Finland. AIV silage additives were marketed through dairies and nationwide chains. Silage additives were manufactured by SSV Säilöntä Oy. AIV solutions maintained their market share despite heavier competition.

Coordination of advisory services supplied by herd control associations, dairy co-operatives and animal breeding associations was continued during the year.



**Liquid milk products manufactured by the Valio Group<sup>1)</sup>**

	1994
Milk	615.4 mill. l
Fermented milk	73.3 mill. l
Cream	22.8 mill. l
Yoghurt	44.2 mill. kg
Viili	23.6 mill. kg

<sup>1)</sup> Includes Härmän Seutu Co-operative Dairy, the Liperi, Kaustinen, Kyrönmaa and Lammi Co-operative Dairies and the Laaksojen Maitokunta Co-op of Ylivieska.



## FRESH PRODUCTS

During the fiscal year Valio Ltd manufactured fresh products at 16 production plants; 387 million liters of milk, fermented milk products and creams, 32 million liters of yoghurt and viili and 47 million liters of juice were manufactured at its production plants. Since the beginning of 1995, Valio Fresh Products is the division responsible for the production, marketing and export of fresh products.

Efforts to improve operations concentrated on development of quality systems and team work. The Herajoki Dairy received ISO 9002 quality certification for its entire production.

The strengths of Valio fresh products are in known brands, in a continuous refrigeration chain that assures product freshness and in a customer/consumer orientation.

Total milk consumption in 1994 declined somewhat from that of the previous year. The transition to low-fat or fat-free products continued. Sales of Valio Ltd beverages (milks, fermented milk products and juices) in Finland declined as competition intensified; some of the dairies which had previously sold their products through Valio initiated their own marketing, sales and distribution.

Sales of creams and other products used in cooking decreased. This was in part due to a slight decline in consumption, but also to tougher competition.

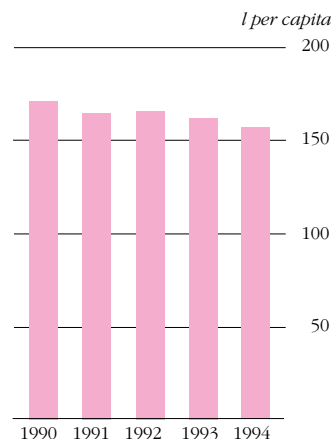
Yoghurt consumption increased rapidly in 1994 as did sales of Valio yoghurt. Valio's market shares increased considerably at the end of the year. Viili sales remained at the level of the previous year and sales of jellied milks increased substantially.

Especially successful new products were Valio Light Yoghurt and the Jogy product family; they were crucial to the trend for yoghurt sales in general. Other new products include low-lactose pasteurized Valio semi-skim milk and whipping cream and low-lactose Fanny pudding.

The key importers of fresh products were Russia (the St. Petersburg and Murmansk areas), the Baltic States and Sweden. Efforts were made to strengthen the position of Valio brand products on these markets. Sales are handled through Valio's subsidiaries. In Estonia, Valio became a shareholder in Tapila A/S, which is building a market milk dairy plant in Estonia.



MILK CONSUMPTION  
IN FINLAND



## CHEESE

Valio Ltd manufactured cheese at 12 production plants in Finland during 1994. In the United States Valio has cheese production and marketing companies and a marketing company in Belgium. Valio's own production was supplemented by imports of small volumes of cheese for marketing in Finland. Since the beginning of 1995 Valio Cheese has been the division of Valio Ltd responsible for the production of cheese in Finland and abroad and for marketing and exports.

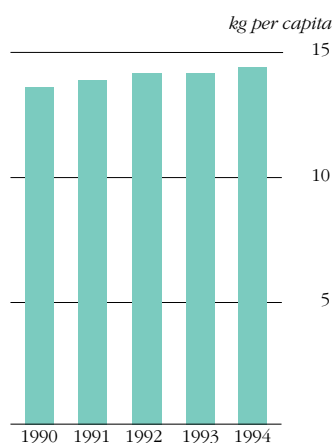
Valio's own cheese production in Finland totaled FIM 56 million kilos or 2 percent more than in the previous year. In 1994, the volume of Valio cheeses sold in Finland was 4 percent less than in 1993. The decrease was due to keener competition.

The main cheeses were Valio Emmental, Valio Edam, Oltermanni, Aura, Polar, processed cheeses and various fresh cheeses. Increased supply reduced the price of edam in particular. Prices were reduced by EU expectations at the end of the year.

Valio cheeses held their position on the domestic market despite increased competition. The success of Valio cheese is based on known brands, high-quality products, knowledge of taste preferences and good customer service.

Valio cheese exports in 1994 were 6 percent higher than those of the

CHEESE CONSUMPTION  
IN FINLAND



previous year. Exports increased on all the main markets. Efforts concentrated on areas near Finland. Exports to Sweden tripled and trade with Russia grew. Emmental was the most important export cheese and its main markets were in the United States and Belgium.

Net sales by Valio International Belgium totaled FIM 209 million. Valio managed to keep Finnish emmental the leading imported cheese despite tough competition and reduced sales due to the unusually hot summer.

Sales by Valio International USA totaled FIM 364 million. The sales of locally manufactured European

cheeses began one year behind the original schedule. The problems of the American dairy industry were especially reflected in sales of traditional American cheeses.





## DAIRY FATS

Valio Ltd manufactured dairy fats at five production plants. Since the beginning of 1995, Valio Edible Fats has been the division in charge of production, marketing and exports of these products.

Twenty million kilos of dairy fats were manufactured at the division's own production plants.



Valio was the retail market leader in yellow fats in terms of both volume sold and value. Market shares remained strong although the competitive situation changed when some of the co-operative dairies took over their own sales.

The most significant development in the entire product line was the overall decline in prices, which applied especially to butter and margarines. Valio Dairy Butter's market share increased substantially towards the end of the year, while that of Voimariini declined.

Valio's strengths were in known brands and good customer service. Manufacture of the spread Voilevi 60 is based on the fractionation of milk fat; vegetable oil does not need to be hardened chemically as in the manufacture of other margarines.

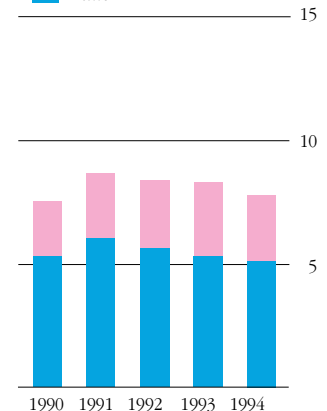
The Valio Seinäjoki plant was granted ISO 9002 quality certification, which covers the manufacturing of butter, butter oil, low-fat spreads and fractionation products as well as the main functions of the process.

Exports of Valio dairy fats increased by 40 percent. The main importing country was Russia.



CONSUMPTION OF DAIRY FATS IN FINLAND

■ Dairy spreads  
■ Butter kg per capita





*Voimariini*®

**Voimariini**

## MILK POWDER AND UHT PRODUCTS

Valio Ltd's drying operations are concentrated in the subsidiary Kuivamaito Oy. All Valio's UHT products are made at the Turenki plant. Since the beginning of 1995 Kuivamaito Oy and Valio Ltd's baby food production have formed the Powdered and UHT products Division, which is responsible for the production, marketing and export of milk powders and baby foods.

Fifteen million liters of ready-to-use baby foods and two million kilos of baby food powders were produced.

No noteworthy change occurred in the competition situation on the baby food market in 1994. The Tutteli baby product series was the market leader. Ready-to-use porridge for infants was a new addition to this product family. It had a good reception alongside powdered products and expanded the product family according to expectations.

Fifty-three million kilos of powders - whey powders, lactose, infant formula and milk powders - were manufactured at six production plants. A small volume of powders was sold in retail outlets, and there was no significant change from the previous year. The range of powders for institutional kitchens was converted to low-lactose HYL A products™, which assured growth in accordance with targets. Makao cocoa powder was also converted to a HYL A product. Sales of industrial powders were steady and remained on the level of the previous year. Sales to the bakery industry grew most. EU membership has reduced prices for powders and contracts for shorter terms are prevalent.

The production and marketing of a SUVAL™ whey salt was begun; this is a new application of chromatographic separation. SUVAL can replace some of the salt used in food preparation. The product reached the finals of the Finnish Food Product of the Year competition.

Nine million kilos of feed powder were manufactured at Varkaus and nearly 14 million kilos of feeding compounds.

Exports of demineralized whey powder and lactose to traditional markets proceeded satisfactorily. Nearly 2 million kilos of baby food powders were exported, mainly to Russia.

**Tutteli**



**HYLA**®

## VALIO ICE CREAM

Valio Ice Cream is manufactured at Turenki. Since the beginning of 1995, Valio Ice Cream has been the division of Valio Ltd responsible for the production, marketing and export of ice cream.

A record 48 million liters of Valio ice cream were manufactured; growth totaled 35 percent from the previous year. Valio Ice Cream has invested resources in quality and the continuous development of operations for several years. These efforts

were rewarded last summer when Valio Ice Cream was the first ice cream plant in the Nordic countries to receive the ISO 9001 quality certification.

Along with Sweden and Norway, Finland is among the top ice cream consumers in Europe. Per capita consumption is 13 liters. Sales of Valio Ice Cream rose by 12 percent in 1994. An unusually long hot summer, new methods of selling and increased competition contributed to the growth in consumption.

Competition in Finland increased considerably. Valio Ice Cream preserved its market share of over 50 percent. Its positions in the retail trade and catering sector were preserved, although there were essential changes in the ice cream market. A new multinational competitor entered the market, door-to-door sales began, and ice cream manufacturers already on the market stepped up their operations.

Valio Ice Cream's exports increased by 55 percent. The main export markets were Russia, Estonia, Lithuania and Latvia.

Marketing by Valio Ice Cream concentrated on building up strong brand products. The best known are Valiojätelö, Classic, La Gala, Super and Joke. Strong, well-known brands make Valio Ice Cream strong as competition get tougher.



## DOMESTIC SALES

Valio Ltd's regional profit centers are responsible for the sales and distribution of the products of Valio's own plants and of co-operative dairies which have marketing contracts with Valio Ltd.

At the beginning of 1994 there were 10 regional profit centers: Helsinki, Jyväskylä, Kuopio, Joensuu, Kouvola, Northern Finland, Riihimäki, Seinäjoki, Tampere and Turku. The regional profit centers of Jyväskylä, Kuopio and Joensuu were combined to form the Eastern Finland regional profit center. Sales in this region were concentrated in Jyväskylä.

After termination of the marketing agreement between Valio and the Kainuu Co-operative Dairy, distribution in the region now takes place out of Oulu.

After the Hämeenlinna Co-operative Dairy terminated its co-operation with Valio, Hämeenlinna and its surrounding area were transferred from the Tampere regional profit center to that of Riihimäki as of March 1, 1994.

After the lease agreements concerning production made with the western dairies (Maito-Aura, Maito-Pirkka/Finnmilk, Hämeen Osuusmeijeri, Etelän Maitokunta) took effect on June 1, 1994, sales and distribution of products manufactured by these dairies were taken over by the Tampere, Turku and Helsinki regional profit centers. Efforts to eliminate overlapping in sales and distribution were begun immediately. Because of the investments required, distribution in the Turku area cannot be combined until 1995.

Concentration in warehousing continued. Storage of slow-circulation frozen products was concentrated almost entirely in Helsinki. Most of the storage of solid products in Kuopio was terminated and the products are now distributed from Jyväskylä.

The new main warehouse in Helsinki reached the running-in stage in fall 1994, which allowed transfer of

### *Sales volume by Valio profit centers*

	1994 mill. kg/l	± % previous year
Fresh products	759.6	+8
Dairy fats	34.1	-9
Cheese	45.6	-4
Powders	14.0	-2
Ice cream	34.8	+12
Juices, jams, jellies	48.3	+6
Frozen foods	7.4	+6
Preserves	0.1	-56

### *Value of Valio's domestic sales*

	1994 FIM mill.	± % previous year
Profit centers:		
Fresh products	3,027.0	+10
Dairy fats	714.8	-12
Cheese	1,367.8	-5
Powders	188.6	-11
Ice cream	427.7	+13
Juices, jams, jellies	213.9	+4
Frozen foods	96.7	+7
Preserves	1.3	-37
Others	10.0	-1
Total	6,047.9	+2
Other domestic sales	587.0	-28
Domestic sales	6,634.9	-2

### *Valio's domestic sales by profit centers*

	1994 FIM mill.	± % previous year	percentage
Profit centers:			
Helsinki	1,266.5	-3	19
Eastern Finland	1,021.5	-2	15
Kouvola	724.8	-2	11
Oulu	786.4	-15	12
Riihimäki	662.9	+9	10
Seinäjoki	480.8	-1	7
Tampere	509.4	+31	8
Turku	595.6	+40	9
Total	6,048.0	+2	91
Head office, Helsinki	505.3	-23	8
Valio industry	81.6	-51	1
Domestic sales	6,634.9	-2	100

stocks from existing facilities to the new main warehouse. Due to initial difficulties in start-up, transfer of the Kouvola warehouse to the new main warehouse was scheduled for the first half of 1995.

Co-operation in distribution with other food product companies was continued and as a result the number of products distributed jointly rose significantly.

During 1994 a customer satisfaction project was undertaken; the aim is continuous development of operations. A training program covering the entire sales and distribution personnel is part of the project.

Sales by the regional profit centers totaled FIM 6,048 million, which represents an increase of two percent from the previous year. This is due to the transfer of production by

dairies which concluded leases to marketing, sales and distribution by Valio. Sales of dairy fats, cheeses and milk powders decreased because of declining volumes and prices.

Increased competition in the dairy industry reduced Valio's market shares as some owner dairies undertook their own marketing, sales and distribution.





## INTERNATIONAL OPERATIONS

Valio's latest efforts in international business operations focus on areas near Finland, including Sweden. Geographical proximity and the fact that Valio is well-known add competitive advantages which facilitated substantial growth of exports to these areas.

AOZT Valio Pietari (St. Petersburg) was founded at the end of 1994 and operations got underway in 1995.

Supported by the office in St. Petersburg, rapidly increasing volumes of products were already being delivered from Lappeenranta and Helsinki during 1994. Valio's office in Moscow also took part in the trade. The competition in St. Petersburg intensified and fluctuations in the rouble exchange rate caused problems. Nevertheless, exports to Russia and other countries of the CIS expanded encouragingly on the whole.

Valio Sverige AB (Sweden) was set up in 1994 and its operations be-

gan in August. At the outset, the company focused on marketing and sales of a rather wide range of cheeses, although other products will be included at the beginning of 1995.

1994 was the first complete fiscal year for Valio Eesti A/S (Estonia), and it was a very successful one. The key product lines were ice cream, juices and yoghurts. During the fiscal year Valio decided to acquire a 34 percent holding in a market milk dairy plant under construction near Tartu.

### *Valio's exports by main products 1994*

Milk powder 26% and 0%	mill. kg	± %
		previous year
The Netherlands	1.2	-
Other countries	1.6	-52
<b>Total</b>	<b>2.8</b>	<b>-16</b>

Demineralized whey powder (Demi)	mill. kg	± %
		previous year
China	7.5	+93
Ireland	4.3	-15
Hongkong	0.5	-
Other countries	0.7	-23
<b>Total</b>	<b>13.0</b>	<b>+32</b>

Lactose	mill. kg	± %
		previous year
Japan	6.4	-11
South Korea	0.6	+8
Other countries	0.9	+1
<b>Total</b>	<b>7.9</b>	<b>-9</b>

Whey powder	mill. kg	± %
		previous year
Taiwan	1.8	+515
China	1.7	
The Netherlands	1.6	
Japan	1.0	
Other countries	0.8	-20
<b>Total</b>	<b>6.9</b>	<b>+418</b>

Cheese	mill. kg	± %
		previous year
Belgium	7.3	-8
USA	5.5	+1
Lebanon	2.4	+66
Russia	2.2	+168
Spain	1.5	+13
Other countries	4.5	+14
<b>Total</b>	<b>23.4</b>	<b>+6</b>

Dairy fats	mill. kg	± %
		previous year
Russia	11.8	+64
Egypt	1.3	-
Turkmeniya	0.9	-
Switzerland	0.9	-40
Lebanon	0.9	+32
Other countries	7.5	+166
<b>Total</b>	<b>23.3</b>	<b>+40</b>

### *Valio's exports of fresh products and ice cream to areas near Finland 1994*

	mill. kg	± %
		previous year
Juices	10.2	+145
Ice cream	5.3	+55
Yoghurt	2.7	+41

The dairy will sell its products in Estonia through Valio Eesti.

The decision to establish a company in Lithuania was made during the fiscal year.

In the Middle East, Valio acquired a minority holding in a cheese plant to be built in Syria; the plant will manufacture processed cheeses for the Syrian market. Valio will primarily contribute its expertise and licencing of the Penguin trademark, which is well-known in the area, for the processed cheese to be manufactured.

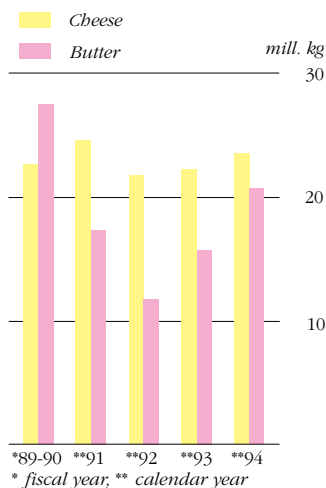
Valio's position in processed cheeses in Lebanon was strengthened with the Smeds brand, which is the market leader. Marketing of butter pats under the Smeds brand continued in Lebanon during the fiscal year.

Preparations to sell off Scientific Hospital Supplies International in the UK were made during the fiscal year. The sale was carried out at the beginning of 1995.

During the fiscal year preparations were made for Finland's possible EU membership by charting the potential of some EU countries as new markets for the main product lines and by investigating the procedural changes in export operations caused by EU membership.

Lactobacillus GG starter cultures in the manufacture of dairy products and their operational technology were a source of rapidly increasing interest. During the fiscal year GG starter licencing contracts were made with several foreign companies.

VALIO LTD EXPORTS



## RESEARCH AND PRODUCT DEVELOPMENT

Valio's expenditure on research and product development totaled FIM 49 million. This is 0.6 percent of net sales and 4.1 percent of the value added. Fifty-eight new products or product variations were brought onto the retail market.

The technology and planning required for whey processing, especially chromatographic separation, and for the production of baby food were supplied together with Valio Engineering Ltd. to India, Italy, Switzerland and Denmark. A project involving the University of Helsinki and the Food Research Institute concerning fractionation of whey proteins was concluded. On the basis of the promising results, the research will be continued with financing from the Finnish Technology Development Centre (Tekes).

Research on the positive effects on health of the GG starter used in GEFILUS products was continued together with domestic and foreign research units. The results have been very encouraging. The rights to use this probiotic have already been licensed in several countries. GG starter for both Finland and abroad is produced in the starter unit of the research center.

A new starter called Bio Profit has been developed to replace the chemical preservatives used in various

products. The starter is already used in quark to replace sorbate. Production-scale applications of other products are now being made.

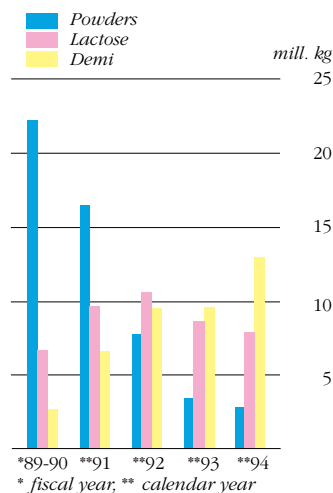
In nutrition, the focus was on initiating and conducting research with the University of Kuopio on lactose intolerance and on completion of studies related to the effects on the colonic metabolism of lactic acid bacteria and fibre. Interesting initial findings have been made concerning the effects of the antioxidants in milk.

The coverage and effectiveness of Valio's regional laboratories operations were further increased. The microbiology and hygiene unit of the Research and Development Center were accredited, particularly for research on milk and milk products and on assays of pathogens in environmental samples. Preparations for accreditation of some functions were made in the chemical laboratory.

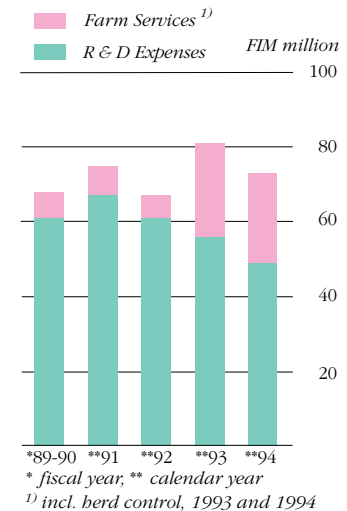
Quality assurance for the laboratory methods of Valio laboratory needed for sales approval of dairy fats and cheeses were streamlined and sales inspectors were trained for sensory assessment at the production plants.

The clientele of the R&D Information Service expanded to cover nearly all of Valio. Its own operations were developed through cost analysis and domestic and international benchmarking projects. Abundant information on EU legislation was acquired and the available CD ROM data base range was supplemented with EU research bases.

VALIO LTD EXPORTS



VALIO LTD RESEARCH & DEVELOPMENT EXPENSES



## OTHER SERVICE FUNCTIONS

The Valio Ltd jam and juice plant in Suonenjoki uses berries and fruit as its raw materials. The plant manufactures jams for flavoring milk products (yoghurt, ice cream, quarks and viilis), marmalades and jams used in bakery goods production and jams, marmalades, sugared juices and frozen berries used in institutional kitchens. Juice products are manufactured and packaged for the retail market in a new, aseptic cylindrical CartoCan container. Juices were also contract-packed in CartoCans for the Dutch and German markets during the fiscal year. Exports of jams and tomato ketchup to Russia and Estonia were also begun during the year.

The plant's entire production volume was a good 13 million kilos, representing growth of 88 percent from the previous year. Exports accounted for 5 million kilos of production.

The most significant item of capital expenditure during 1994 was the acquisition and start-up of a new jam production line.

## Milk and the Environment

*A clean environment is the foundation of the quality and freshness of Valio's products. Milk travels a long road from farms to consumers' tables. Valio's environmental policy includes the entire chain and it will help keep products fresh and clean in the future as well.*

*Valio has engaged to support the charter of sustainable development concerning business that was drawn up by the International Chamber of Commerce in 1991. It is a part of Valio's own environmental policy, which aims at a steady rise in the standard of environmental protection.*

*The volume of press juice can be reduced by converting to pre-wilted silage, which was emphasized by Farm Services during the fiscal year. Recovery of press juice from different types of silos was developed.*

*Adoption of completely CFC-free substances were recommended to milk producers planning to replace refrigerants or acquire new equipment. Since 1988 less harmful, partially halogenated substances, which can be used far into the next century, have been the refrigerants in new farm tanks.*

*Large volumes of water are used in dairy processes. The load on the environment will be reduced by minimizing raw material and product wastes. Improved recovery of rinses and water circulation have been studied at the Herajoki Dairy together with the Technology Development Centre (Tekes). The project has led to an investment program that will be carried out in 1995; the results can be applied at almost all production facilities.*

*Tests on the crushing and incineration of soiled packaging waste from dairies have been completed. According to the final report by Technical Research Centre of Finland, packaging waste can be safely used for auxiliary purposes in power plant boilers burning solid fuel.*

*The goal of logistical packaging design is to take into account the*

*functional requirements and costs of the materials chain that begins at the dairy and ends at the store. This approach allows for the most effective and economical overall packaging solution that also takes environmental factors into account.*



*Reusable distribution units, roll-in containers and plastic crates have proved functional for fresh products with a short sales time. They also generate the minimum environmental*

*load. Such distribution units will also be used for solid dairy products in the future. The potential for replacement of disposable cardboard trays as bases for plastic cups with recyclable plastic trays is being investigated.*

*Work on the introduction of improved packaging material alternatives was continued during the year; PVC plastic was eliminated from spread tubs, development of paper lids for plastic cups was continued and research on the replacement of butter wrapping with a non-aluminum alternative was initiated.*

*Valio has started to make adjustments to the EU directive on packaging and packaging waste with the Finnish Packaging Association. The directive was approved at the end of 1994 after many years of preparation. The obligations imposed by the directive will be carried out in Finland through an agreement between the packaging sector and the Ministry of the Environment.*

*Valio has concentrated on recycling of liquid packaging board and has financed a collection experiment since 1992. On the basis of the experience gained, Enso-Gutzeit Oy, Elopak Oy, Tetra Pak Oy and Valio founded Suomen NP-kierrätys Oy at the end of 1994. The new company's function is to organize collection and recycling of liquid packaging board throughout Finland. Collection will be handled by Paperinkeräys Oy and the raw material collected will be used in core board by the Corenso United Oy mill. The operation will be financed with packaging fees levied on packagers and importers*

## VALIO OWNERS DECEMBER 31, 1994

	Domicile	Number of shares (à FIM 20.000)
ALAVUDEN OSUUSMEIJERI	ALAVUS	99
ALUEOSUUSKUNTA PROMILK	LAPINLAHTI	2,138
ETELÄN MAITOKUNTA	VIHTI	377
EVIJÄRVEN OSUUSMEIJERI	EVIJÄRVI	40
FINNMILK OY	TAMPERE	337
HIRVIJÄRVEN OSUUSMEIJERI	JALASJÄRVI	46
HÄMEEN OSUUSMEIJERI	VALKEAKOSKI	233
HÄMEENLINNAN OSUUSMEIJERI	HÄMEENLINNA	231
HÄRMÄN SEUDUN OSUUSMEIJERI	ALAHÄRMÄ	79
IISALMEN OSUUSMEIJERI	IISALMI	276
KAINUUN OSUUSMEIJERI	KAJAANI	787
KANGASNIEMEN OSUUSMEIJERI	KANGASNIEMI	80
KANSALLIS-MEIJERI-OSUUSKUNTA	PYHÄJÄRVI	111
KAUHAJOEN OSUUSMEIJERI	KAUHAJOKI	79
KAUHAVAN OSUUSMEIJERI	KAUHAVA	67
KAUSTISEN OSUUSMEIJERI	KAUSTINEN	96
KESKI-POHJAN JUUSTOKUNTA	TOHOLAMPI	1,229
KESKI-SUOMEN MAITOKUNTA	JYVÄSKYLÄ	1,210
KIURUVEDEN OSUUSMEIJERI	KIURUVESI	229
KOILLISKUNTAIN OSUUSMEIJERI	SALLA	109
KORTESJÄRVEN OSUUSMEIJERI	KORTESJÄRVI	35
KUIVAMAITO OY	NASTOLA	427
KUUSAMON OSUUSMEIJERI	KUUSAMO	265
KYRÖNMAAN OSUUSMEIJERI	ISOKYRÖ	124
KÄRSÄMÄEN OSUUSMEIJERI	KÄRSÄMÄKI	87
LAAKSOJEN MAITOKUNTA	YLIVIESKA	180
LAMMIN OSUUSMEIJERI	LAMMI	113
LIPERIN OSUUSMEIJERI	LIPERI	162
NILSIÄN OSUUSMEIJERI	NILSIÄ	277
NIVALAN OSUUSMEIJERI	NIVALA	319
NURMEKSEN OSUUSMEIJERI	NURMES	608
OSUUSKUNTA IDÄN MAITO	JOENSUU	2,774
OSUUSKUNTA LAPIN MAITO	ROVANIEMI	563
OSUUSKUNTA MAITO-AURA	TURKU	1,514
OSUUSKUNTA MAITOJALOSTE	SEINÄJOKI	2,340
OSUUSKUNTA MAITOKOLMIO	TOHOLAMPI	244
OSUUSKUNTA MAITO-PIRKKA	TAMPERE	1,008
OSUUSKUNTA POHJOLAN MAITO	HAAPAVESI	2,332
OSUUSKUNTA RANNIKON MAITO	RAAHE	137
OSUUSKUNTA SATAMAITO	PORI	348
OSUUSKUNTA TUOTTAJAIN MAITO	RIIHIMÄKI	6,989
PAAVOLAN OSUUSMEIJERI	RUUKKI	32
SUONENJOEN YMP. OSUUSMEIJERI	SUONENJOKI	288
TYRNÄVÄN OSUUSMEIJERI	TYRNÄVÄ	1
VIEREMÄN OSUUSMEIJERI	VIEREMÄ	97
VIRTAIN OSUUSMEIJERI	VIRRAT	77
ÄHTÄRIN SEUDUN OSUUSMEIJERI	ÄHTÄRI	123
Shareholders, total 47		29,317
Total share capital		FIM mill. 568.34

## VALIO CONSOLIDATED AND SHAREHOLDER DAIRIES

Net sales and personnel, 1994

	Net sales FIM mill.	Personnel Dec. 31, 1994
<b>Valio Ltd</b>	8,111.0	3,952
<b>Valio Ltd Subsidiaries</b>		
Valio International U.S.A. Inc. (McCadam Cheese Co., Inc.) (Finlandia Cheese Inc.)	363.7	189
N.V. Valio International Belgium – Nordic Foods S.A.	209.0	21
Valio International UK Ltd (SHS International Ltd)	172.7	261
VBV Trading S.A.	44.3	3
Valio Eesti A/S	30.3	20
Valio Sverige Ab	9.8	20
AOZT Valio St. Petersburg	0.7	6
Kuivamaito Group (6 months)	241.5	410
Kuivamaito Group (12 months)	487.5	
Valio Data Oy (6 months)	36.3	103
Valio Data Oy (12 months)	68.9	
Valio Engineering Ltd.	17.7	28
Valio Bioproducts Ltd.	2.3	0
Subsidiaries, total		1,061
<b>Valio Consolidated, total</b> (Valio Ltd and subsidiaries)	8,578.0	5,013
<b>Owner Dairies *)</b>		578
<b>Valio Group, total</b>		5,591

\*) Shareholder dairies which have marketing contracts with Valio and milk supplying co-operatives

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