ANNUAL REPORT 1995

VALIO

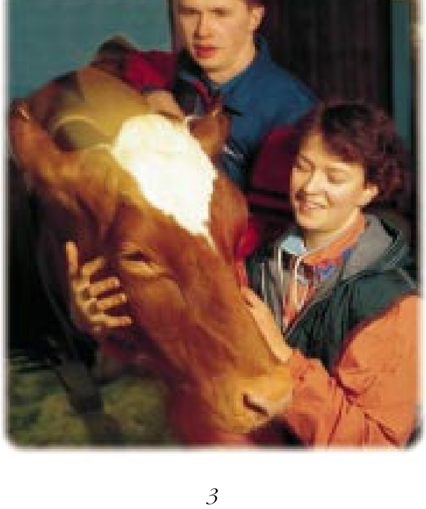
CONTENTS

Cover: Swimmer Anu Koivisto
Nordic Junior Championships 1994, gold medal
European Junior Championships 1995, silver medal
Finnish Junior Championships 1996:

- *four gold medals*
- *one silver relay medal*
- *one bronze relay medal*
- *three Finnish records*

Five-year Group Statistics

	1995	1994	1993	1992	1991
Net sales, FIM million	7,966.1	8,578.0	8,624.8	7,369.9	7,566.6
Change %	-7.1	-0.5	+17.0	-2.6	+3.7
Domestic, FIM million	6,422.7	6,416.3	6,527.1	5,366.7	5,551.2
Change %	+0.1	-1.7	+21.6	-3.3	+5.3
International operations, FIM million	1,543.4	2,161.7	2,097.7	2,003.2	2,015.4
Change %	-28.6	+3.1	+4.7	-0.6	-0.5
Balance sheet total, FIM million	4,575.1	5,364.3	4,348.2	3,898.4	3,525.9
Liabilities as a % of the balance sheet	53.6	61.3	64.8	64.4	63.0
Equity + provisions as a % of the balance sheet	46.4	38.7	35.2	35.6	37.0
Personnel expenditure, FIM million	945.2	752.5	597.8	560.1	616.6
Personnel, average	5,101	4,265	3,234	3,165	3,804
Inventories, FIM million	749.8	874.1	679.9	741.9	759.8
Capital expenditure, FIM million	279.1	194.2	227.1	291.3	243.9
Total depreciation, FIM million	262.6	264.1	216.9	191.9	198.4



Review by the CEO

For Valio, 1995 was the 90th year of operations and the first year of Finnish membership in the European Union. The changes made in Valio throughout the 1990s with the aim of developing the Group were now put to the test.

Concentration of marketing and distribution in 1993 was followed by similar measures in processing in 1994. The development programs were carried out in accordance with agreements approved by the shareholding dairies.

A new organizational structure based on product lines was established during the fiscal year. The new model focuses more keenly on markets and customers and is expected to further enhance profitabily within the Valio Group. Milk producer councils have been elected to each product division to make a platform for following market developments and for steering and supervising activities. The aim is to outline for the producers the operations of the company from a definite market point-of-view. Challenging objectives can thus be set for the operative management, while the producers are able to give management factual support. The latter has been crucial in pursuing the rationalization program now in progress.

To increase market and customer orientation in strategic planning is a fundamental goal. To achieve this, focus was placed on positioning of our key brands and on devising development programs to support them. Modern marketing skills and concepts were therefore widely instilled in both personnel and elected council and board members. The aim has been to ensure that all parts of the organization are contributing towards the building up of the market-oriented operations needed in the new competitive environment. An extensive training program for category management as the central tool for leadership and operations was introduced during the year. Category management is a continuous process through which we improve our understanding of the needs of consumers and customers; we can build and implement plans that will give us a leading edge over competition and deliver business benefits to both our company and our customers.

As the past year brought major changes in the competitive situation, attention was focused on monitoring of the market situation and the responses necessitated by it. During the current year attention must be paid not only to the market situation but also to improving the efficiency of internal processes and to implementing measures to increase productivity. Here our tool is quality management which will provide us with an understanding not only of technological quality but also of the quality of customers' needs. Neither can the Valio Group relax an inch in its efforts to improve cost effectiveness. Cost effectiveness is a crucial factor in competition in the dairy sector. Management must be able to assess the cost structures of operations continuously in order to allocate available resources correctly and to secure both the paid-out milk price and the necessary input in development.

During the fiscal year the Valio Group also drew up an owner strategy, which was discussed in the Valio Ltd Supervisory Board on the basis of the statements from the owner co-operatives. This program outlines the expectations of shareholders regarding future development for both council and board members and for the operative management. New structures to safeguard the interests of the dairy industry and dairy farmers took shape during the year. They will clarify methods and channels in the new situation.

Financial performance for the past year and the market changes in the new operating environment brought on by membership in the European Union took place much as we had anticipated. We have avoided the worst of the potential setbacks. The future entails needs for adjustment of which we are already aware, and which will require skill and determination on the part of both Valio milk producers and employees. With the progress already made I look forward to the future of the Valio dairy farms and dairy industry with confidence. I would like to thank all Valio people for their work. I would also like to thank all those we have worked with. The new year poses another tough challenge for every one in the milk industry and I want to wish all of you every success in this joint effort.

Matti Kavetvuo

The Best Milk in Europe – Fresh Every Day

Finnish milk gained important recognition during the first year of Finland's EU membership; it placed first in the EU quality statistics. Finnish milk is the best in the EU. Years of work on milk quality by the Valio Group have produced this estimable result.

Valio products begin their journey to consumers on Finnish farms. On 24,000 farms dairy cattle are nurtured, fed and milked with professional skill and care, morning and evening, every day of the year. High-quality Valio products can only be produced from first-class raw material.

Milk is taken from refrigerated farm tanks to dairies where it is converted into Valio Milk, Valio Yoghurt, Valio Edam, Valio Butter, Valio Ice Cream and Tutteli baby products. There are around 800 products, when all the packaging alternatives are taken into account.

Valio markets ready products in an unbroken refrigerated chain from the dairy to food stores, convenience shops, day-care centers and restaurants. Valio has 380 delivery trucks and on weekdays they log a total of 70,000 kilometers. Products are supplied to 20,000 customers.

Finns rely on Finnish food products. They are familiar and safe; the manufacturer knows his responsibility for them. Finnish products suit Finnish tastes and Finnish professionals - men and women - make Finnish food.

Valio is the standard at every Finnish table. Fresh every day.

Valio, Group Organization
January 1, 1995

ANNUAL GENERAL MEETING

SUPER-VISORY BOARD

BOARD OF DIRECTORS
CEO
Matti Kavetvuo

- Milk Pool
- Farm Services
- Member Relations
- Research and Development

Veijo Meriläinen

Central Administration and Business Support
- Finance and Administration
- Auditing
- Corporate Communications

Heikki Halkilahti

Valio Domestic Sales
General Manager
Markku Määttänen

Valio Fresh Products
General Manager
Pentti Paloranta

Valio Cheese
General Manager
Ensio Hytönen

Valio Edible Fats
General Manager
Tuomo Keurulainen

Kuivamaito (Powdered Products & UHT)
General Manager
Pentti Moisio

Valio Ice Cream
General Manager
Liisi Myllykangas

VALIO LTD

Supervisory Board

	Term began	Term ends
Niilo Mäki dairy farmer, Kortesjärvi Chairman	1982	1997
Markku Heikkinen dairy farmer, Tohmajärvi Vice Chairman	1991	1997
Pertti Hahl dairy farmer, Mikkeli as of April 27, 1995	1995	1998
Seppo Hakola dairy farmer, Kuortane	1994	1996
Pertti Heinonen dairy farmer, Oripää	1992	1996
Eero Hiironen dairy farmer, Saarijärvi	1991	1998
Eero Jukkara dairy farmer, Savitaipale	1989	1998
Matti Karvo dairy farmer, Rovaniemi	1994	1998
Juhani Myllykangas dairy farmer, Leivonmäki	1987	1996
Jussi Mönkkönen dairy farmer, Kaavi until April 27, 1995	1992	1995
Martti Nevalainen dairy farmer, Valtimo	1994	1996
Paavo Niskanen dairy farmer, Iisalmi as of April 27, 1995	1995	1998
Into Nummila dairy farmer, Iitti	1992	1997
Heikki Olkkonen dairy farmer, Alavus	1988	1996
Riku Ollikainen dairy farmer, Lapinlahti	1981	1997
Terho Paavola dairy farmer, Kaustinen until April 27, 1995	1992	1995
Pirkko Peltola-Kauppinen laboratory technician personnel representative	1993	1995
Esko Pohjala dairy farmer, Orivesi	1992	1998
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	1994	1997
Matti Suntela dairy farmer, Asikkala until April 27, 1995	1988	1995
Reino Tapani managing director, Turku	1992	1997
Tauno Uitto dairy farmer, Tyrnävä	1992	1997
Juhani Väänänen dairy farmer, Maaninka as of April 27, 1995	1995	1998

Board of Directors

	Term began	Term ends
Ilmari Tuovinen dairy farmer, Varpaisjärvi Chairman	1992	1997
Tauno Mikkola dairy farmer, Vilppula Vice Chairman	1992	1996
Jouko Kallio dairy farmer, Nivala	1992	1995
Matti Kavetvuo President, CEO, Helsinki	1992	
Jarno Mäki dairy farmer, Hausjärvi	1992	1997
Matti Rinta-Kohtamäki dairy farmer, Isokyrö	1993	1996

Auditors

Until May 30, 1995
Tauno Haataja, Authorized Public Accountant, Espoo
Pekka Isohanni, dairy farmer, Kannus
Jukka Hölttä, dairy farmer, Pertunmaa

Deputy auditors:
Pekka Luoma, Authorized Public Accountant, Espoo
Reino Parkko, dairy farmer, Elimäki
Matti Romppanen, dairy farmer, Juankoski

As of May 31, 1995
SVH Coopers & Lybrand Oy, Authorized Public Accountant

ANNUAL REPORT BY THE BOARD OF DIRECTORS
January 1, 1995 to December 31, 1995

CHANGES IN THE OPERATING ENVIRONMENT

Finland's accession to the European Union meant a drop of more than FIM 500 million in the Valio Group's net sales and net income. The major contributing factor was the conversion from the previous system of domestic export subsidies to the EU system, which reduced the Group's international net sales and net income by FIM 400 million.

While the Valio Group adjusted to the new operating environment, the extensive program of structural development begun in fall 1993 was brought to a conclusion. Operations were organized into market- and customer-oriented profit centers.

SHAREHOLDERS AND SHARE CAPITAL

The number of shareholders at the end of the fiscal year after the merger was 46 compared with 47 a year earlier.

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

CHANGES IN THE GROUP STRUCTURE

During the fiscal year Valio sold the entire share capital of Valio International UK Ltd and its holding in Valio Data Oy.

Valio acquired a 34 percent share in A/S Tapila, a fresh product dairy located near Tarto, Estonia. Since the end of the fiscal year, Valio's holding has increased to 90.1 percent.

Maito-Mix Oy, which was owned by the Valio subsidiary Kuivamaito Oy, was merged with Kuivamaito Oy.

COMPARATIVE DATA

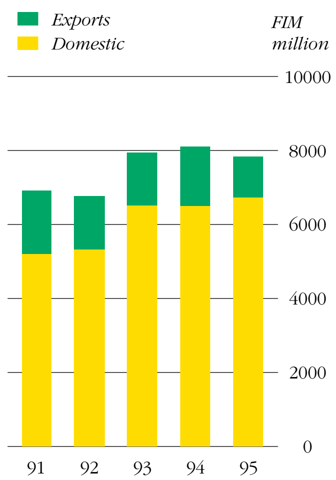
Because of significant changes in the Valio Group and the Group structure, the figures for the two fiscal years, 1994 and 1995, are not comparable.

NET SALES/CONSOLIDATED

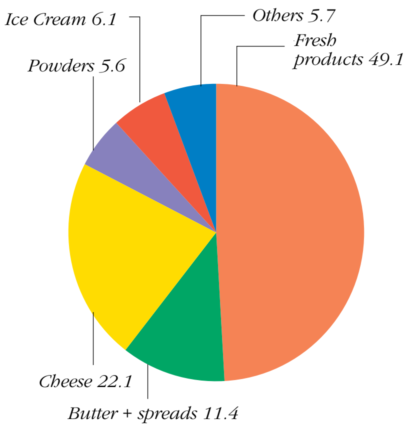
Consolidated net sales were FIM 7,966 million (FIM 8,578 million).

Domestic net sales were FIM 6,423 million (FIM 6,416 million). Net sales from international operations (exports from Finland and foreign subsidiaries) were FIM 1,543 million (FIM 2,162 million).

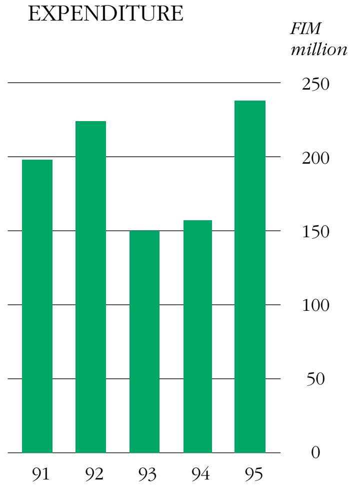
VALIO LTD NET SALES



VALIO LTD NET SALES BY PRODUCTS (%)



VALIO LTD CAPITAL EXPENDITURE



NET SALES/PARENT COMPANY

The net sales of Valio Ltd were FIM 7,839 million (FIM 8,111 million).

Domestic net sales were FIM 6,741 million (FIM 6,510 million). Net sales from exports were FIM 1,098 million (FIM 1,601 million).

CAPITAL EXPENDITURE

Consolidated gross capital expenditure totaled FIM 279 million (FIM 194 million) or 3.5 percent (2.3%) of net sales. Capital expenditure on buildings and land amounted to FIM 22 million and to FIM 255 million on machinery and equipment, the most important of which were implemented at the Turenki, Joensuu, Herajoki, Tampere and Kuivamaito production plants and the regional profit centers.

Investment in stocks and shares and other long-term expenditure totaled FIM 1 million each. Consolidated net capital expenditure was FIM 210 million (FIM 161 million).

PERSONNEL

The Group employed an average of 5,101 persons during the fiscal year compared with 4,265 during the previous year. The respective figures at the end of the fiscal year were 4,627 and 5,013.

The Parent Company employed an average of 4,351 persons during the fiscal year and 3,413 during the previous year. The respective figures at the end of the fiscal year were 3,943 and 3,952.

WAGES AND SALARIES

Salaries paid to Valio Group boards, supervisory boards and managing directors were FIM 7.1 million (FIM 7.9 million). Other wages and salaries were FIM 704.3 million (FIM 578.8 million).

The respective figures for Valio Ltd were FIM 2.0 million (FIM 1.7 million) and FIM 603.0 million (FIM 458.3 million). The retirement age of the Parent Company CEO is set at 62.

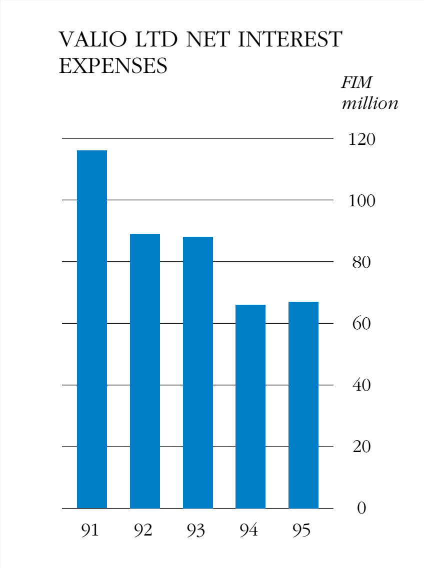
FINANCE

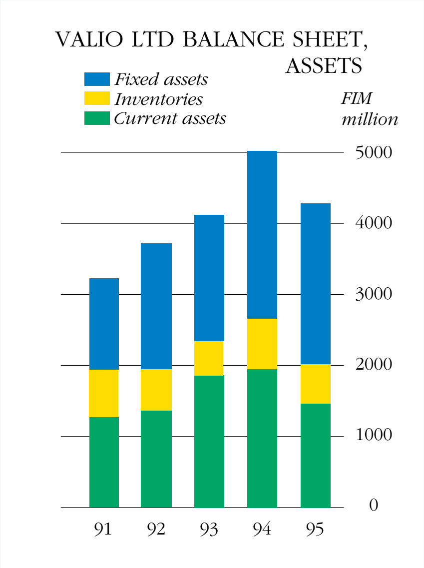
The liquidity of both the Group and the Parent Company was good throughout the fiscal year. Cash and bank and short-term deposits amounted to FIM 818 million at the end of the fiscal year compared with FIM 1,089 million at the beginning. Inventories at the end of the fiscal year totaled FIM 750 million and FIM 874 million at the beginning. Interest-bearing liabilities were FIM 856 million at the end of the fiscal year and FIM 1,377 million at the beginning.

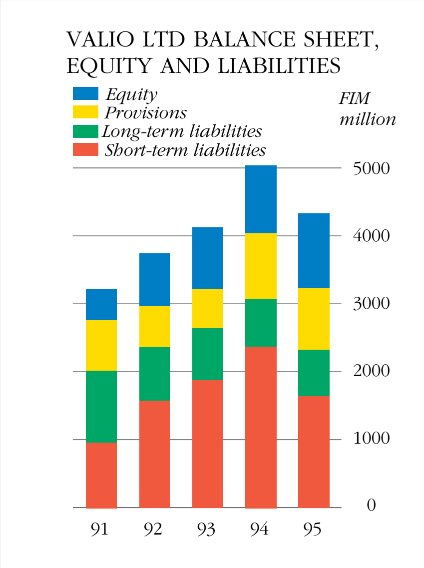
Net financing expenses were FIM 93 million (FIM 72 million) or 1.2 percent (0.8%) of consolidated net sales. Net interest expenses were FIM 82 million (FIM 83 million).

FINANCIAL PERFORMANCE

The consolidated profit before extraordinary items is FIM 60 million (FIM 232 million). Extraordinary items consist mainly of gains from the sale of subsidiaries and securities. Net extraordinary income totals







FIM 95 million (FIM -70 million).

The difference between planned and book depreciation was FIM 36.9 million (FIM -5.7 million). Depreciation is the maximum permitted under the Business Taxation Act. Taxes for the fiscal year were FIM 45.2 million (FIM 52.0 million). The net income for the fiscal year is FIM 148.4 million (FIM 96.0 million).

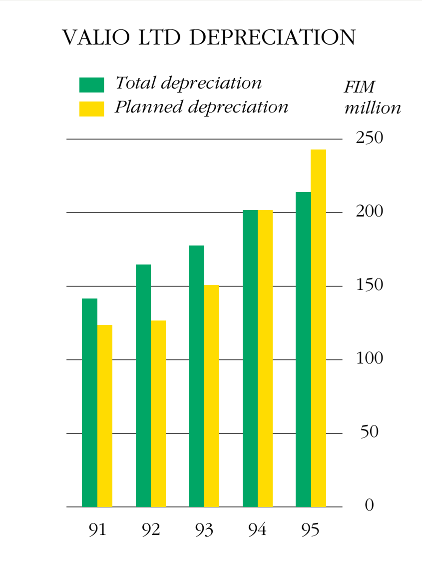
The Parent Company profit before extraordinary items is FIM 181.3 million (FIM 279.7 million). Extraordinary items – apart from those mentioned above – consist of write-offs on property and of Group contributions to a subsidiary.

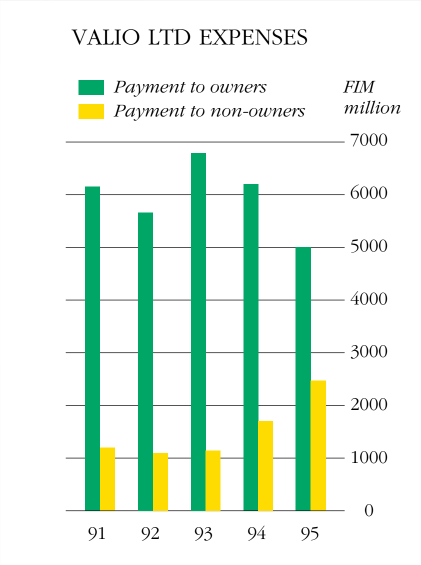
Planned depreciation exceeded book depreciation by FIM 29.3 million. For the previous year, planned depreciation and book depreciation were equal. Taxes for the fiscal year were FIM 45.1 million (FIM 52.1 million). The net income for the fiscal year is FIM 148.6 million (FIM 127.9 million).

PROSPECTS FOR 1996

Intense competition will persist on the markets. Structural rationalization has proceeded basically according to the program presented in fall 1994.

The Group is expected to show a smaller profit on operations than in 1995 .





CONSOLIDATED STATEMENT OF INCOME

	1995	1994
Net sales	7,966,137	8,578,035
Increase (+)/(decrease) in finished goods	237,629	(28,676)
Other income from operations	109,579	60,816
Variable expenses:		
Materials and supplies:		
Purchases	5,602,903	6,491,718
(Increase)/decrease (+) in inventories	347,308	27,341
Outside services	64,953	47,649
Personnel expenses	594,577	393,123
Other variable expenses	366,477	265,183
	(6,976,218)	(7,225,014)
Gross profit	1,337,127	1,385,161
Fixed expenses:		
Personnel expenses	350,607	359,372
Rents	77,073	67,620
Other fixed expenses	471,849	417,400
Operating fees	(15,235)	(21,280)
	(884,294)	(823,112)
Net income before depreciation	452,833	562,049
Depreciation on fixed assets and other capitalized expenditure	293,067	245,238
Amortization of goodwill	6,461	13,138
	(299,528)	(258,376)
Net income from operations	153,305	303,673
Financing income and expenses:		
Dividend income	5,626	3,431
Interest income	45,492	86,824
Other financing income	423	2,434
Net income from affiliated companies	513	6,724
Interest expense	(127,690)	(169,497)
Other financing expenses	(17,285)	(1,523)
	(92,921)	(71,607)
Net income before extraordinary items, allocations and taxes	60,384	232,066
Extraordinary items:		
Income	127,769	1,692
Expenses	(32,667)	(71,530)
	95,102	(69,838)
Net income before allocations and taxes	155,486	162,228
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	36,915	(5,744)
Allocation (to)/from (+) optional provisions	152	(7,204)
Taxes		
Current period	(45,212)	(51,984)
Previous periods	733	(140)
Net income before minority interest	148,074	97,156
Minority interest	(353)	1,174
Net income	148,427	95,982

All figures in FIM 1,000

CONSOLIDATED BALANCE SHEET

ASSETS	Dec. 31, 1995	Dec. 31, 1994
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	5,143	3,716
Goodwill	57,770	101,844
Other capitalized expenditure	27,357	38,653
	90,270	144,213
Tangible assets		
Land and water areas	75,471	78,649
Buildings and constructions	960,387	1,066,288
Machinery and equipment	866,850	887,678
Other tangible assets	47,565	48,204
Advance payments and construction in progress	69,350	43,167
	2,019,623	2,123,986
Investments and non-current assets		
Investments in affiliated companies	10,635	7,798
Stocks and shares	115,544	183,120
Loans receivable	13,466	9,057
	139,645	199,975
CURRENT ASSETS		
Inventories		
Materials and supplies	148,482	159,933
Semifinished goods	92,122	57,693
Finished goods	502,592	650,942
Other inventories	6,558	5,562
	749,754	874,130
Receivables		
Accounts receivable	631,458	746,683
Accrued income and prepaid expenses	92,778	154,450
Other receivables	34,030	31,881
	758,266	933,014
Current investments	727,789	927,608
Cash and bank	89,769	161,393
	4,575,116	5,364,319

All figures in FIM 1,000

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1995	Dec. 31, 1994
SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital and legal reserves		
Share capital	586,340	586,340
Legal reserves	36,494	42,555
	622,834	628,895
Distributable earnings		
Retained earnings	260,049	233,663
Net income for the fiscal year	148,427	95,982
	408,476	329,645
MINORITY INTEREST	19,797	24,023
PROVISIONS		
Consolidation difference	18,405	22,177
Accumulated difference between planned and book depreciation	743,949	780,879
Optional provisions		
Replacement provisions	16,000	16,000
Other provisions	293,219	300,609
	1,071,573	1,119,665
LIABILITIES		
Long-term debt		
Loans from financial institutions	572,986	692,781
Other long-term debt	121,688	146,926
	694,674	839,707
Current liabilities		
Loans from financial institutions	161,608	406,655
Bonds payable	-	113,250
Advance payments received	21,980	17,456
Accounts payable	1,328,055	1,565,929
Accrued expenses and prepaid income	200,168	249,985
Other current liabilities	45,951	69,109
	1,757,762	2,422,384
	4,575,116	5,364,319

All figures in FIM 1,000

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1995	1994
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	452,833	562,049
Financing income	52,054	99,413
	504,887	661,462
Capital financing		
Increase in long-term debt	3,935	596,104
Increase in minority interest	-	19,436
Increase in shareholders' equity	-	19,820
	3,935	635,360
	508,822	1,296,822
APPLICATION OF FUNDS		
Dividends	69,596	42,743
Financing and other expenses and taxes		
Financing expenses	144,975	171,020
Extraordinary items, (income)/expenses (+)	(127,765)	3,468
Taxes	44,479	52,124
	131,285	269,355
Capital expenditure	279,126	194,219
Other change in fixed assets	(158,955)	441,760
Increase (+)/(decrease) in loans receivable	4,409	(97,108)
Repayment of capital		
Repayment of long-term debt	148,968	302,762
Decrease in minority interest	3,873	-
Decrease in shareholders' equity	6,061	37,854
	158,902	340,616
Change in working capital		
Increase (+)/(decrease) in inventories	(124,376)	194,183
Increase (+)/(decrease) in current receivables	(446,191)	105,666
(Increase)/decrease (+) in current liabilities	664,622	(151,869)
	94,055	147,980
	508,822	1,296,822

All figures in FIM 1,000

PARENT COMPANY STATEMENT OF INCOME

	1995	1994
Net sales	7,839,278	8,110,974
Increase (+)/(decrease) in inventories	210,538	(11,079)
Other income from operations	103,325	52,205
Variable expenses:		
Materials and supplies:		
Purchases	5,663,552	6,376,201
(Increase)/decrease(+) in inventories	367,414	31,849
Outside services	52,819	32,566
Personnel expenses	514,418	324,384
Other variable expenses	273,151	197,613
	(6,871,354)	(6,962,613)
Gross profit	1,281,787	1,189,487
Fixed expenses:		
Personnel expenses	290,359	271,189
Rents	73,470	57,301
Other fixed expenses	432,557	348,605
Operating fees	(15,235)	(21,280)
	(781,151)	(655,815)
Net income before depreciation	500,636	533,672
Depreciation on fixed assets and other capitalized expenditure	243,491	201,899
	(243,491)	(201,899)
Net income from operations	257,145	331,773
Financing income and expenses:		
Dividend income	3,656	3,761
Dividend income from subsidiaries	1,512	7,443
Dividend tax credit	1,545	1,254
Interest income	56,358	98,456
Other financing income	-	1,352
Interest expense[1)]	(123,066)	(164,367)
Other financing expenses	(15,887)	-
	(75,882)	(52,101)
Net income before extraordinary items, allocations and taxes	181,263	279,672
Extraordinary items:		
Income	128,364	1,551
Expenses	(146,339)	(84,566)
	(17,975)	(83,015)
Net income before allocations and taxes	163,288	196,657
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	29,333	(14)
Allocation (to)/from (+) optional provisions	-	(16,000)
Taxes		
Current period	(45,078)	(52,076)
Previous periods	1,090	(646)
Net income	148,633	127,921

[1)] Net interest expense	66,708	65,911

All figures in FIM 1,000

PARENT COMPANY BALANCE SHEET

ASSETS	Dec. 31, 1995	Dec. 31, 1994
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	3,674	3,127
Other capitalized expenditure	27,073	34,757
	30,747	37,884
Tangible assets		
Land and water areas	70,283	71,443
Buildings and constructions	827,615	891,911
Machinery and equipment	729,563	699,562
Other tangible assets	33,825	33,219
Advance payments and construction in progress	47,211	39,888
	1,708,497	1,736,023
Investments and non-current assets		
Stocks and shares	101,318	165,877
Shares in subsidiaries	283,207	240,893
Loans receivable	181,522	220,938
	566,047	627,708
CURRENT ASSETS		
Inventories		
Materials and supplies	118,284	140,468
Semi-finished goods	88,353	55,428
Finished goods	326,877	493,635
Other inventories	4,703	5,562
	538,217	695,093
Receivables		
Accounts receivable	573,597	754,065
Accrued income and prepaid expenses	68,441	133,570
Other receivables	37,313	31,131
	679,351	918,766
Current investments	727,751	927,337
Cash and bank	62,065	102,942
	4,312,675	5,045,753

All figures in FIM 1,000

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1995	Dec. 31, 1994
SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital and legal reserves		
Share capital	586,340	586,340
Legal reserves	35,580	35,580
	621,920	621,920
Distributable earnings		
Distributable fund	304,863	247,303
Net income for the fiscal year	148,633	127,921
	453,496	375,224
PROVISIONS		
Accumulated difference between planned and book depreciation	645,680	675,026
Optional provisions		
Replacement provision	16,000	16,000
Transitional provision	270,872	270,872
	932,552	961,898
LIABILITIES		
Long-term debt		
Loans from financial institutions	537,844	613,121
Other long-term debt	131,561	134,996
	669,405	748,117
Short-term debt		
Loans from financial institutions	135,562	358,201
Bonds payable	-	113,250
Advance payments received	6,180	5,073
Accounts payable	1,286,820	1,624,480
Accrued expenses and prepaid income	178,654	197,457
Other current liabilities	28,086	40,133
	1,635,302	2,338,594
	4,312,675	5,045,753

All figures in FIM 1,000

PARENT COMPANY STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1995	1994
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	500,636	533,672
Financing income	63,071	112,266
	563,707	645,938
Capital financing		
Increase in long-term debt		
Increase in loans from financial institutions	3,182	483,536
Increase in shareholder loans	-	75,402
	3,182	558,938
Increase in shareholders' equity	-	19,820
	566,889	1,224,696
APPLICATION OF FUNDS		
Dividend	70,361	43,605
Financing and other expenses and taxes		
Financing expenses	138,953	164,367
Extraordinary items, (income)/expenses (+)	(14,688)	3,071
Taxes	43,989	52,722
	238,615	263,765
Capital expenditure		
Fixed assets	237,259	673,132
Stocks and shares and intangible assets	51,495	126,520
Decrease of fixed assets	(70,644)	(161,970)
Increase (+)/(decrease) in advance payments	1,149	(6,657)
	219,259	631,025
Increase (+)/(decrease) in loans receivable	(39,416)	(116,922)
	(39,416)	(116,922)
Repayment of capital		
Repayment of long-term debt		
Decrease in loans from financial institutions	381,388	195,056
Decrease in shareholder loans	3,434	86,904
	384,822	281,960
Decrease in shareholders' equity	-	19,037
	384,822	300,997
Change in working capital		
Increase (+)/(decrease) in inventories	(156,876)	+213,392
Increase (+)/(decrease) in current receivables	(479,878)	+107,656
(Increase)/decrease (+) in current liabilities *)	+400,363	(175,217)
	(236,391)	145,831
	566,889	1,224,696

*) 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 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	
	1995	1994	1995	1994
1. NET SALES BY SEGMENTS				
Fresh products	3,449,896	3,064,854	3,847,910	3,146,999
Edible fats	898,026	1,361,920	893,658	1,350,367
Cheese	2,084,697	2,369,232	1,736,197	2,047,447
Powders	586,304	606,216	438,814	617,484
Ice cream	478,154	501,036	474,443	497,011
Others	469,060	674,777	448,256	451,666
Total	7,966,137	8,578,035	7,839,278	8,110,974
2. PERSONNEL EXPENSES				
Wages and salaries	704,279	523,151	597,899	396,465
Pension costs	117,424	85,396	104,831	73,200
Salary related expenses	122,440	140,277	102,047	125,908
	944,143	748,824	804,777	595,573
Fringe benefits	12,791	11,225	8,005	6,754
Total	956,934	760,049	812,782	602,327
3. PLANNED DEPRECIATION				
Goodwill	6,461	13,138	-	-
Immaterial rights	545	2,079	439	336
Other capitalized expenditure	9,326	16,162	7,037	13,185
Buildings and constructions	76,678	60,554	66,215	50,162
Machinery and equipment	190,993	153,537	156,697	127,322
Other tangible assets	15,525	12,906	13,103	10,894
Total	299,528	258,376	243,491	201,899
(INCREASE)/DECREASE (+) OF ACCUMULATED DIFFERENCE BETWEEN PLANNED AND BOOK DEPRECIATION				
Immaterial rights	(31)	(88)	(42)	(48)
Other capitalized expenditure	1,344	2,673	1,344	2,682
Buildings and constructions	23,022	17,252	20,200	16,741
Machinery and equipment	12,921	(25,474)	8,084	(19,278)
Other tangible assets	(341)	(107)	(253)	(111)
Total	36,915	(5,744)	29,333	(14)

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 and equipment	5

	CONSOLIDATED		PARENT COMPANY	
	1995	1994	1995	1994
4. INTEREST INCOME ON LONG-TERM INVESTMENTS	-	15,851	-	27,966
5. INTERCOMPANY FINANCING INCOME AND EXPENSES				
Intercompany financing income				
Dividend income	-	-	1,428	7,443
Interest income	-	-	11,936	12,115
Intercompany financing income				
Interest expense	-	-	778	3,649
6. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Gain on sale of subsidiary companies and shares	129,061	1,497	129,775	1,497
Losses on sale of shares	(1,448)	-	(1,448)	-
Group contribution to subsidiary	-	-	(78,500)	-
Write-down of buildings	(15,158)	-	(15,158)	-
Write-down of stocks and shares	(17,505)	(7,192)	(17,505)	(20,249)
Write-down of receivables	-	-	(35,172)	-
Other extraordinary items	152	(4,634)	33	(4,754)
Losses on restructuring of business	-	(59,509)	-	(59,509)
Total	95,102	(69,838)	(17,975)	(83,015)
7. ALLOCATION (TO)/FROM OPTIONAL PROVISIONS				
Transitional provision	-	8,796	-	-
Replacement provision	-	(16,000)	-	(16,000)
Other provisions	152	-	-	-
Total	152	(7,204)	-	(16,000)
Deferred tax included in optional provisions	77,305	79,152	-	-

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	3,080
Jäätelöyhtymä Oy	100	2
Kuivamaito Oy	90	157,582
N.V. Valio International Belgium - Nordic Foods *)	93.2	22,077
N.V. Nordic Immo	100	21,737
N.V. Marco Casodost	100	11,567
Pakkasukko Oy	100	6
Smeds & Co Oy	100	50
UAB Valio International	100	12
Valio Bioproducts Ltd	100	277
Valio Eesti AS	100	612
Valio International (Poland) Ltd	100	11
Valio International U.S.A. Inc.	100	77,971
McCadam Cheese Co., Inc.	100	77,971
Valio International Middle East (Holding) SAL	90	592
Finnish Dairy (Holding) SAL	20	-
Valio Sverige AB	100	655
Valio Engineering Ltd	60	725
VBF Trading S.A.	55	1,511
VBF France SARL	54.8	25
VKT-Konsultit Oy	100	2,095
Asunto Oy Vuorikummuntie 9	98.5	2,687
Kiinteistö Oy Hiirakkotie 6	100	793
Kiinteistö Oy Pähkinämetsä	100	1,215
Kiinteistö Oy Pähkinäpolku	100	795
Kiinteistö Oy Ratastie	100	232

*) Group company N.V. Marco Casodost holds remaining 6.8%

PARENT COMPANY OWNERSHIP

	Ownership %	Number of shares		Face value	Book value	Net income/ (loss) in latest year-end accounts
AOZT Valio St. Petersburg	100	29,010	RUR	2,901,000	3,177	(60)
Jäätelöyhtymä Oy	100	200		2	1	-
Kuivamaito Oy	90	32,382		32,382	120,636	(48)
N.V. Valio International Belgium - Nordic Foods *)	93.2	233,000	BEF	233,000	34,824	(8,563)
N.V. Nordic Immo	0					1,274
N.V. Marco Casodost	0					520
Pakkasukko Oy	100	150		1	1	1
Smeds & Co Oy	100	25		50	50	-
UAB Valio International	100	100	LTL	10	12	-
Valio Bioproducts Ltd	100	700		7,000	237	62
Valio Eesti AS	100	5	EEK	1	1	(321)
Valio International (Poland) Ltd	100	40	PZL	40,000	11	-
Valio International U.S.A. Inc.	100	-	USD	24,501	106,172	(26)
McCadam Cheese Co., Inc.	0					(4,681)
Valio International Middle East (Holding) SAL	90	900	USD	90	531	214
Finnish Dairy (Holding) SAL	0	-				
Valio Sverige AB	100	10,000	SEK	1,000	640	10,697
Valio Engineering Ltd	60	300		300	300	346
VBF Trading S.A.	55	330	CHF	330	890	(746)
VBF France SARL	0	-				
VKT-Konsultit Oy	100	800		8,000	2,375	(180)
Asunto Oy Vuorikummuntie 9	98.5	2,325		2,462	9,988	42
Kiinteistö Oy Hiirakkotie 6	100	650		650	900	-
Kiinteistö Oy Pähkinämetsä	100	1,000		1,000	1,213	(1)
Kiinteistö Oy Pähkinäpolku	100	380		798	798	-
Kiinteistö Oy Ratastie	100	450		450	450	-
					283,207	

*) Group company N.V. Marco Casodost holds remaining 6.8%

82. AFFILIATES

GROUP OWNERSHIP

	Ownership and voting rights %	Share of equity FIM 1,000
A/S Tapila	34	-
Norstep Oy	47.4	2,011
Pakastamo Oy	50	3,582
Paljassaare Kalatööstuse AS	48	(398)
SSV-Säilöntä Oy	50	5,554
Suomen NP-Kierrätys Oy	25	25
Turengin Meijerikiinteistöt Oy	50	483
Uudenmaan Kunnossapito Oy	30	354
Viable Bioproducts Oy	43	1,097

PARENT COMPANY OWNERSHIP

	Number of shares		Face value	Book value	Net income/ (loss) in latest year-end accounts
A/S Tapila *	34	EEK	51	19	-
Norstep Oy *	948		474	476	2,538
Pakastamo Oy *	660		3,300	3,300	558
Paljassaare Kalatööstuse AS *	336	USD	25	136	(1,088)
SSV-Säilöntä Oy *	5,000		5,000	2,725	1,575
Suomen NP-Kierrätys Oy *	10		10	25	-
Turengin Meijerikiinteistöt Oy **	50		500	500	-
Uudenmaan Kunnossapito Oy *	90		180	180	744
Viable Bioproducts Oy *	43		430	2,021	(7,590)
				9,382	

* Year-end accounts Dec. 31, 1995 and fiscal year 12 months

** Year-end accounts Aug. 31, 1995 and fiscal year 12 months

83. PARENT COMPANY

OTHER STOCKS AND SHARES

	Ownership %	Number of shares	Face value	Book value
Finnair Oy	0.0	28,080	140	391
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	2.7	667,670	6,677	14,800
Meijerien Keskinäinen Vakuutusyhtiö	-	100	10,000	10,064
Kiinteistö Oy Biocity	5.5	1,246	12	24,266
Shares in housing	-	-	-	19,591
Helsingin Puhelinyhdistys	-	265	-	460
Other stocks and shares	-	-	-	2,450
				86,333

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
9. TANGIBLE AND INTANGIBLE ASSETS				
Immaterial rights				
Acquisition cost at beginning of year	11,725	9,163	3,942	3,755
Increases	1,333	1,772	986	1,195
Decreases	(1,653)	(791)	-	-
Decreases[1]	-	(1,008)	-	(1,008)
Acquisition cost at year end	11,405	9,136	4,928	3,942
Accumulated depreciation[1]		1,008	-	1,008
Accumulated depreciation at year end	(6,262)	(6,428)	(1,254)	(1,823)
Book value at year end	5,143	3,716	3,674	3,127
Accumulated difference between planned and book depreciation at beginning of year	211	134	191	134
Increase of accumulated difference between planned and book depreciation	42	77	42	57
Decrease of accumulated difference between planned and bood depreciation	(11)	-	-	-
Accumulated difference between planned and book depreciation at year end	242	211	233	191

[1] Immaterial rights no longer in use

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Other capitalized expenditure				
Acquisition cost at beginning of year	73,438	141,712	72,510	126,059
Increases	-	5,687	-	5,687
Decreases	(884)	(25,978)	(647)	(25,970)
Decreases [2]	-	(33,266)	-	(33,266)
Acquisition cost at year end	72,554	88,155	71,863	72,510
Accumulated depreciation [2]	-	33,266	-	33,266
Accumulated depreciation at year end	(45,197)	(82,768)	(44,790)	(71,019)
Book value at year end	27,357	38,653	27,073	34,757
Accumulated difference between planned and book depreciation at beginning of year	4,696	5,829	4,680	5,813
Decrease of accumulated difference between planned and book depreciation	(1,344)	(1,133)	(1,344)	(1,133)
Prior period adjustment	(13)	-	(13)	-
Accumulated difference between planned and book depreciation at year end	3,339	4,696	3,323	4,680

[2] Capitalized expenditure no longer in use

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Land and water areas				
Acquisition cost at beginning of year	78,438	62,105	71,443	58,321
Increases	4	3,787	4	365
Increases [3]	-	15,142	-	15,142
Decreases	(2,971)	(2,385)	(1,164)	(2,385)
Book value at year end	75,471	78,649	70,283	71,443

[3] Increase due to mergers

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Buildings and constructions				
Acquisition cost at beginning of year	1,778,706	1,035,944	1,507,321	822,996
Increases	21,108	604,719	20,482	541,311
Increases [4]	-	203,299	-	203,299
Decreases	(35,883)	(60,922)	(3,405)	(60,285)
Acquisition cost at year end	1,763,931	1,783,040	1,524,398	1,507,321
Accumulated difference between planned and book depreciation [4]	-	(203,299)	-	(203,299)
Accumulated difference between planned and book depreciation at year end	(803,544)	(513,453)	(696,783)	(412,111)
Book value at year end	960,387	1,066,288	827,615	891,911
Accumulated difference between planned and book depreciation at beginning of year	313,463	180,404	269,080	135,510
Increase [4]	-	150,064	-	150,064
Decrease	(23,022)	(17,005)	(20,200)	(16,494)
Accumulated difference between planned and book depreciation at year end	290,441	313,463	248,880	269,080

[4] Increase due to mergers

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	2,346,041	1,785,802	1,827,331	1,288,907
Increase	228,507	551,045	210,599	474,187
Increase [5]	-	138,481	-	138,481
Decrease	(75,026)	(103,848)	(10,192)	(74,244)
Acquisition cost at year end	2,499,522	2,371,480	2,027,738	1,827,331
Accumulated depreciation [5]	-	(138,481)	-	(138,481)
Accumulated depreciation at year end	(1,585,107)	(1,297,117)	(1,264,350)	(956,069)
Book value at year end	914,415	935,882	763,388	732,781
Accumulated difference between planned and book depreciation at beginning of year	462,509	278,856	401,075	223,647
Increase [5]	-	167,688	-	157,873
Increase	124	19,555	-	19,555
Decrease	(12,706)	(3,590)	(7,831)	-
Accumulated difference between planned and book depreciation at year end	449,927	462,509	393,244	401,075

[5] Increase due to mergers

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Accumulated difference between planned and book depreciation, total	743,949	780,879	645,680	675,026
Book value of machinery at year end	669,084	687,932	543,783	524,479

10. TAXATION VALUES

	CONSOLIDATED 1995	1994	PARENT COMPANY 1995	1994
Land and water areas	124,957	107,818	121,967	102,888
Buildings and constructions	550,352	607,542	460,915	482,032
Stocks and shares				
Real estate subsidiaries	24,792	29,046	21,253	29,046
Subsidiaries	-	-	276,315	206,006
Other companies	96,208	134,662	87,045	125,448
	121,000	163,708	384,613	360,500

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

	CONSOLIDATED 1995	CONSOLIDATED 1994	PARENT COMPANY 1995	PARENT COMPANY 1994
11. STOCKS AND SHARES AND LOANS RECEIVABLE INCLUDED IN LONG-TERM INVESTMENTS				
Group companies				
Stocks and shares	-	-	283,207	240,893
Loans receivable	-	-	169,462	212,898
Affiliates				
Stocks and shares	-	-	9,382	9,411
Loans receivable	-	-	9,900	-
12. RECEIVABLES DUE AFTER ONE YEAR OR LATER				
Accounts receivable	7,522	6,029	7,522	5,976
Other receivables	20,162	11,397	19,010	9,431
13. RECEIVABLES AND PAYABLES/ GROUP COMPANIES AND AFFILIATES				
Accounts receivable/Group companies	-	-	116,250	121,111
Accounts receivable/Affiliates	-	-	98	272
Other receivables/Group companies	-	-	4,321	6,157
Other receivables/Affiliates	-	-	731	-
Accounts payable/Group companies	-	-	126,287	115,784
Accounts payable/Affiliates	-	-	6,962	1,652
14. LOANS TO SHAREHOLDERS	-	-	-	5,000
15. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital	586,340	431,740	586,340	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	586,340	586,340	586,340
Legal reserves	42,555	88,949	35,580	54,617
Net balance of mergers	-	(19,037)	-	(19,037)
Parent company shares held by subsidiary	-	(8,540)	-	-
Translation adjustments	(6,061)	(18,817)	-	-
Legal reserves, Dec. 31	36,494	42,555	35,580	35,580
Distributable earnings				
Distributable fund Jan. 1	247,303	205,366	247,303	205,366
Transfer from retained earnings	63,950	41,937	57,560	41,937
Distributable fund Dec. 31	311,253	247,303	304,863	247,303
Retained earnings	82,342	71,040	127,921	85,543
Dividends	-	-	(70,361)	(43,606)
Transfer to distributable fund	(63,950)	(41,937)	(57,560)	(41,937)
Group distribution of retained earnings	(69,596)	(42,743)	-	-
Retained earnings	(51,204)	(13,640)	-	-
Net income for the fiscal year	148,427	95,982	148,633	127,921
Distributable earnings Dec. 31	408,476	329,645	453,496	375,224

	CONSOLIDATED		PARENT COMPANY	
	1995	1994	1995	1994
16. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from financial institutions	92,358	148,840	81,461	122,868
17. BONDS PAYABLE	-	-	-	113,250
The bonds payable have been paid on March 2, 1995				
18. ASSETS PLEDGED AND CONTINGENCIES				
For own liabilities				
Pledges	286,384	355,420	286,384	354,321
Mortgages	1,172,679	1,241,442	1,085,929	1,149,210
For liabilities of Group companies				
Guarantees	-	-	113,463	152,837
For other companies				
Guarantees	1,708	5,998	1,708	4,972
Joint guarantees	1,461	1,461	1,461	1,461
Other contingencies				
Leasing commitments	43,324	9,419	43,025	3,381
Pension liabilities	9,911	7,329	9,541	5,508
Other contingencies	-	-	70,459	-
Total				
Pledges	286,384	355,420	286,384	354,321
Mortgages	1,172,679	1,241,442	1,085,929	1,149,210
Guarantees	3,169	7,459	116,632	159,270
Pension liabilities	9,911	7,329	9,541	5,508
Other contingencies	43,324	9,419	113,484	3,381
	1,515,467	1,621,069	1,611,970	1,671,690

19. VALUE ADDED TAX ON EU HOME MARKET SUBSIDIARIES

The authorities have not decided whether EU home market subsidies are subject to value added tax. Should the subsidies in question be deemed subject to value added tax, and should no compensation be forthcoming, the amount of the tax would reduce the net income of the Parent Company by FIM 7 million.

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31, 1995 are FIM 408,476,000.
The parent company distributable earnings at Dec. 31, 1995 are:

Distributable fund	FIM	304,863,079.95
Net income for the fiscal year	FIM	148,632,627.82
Total	FIM	453,495,707.77

The Board of Directors proposes to the Annual General Meeting that a dividend of 10% on the nominal value of the shares or FIM 2,000 per share be declared	FIM	58,634,000.00
to the distributable fund be carried over	FIM	89,998,627.82
Total	FIM	148,632,627.82

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
	FIM	621,919,851.98
Distributable earnings		
Distributable fund	FIM	394,861,707.77
Total shareholders' equity	FIM	1,016,781,559.75

Helsinki, March 18, 1996

Ilmari Tuovinen *Tauno Mikkola* *Matti Kavetvuo*
President, CEO

Jarno Mäki *Matti Rinta-Kohtamäki* *Tauno Uitto*

REPORT OF THE AUDITORS

To the Shareholders of Valio Ltd

We have audited the accounting, the financial statements and the administration of Valio Ltd for the period January 1, 1995 to December 31, 1995. The financial statements, which have been prepared by the Board of Directors and the President include the report of the Board of Directors, consolidated and parent company income statements and balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and on the administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. In this respect we have on a test basis examined evidence supporting the amounts and disclosures in the financial statements, assessed the accounting principles used and significant estimates made by the management as well as evaluated the overall financial statement presentation to obtain reasonable assurance about whether financial statements are to a substantial extent correctly prepared. The purpose of our audit of the administration is to examine whether Board, the Supervisory Board, the Board of Directors and the President have legally complied with the rules of the Companies' Act.

In our opinion the financial statements showing a profit of FIM 148,632,627.82 for the parent company and FIM 148,427,000 for the Group have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as the financial position. The financial statements together with the consolidated financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal of the Board of Directors regarding the disposal of retained earnings is in compliance with the Companies' Act.

Helsinki, March 22, 1996

SVH Coopers & Lybrand Oy
Authorized Public Accountants

Tauno Haataja
Authorized Public Accountant

STATEMENT BY THE SUPERVISORY BOARD

We have examined the financial statements for January 1, 1995 to December 31, 1995 and the auditors' 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.

Seppo Hakala, Pertti Heinonen, Juhani Myllykangas, Martti Nevalainen, Heikki Olkkonen, Kauko Puurula and Osmo Sikanen are due to resign from the Supervisory Board. Furthermore, a new member must be elected to the Supervisory Board to replace Tauno Uitto and complete the remainder of his term.

Helsinki, March 27, 1996

On behalf of the Supervisory Board

Niilo Mäki
Chairman

The Impact of EU Membership on the Milk Market

Joining the EU at the beginning of 1995 eliminated the protection Finnish milk products had enjoyed against imports and opened up the markets. Imports rose in all product lines and competition intensified; lower retail prices were the result. The biggest decreases were in prices for butter and cheese.

Membership altered the patterns of trade with both other EU members and third countries. Subsidies were eliminated from products exported to member countries and support for exports to third countries was reduced by a good one-third compared with 1994. Moreover, export subsidies declined during 1995 by 10-25 percent. The reduction in butter subsidies was mainly affected by the rise in world market prices, although for other products the principal cause was the GATT treaty, which took effect on July 1, 1995.

Because of the GATT treaty, the EU is forced to limit export subsidies and the volumes of products exported with them. The main way to limit export volumes is to reduce subsidies and consequently interest in exporting. The final means for adjusting to the change have not yet been defined, but they will inevitably lead to reduced support. The situation for cheese is especially problematic.

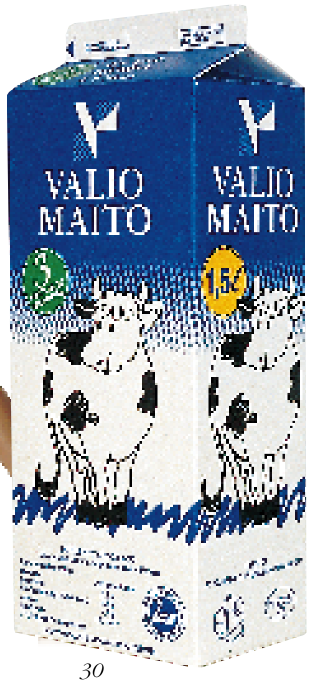
Support systems for milk products sold on the domestic market also changed. Payment of a subsidy for butter sold to the food industry is an element of the EU's policy on subsidies. EU support for butter at the beginning of 1995 was 20 per cent lower than the national subsidy; it also declined by 15 percent during the year due to strong demand. The most important new forms of support provided by EU membership are the school milk subsidy, the cheese storage subsidy, and the cream subsidy for the ice cream industry, which is part of the support system for butter.

PRODUCTION POLICY

Finnish EU membership caused many changes in milk production policy, and also in production rights and support.

Milk production is restricted with a system of quotas. In the accession talks Finland obtained a national quota of 2,342 million kilograms and sale quota of 10 million kilograms. There is also the SLOM quota, which was originally established for producers who concluded a termination agreement.

The quota year is from April to March. For production above the quota, Finland must pay an additional levy of 115 percent of the target price, or around FIM 2.16/liter.



In spring 1995 it was discovered that - in conflict with the EU decrees - the sum total of producer reference volumes exceeded the country quota. The excess was 9 percent or 210 million liters. Permission obtained from the Commission for a transition period eliminated the need for cuts in the reference volumes, which must be reduced to the level of the country quota by March 31, 1997.

Because of the transition period, it was not possible to balance out departures from the producers' reference quotas within the Valio Group of co-operatives procurement. At present, volumes are balanced out on the national level. Producers are charged an additional fee only for liters in excess of the reference volumes, as specified for the country quota.

Due to the lengthy application process for the transition period and the unexpected year chosen for determining the fat percentage of the reference volume, it proved impossible to confirm the final producers' reference volumes during 1995.

Support based on the accession treaty replaced national subsidies for milk production. An average of FIM .66/liter in declining transition period support was paid. The gradually increasing Nordic aid subsidy was paid only to C region producers.

The target price for milk fell from the level of FIM 2.82/liter in 1994 to FIM 1.88. The EU target price is set for milk with a fat percentage of 3.7 and its main purpose is to serve as the reference price for support calculations and market monitoring.

Milk Procurement and Development

In the Valio Group the Milk Pool is responsible for the procurement and sale of milk to Valio production plants. In 1995 the Milk Pool took delivery of 1,647 million liters of milk from procurement co-operatives, or 72 percent of the country's total volume of dairy milk. The entire Valio Group took delivery of 1,713 million liters. The Valio Group includes all co-operatives that have merged their industry with Valio or those leasing their industry to it, as well as those owner dairies which marketed their products via Valio throughout the year. [1)]

The Milk Pool paid the co-operatives an average of 12.2 pennies/liter for collecting of milk in 1995.

Classes E and I accounted for 98.5 percent of the milk received. An average of 5.7 pennies/liter was paid for milk quality.

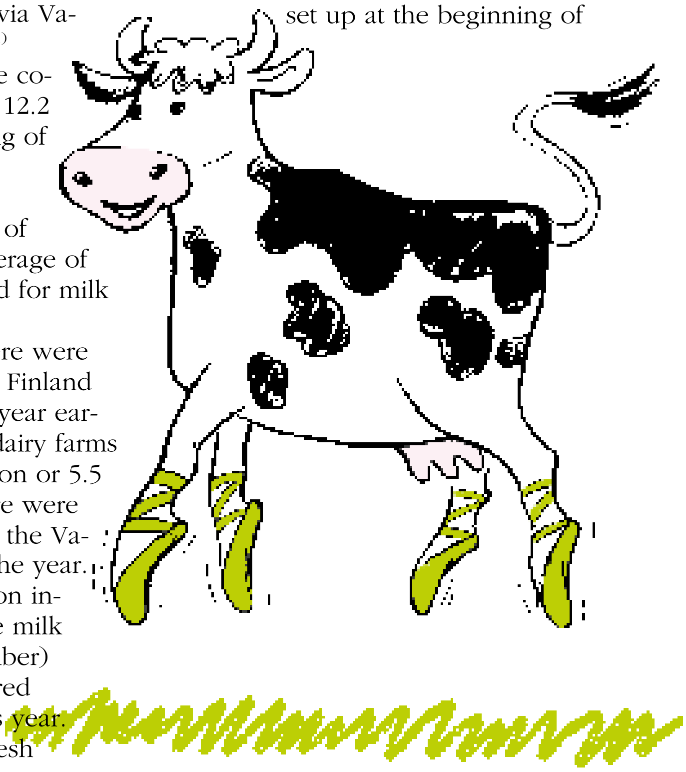
At the end of 1995 there were 31,327 milk producers in Finland compared with 33,167 a year earlier. During 1995, 1,840 dairy farms terminated milk production or 5.5 percent of the total. There were 23,670 milk producers in the Valio Group at the end of the year.

The seasonal fluctuation index (the ratio of the June milk volume to that of November) for 1995 was 111 compared with 112 for the previous year.

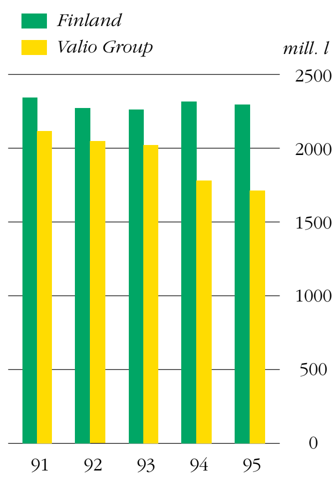
The manufacture of fresh products accounted for 45 percent of the raw material procured by Valio and cheeses for 38 percent. The remainder of the raw material was used for powders, edible fats and other milk products.

MEMBER RELATIONS

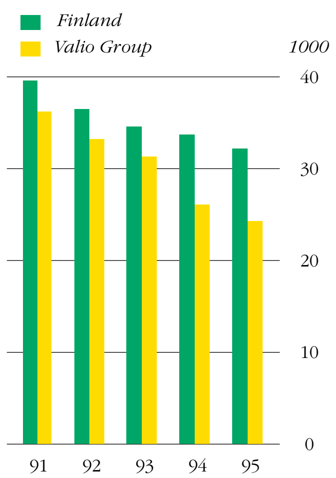
The member-relations function set up at the beginning of



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
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	34	1 781.1	37.4	72.0	13.7	775.9
1995[1)]	31	1 713.5	32.7	71.3	13.2	737.9

[1)] Includes Lammi, Liperi and Kyrönmaa Co-operative Dairies the year is responsible for strengthening unity within the Valio Group by fostering co-operation between the procurement co-operatives and Valio Ltd and for increasing coherence between milk producers and Valio Ltd through ownership and business relations. For this purpose a member-relations committee was established; its members are representatives of the procurement co-operatives from the dairy groupings and Valio Ltd officials responsible for the matters in question. A similar steering group operated in farm services.

FARM SERVICES

Introduction of quality systems for primary production continued in all farm services. Some of this work was conducted together with constituencies in pilot projects. Milk quality, measured by the number of somatic cells, was the best in the EU according to the IDF statistics. The bacteriological quality of Finnish milk was the best in the Nordic countries.

Training for producers aimed at increasing the profitability of milk production was continued . Nine thousand producers attended. Consulting linked with silage production and quality and feeding based on grass silage were central themes.

Development of special health care plans for more systematic prevention of livestock diseases on farms was undertaken. Instructions and regulations from the Association for Animal Disease Control for the livestock and feed trade and its supervision were available to all farms.

Reports on silage based feeding directed to farms - the ‘producer letters’, were further improved. The contribution of feed to milk quality in the milk production chain was stressed. At the beginning of the year separate quality contracts were concluded with the main feed manufacturers.

Feed marketing was turned over to the Kuivamaito Group**.** Kuivamaito continued to market AIV additives, and also launched a new, patented acidic preparation for pre-wilted silage developed from them. AIV silage additives remained the market leader. They are manufactured by SSV Säilöntä Oy.

Co-ordination of advisory services supplied by herd control, dairy co-operatives and animal breeding proceeded according to plan. The emphasis was on quality systems.

RESEARCH AND DEVELOPMENT

Valio’s expenditure on research and development in 1995 amounted to FIM 48 million or 0.6 percent of the net sales.

As a rule, R&D is responsible for development of new products specified by the Valio product divisions. Research concentrated on aseptic processing and packaging methods for milk. Studies of packaging materials were continued, with the aim of introducing more environmentally sound alternatives and applying the EU directive on packaging and packaging waste.

Further successful research on the technological properties and positive effects on health of the Lactobacillus GG used in Gefilus products was conducted together with domestic and foreign research units. A new patent application concerning GG was submitted. Progress was made in research on the application of Bio Profit starter as a replacement for chemical preservatives. An agreement was concluded on the international marketing of the starter. A new starter developed to prevent

Liquid milk products manufactured by the Valio Group, 1995

milk	575.8 mill. l
fermented milks	70.1 mill. l
cream	23.4 mill. l
yoghurt	50.9 mill. kg
viili	21.3 mill. kg

Somatic cell content in different countries, 1993

	Arithmetic mean
Switzerland	104 000
Finland	186 000
Norway	194 000
Sweden	248 000
The Netherlands and Japan	280 000
Denmark	309 000
Austria	313 000

Source: International Dairy Federation

bad-quality fermentation of cheese is now being tested.

International marketing of the technology required for whey processing - especially chromatographic separation techniques and the manufacture of baby food - was continued together with Valio Engineering Ltd. After many years of development, a protein hydrolysate suitable for Peptide Tutteli was completed; this innovation has also aroused interest abroad. A development project concentrating on the fractionation of whey protein advanced to the semi-industrial stage. A project aimed at the production of pure L lactic acid was begun with support from The Finnish Technology Development Centre (TEKES).

A project aimed at improvement of Valio regional laboratory operations was begun and is scheduled for completion in early 1996. Some of the principal methods used by the R&D chemical laboratory were accredited. Further development of the method for calculation of buffer titration used in the assessment of silage and cheese took place. The accuracy of titration was improved and new applications were created.

The 100th anniversary of the birth of Arturi Ilmari Virtanen, long-time director of the Valio Laboratory, and the 50th anniversary of his Nobel prize were observed in 1995.

OTHER DEVELOPMENT SERVICES

The jam and juice plant, a service unit at Suonenjoki, Finland, produces and develops berry and fruit products and related services for use by the other profit centers in the Valio Group or for eventual sale.

Working conditions improved significantly during the fiscal year thanks to the completion of an extension to the laboratory, product development facilities and offices.

The volume of total production remained constant, at 13 million kilograms. However, the product range changed considerably, as the volume of milk flavoring rose by a good 43 percent. Freight services were sold to foreign partners when capacity was available.

The jam and juice plant employed 100 persons.

The council comprised the following persons on January 1, 1996; Tauno Uitto (chairman), Jarno Mäki (deputy chairman), Olli Laaninen, Tauno Mikkola, Juhani Väänänen, Pirkko Parviainen, Pirkko Peltola-Kauppinen, Matti Rinta-Kohtamäki, Matti Suntela, and Reino Wasström.

Fresh Products

The Valio Fresh Products division produces and markets fresh products in Finland and is also responsible for exports of the products it manufactures.

Valio Fresh Products manufactured its range during the fiscal year at 18 plants. Production of milk, fermented milk products and cream totaled 669 million liters, yoghurt and viili 72 million kilos and juices 43 million liters.

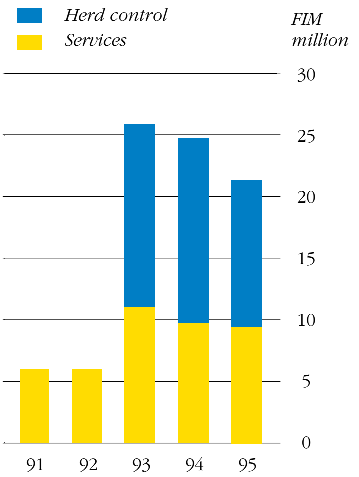
Product quality was improved, the market orientation furthered, and cost effectiveness raised. A program of rationalization is underway in Fresh Products; the aim is to increase efficiency and cut costs. Production will be concentrated in the near future at ten plants.

The strengths of Valio Fresh Products are based on its well-known brands, a continuous refrigerated chain that guarantees freshness and a strong customer and consumer orientation. The strongest brands are Valio Milk, Valio Yoghurt and Valio Fermented Milk Products.

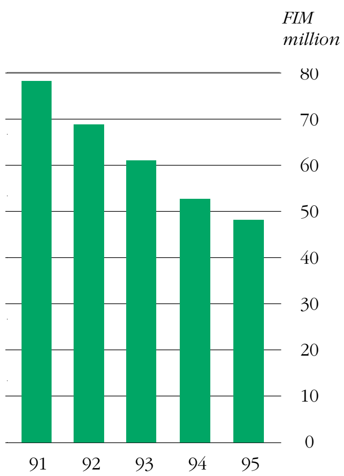
Net sales by Fresh Products amounted to FIM 3,271 million, capital expenditure to FIM 58 million and personnel to an average of 921.

Total milk consumption in 1995 declined by 3 percent from the previous year. The shift to low-fat or fat-free products continued. In Finland, sales of Valio beverages -

VALIO LTD FARM SERVICES EXPENSES



VALIO LTD RESEARCH & DEVELOPMENT EXPENSES



milks, fermented milk and juices - declined due to tougher competition.

There was some decline in sales of Valio creams. Sales of other food preparation products were close to the level of the previous year, although cottage cheese rose strongly.

Yoghurt consumption increased rapidly during the year. The main reason was the huge increase in imports and the shift toward larger packaging units. Price competition intensified and the volume of media advertising rose. Sales of Valio yoghurt were approximately 4 percent higher than in the previous year.

Desserts were the other product line that experienced rapid growth. Both the supply and consumption of puddings and quark-based desserts increased by 15 percent. Sales of viilis remained at the level of the previous year.

Product development was active. At the end of the year, the 1.5 liter carton of Valio Semi-skim Milk was put on the market in Jyväskylä and Helsinki. Valio A Fermented Milk was improved by the addition of bifido bacteria and its name changed to Valio AB Fermented Milk. New additions and improvements were made to Valio juices and Grandi juice drinks. In snack products an improved Valio yoghurt was brought out at year end, in addition to new packaging and flavor variations, Valio organic yoghurt, Fanny chocolate mousse, Valio Gourmetta cream quark and a revised Gefilus range were brought onto the market.

The key export markets for Valio Fresh Products are the St. Petersburg, Moscow and Murmansk regions of Russia, the Baltic countries and Sweden. Efforts are being made to strengthen the position of Valio branded products in these markets. Sales are handled via Valio's subsidiaries and also exported directly to customers.

In 1995, Valio exported 7 percent more fresh products to neighbouring countries than in the previous year for a total of nearly 15 million kilos. Yoghurt exports amounted to 8 million kilos, juice to 4 million, milk to 1 million and other fresh products to 2 million.

Demand for Valio fresh products abroad increased, especially in Russia and Sweden during the second half of the fiscal year, and this trend is expected to continue during 1996.

Valio Sverige AB had its first complete year of operations. The success of yoghurt was especially encouraging and the Company laid foundations for future growth, although operations did not achieve all the goals set. Net sales totaled FIM 74 million.

In Estonia, Valio Eesti A/S maintained and further developed its strong position in yoghurts and ice cream. Net sales were FIM 33 million with growth on the previous year of 8 percent.

The council comprised the following persons on January 1, 1996: Tauno Uitto (chairman); Tauno Mikkola (deputy chairman), Seppo Hakola, Pertti Heinonen, Kari Hynninen, Eero Jukkara, Timo Kässi, Erkki Innanen, Eino Lumiaho, Into Nummila, Airi Raussi, Matti Turunen, Veikko Virkkunen and Risto Vähä-Koivisto.

Cheese

The Valio Cheese division produces and markets cheese in Finland and abroad. In Finland, cheeses are manufactured or packed in 13 localities. In future, the number of plants will decline substantially as a result of rationalization. Apart from its own production, Valio had cheese made at a few dairies.

Cheese production totaled 63 million kilograms in 1995. The major cheese groups were emmental, edam and Oltermanni.

Valio's production was supplemented by importing and marketing a small volume of foreign cheese.

The changes in market conditions that took place in 1995 had a great impact on the operations of the Valio Cheese division. As a result of EU membership, competition on the domestic cheese market

increased considerably and also intensified, and revenues from exports declined significantly as export subsidies were eliminated.

Preparations for the changing competitive situation were made by developing the internal organizational structure of Valio Cheese and its accounting and reporting systems and with a concerted effort in quality management and operational development. The organization of Valio Cheese was divided into product-based profit centers - emmental, edam, special cheese, processed cheese and fresh cheese.

Net sales by Valio Cheese during the fiscal year totaled FIM 2,119 million, of which foreign subsidiaries accounted for FIM 559 million. Capital expenditure amounted to FIM 70 million and the average personnel to 1,001 persons.

Domestic sales during the year under review totaled FIM 43 million kilograms, which is somewhat less than in the previous years. The decrease focused on edam and emmental, where price competition was intense. According to the policy adopted, Valio did not respond to the most drastic price cuts, seeking instead to preserve a reasonable income level. Increased competition lowered cheese prices in 1995 by an average of 7-8 percent.

Valio Cheese share of the market during the year under review was around 61 percent. Sales in Finland accounted for some 65 of net sales.

In marketing, effort was focused on developing cheese brands and on strengthening the following existing trade names: Valio Emmental, Valio Edam, Oltermanni, Aamupala, Aura, Polar, Hovi, Turunmaa and Valio Olympia. In keeping with strategy, the cheese range is broad and development programs will have a customer orientation.

Cheese exports during the year under review totaled 26 million kilograms, representing a substantial decline on the previous year. Most of the exports were emmental. Prices for cheese in Europe decreased during the first part of the year, but rose toward the end; as a result, the overall situation conformed rather closely to plans. Although support is no longer paid for exports to the EU, the EU still subsidizies exports to third countries to some extent. The most important export countries are the USA, Belgium, Russia, Sweden and Lebanon.

Cheese exports accounted for 35 percent of Valio Cheese net sales.

The Valio Cheese organization includes subsidiaries operating in the United States and Belgium. The net sales of the US company totaled FIM 357 million and the company markets Finnish Finlandia emmental and manufactures and markets American cheddar. The net sales of the Belgian company during the year under review totaled FIM 202 million and its operations comprised marketing of Finnish emmental in Belgium and France. Both companies showed a profit and reached most of the targets set for their operations.

The council comprised the following persons on January 1, 1996: Jarno Mäki (chairman), Tauno Mikkola (deputy chairman), Toivo Heikkilä, Juhani Hörkkö, Kari Inkinen, Esa Juntunen, Hannu Kainu, Veikko Moisio, Niilo Mäki, Martti Nevalainen, Ritva Puustinen and Arvo Zitting.

Edible Fats

Valio Edible Fats division manufactures and markets yellow fats in Finland and is also responsible for their export.

Valio Edible Fats manufactured its products at nine plants during the fiscal year. As structural development advanced, the number of plants was reduced by the end of the year to five. Production at the Lapinlahti plants commenced at the beginning of April 1995.

A good 48 million kilograms were produced, of which butter and butter oil accounted for 36 million kilos and butter/vegetable oil spreads for 12.5

The strongest brands are Valio Meijerivoi, Voimariini and Voilevi, which succeeded in maintaining their market positions.

Net sales by Valio Edible Fats during 1995 totaled FIM 1,111 million and capital expenditure FIM 12 million. The average number of personnel was 216.

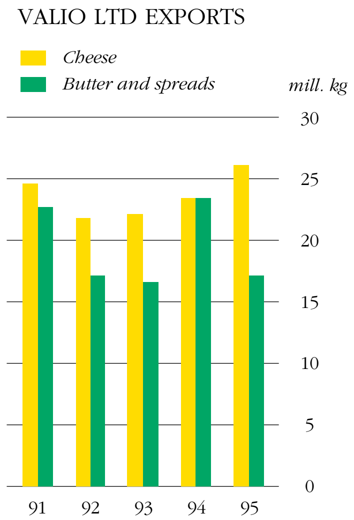
Despite increased competition, Valio succeeded in preserving its market share of yellow fats in Finland. The total market volume remained on the level of the previous year, although the value declined by around 20 percent due to the lower prices. Domestic consumer prices were on the level of EU countries by the end of the year.

Exports of edible fats amounted to 17 million kilograms or approximately 27 percent less than in the previous year. The largest volume of edible fats was exported to Russia - a good 6 million kilograms. EU membership opened the European market to Finland and exports to the EU made a good start. The EU countries accounted for 16 percent of exports and target countries included France, Germany and the UK.

In product development, attention was focused on improvement of existing products, and a low-salt Voimariini and a 250 gm retail package of Valio Dairy Butter were introduced.

Industrial butter production and sales were adapted to EU practice.

The council consisted of the following persons on January 1, 1996: Tauno Mikkola (chairman), Jarno Mäki (deputy chairman), Sauli Anttikoski, Pertti Hahl, Sauli Hietala, Eila Kivelä, Anna-Kaisa Luukkonen, Eero Lämsä, Juhani Myllykangas, Kari Piironen, Kauko Puurula and Aulis Ranta-Muotio.



Milk Powder and UHT Products

The Milk Powder division comprises the UHT plant owned by Valio and the subsidiary Kuivamaito Oy. The Turenki UHT plant doubled its production volume to 30 million liters, of which ready-to-use infant food accounted for somewhat more than 12 million liters. Other production consisted of UHT milks and creams and soft ice cream mix.

Competition in the baby food market changed essentially in 1995. Preservation of the leading market position of Valio's Tutteli brand was based on growth in the volume of gruels, porridges and purées as the volume of infant formula declined. PeptidiTutteli, which was developed for children with milk allergy, had a good reception and supplemented our product range of special powders. Production of powdered baby foods totaled some 3 million kilograms.

Nearly the same volume of powders was produced at six plants, a good 52 million kilograms. Domestic sales were affected most by reduced industrial demand and lower prices. Imports of powders to Finland totaled one half million kilograms and were primarily for industrial use.

Sales of milk powder packed for retailing declined, although sales of powders for institutional kitchens increased. Sales of industrial powders did not meet expectations and declined by 25 percent from the previous year. The use of milk powders decreased most in the meat processing and confectionery industries.

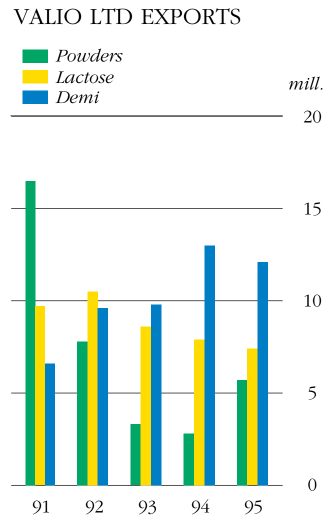
Exports of demineralized salt (Demi) and lactose declined by 6 percent from the previous year, although exports of protein powder made a good start and the export volume was three times greater than domestic sales. Demi exports amounted to 12 million kilograms, with China and Ireland being the principal buyers. Most of the 7 million kilograms of lactose exports went to Japan. Milk powder exports rose almost to the level of 1991, that is to around 6 million kilograms, most of which went to the Netherlands. Somewhat more than one million kilograms of infant milk powders were exported to Israel and Russia.

Net sales by the division totaled FIM 673 million and capital expenditure FIM 32 million. The average personnel numbered 479.

Development efforts in 1995 concentrated on applications of protein powders, improvement in lactose quality and the manufacture of milk calcium.

Production of powders at the Varkaus feed plant declined by one-fifth to 7 million kilos and of feeding compounds by one-third to 8 million kilograms. Low-lactose whey powder totaling 4 million kilograms was exported to the Netherlands, Germany and Denmark.

The council comprised the following persons on January 1, 1996: Tauno Mikkola (chairman), Tauno Uitto (deputy chairman), Matti Ikonen, Urho Jakola, Arto Niemi, Heikki Olkkonen, Matti Romppanen, Jaakko Rouhiainen, Osmo Sikanen, Reino Sonninen and Sirkka Toivonen.



Ice Cream

The Valio Ice Cream division manufactures and markets ice cream and is responsible for ice cream exports.

Consumption of ice cream in Finland continued to increase. Per capita consumption was 14 liters, which is already approaching the level of Sweden, the top country in Europe. In two years per capita consumption has increased by nearly two liters. Growth was accelerated by a hot summer, increased competition and new sales methods.

Competition in Finland was keen, in the manner of the previous year. Ice cream manufacturers competed vigorously for market shares while door-to-door sales expanded.

Net sales by Valio Ice Cream totaled FIM 489 million, capital expenditure FIM 46 million and average personnel 349.

Sales of Valio Ice Cream increased by 4 percent and the 50 percent market share was sustained.

In retail sales the market share was increased by a couple of percent. Valio Ice Cream has a strong market position, especially in cones and multipacks, where growth has been rapid.

Some 6 million liters of Valio ice cream were exported to Russia, Estonia, Lithuania and Latvia. Exports were down one-third on the previous year. Expectations of increased exports were dampened mainly by the Russian market, where a sharp decline in the rouble, reduced purchasing power and increased import duties and VAT had a detrimental effect.

Marketing by Valio Ice Cream continued to build and strengthen branded products. Strong, well-known brands are an essential competitive advantage for Valio Ice Cream. The Pingviini cone was introduced in spring 1995. The other best-known Valio Ice Cream brands are the 'house brand' Valiojäätelö, Classic, Joke, La Gala and Super.

Valio Ice Cream's Turenki plant manufactured 39 million liters of ice cream, which is approximately 20 percent less than in the previous year. Efficiency at the plant was increased by acquisition of a new extruder line.

Sales by Valio's St. Petersburg subsidiary picked up as the external value of the rouble stabilized after May. The subsidiary's net sales totaled FIM 18 million. Some 400 Valio products were delivered directly from Valio's export terminal in Lappeenranta, Finland to Russian retail outlets. Sales targets were reached at the end of the year with the exception of ice cream. The volume of Valio's exports from Lappeenranta increased by 67 percent to around 4 million kilograms, of which 2 million went to Valio St. Petersburg. A new direct shipping route to Moscow was opened in September.

The council comprised the following persons on January 1, 1996: Matti Rinta-Kohtamäki (chairman), Jarno Mäki (deputy chairman), Aini Honkanen, Matti Karvo, Raimo Kinnari, Jorma Lehdonmäki, Petri Lehtinen, Riku Ollikainen, Leena Ryynänen, Veikko Sinkkonen and Tauno Uitto.

Sales volume by Valio profit centers

	1995 mill. kg/l	+/- % prev.year
Fresh products	772.6	2
Edible fats	29.9	- 12
Cheese	43.5	- 5
Powders	10.7	- 24
Ice cream	36.0	4
Juices, jams, jellies	46.5	- 4
Frozen foods	7.6	3

Value of Valio's domestic sales

	1995 FIM mill.	+/- % prev.year
Profit centers:		
Fresh products	3,242.0	7
Edible fats	575.2	- 20
Cheese	1,254.1	- 8
Powders	141.0	- 25
Ice cream	428.7	0
Juices, jams, jellies	218.3	2
Frozen foods	104.0	8
Others	17.6	86
Total	5,981.0	- 1
Other domestic sales	970.7	65
Domestic sales	6,951.7	5

Valio's domestic sales by profit centers

	1995 FIM mill.	+/- % prev.year	%
Profit centers:			
Helsinki	1,200.3	- 4	17
Central Finland	1,434.6	- 4	21
Kouvola	676.9	- 7	10
Northern Finland	741.2	- 6	11
Riihimäki	608.6	- 8	8
Tampere	586.1	15	8
Turku	733.3	23	11
Total	5,981.0	- 1	86
Head office, Helsinki	698.1	38	10
Valio industry	272.6	234	4
Domestic sales	6,951.7	5	100

Domestic Sales

The Valio Domestic Sales division is responsible for sales and distribution of products marketed by the product divisions and produces marketing services.

Eight regional profit centers engaged in sales and distribution at the beginning of the year. During the year the Seinäjoki regional profit center was merged with the Eastern Finland profit center; the name was changed to the Central Finland profit center.

At the end of the year there were profit centers in Helsinki, Turku, Tampere, Riihimäki, Kouvola, central Finland and northern Finland.

After dairy operations in Lappeenranta were terminated, the Savonlinna region, Sysmä and Hartola were transferred from the Kouvola regional profit center to the Central Finland profit center. A distribution terminal remains in Lappeenranta.

Deliveries to northern Savo are now made from Joensuu and Jyväskylä after termination of dairy operations in Kuopio in November.

Concentration of stocks of solid products at the main warehouse in Pitäjänmäki, Helsinki, was continued by terminating storage of slow-circulation products in Kouvola, Turku and Tampere.

In view of the decrease in sales volumes, development of distribution functions faces the considerable challenge of curbing growth in unit costs.

A concerted effort was made to improve the quality of sales and distribution. Individual units were rated with the aim of increasing quality and customer satisfaction. The Riihimäki regional profit center obtained the ISO 9002 quality certificate in the summer.

Domestic net sales were FIM 5,807 million. Capital expenditure by Valio Domestic Sales totaled FIM 56 million. Personnel in the Business Area averaged 1,295.

The council comprised the following persons on January 1, 1996: Jarno Mäki (chairman), Tauno Uitto (deputy chairman), Markku Heikkinen, Eero Hiironen, Tauno Mikkola, Paavo Niskanen, Mauri Penttilä, Esko Pohjala, Tuija Puujalka and Jaakko Sigvart.

GG an international breakthrough

Applications of lactic acid starters have long been a Valio strength; there has been interest in their potential contribution to health since the 1980s. Valio began collaboration with Sherwood Gorbach and Barry Gold, two American scientists who had isolated a strain of lactic acid bacteria which survives the digestive system and settles in the intestine. They also discovered that lactic acid bacteria control harmful bacteria in the intestine and reduce the enzyme activity connected with cancer of the colon.

In 1987, Valio signed a licensing agreement with Gorbach and Gold granting Valio worldwide rights to use, manufacture and license the bacteria.

Valio subsequently undertook international research on the contribution of the lactic acid bacteria strain called GG to good health. These efforts brought results; today GG is one of the world's leading probiotics, i.e. health promoting, strains of lactic acid bacteria.

Valio brought the first Gefilus products containing GG onto the Finnish market in 1990.

Functional food products have begun to arouse great interest among consumers. The importance of these products to the maintenance of health and wellbeing is becoming a key criteria affecting consumer choices, alongside sensory properties and price.

GG is one of the world's most researched and scientifically documented probiotics. It has been convincingly shown to repel harmful, health-threatening bac-

teria and speed up recovery from e.g. viral intestinal infections by increasing the body's natural resistance.

International food companies are interested in GG. Valio sold the first rights to GG to the Dutch company Campina Melkunie B.V. in 1994. According to the agreement, the Dutch company obtained the rights to used GG in its products, initially in the Benelux countries and eventually in Germany as well. The success of the Vifit product line, which contains GG, has increased interest in GG in Europe. Campina Melunie's example has been followed by the Norwegian company Norske Meierier with its ABC-Melk products and by the Swiss company Emmi AB with its Aktifit products. The Argentinean company Mastellone Hnos S.A. is the overwhelming market leader in Argentina with its La Serenisima range of 30 dairy products. Soprole S.A. of Chile has brought Next yoghurts on to the market.

Apart from dairy product application, preparations containing GG are used for medical purposes. The Italian company Dicofarm S.p.A. has successfully introduced a Dicoflor-rehydration preparation, which is primarily for hospital use. Furthermore, Valio has a worldwide agreement regarding GG with one of the world's largest infant food manufacturers Abbott Laboratories (Ross).

Talks regarding GG licensing agreements are in progress in many countries, particularly in the rapid growth areas of Southeast Asia and Oceania and in South America.

GG's success is based on Valio's vigorous development effort, which was made at the right time. GG production technology and certain product applications have been developed in Valio research units; clinical tests have been made at renowned research institutes in Finland and abroad.

VALIO OWNERS DECEMBER 31, 1995

	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
Kauhavan Osuusmeijeri	KAUHAVA	67
Kaustisen Osuusmeijeri	KAUSTINEN	96
Keski-Pohjan Juustokunta	TOHOLAMPI	1,228
Keski-Suomen Maitokunta	JYVÄSKYLÄ	1,209
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
Nurmeksen Osuusmeijeri	NURMES	608
Osuuskunta Idän Maito	JOENSUU	2,774
Osuuskunta Lapin Maito	ROVANIEMI	563
Osuuskunta Maito-Aura	TURKU	1,514
Osuuskunta Maitojaloste	SEINÄJOKI	2,418
Osuuskunta Maitokolmio	TOHOLAMPI	244
Osuuskunta Maito-Pirkka	TAMPERE	1,008
Osuuskunta Normilk	JYVÄSKYLÄ	4
Osuuskunta Pohjolan Maito	HAAPAVESI	2,650
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 46		29,317
Total share capital		FIM mill. 586.34

VALIO CONSOLIDATED AND SHAREHOLDER DAIRIES

Net sales and personnel, 1995	Net sales FIM mill.	Personnel Dec. 31, 1995
Valio Ltd	7,839.3	3,943
Valio Ltd Subsidiaries		
Valio International U.S.A. Inc.	357.1	194
Valio International Belgium - Nordic Foods S.A.	201.8	22
Valio Sverige Ab	74.3	30
VBF Trading S.A.	52.4	2
Valio Eesti A/S	32.6	25
AOZT Valio St. Petersburg	17.9	12
Kuivamaito Group	507.9	371
Valio Engineering Ltd.	16.0	28
Subsidiaries, total		684
Valio Consolidated, total (Valio Ltd and subsidiaries)	7,966.1	4,627
Owner Dairies *)		444
Valio Group, total		5,071

*) Shareholder dairies which have marketing contracts with Valio and other co-operative dairies

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