ANNUAL REPORT 1996

VALIO

Contents

Five-year Group Statistics

	1996	1995	1994	1993	1992
Net sales, FIM million	7,837.6	8,181.9	8,785.9	8,844.6	7,491.2
Change %	–4.2	–6.9	–0.7	+18.1	–2.6
– Domestic, FIM million	5,866.5	6,583.4	6,575.6	6,708.5	5,460.6
Change %	–10.9	+0.1	–2.0	+22.9	–3.2
– International operations, FIM million	1,971.1	1,598.5	2,210.3	2,136.1	2,030.6
Change %	+23.3	–27.7	+3.5	+5.2	–0.8
Balance sheet total, FIM million	4,457.8	4,575.1	5,364.3	4,348.2	3,898.4
Liabilities as a % of the balance sheet	53.2	53.6	61.3	64.8	64.4
Equity + provisions as a % of the balance sheet	46.8	46.4	38.7	35.2	35.6
Personnel expenditure, FIM million	872.6	945.2	752.5	597.8	560.1
Personnel, average	4,801	5,101	4,265	3,234	3,165
Inventories, FIM million	771.5	749.8	874.1	679.9	741.9
Capital expenditure, FIM million	211.9	279.1	194.2	227.1	291.3
Total depreciation, FIM million	340.2	262.6	264.1	216.9	191.9

Valio took part in a national event, PULSE 100, celebrating women and exercise, a theme that was followed up in a series of advertising for Valio Milk.

Valio is the Mark of Good Food

Valio is the mark of good food. For consumers, Valio is a diverse range of tasty Finnish dairy products that are fresh and safe. The selection includes 800 different products and package sizes.

For retailers, institutional kitchens and restaurants, Valio is a versatile and reliable supplier of popular products. Valio handles the distribution of its products from plant to retail outlet.

For Finnish dairy farmers, Valio is a producer-owned company that processes and markets their milk and provides them with income. Milk producers own Valio through the Valio Co-operatives.

Valio was founded nearly 100 years ago by co-operative dairies to export butter. While butter is still exported, the business has expanded and diversified; Valio's owner dairies collect milk from farms, Valio processes the milk into dairy products at its plants and markets them under its strong brand names in both Finland and abroad. Fresh every day.

Valio, Group Organization January 1, 1997

ANNUAL GENERAL MEETING

SUPER-VISORY BOARD

BOARD OF DIRECTORS
CEO
Matti Kavetvuo

• Milk Pool
• 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 and Ingredients
General Manager
Tuomo Keurulainen

Valio Ice Cream
General Manager
Liisi Myllykangas

Review by the CEO

1996 was Valio's 91st year of operations. It was also Finland's second year as a member of the European Union. After the abrupt changes of the first year in the European Union, Valio's position on the market was more stabile in comparison with the previous year; net income from operations exceeded the budgeted figure and improved from 1995. The experience of 1996 confirmed our conviction that the strategic course followed by the Group throughout the 1990s has been well chosen. Marketing and distribution were centralized in 1993, and a similar program was adopted in the processing industry by the beginning of 1995. Both programs were implemented on the basis of owner agreements widely approved by the Valio co-operatives.

1996 was the second year for the category-based organization. The strategic priorities of this approach consist of a market and customer orientation combined with increased emphasis on profitable performance in the Valio Group. During the current fiscal year the emphasis will expand to include process and quality management in addition to the above priorities. Although much progress has already been achieved in these areas, in the future work will be required on the Group's entire chain of operations from milk procurement to sales and distribution. A determined effort will allow us to exploit this significant potential for earnings.

To increase its market and customer orientation, the Group continued to concentrate its strategic planning on positioning of key brands and on preparing development programs to support them. During the past year preparations were made for the main pilot projects in category management. Their implementation in co-operation with customers began at the first of the year and will remain the central strategic thrust of the Group throughout 1997.

Niilo Mäki, Chairman of the Supervisory Board, joins CEO Matti Kavetvuo in toasting Valio.

In structural development, the Valio Group advanced on the whole in keeping with the rationalization program adopted two years ago. The original rationalization plans of Valio Fresh Products and Valio Cheese will be reviewed during 1997. Further co-operation with the 'western' group of owner dairies, with which Valio has lease arrangements and marketing agreements, will be reassessed because Maito-Aura and Maito-Pirkka have announced that all leases concluded with Valio will be terminated at the end of May 1998. The new arrangements will have a considerable impact on the earnings of dairy farmers. Niilo Mäki, Chairman of the Supervisory Board, will no longer be eligible for reelection at the coming Annual General Meeting because of the age clause in the articles of incorporation. I would like to thank Niilo Mäki for his considerable work on behalf of Valio Ltd. His persistent advocacy within the dairy sector of the decisions concerning the structure of Valio Ltd made at the beginning of the decade has been vital to Valio's success in a changed operating environment characterized by EU membership and new competition legislation.

I would also like to thank all of Valio's employees for the work they did in 1996 and also express my gratitude to all we have worked with. The plans drafted in Valio for the current year give cause for confidence in the future of the dairying in Finland. There will, however, be significant pressures to adjust in the next few years, and preparations must be made in good time. I wish success to all of Valio's personnel and to our partners in the work during the year to come.

Matti Kavetvuo

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	1995	1998
Seppo Hakola dairy farmer, Kuortane	1994	1999
Kari Harsia personnel representative, Seinäjoki	1996	1999
Toivo Heikkilä dairy farmer, Haapajärvi as of April 22, 1996	1996	1997
Pertti Heinonen dairy farmer, Oripää	1992	1999
Eero Hiironen dairy farmer, Saarijärvi	1991	1998
Kari Inkinen dairy farmer, Ruokolahti as of April 22, 1996	1996	1997
Eero Jukkara dairy farmer, Savitaipale	1989	1998
Matti Karvo dairy farmer, Rovaniemi	1994	1998
Anneli Koponen personnel representative, Vantaa	1996	1999
Tapio Malmiharju dairy farmer, Artjärvi as of April 22, 1996	1996	1997
Juhani Myllykangas dairy farmer, Leivonmäki until April 22, 1996	1987	1996
Martti Nevalainen dairy farmer, Valtimo	1994	1999
Paavo Niskanen dairy farmer, Iisalmi	1995	1998
Into Nummila dairy farmer, Iitti until April 22, 1996	1992	
Heikki Olkkonen dairy farmer, Alavus	1988	1999
Riku Ollikainen dairy farmer, Lapinlahti	1981	1997
Esko Pohjala dairy farmer, Orivesi	1992	1998
Kauko Puurula dairy farmer, Reisjärvi	1992	1999
Airi Raussi dairy farmer, Anjalankoski as of April 22, 1996	1996	1999
Osmo Sikanen dairy farmer, Joroinen	1991	1999
Veikko Sinkkonen dairy farmer, Parikkala until April 22, 1996	1994	
Reino Tapani managing director, Turku	1992	1997
Juhani Väänänen dairy farmer, Maaninka	1995	1998

BOARD OF DIRECTORS

	Term began	Term ends
Into Nummila dairy farmer, Iitti Chairman as of April 22, 1996	1996	1997
Tauno Mikkola dairy farmer, Vilppula Vice Chairman	1992	1999
Matti Kavetvuo President, CEO, Helsinki	1992	
Jarno Mäki dairy farmer, Hausjärvi until March 27, 1996	1992	
Jussi Mönkkönen dairy farmer, Kaavi as of April 22, 1996	1996	1997
Matti Rinta-Kohtamäki dairy farmer, Isokyrö until December 31, 1996	1993	1996
Ilmari Tuovinen dairy farmer, Varpaisjärvi Chairman until March 23, 1996	1992	
Tauno Uitto dairy farmer, Tyrnävä	1996	1998

AUDITOR

SVH Coopers & Lybrand Oy,
Authorized Public Accountant

Annual Report by the Board of Directors
January 1, 1996 – December 31, 1996

GENERAL

The Valio Group continued to adapt to the new operating environment during the second year of Finnish membership in the European Union. After the abrupt changes of the first year of membership, the Group's position on the market stabilized and net income from operations exceeded expectations and improved from the previous year.

There was a decline from the previous year of approximately one percent in the volume of raw milk received by Valio. The owner co-operatives associated with Valio continued to account for 72 percent of the dairy milk produced in Finland.

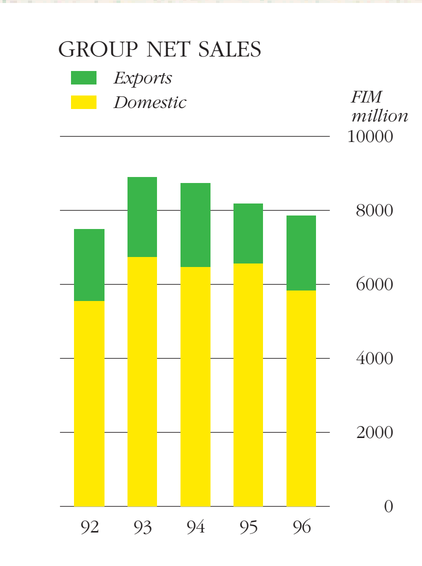
Net sales in Finland decreased by one-tenth. Valio lost some of its market share, mainly in liquid milk products, butter and ice cream while it strengthened its position in special products.

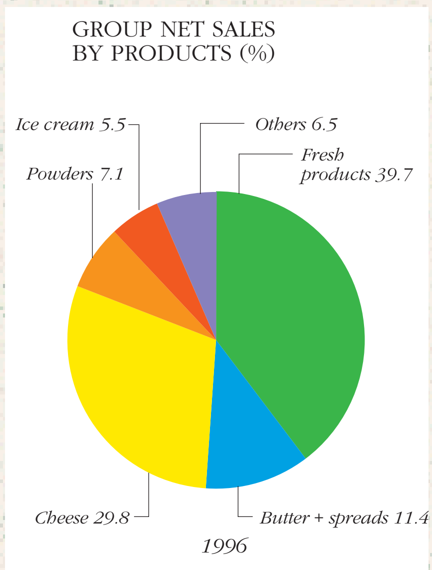
Net sales from international operations rose by a good one-fifth with the greatest increase recorded in cheese sales. Strong growth was achieved by the US subsidiary, in exports to Russia and by subsidiaries in Sweden, northwestern Russia, and the Baltic countries. Net sales by Vache Bleue S.A., the Belgian cheese packing plant acquired at the end of June, totaled nearly FIM 400 million. Its operations during the second half of the year are included in the consolidated financial statements.

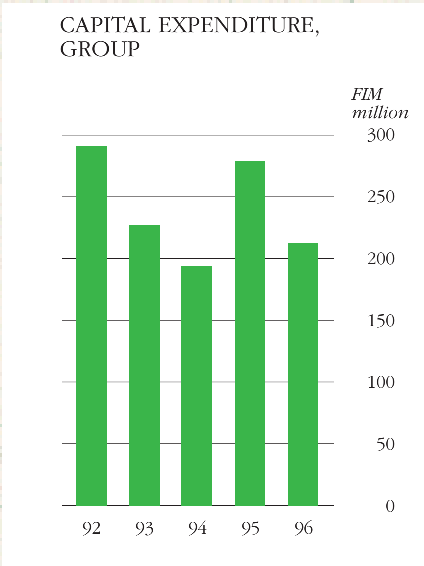
A moderate development of costs, concentration of sales on more profitable products and a substantial decrease in financing expenses contributed significantly to net income during the fiscal year. Overall performance by the divisions exceeded budgeted figures and showed improvement from the previous year. The co-operatives were paid FIM 0.03 more per liter raw milk than in the previous year. Accordingly, using a comparable raw material price to calculate the increase of net income before extraordinary items, it would have been FIM 49 million greater than that shown in the 1996 statement of income.

In spring 1996, the Office of Free Competition proposed to demonstrate to the Competition Council that Valio had misused its dominant market position by introducing a discount schedule for liquid milk products and by offering its customers marketing support. The Office of Free Competition also proposed that the Competition Council order Valio to desist from the above procedures and impose FIM 3 million in sanctions on the company. Valio announced that it would discontinue the practice before the Office of Free Competition brought the matter before the Competition Council. The Council has not yet issued its opinion.

In December 1996, the Maito-Aura and the Maito-Pirkka co-operatives announced that they would terminate their lease as of May 31, 1998. At the end of the fiscal year the lease between Valio and Suonenjoen Ympäristön Osuusmeijeri ended as did co-operation between the two parties.







SHAREHOLDERS AND SHARE CAPITAL

The number of shareholders did not change during the fiscal year. There were 46 shareholders at the end of the year. The total paid-up share capital of Valio Ltd is FIM 586,340,000.

CHANGES IN THE GROUP STRUCTURE

In July, Valio acquired total ownership in Vache Bleue S.A., a cheese packing plant operating in Belgium. Valio's holding in Tapila AS, a fresh product dairy near Tarto, Estonia, increased from 34 to 92.7 percent. During the fiscal year VKT-Konsultit Oy and Valio Biotuotteet Oy were merged with Valio Ltd.

At the end of the fiscal year, Valio acquired the operations of its subsidiary Kuivamaito Oy where Valio´s ownership exceeds 90 percent.

After the end of the year Valio Engineering Ltd became wholly-owned by Valio.

NET SALES/CONSOLIDATED

Consolidated net sales totaled FIM 7,838 million (FIM 8,182 million). Domestic net sales amounted to FIM 5,867 (FIM 6,583 million). Net sales from international operations (exports from Finland and foreign subsidiaries) totaled FIM 1,971 million (FIM 1,599 million).

NET SALES/PARENT COMPANY

Valio Ltd's net sales amounted to FIM 7,382 million (FIM 8,053 million). Domestic net sales amounted to FIM 6,037 million (FIM 6,902 million). Net sales from exports were FIM 1,345 million (FIM 1,151 million).

CAPITAL EXPENDITURE

Consolidated gross capital expenditure totaled FIM 212 million (FIM 279 million) or 2.7 per cent (3.4%) of net sales. Investment in buildings and land amounted to FIM 20 million and in machinery and equipment to FIM 176 million.

Investment in stocks and shares totaled FIM 1 million and in other capitalized expenditure FIM 15 million. Consolidated net capital expenditure was FIM 150 million (FIM 210 million).

PERSONNEL

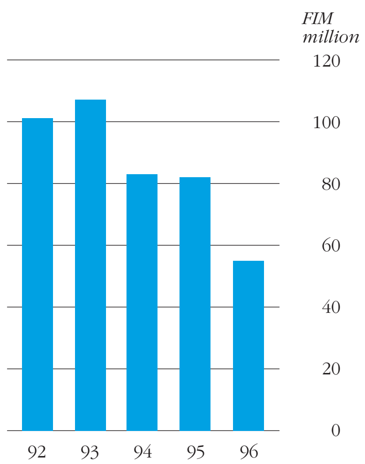
The Group employed an average of 4,801 persons during the fiscal year compared with 5,101 in 1995. The personnel figures at the end of the fiscal year were 4,510 and 4,627.

The Parent Company employed an average of 4,058 persons during the fiscal year compared with 4,351 in 1995. The personnel figures at the end of the fiscal year were 3,731 and 3,943.

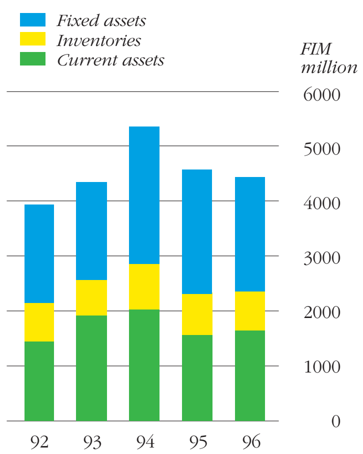
WAGES AND SALARIES

Accrual-based salaries paid to Group boards, supervisory boards and managing directors totaled FIM 7.2 million (FIM 7.1 million). Other wages and salaries were FIM 685.1 →

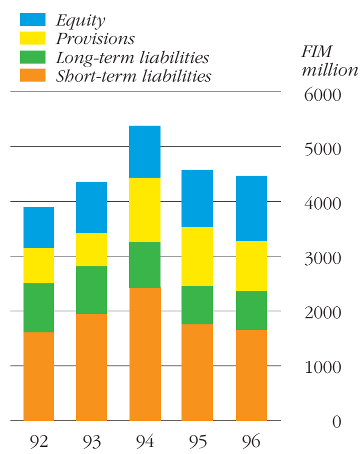
NET INTEREST EXPENSES, GROUP



GROUP BALANCE SHEET, ASSETS



GROUP BALANCE SHEET, EQUITY AND LIABILITIES



million (FIM 695.2 million).

The respective figures for Valio Ltd were FIM 2.0 million (FIM 2.0 million) and FIM 583.7 million (FIM 595.9 million). The retirement age of the Parent Company CEO is set at 62 with eligibility for a partial pension earlier.

FINANCE

The liquidity of both the Group and the Parent Company remained good throughout the fiscal year. Cash and bank and short-term deposits totaled FIM 783 million at the end of the year compared with FIM 818 million at the beginning. Inventories totaled FIM 771 million at the end of the fiscal year and FIM 750 million at the beginning. Interest-bearing liabilities totaled FIM 942 million at the end of the fiscal year and FIM 856 million at the beginning. These included liabilities denominated in foreign currencies amouting to FIM 289.5 million at the end of the fiscal year and FIM 202.7 million at the beginning. Net financing expenses were FIM 38 million (FIM 93 million) or 0.5 percent (1.1%) of consolidated net sales. Net interest expense amounted to FIM 55 million (FIM 82 million).

FINANCIAL PERFORMANCE

Consolidated net income before extraordinary items is FIM 208 million (FIM 60 million). Extraordinary items consisted primarily of gains on sales of fixed asset shares, write-downs on fixed assets and a more stringent depreciation procedure for goodwill.

The difference between planned and book depreciation was FIM 29.8 million negative (FIM 36.9 million). Book depreciation was the maximum permitted by the Business Taxation Act. Taxes for the fiscal year were FIM 87.6 million (FIM 45.2 million). Net income for the fiscal year is FIM 189.5 million (FIM 148.4 million).

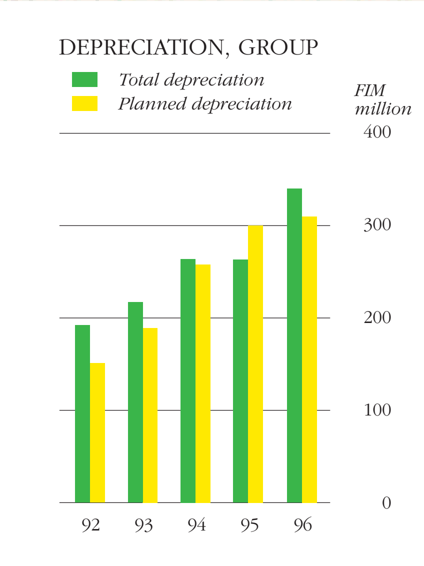
Parent Company net income before extraordinary items was FIM 331.2 million (FIM 181.3 million).

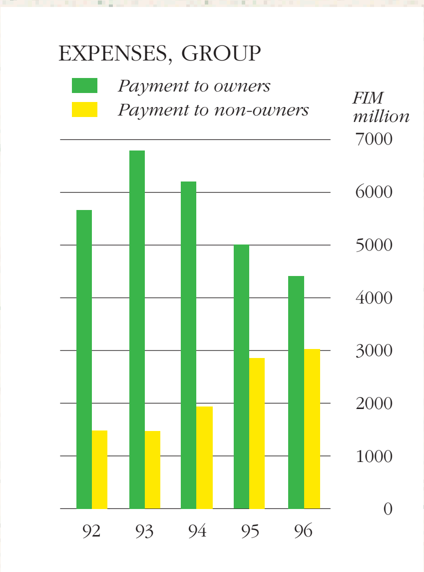
The difference between planned depreciation and book depreciation, i.e. depreciation for tax purposes was FIM 128 million negative. Planned depreciation for the previous year exceeded depreciation for taxation by FIM 29.3 million. The transitional provision was dissolved by FIM 147.2 million and the replacement provision by FIM 16 million. Obligatory provisions were made to an amount of FIM 5.6 million. Taxes for the fiscal year were FIM 84.1 million (FIM 45.1 million). Net income for the fiscal year is FIM 209.7 million (FIM 148.6 million).

PROSPECTS FOR 1997

Competition will remain intense. This will require both continuation of the program of structural rationalization begun in the fall of 1994 and also new measures.

The Group is expected to show a smaller profit from operations than in 1996.





CONSOLIDATED STATEMENT OF INCOME

	1996	1995
Net sales	7,837,562	8,181,943
Increase (+)/(decrease) in finished goods	56,928	237,629
Other income from operations	175,765	141,703
Variable expenses:		
Materials and supplies:		
Purchases	5,340,333	5,603,600
(Increase)/decrease (+) in inventories	48,433	347,308
Outside services	107,287	78,257
Personnel expenses	524,976	594,500
Other variable expenses	630,660	597,344
	(6,651,689)	(7,221,009)
Gross profit	1,418,566	1,340,266
Fixed expenses:		
Personnel expenses	347,599	350,684
Rents	76,165	77,073
Other fixed expenses	449,417	474,911
Operating fees	(10,530)	(15,235)
	(862,651)	(887,433)
Net income before depreciation	555,915	452,833
Depreciation on fixed assets and other capitalized expenditure	296,760	293,067
Amortization of goodwill	13,628	6,461
	(310,388)	(299,528)
Net income from operations	245,527	153,305
Financing income and expenses:		
Dividend income	3,847	5,626
Interest income	32,341	45,492
Other financing income	15,709	423
Net income from affiliated companies	1,426	513
Interest expense	(87,129)	(127,690)
Other financing expenses	(3,953)	(17,285)
	(37,759)	(92,921)
Net income before extraordinary items, allocations and taxes	207,768	60,384
Extraordinary items:		
Income	23,692	127,769
Expenses	(109,885)	(32,667)
	(86,193)	95,102
Net income before allocations and taxes	121,575	155,486
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	(29,832)	36,915
Allocation (to)/from (+) optional provisions	185,805	152
Taxes		
Current period	(87,578)	(45,212)
Previous periods	(2,217)	733
Net income before minority interest	187,753	148,074
Minority interest	(1,739)	(353)
Net income	189,492	148,427

All figures in FIM 1,000

CONSOLIDATED BALANCE SHEET

ASSETS	Dec. 31, 1996	Dec. 31, 1995
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	5,655	5,143
Goodwill	67,299	57,770
Other capitalized expenditure	56,651	61,877
	129,605	124,790
Tangible assets		
Land and water areas	76,538	75,472
Buildings and constructions	894,181	972,194
Machinery and equipment	842,129	868,405
Other tangible assets	402	532
Advance payments and construction in progress	29,252	68,500
	1,842,502	1,985,103
Investments and non-current assets		
Investments in affiliated companies	9,693	10,635
Stocks and shares	89,017	115,544
Loans receivable	1,888	13,466
	100,598	139,645
CURRENT ASSETS		
Inventories		
Materials and supplies	134,976	148,482
Semifinished goods	173,478	92,122
Finished goods	454,861	502,592
Other inventories	8,167	6,558
	771,482	749,754
Receivables		
Accounts receivable	685,954	631,458
Accrued income and prepaid expenses	106,518	92,778
Other receivables	37,780	34,030
	830,252	758,266
Current investments	664,021	727,789
Cash and bank	119,323	89,769
	4,457,783	4,575,116

All figures in FIM 1,000

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1996	Dec. 31, 1995
SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital and legal reserves		
Share capital	586,340	586,340
Legal reserves	40,610	36,494
	626,950	622,834
Distributable earnings		
Retained earnings	350,676	260,049
Net income for the fiscal year	189,492	148,427
	540,168	408,476
MINORITY INTEREST	10,123	19,797
PROVISIONS		
Consolidation difference	12,783	18,405
Accumulated difference between planned and book depreciation	773,782	743,949
Optional provisions		
Replacement provision	-	16,000
Other provisions	124,115	293,219
Obligatory provisions	7,289	-
	917,969	1,071,573
LIABILITIES		
Long-term debt		
Loans from financial institutions	579,097	572,986
Other long-term debt	120,343	121,688
	699,440	694,674
Current liabilities		
Loans from financial institutions	242,755	161,608
Advance payments received	14,872	21,980
Accounts payable	1,190,884	1,328,055
Accrued expenses and prepaid income	196,045	200,168
Other current liabilities	18,577	45,951
	1,663,133	1,757,762
	4,457,783	4,575,116

All figures in FIM 1,000

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1996	1995
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	555,915	452,833
Financing income	53,323	52,054
	609,238	504,887
Capital financing		
Increase in long-term debt	225,078	3,935
Increase in shareholders' equity	4,116	-
	229,194	3,935
	838,432	508,822
APPLICATION OF FUNDS		
Dividends	57,800	69,596
Financing and other expenses and taxes		
Financing expenses	91,082	144,975
Extraordinary items, (income)/expenses (+)	(28,545)	(127,765)
Taxes	89,795	44,479
	210,132	131,285
Capital expenditure	211,945	279,126
Other change in fixed assets	52,846	(158,955)
Increase (+)/(decrease) in loans receivable	(11,578)	4,409
Repayment of capital		
Repayment of long-term debt	220,312	148,968
Decrease in minority interest	7,935	3,873
Decrease in shareholders' equity	-	6,061
	228,247	158,902
(Increase)/decrease (+) in obligatory provisions	(7,289)	-
Change in working capital		
Increase (+)/(decrease) in inventories	+21,728	(124,376)
Increase (+)/(decrease) in current receivables	+37,772	(446,191)
(Increase)/decrease (+) in current liabilities	+94,629	+664,622
	154,129	94,055
	838,432	508,822

All figures in FIM 1,000

PARENT COMPANY STATEMENT OF INCOME

	1996	1995
Net sales	7,382,130	8,052,999
Increase (+)/(decrease) in inventories	103,800	210,538
Other income from operations	163,801	135,449
Variable expenses:		
Materials and supplies:		
Purchases	5,275,853	5,663,552
(Increase)/decrease (+) in inventories	495	367,414
Outside services	75,771	62,401
Personnel expenses	442,472	514,418
Other variable expenses	515,819	504,524
	(6,310,410)	(7,112,309)
Gross profit	1,339,321	1,286,677
Fixed expenses:		
Personnel expenses	287,231	290,359
Rents	74,303	73,470
Other fixed expenses	392,694	437,447
Operating fees	(10,530)	(15,235)
	(743,698)	(786,041)
Net income before depreciation	595,623	500,636
Depreciation on fixed assets and other capitalized expenditure	243,442	243,491
	(243,442)	(243,491)
Net income from operations	352,181	257,145
Financing income and expenses:		
Dividend income	2,615	3,656
Dividend income from subsidiaries	30	1,512
Dividend tax credit	881	1,545
Interest income	42,970	56,358
Other financing income	14,410	-
Interest expense *)	(81,904)	(123,066)
Other financing expenses	-	(15,887)
	(20,998)	(75,882)
Net income before extraordinary items, allocations and taxes	331,183	181,263
Extraordinary items:		
Income	25,231	128,364
Expenses	(95,735)	(146,339)
	(70,504)	(17,975)
Net income before allocations and taxes	260,679	163,288
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	(128,029)	29,333
Allocation (to)/from (+) optional provisions	163,245	-
Taxes		
Current period	(84,063)	(45,078)
Previous periods	(2,119)	1,090
Net income	209,713	148,633
*) Net interest expense	38,934	66,708

All figures in FIM 1,000

PARENT COMPANY BALANCE SHEET

ASSETS	Dec. 31, 1996	Dec. 31, 1995
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	4,606	3,674
Other capitalized expenditure	55,738	61,436
	60,344	65,110
Tangible assets		
Land and water areas	69,776	70,284
Buildings and constructions	849,414	827,615
Machinery and equipment	790,419	729,563
Other tangible assets	311	311
Advance payments and construction in progress	28,427	46,361
	1,738,347	1,674,134
Investments and non-current assets		
Stocks and shares	70,686	101,318
Shares in subsidiaries	326,282	283,207
Loans receivable	102,886	181,522
	499,854	566,047
CURRENT ASSETS		
Inventories		
Materials and supplies	127,144	118,284
Semifinished goods	173,478	88,353
Finished goods	332,734	326,877
Other inventories	8,167	4,703
	641,523	538,217
Receivables		
Accounts receivable	608,005	573,597
Accrued income and prepaid expenses	85,991	68,441
Other receivables	39,435	37,313
	733,431	679,351
Current investments	663,998	727,751
Cash and bank	58,216	62,065
	4,395,713	4,312,675

All figures in FIM 1,000

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1996	Dec. 31, 1995
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	394,862	304,863
Net income for the fiscal year	209,713	148,633
	604,575	453,496
PROVISIONS		
Accumulated difference between planned and book depreciation	773,709	645,680
Optional provisions		
Replacement provision	-	16,000
Transitional provision	123,627	270,872
Obligatory provisions	5,564	-
	902,900	932,552
LIABILITIES		
Long-term debt		
Loans from financial institutions	474,798	537,844
Other long-term debt	121,421	131,561
	596,219	669,405
Short-term debt		
Loans from financial institutions	202,165	135,562
Advance payments received	4,152	6,180
Accounts payable	1,274,333	1,286,820
Accrued expenses and prepaid income	174,299	178,654
Other current liabilities	15,150	28,086
	1,670,099	1,635,302
	4,395,713	4,312,675

All figures in FIM 1,000

PARENT COMPANY STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1996	1995
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	595,623	500,636
Financing income	60,906	63,071
	656,529	563,707
Capital financing		
Increase in long-term debt		
Increase in loans from financial institutions	100,570	3,182
Increase in shareholder loans	49,045	-
	149,615	3,182
	806,144	566,889
APPLICATION OF FUNDS		
Dividend	58,634	70,361
Financing and other expenses and taxes		
Financing expenses	81,904	138,953
Extraordinary items, (income)/expenses(+)	(13,978)	(14,688)
Taxes	86,182	43,989
	212,742	238,615
Capital expenditure		
Fixed assets	320,048	237,259
Stocks and shares and intangible assets	123,751	51,495
Decrease of fixed assets	(43,709)	(70,644)
Increase (+)/(decrease) in advance payments	(278)	1,149
	399,812	219,259
Increase (+)/(decrease) in loans receivable	(78,636)	(39,416)
	(78,636)	(39,416)
Repayment of capital		
Repayment of long-term debt		
Decrease in loans from financial institutions	108,542	381,388
Decrease in shareholder loans	3,434	3,434
	111,976	384,822
(Increase)/decrease (+) in obligatory provisions	(5,564)	-
	(5,564)	-
Change in working capital		
Increase (+)/(decrease) in inventories	+103,306	(156,876)
Increase (+)/(decrease) in current receivables	(13,522)	(479,878)
(Increase)/decrease (+) in current liabilities *)	+76,030	+400,363
	165,814	(236,391)
	806,144	566,889

*) 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.

Depreciation of goodwill has been accelerated and goodwill is written off over a period of five years. Prior period adjustments to goodwill depreciation are included in extraordinary expenses.

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.

Certain items treated as adjustments to sales in the 1995 accounts have been accounted for in 1996 as variable and fixed expenses in accordance with the instructions of the accounting board. In order to obtain comparibility the presentation for 1995 has been changed accordingly.

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

	CONSOLIDATED		PARENT COMPANY	
	1996	1995	1996	1995
1. NET SALES BY SEGMENTS				
Fresh products	3,115,544	3,554,801	3,362,381	3,952,815
Edible fats	895,129	922,391	886,759	918,023
Cheese	2,335,345	2,134,115	1,825,275	1,783,530
Powders	554,832	598,267	408,788	450,777
Ice cream	430,632	491,088	424,633	487,377
Others	506,080	481,281	474,294	460,477
	7,837,562	8,181,943	7,382,130	8,052,999
2. PERSONNEL EXPENSES				
Wages and salaries	692,279	702,306	585,656	597,899
Pension costs	77,562	117,424	66,539	104,831
Salary related expenses	102,734	125,454	77,508	102,047
	872,575	945,184	729,703	804,777
Fringe benefits	8,427	8,847	7,836	8,005
	881,002	954,031	737,539	812,782
3. PLANNED DEPRECIATION				
Goodwill	13,628	6,461	-	-
Immaterial rights	573	545	490	439
Other capitalized expenditure	20,204	22,766	19,182	20,133
Buildings and constructions	78,636	76,678	64,826	66,215
Machinery and equipment	197,089	192,935	158,937	156,697
Other tangible assets	258	143	7	7
	310,388	299,528	243,442	243,491

	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
(INCREASE)/DECREASE (+) OF ACCUMULATED DIFFERENCE BETWEEN PLANNED AND BOOK DEPRECIATION				
Immaterial rights	(113)	(31)	(128)	(42)
Other capitalized expenditure	1,108	1,344	1,108	1,099
Buildings and constructions	(27,654)	23,022	(69,276)	20,200
Machinery and equipment	(2,549)	12,921	(59,719)	8,083
Other tangible assets	(624)	(341)	(14)	(7)
	(29,832)	36,915	(128,029)	29,333

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 1996	1995	PARENT COMPANY 1996	1995
4. INTERCOMPANY FINANCING INCOME AND EXPENSES				
Intercompany financing income				
Dividend income	-	-	30	1,428
Interest expense	-	-	12,365	11,936
Intercompany financing expenses				
Interest expense	-	-	159	778
5. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Gain on sale of shares	23,690	129,061	25,195	129,775
Losses on sale of shares	-	(1,448)	(3)	(1,448)
Group contribution to subsidiary	-	-	-	(78,500)
Write-down of buildings	(32,859)	(15,158)	(1,002)	(15,158)
Extra depreciation of machinery and equipment	(22,913)	-	-	-
Write-down of stocks and shares	(14,266)	(17,505)	(77,331)	(17,505)
Write-down of receivables	-	-	(10,952)	(35,172)
Write-down of other fixed assets	-	-	(6,148)	-
Prior period adjustment to depreciation of goodwill	(39,630)	-	-	-
Other extraordinary items	(215)	152	(263)	33
	(86,193)	95,102	(70,504)	(17,975)
6. ALLOCATION (TO)/FROM OPTIONAL PROVISIONS				
Transitional provision	169,591	-	147,245	-
Replacement provision	16,000	-	16,000	-
Other provision	214	152	-	-
(Increase)/decrease (+), total	185,805	152	163,245	-
Deferred tax included in optional provisions	34,752	77,305	-	-

	CONSOLIDATED 1996	CONSOLIDATED 1995	PARENT COMPANY 1996	PARENT COMPANY 1995
7. CHANGE IN OBLIGATORY PROVISIONS (INCREASE)/DECREASE (+)				
The provision made for future rent expenses in the Parent Company has been accounted for as rent expenses in the current period and obligatory provisions	(7,289)	-	(5,564)	-

8. CONSOLIDATED AND PARENT COMPANY HOLDINGS

81. GROUP COMPANIES

GROUP OWNERSHIP

	Ownership and voting rights %	Share of equity FIM 1,000
Jäätelöyhtymä Oy	100.0	2
Kuivamaito Oy	94.9	134,854
N.V. Valio International Belgium - Nordic Foods	100.0	17,694
N.V. Nordic Immo	100.0	22,605
N.V. Marco Casodost	100.0	11,261
Pakkasukko Oy	100.0	7
Smeds & Co Oy	100.0	50
Tapila AS	92.7	1,257
UAB Valio International	100.0	12
Vache Bleue S.A.	100.0	27,492
Frigo-Way S.P.R.L.	100.0	6,021
Vache Bleue S.A.R.L.	100.0	1,955
Valio Eesti AS	100.0	629
Valio International (Poland) Ltd	100.0	11
Valio International U.S.A. Inc.	100.0	78,640
McCadam Cheese Co., Inc.	100.0	78,640
Valio International Middle East (Holding) SAL	90.0	665
Finnish Dairy (Holding) SAL	20.0	-
Valio Sverige AB	100.0	1,287
Valio Engineering Ltd	60.0	780
VBF Trading S.A.	55.0	1,332
VBF France S.A.R.L.	54.8	8
ZAO Valio St. Petersburg	100.0	3,387
Asunto Oy Nastolan Maitotie	100.0	5,407
Asunto Oy Vuorikummuntie 9	98.5	2,718
Kiinteistö Oy Hiirakkotie 6	100.0	792
Kiinteistö Oy Pähkinämetsä	100.0	1,215
Kiinteistö Oy Pähkinäpolku	100.0	794
Kiinteistö Oy Ratastie	100.0	232

PARENT COMPANY OWNERSHIP

	Ownership %	Number of shares		Face value	Book value	Net income (loss) in latest year-end accounts
Jäätelöyhtymä Oy	100.0	200		2	1	-
Kuivamaito Oy	94.9	34,150		34,150	122,433	(32,990)
N.V. Valio International Belgium - Nordic Foods *)	93.2	233,000	BEF	233,000	34,824	(5,466)
N.V. Nordic Immo	0.0					1,352
N.V. Marco Casodost	0.0					(48)
Pakkasukko Oy	100.0	150		1	1	1
Smeds & Co Oy	100.0	25		50	50	-
Tapila AS	92.7	711	EEK	1,067	416	(1,119)
UAB Valio International	100.0	100	LTL	10	12	-
Vache Bleue S.A.	99.9	3,369	BEF	3,369	99,297	2,546
Frigo-Way S.P.R.L.	0.0					543
Vache Bleue S.A.R.L.	0.0					370
Valio Eesti AS	100.0	10,000	EEK	1,000	377	(236)
Valio International (Poland) Ltd	100.0	40	PZL	4	11	-
Valio International U.S.A. Inc.	100.0	-	USD	24,501	48,173	-
McCadam Cheese Co., Inc.	0.0					(4,435)
Valio International Middle East (Holding) SAL	90.0	900	USD	90	531	37
Finnish Dairy (Holding) SAL	0.0					-
Valio Sverige AB	100.0	10,000	SEK	1,000	640	612
Valio Engineering Ltd	60.0	300		300	300	143
VBF Trading S.A.	55.0	330	CHF	330	890	(72)
VBF France S.A.R.L.	0.0					(17)
ZAO Valio St. Petersburg	100.0	29,010	RUR	2,901,000	3,177	(42)
Asunto Oy Nastolan Maitotie	100.0	1,361		5,444	1,800	-
Asunto Oy Vuorikummuntie 9	98.5	2,325		2,462	9,988	31
Kiinteistö Oy Hiirakkotie 6	100.0	650		650	900	-
Kiinteistö Oy Pähkinämetsä	100.0	1,000		1,000	1,213	-
Kiinteistö Oy Pähkinäpolku	100.0	380		798	798	-
Kiinteistö Oy Ratastie	100.0	450		450	450	-
					326,282	

*) Group company Smeds & Co Oy owns remaining 6.8%

82. AFFILIATES

GROUP OWNERSHIP

	Ownership and voting rights %	Share of equity FIM 1,000
Pakastamo Oy	50.0	3,581
SSV-Säilöntä Oy	50.0	5,983
Suomen NP-Kierrätys Oy	25.0	25
Turengin Meijerikiinteistöt Oy	50.0	480

PARENT COMPANY OWNERSHIP

	Number of shares	Face value	Book value	Net income/ (loss) in latest year-end accounts
Pakastamo Oy	660	3,300	3,300	2
SSV-Säilöntä Oy	5,000	5,000	2,725	859
Suomen NP-Kierrätys Oy	10	10	25	-
Turengin Meijerikiinteistöt Oy *)	50	500	500	(6)
			6,550	

*) Year-end accounts Aug. 31, 1996 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	250,750	2,507	3,092
MTV Oy	1.6	877	438	1,742
Sampo Vakuutusosakeyhtiö	0.0	2,337	47	387
Oy Talentum Ab	0.6	46,800	234	1,426
Meijerien Keskinäinen Vakuutusyhtiö	-	100	10,000	10,064
Kiinteistö Oy Biocity	5.5	1,246	12	10,000
Shares in housing	-	-	-	19,920
Helsingin Puhelinyhdistys	-	303	-	639
Other stocks and shares	-	-	-	8,811
				64,136

	CONSOLIDATED 1996	CONSOLIDATED 1995	PARENT COMPANY 1996	PARENT COMPANY 1995
9. TANGIBLE AND INTANGIBLE ASSETS				
Immaterial rights				
Acquisition cost at beginning of year	11,807	11,725	4,928	3,942
Increases	1,467	1,333	1,422	986
Decreases	(3)	(1,653)	-	-
Acquisition cost at year end	13,271	11,405	6,350	4,928
Accumulated depreciation at year end	(7,616)	(6,262)	(1,744)	(1,254)
Book value at year end	5,655	5,143	4,606	3,674
Accumulated difference between planned and book depreciation at beginning of year	242	211	233	191
Increase	128	42	128	42
Decrease	(15)	(11)	-	-
Accumulated difference between planned and book depreciation at year end	355	242	361	233
Other capitalized expenditure				
Acquisition cost at beginning of year	120,906	106,419	119,322	105,491
Increases	14,542	14,696	14,286	14,539
Decreases	(1,053)	(945)	(802)	(708)
Acquisition cost at year end	134,395	120,170	132,806	119,322
Accumulated depreciation at year end	(77,744)	(58,293)	(77,068)	(57,886)
Book value at year end	56,651	61,877	55,738	61,436
Accumulated difference between planned and book depreciation at beginning of year	12,108	13,220	12,092	13,204
Decrease	(1,108)	(1,099)	(1,108)	(1,099)
Prior period adjustment	-	(13)	-	(13)
Accumulated difference between planned and book depreciation at year end	11,000	12,108	10,984	12,092
Land and water areas				
Acquisition cost at beginning of year	75,456	78,438	70,284	71,443
Increases	1,607	4	17	4
Decreases	(525)	(2,970)	(525)	(1,163)
Book value at year end	76,538	75,472	69,776	70,284

	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
Buildings and constructions				
Acquisition cost at beginning of year	1,782,815	1,790,513	1,524,398	1,507,321
Increases	123,661	21,108	87,621	20,482
Decreases	(115,173)	(35,883)	(996)	(3,405)
Acquisition cost at year end	1,791,303	1,775,738	1,611,023	1,524,398
Accumulated difference between planned and book depreciation at year end	(897,122)	(803,544)	(761,609)	(696,783)
Book value at year end	894,181	972,194	849,414	827,615
Accumulated difference between planned and book depreciation at beginning of year	290,441	313,463	248,880	269,080
Increases	69,275	-	69,275	-
Decreases	(41,621)	(23,022)	-	(20,200)
Accumulated difference between planned and book depreciation at year end	318,095	290,441	318,155	248,880
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	2,416,380	2,301,253	1,981,129	1,794,350
Increases	341,026	214,661	242,471	196,910
Decreases	(123,857)	(74,965)	(22,671)	(10,131)
Acquisition cost at year end	2,633,549	2,440,949	2,200,929	1,981,129
Accumulated depreciation at year end	(1,791,018)	(1,572,012)	(1,410,199)	(1,251,255)
Book value at year end	842,531	868,937	790,730	729,874
Accumulated difference between planned and book depreciation at beginning of year	441,158	453,985	384,475	392,551
Increases	60,347	124	59,734	-
Decreases	(57,173)	(12,951)	-	(8,076)
Accumulated difference between planned and book depreciation at year end	444,332	441,158	444,209	384,475
Accumulated difference between planned and book depreciation, total	773,782	743,949	773,709	645,680
Book value of machinery at year end	648,190	669,084	611,000	543,783

10. TAXATION VALUES

	CONSOLIDATED 1996	1995	PARENT COMPANY 1996	1995
Land and water areas	127,448	124,957	122,831	121,967
Buildings and constructions	519,670	550,352	487,518	460,915
Stocks and shares				
Real estate subsidiaries	23,210	24,792	23,210	21,253
Subsidiaries	-	-	383,682	276,315
Other companies	85,191	96,208	76,181	87,045
	108,401	121,000	483,073	384,613

Where taxation value is not available, book value is used

	CONSOLIDATED 1996	CONSOLIDATED 1995	PARENT COMPANY 1996	PARENT COMPANY 1995
11. STOCKS AND SHARES AND LOANS RECEIVABLE INCLUDED IN LONG-TERM INVESTMENTS				
Group companies				
Stocks and shares	-	-	326,282	283,207
Loans receivable	-	-	101,980	169,462
Affiliates				
Stocks and shares	-	-	6,550	9,382
Loans receivable	-	-	-	9,900
12. RECEIVABLES DUE AFTER ONE YEAR OR LATER				
Accounts receivable	2,999	7,522	2,999	7,522
Other receivables	17,396	20,162	17,300	19,010
13. RECEIVABLES AND PAYABLES/ GROUP COMPANIES AND AFFILIATES				
Accounts receivable/Group companies	-	-	85,196	116,250
Accounts receivable/Affiliates	-	-	-	98
Other receivables/Group companies	-	-	10,619	4,321
Other receivables/Affiliates	-	-	40	731
Accounts payable/Group companies	-	-	213,595	126,287
Accounts payable/Affiliates	-	-	10,851	6,962
14. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital, Jan. 1, 1996/Jan. 1, 1995	586,340	586,340	586,340	586,340
Share capital, Dec. 31	586,340	586,340	586,340	586,340
Legal reserves, Jan. 1, 1996/Jan. 1, 1995	36,494	42,555	35,580	35,580
Translation adjustments	4,116	(6,061)	-	-
Legal reserves, Dec. 31	40,610	36,494	35,580	35,580
Distributable earnings				
Distributable fund, Jan. 1	311,253	247,303	304,863	247,303
Transfer from retained earnings	89,999	63,950	89,999	57,560
Distributable fund, Dec. 31	401,252	311,253	394,862	304,863
Retained earnings	97,223	82,342	148,633	127,921
Dividends	-	-	(58,634)	(70,361)
Transfer to distributable fund	(89,999)	(63,950)	(89,999)	(57,560)
Group distribution of retained earnings	(57,800)	(69,596)	-	-
Retained earnings	(50,576)	(51,204)	-	-
Net income for the fiscal year	189,492	148,427	209,713	148,633
Distributable earnings, Dec. 31	540,168	408,476	604,575	453,496

	CONSOLIDATED 1996	CONSOLIDATED 1995	PARENT COMPANY 1996	PARENT COMPANY 1995
15. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from financial institutions	21,957	92,358	10,347	81,461
16. ASSETS PLEDGED AND CONTINGENCIES				
For own liabilities				
Pledges	138,574	286,384	138,574	286,384
Mortgages	1,172,779	1,172,679	1,086,029	1,085,929
For liabilities of Group companies				
Guarantees	-	-	195,899	113,463
For other companies				
Guarantees	681	1,708	681	1,708
Joint guarantees	-	1,461	-	1,461
Other contingencies				
Leasing commitments	19,951	43,324	19,525	43,025
Pension liabilities	15,697	9,911	15,233	9,541
Other contingencies	-	-	94,699	70,459
Total				
Pledges	138,574	286,384	138,574	286,384
Mortgages	1,172,779	1,172,679	1,086,029	1,085,929
Guarantees	681	3,169	196,580	116,632
Pension liabilities	15,697	9,911	15,233	9,541
Other contingencies	19,951	43,324	114,224	113,484
	1,347,682	1,515,467	1,550,640	1,611,970

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31, 1996 are FIM 540,168,000. The parent company distributable earnings at Dec. 31, 1996 are:

Distributable fund	FIM	394,861,707.77
Net income for the fiscal year	FIM	209,713,529.86
Total	FIM	604,575,237.63

The Board of Directors proposes to the Annual General Meeting that a dividend of 10% on the nominal value of shares or FIM 2,000 per share be declared	FIM	58,634,000.00
to the distributable fund be carried over	FIM	151,079,529.86
Total	FIM	209,713,529.86

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	545,941,237.63
Total shareholders' equity	FIM	1,167,861,089.61

Helsinki, March 17, 1997

Into Nummila

Tauno Uitto

Matti Kavetvuo
President, CEO

Tauno Mikkola

Jussi Mönkkönen

AUDITORS´ REPORT

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, 1996 to December 31, 1996. 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 209,713,529.86 for the parent company and FIM 189,492,000 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 21, 1997

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, 1996 to December 31, 1996 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.

Markku Heikkinen, Toivo Heikkilä, Kari Inkinen, Tapio Malminharju, Niilo Mäki, Riku Ollikainen and Reino Tapani are due to resign from the Supervisory Board. Furthermore, a new member must be elected to the Supervisory Board to replace Kauko Puurula, who has submitted his resignation, and to complete the remainder of his term.

Helsinki, March 26, 1997

On behalf of the Supervisory Board

Niilo Mäki
Chairman

Production Policy

In March, Finland's country quota for milk production increased by the 'SLOM quotas' (The unused production quotas of farms which have concluded termination agreements. Such quotas can be returned to production). The new country quota in effect during the 1995/96 quota period was 2,355 million kilos of milk or 2,287 million liters. Output for the quota year ending on March 31, 1996 was approximately one percent below the country quota.

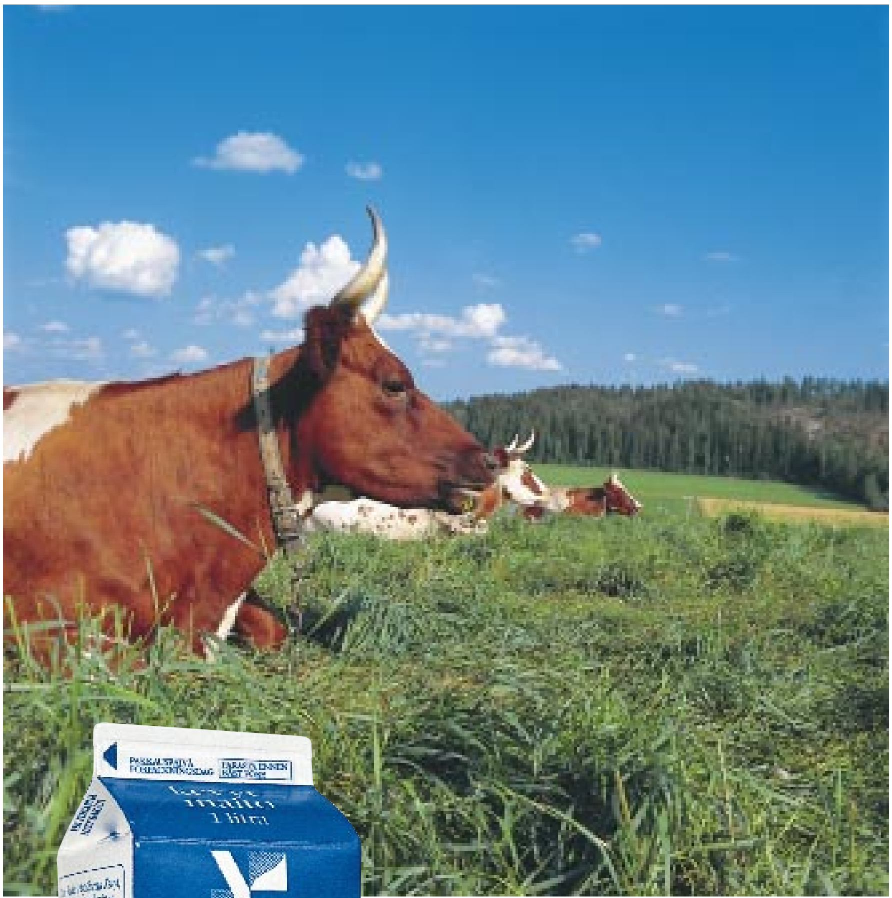
Finland was granted additional time to bring producer reference volumes into line with the country quota. The government tackled the problem by purchasing milk quotas from producers and by making 50 percent cuts in the quota volumes traded between producers. These amounts were then transferred to a national reserve. Despite these efforts, producer reference volumes exceeded the country quota by 130 million liters at the end of the year. It as decided at the end of the year to reduce producer reference volumes by the required amount on April 1, 1997.

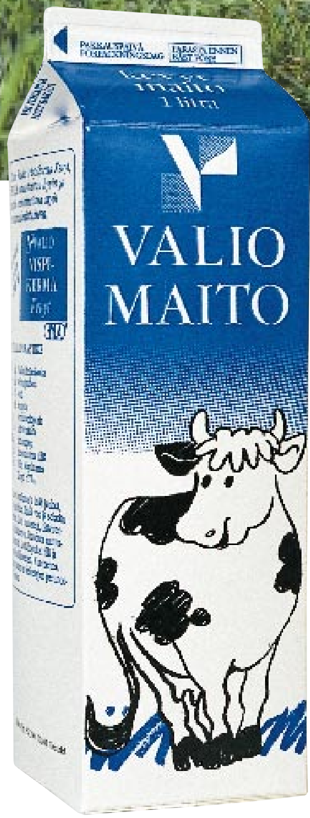
The European Commission approved the support package for southern Finland based on article 141 of the Accession Treaty. Payment of increased transition period support in 1997-99 was agreed for zones A and B. The support also included an increased subsidy for investment.

Adjustment to EU membership continued in 1996. Apart from significant reductions in subsidies for cheese exports, there was no change in support from the previous year. The European Union's imputed 'green agricultural rate' leveled off after a decline in the early part of the year.

Export support for emmental declined by more than 10 percent during the year, subsidies for processed cheese was cut by almost 50 percent and support to cream cheese destined for the countries of eastern Europe and Russia by more than 50 percent. Measures were also taken to control the volume of cheese exports: the cheese-importing countries for which support will not be granted were designated, lower supports were set for cheese to be exported to Russia and eastern Europe, and export licensing was suspended several times during the year.

In some product groups there was potential to increase export support. Supports for butter and skim milk powder increased by more than 15 percent.





Milk procurement and Development

At the end of 1996 there were 29,261 milk producers in Finland compared with 31,327 a year earlier. Milk production was terminated by 2,066 farms during the year. The number of Valio Group milk producers at the end of 1996 was 22,166.

The Milk Pool is responsible for Valio Ltd's milk procurement and its sales to production plants. Procurement co-operatives supplied 1,635 million liters of milk in 1996; this volume was 72 percent of the total national dairy milk volume. The volume of milk supplied to the entire Valio Group was 1,691 million liters. The Valio Group includes all the co-operatives that have merged their industry with Valio or leased their industry to it and the owner dairies that have marketed most of their products through Valio during the fiscal year.

The seasonal variation index (the ratio of the June milk volume to that of November) in 1996 was 111 or the same as in the previous year. Valio used 44 percent of the milk supply for the manufacture of fresh products and 37 percent for cheese. The remainder of the raw material was used for powders, edible fats, ice cream and other dairy products.

MEMBER RELATIONS

Priority was on the promotion of relations between Valio Oy and its member co-operatives. The member relations committee took part in the milk procurement development project and prepared and issued guidelines concerning milk procurement.

Valio maintained the flow of information about the company to milk producers through its producer magazine and information sessions. A total of 120 elected council and board members from co-operatives attended the two-day 'Know Valio' course. Some 900 milk producers visited the Valio facilities in Helsinki during the year.

FARM SERVICES

The Farm Services unit worked in close co-operation with the procurement co-operatives, which are primarily responsible for advisory services to dairy farms. Annual performance targets and a plan for operations determine the practical course of co-operation. Farm Services are also responsible for development and training in advisory services.

During the year, the role of primary production in the entire dairy industry chain was consolidated. Primary production covers silage production, feeding, livestock care and health, milking and milk handling on the farm and milk collection. Work on the quality system was intensified and quality manuals based on ISO 9002 were distributed to farms. The Valio milk quality program, which comprises Valio's goals and principles for ethical milk production, was published.

To ensure milk quality, work to prevent quality problems from arising was continued. Valio has a quality agreement with six major suppliers of industrial feeds to dairy farms. During the year under review a quality agreement specifying fertilizer quality criteria for silage production was also signed. Most of the producer milk (99.2 percent) was in the best quality categories.

Training related to the economy of silage-making and milk production was continued in the manner of previous years. A new method called ARTTURI for quality analysis and consulting on silage was introduced.

Valio dairy farms can subscribe to health services with a veterinarian based on the Valio cattle health care program. National co-ordination between advisory services for dairies, herd control and breeding services was continued in accordance with the guidelines of the national co-ordination group. Co-operation focused on the advisory activities on quality system for dairy farms, with eastern Finland as the pilot area.

Valio and Kemira signed an agreement regarding transfer of sales and marketing of AIV silage preservatives to the Kemira Corporation.

RESEARCH AND DEVELOPMENT

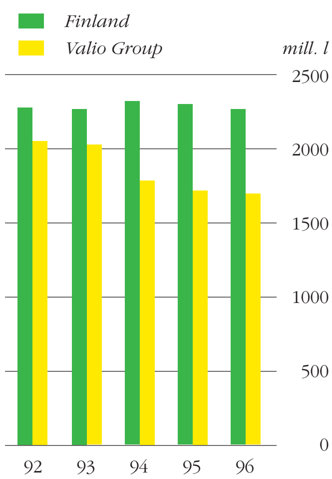
Valio Ltd's research and development costs in 1996 were FIM 53 million or 0.7 percent of net sales. The main task of R&D is to provide services to its customers, which are Valio´s product divisions, and to develop new products according to their specifications. Research on packaging materials sought to develop more environmentally sound alternatives.

Milk protein remained the focal point of R&D. After many years of work, a fractionation process for whey proteins was patented. The process is now undergoing tests. Further processing of lactose and its derivates was also under development.

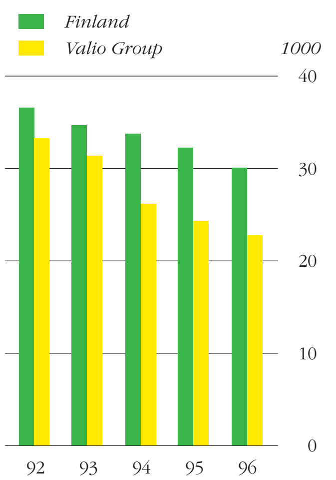
Research aiming at wider exploitation of lactic acid bacteria is advancing on several fronts. The positive health properties of the Lactobacillus GG (LGG™) used in Gefilus products remained the focus of general international research. During the year under review Lactobacillus GG was approved in Japan as the first probiotic for a food for specified health use. Commercial success has continued and products containing LGG were marketed under a Valio license in fifteen countries. The licensing process continues. In September the first international Lactobacillus GG symposium was held in Helsinki.

The analytical laboratory services of the Research and Product Development center, the information services and expertise in consumer leg-

VOLUME OF DAIRY MILK



NUMBER OF MILK SUPPLIERS



islation have contributed to product development, production and marketing. Development of Valio's regional laboratory network continued.

TEKES, the Technology Development Centre of Finland, has provided substantial funding for research and development.

THE SUONENJOKI JAM AND JUICE PLANT

The jam and juice plant at Suonenjoki produces and develops berry- and fruit-based products and semi-manufactured products for use by Valio and subsidiaries or for external customers. Imports of frozen vegetables for Valio's food service kitchen and industrial sales unit were also initiated.

The plant's net sales totaled FIM 99 million and the number of employees averaged 100. The most growth was recorded in the manufacture of jams and other products used as ingredients in dairy products and in frozen berries and vegetables.

Fresh products

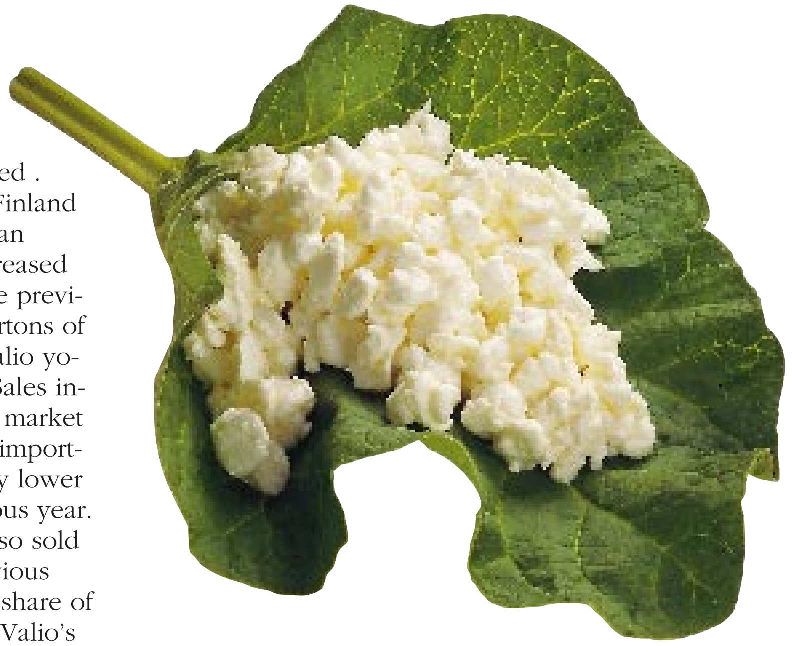
The Valio Fresh Products division manufactures and markets fresh products in Finland and abroad. Fresh products are manufactured at 15 production plants in Finland. The division is also responsible for subsidiaries in Estonia and Sweden.

Net sales by Valio Fresh Products totaled FIM 3,291 million and capital expenditure FIM 75 million. Personnel averaged 868. Structural development continued as planned and production will be further concentrated in the near future.

The strengths of Valio Fresh Products are in familiar brands, a unbroken refrigeration chain that ensures product freshness, and operations that are both customer- and consumer-oriented. The strongest brands are Valio Milk, Valio Yoghurt and Valio Fermented Milk Products.

Total milk consumption in 1996 remained stable while the movement toward low-fat or fat-free products continued. Domestic sales of Valio milk declined due to more intense competition. Sales of fermented milk remained constant while juice sales rose 4 percent from the previous year.

Sales of Valio creams declined from the previous year due to contracting market shares. The advent of cream substitutes was an important contributing factor. Other food preparation products were sold in volumes comparable to those of the previous year and robust growth in cottage cheese sales continued .



Yoghurt consumption in Finland is extremely high by European standards. Valio yoghurt increased its sales by 11 percent on the previous year. One-kilo family cartons of Valio yoghurt and fat-free Valio yoghurt fared especially well. Sales increased largely due to rising market shares. The market share of imported yoghurts was substantially lower than at the end of the previous year.

Ready-to-serve desserts also sold much better than in the previous year and Valio preserved its share of the growing dessert market. Valio's share of quark-based desserts grew and the situation stabilized after the fast pace of change experienced in 1995.

Product development was active. The Gefilus product family was expanded with Gefilus milk and a successful campaign achieved substantial growth in demand for Gefilus products already on the market. Sales of Valio Fat-Free Milk in 1.5 liter containers began and sales of Valio Semi-Skim Milk in 1.5 liter containers were extended throughout Finland. The fermented milk range was expanded with Jola, a fermented milk product made with yoghurt starter. New flavors of Grandi drinks were introduced, Valio Juices were revamped and Valio Hehku, a hot juice product for the winter season, was launched. The main accomplishment of the food group was the launching of Valio Food Cream, which enlivened the entire cream range; consumers gave it an enthusiastic reception. The snacks group introduced a series of children's yoghurts, several new product concepts under the Yoplait brand, Fanny quark desserts and variations in flavor and packaging for existing product families.

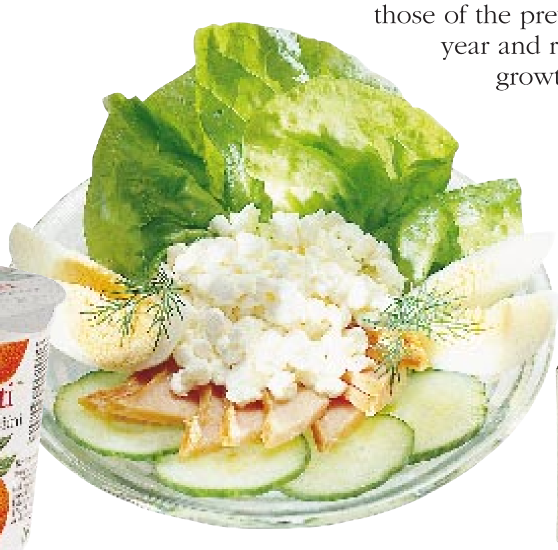
The key export targets for Valio Fresh Products are Sweden, the Baltic countries, and northwestern Russia. The aim is to consolidate the position of Valio-brand products on these markets. Products are supplied either through Valio's subsidiaries or exported directly to customers.

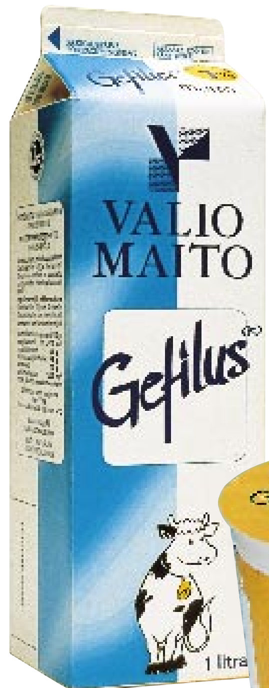
Valio increased its exports of fresh products to northwestern Russia and the Baltic countries by 56 percent from the previous year.

After an encouraging beginning, sales in Russia fell during the second half of the fiscal year.

Valio Sverige Ab strengthened its position during its second year of operations, especially in yoghurts. Net sales fell compared with the previous year due to reduced demand for cheese.

In Estonia, significant growth was achieved in sales of Alma-brand products by the Tapila A/S Laeva Meierei production plant, a subsidiary of Valio. Alma yoghurts fared particularly well in Estonia. Net sales by Valio Eesti A/S rose from the previous year thanks to growth in sales of products manufactured by Tapila A/S.





Cheese

The Valio Cheese division manufactures and markets cheese in Finland and selected areas abroad. The domestic market accounts for around half of total cheese sales. Valio's share of the Finnish market did not change from the previous year.

Cheese is manufactured at nine plants. Structural reform of the cheese industry continued. Production was terminated at plants in Nurmes, Särkisalmi and Kauhajoki and decisions were also made to close the cheese plant at Valkeakoski and cheese packing plant at Jämsä. The subsidiaries in the United States and Belgium are the responsibility of Valio Cheese.

Net sales by Valio Cheese totaled FIM 2,511 million and increased by some FIM 300 million thanks to increased exports of cheese and a subsidiary acquired in Belgium. Personnel average 1,200, of whom around 900 are employed in Finland.

The Valio Cheese division's principal brands - Valio Edam, Valio Emmental, Oltermanni, Polar, Aura and Aamupala - maintained their positions successfully. On the fresh cheese market Hovi managed to increase its share despite increased imports. Prices on the cheese market began to rise after a drop in 1995. The market shares for companies operating on the Finnish market remained virtually the same. Imported cheeses increased their market share to around 8 percent.

On foreign markets, Valio increased its presence in Belgium by acquiring the S.A. Vache Bleue cheese packing plant. Exports increased especially to Russia, where Viola processed cheese and Oltermanni were the main products. There were no changes in export targets; the principal areas were Belgium, the Middle East, the United States and Russia.

Cheese export refunds from the EU to third countries were reduced over the year on several occasions. Nevertheless, Valio Finlandia gained on its competitors in the United States, where Valio sells cheeses under the McCadam brand. In summer 1996, cheese prices rose in the United States for the first time in several years, although there was a downturn toward the end of the year. On the Belgian market Valio operates under the Valio and Valio Sana brands and since the end of the year under Vache Bleue as well. Cheese prices remained constant in Belgium throughout the year while prices in Russia rose slightly. Processed cheese is sold in the Middle East under the Smeds and Penguin brands.

Development activities in the Valio Cheese division concentrated on improving its quality management and on developing category management to enhance its customer orientation.

Edible Fats

The Valio Edible Fats division manufactures edible fats into high quality brand products sought by customers and markets them profitably to national and foreign markets. The Swiss subsidiary VBF Trading S.A. is the responsibility of the division.

Valio Edible Fats manufactured its products at five plants during the year. By the end of the year, structural development had been completed and production is now concentrated at plants in Seinäjoki and Lapinlahti as was originally planned.

Net sales by the Valio Edible Fats division totaled FIM 1,133 million and capital expenditure nearly FIM 14 million. Personnel averaged 205.

The principal brands were Valio Meijerivoi, Voimariini and Voilevi. A low-salt Voilevi was launched at the beginning of the year and quickly won customer approval. In October a new easy-to-spread version of Voimariini was introduced. It had a favorable reception among consumers.

Competition in Finland remained tough, especially on the butter market. In marketing priority was placed on a campaign for the additive-free Valio Meijerivoi and for long-term development of the Voimariini and Voilevi brands.

Export sales of edible fats abroad rose 19 percent from the previous year. Russia and the CIS countries accounted for 40 percent, the EU 25 percent and the Middle and Far East 35 percent. The largest importer was Russia, where demand for butter pats rose substantially.

Powders and UHT products

The Powder division comprised the UHT plant owned by Valio and the subsidiary Kuivamaito Oy. The division developed, manufactured and marketed baby food, dried milk products and feeds up to the end of 1996, when its operations were reorganized. Kuivamaito Oy's operations were combined with those of Valio Edible Fats to form a new division, Valio Edible Fats and Ingredients. Manufacture and marketing of ready-to-use infant foods and UHT products have been the responsibility of Valio Fresh Products since the beginning of 1997.

In accordance with the rationalization program, production has been concentrated so that milk powders are produced at Seinäjoki, whey products at Lapinlahti and Haapavesi, and feeds at Varkaus.

Net sales by the Powder division totaled FIM 574 million. Personnel averaged 407.

Tutteli preserved its position on the Finnish infant food market. The total volume of infant formula decreased along with the birth rate, although the market for other milk-based infant foods increased. In the fall, a new milk-based drink for toddlers was introduced.

Use of milk powder by the food industry continued to decline. Approximately one thousand tons of milk powder were imported to Finland.

Calf milk replacers retained their leading position and mineral feeds increased their market share.

Efforts to achieve further improvement of protein powder quality and to create new applications continued. Work on the introduction of new membrane techniques and the production of milk calcium was also intensified.

Demand for milk powder abroad was stable, and none was sold into intervention. Prices rose at the end of the year.

Exports of protein powders did not proceed as expected due to problems with quality and demand; priority in sales was shifted to demineralized whey powder. Successful sales of Demi and an increase in the price level together with the price of lactose and favorable exchange rates produced the expected result.

Ice Cream

The Valio Ice Cream division manufactures and markets ice cream. Markets are in Finland, Russia and the Baltic countries. Valio's subsidiary in St. Petersburg was the responsibility of Valio Ice Cream.

Net sales by Valio Ice Cream totaled FIM 453 million and capital expenditure FIM 11 million. Personnel averaged 246.

In Finland Valio Ice Cream is the market leader, with a strong position and a good image. Its strengths are familiar quality branded products, a diverse range, the expertise of the ice cream product category and comprehensive sales support and distribution.

Valio Ice Cream's key brands are Classic, Pingviini, La Gala and Valio-jäätelö, which are all market leaders in their segments. Valio Ice Cream launched 12 new products for the ice cream season and four new products in the fall. HYLA diet ice cream for the lactose-intolerant and diabetics were combined under the Jade brand.

Ice cream consumption in Finland varies annually in response to summer weather, and half of consumption takes place from May to August. Demand for ice cream was down because of a cold, rainy summer. Consumption decreased by 5 percent compared with 1995 and amounted to 13 liters per capita. Nevertheless, Finland remains among the top ice cream consumers in Europe. Inclement summers weather hampered the ice cream trade throughout Europe.

Reduced ice cream consumption due to the cold summer weather increased competition in Finland. There is abundant production capacity and a new multinational ice cream manufacturer entered the market. Competition concentrated on the strong brands, such as Classic premium ice cream sticks and on home packages where competition is based on price. As a result, prices dropped further. Valio Ice Cream stayed out of the price war, and this reduced its market share. It nevertheless maintained its leading position on the domestic ice cream market.

Valio ice cream was sold to Russia, Estonia and Lithuania. The ice cream season on the export market was also poor. Competition was increased especially by the price of local ice cream.

Net sales by the subsidiary Valio St. Petersburg more than doubled from the previous year. Rapid growth during the first half of the year came to an end during the second half. The Lappeenranta export terminal supplies a wide range of Valio products direct to Russian retail stores. In addition to direct shipments, wholesaling of ice cream in St. Petersburg commenced in the spring of 1996.

Domestic sales

The function of the Valio Domestic Sales division is to serve as the joint sales and distribution organization for the product-category based divisions.

During the year the division operated at seven regional profit centers in Helsinki, Turku, Tampere, Riihimäki, Kouvola, Jyväskylä and Oulu. There were also operations in Rovaniemi, Lohja, and Lappeenranta. Services to Finland from the Lappeenranta distribution terminal were terminated in the autumn and shipments were concentrated in Kouvola. Distribution has been handled from Helsinki since dairy operations were terminated at Lohja at the end of the year.

Net sales by Valio Domestic Sales totaled FIM 5,590 million and capital expenditure FIM 33 million. Personnel averaged 1,238.

Concentration of product stocks in the main warehouse in Helsinki continued.

According to a customer satisfaction survey made in the spring, customer satisfaction with Valio has increased in comparison with competitors. The results of the survey were used to improve operations.

Development of sales concentrated on the application of category management in co-operation with customers.

During the summer labor-management talks were held concerning the entire Domestic Sales division with organizational change as the aim. The objective of the change was to adapt to the increased concentration of the retail trade, to establish better control over sales via marketing by applying category management, to standardize operating methods, and to improve Valio's competitive efficiency by adapting the costs of the Domestic Sales division to the reduced volumes of products.

Conversion to the model adopted in the talks took place gradually toward the end of the year and the new organization took effect at the beginning of 1997. As a consequence of the changes, the number of personnel declined by 60.

Research shows that Valio enjoys a rather good corporate image among both consumers and customers. Valio quality is recognized and the products are familiar. By exploiting these advantages and by developing customer co-operation through category management, Valio has good prospects for success as competition intensifies.

Valio´s domestic sales by profit centers

	1996 FIM mill.	± % prev. year	%
Profit centers:			
Helsinki	1,167.2	-3	19
Keski-Suomi	1,384.2	-4	23
Kouvola	560.3	-17	9
Oulu	718.8	-3	12
Riihimäki	565.8	-7	9
Tampere	553.9	-5	9
Turku	639.8	-13	11
Total	5,590.0	-6	92
Head office, Helsinki	142.1	-80	2
Valio industry	338.1	+24	6
Domestic sales	6,070.2	-13	100

Quality Milk Begins on the Farm

Finland has worked persistently to improve milk quality. These efforts have brought results; with respect to quality, Finnish milk is indisputably among the very best in Europe.

Work done on dairy farms is the basis for quality. Good quality begins with livestock care. Quality according to the Valio concept is not merely technical and cannot be measured by cell or bacteria content alone. It is a much broader concept.

Valio farms are committed to a quality program that includes the following:
- a responsible approach to operations
- respect for livestock
- an emphasis on nature conservation

Healthy, well-cared for livestock produce good-quality raw material for the dairy industry.

VALIO MILK QUALITY PROGRAM:

1. Pureness and freshness
- the best milk in the European Union
- secured hygiene through whole production
- feed from Finnish nature
- refrigerated storage from farm to store

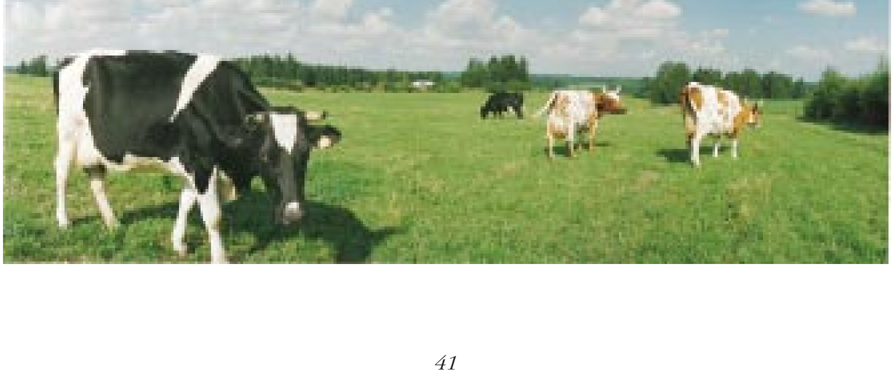
2. Safety
- no foreign substances
- no animal diseases or hormones
- supervised production conditions
- produced as contract production through quality contracts

3. Well-being of the animals
- attention to the behaviour of the species
- individual care
- prevention of disease

4. Attention to environment
- the farm environment is clean, well kept and orderly
- environmental impact is noted in planting of fields and handling wastes

5. Finnish culture
- production takes place on Finnish farms

6. Improvement
- we are improving this operation continuously e.g. through our own research and practical experience.



Valio Ltd Owners December 31, 1996

	Domicile	Number of shares à FIM 20,000
Alavuden Osuusmeijeri	Alavus	99
Alueosuuskunta Promilk	Lapinlahti	2,153
Etelän Maitokunta	Vihti	380
Evijärven Osuusmeijeri	Evijärvi	40
Finnmilk Oy	Tampere	340
Hirvijärven Osuusmeijeri	Jalasjärvi	46
Hämeen Osuusmeijeri	Valkeakoski	233
Hämeenlinnan Osuusmeijeri	Hämeenlinna	231
Härmän Seudun Osuusmeijeri	Alahärmä	79
Iisalmen Osuusmeijeri	Iisalmi	279
Kainuun Osuusmeijeri	Kajaani	787
Kangasniemen Osuusmeijeri	Kangasniemi	80
Kansallis-Meijeri-Osuuskunta	Pyhäjärvi	111
Kauhavan Osuusmeijeri	Kauhava	68
Kaustisen Osuusmeijeri	Kaustinen	96
Keski-Pohjan Juustokunta	Toholampi	1,236
Keski-Suomen Maitokunta	Jyväskylä	1,217
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	1
Lammin Osuusmeijeri	Lammi	113
Liperin Osuusmeijeri	Liperi	162
Nilsiän Osuusmeijeri	Nilsiä	280
Nurmeksen Osuusmeijeri	Nurmes	608
Osuuskunta Idän Maito	Joensuu	2,794
Osuuskunta Lapin Maito	Rovaniemi	567
Osuuskunta Maito-Aura	Turku	1,525
Osuuskunta Maitojaloste	Seinäjoki	2,436
Osuuskunta Maitokolmio	Toholampi	244
Osuuskunta Maito-Pirkka	Tampere	1,015
Osuuskunta Normilk	Jyväskylä	4
Osuuskunta Pohjolan Maito	Haapavesi	2,670
Osuuskunta Rannikon Maito	Raahe	138
Osuuskunta Satamaito	Pori	348
Osuuskunta Tuottajain Maito	Riihimäki	7,040
Paavolan Osuusmeijeri	Ruukki	32
Suonenjoen Ymp. Osuusmeijeri	Suonenjoki	290
Tyrnävän Osuusmeijeri	Tyrnävä	1
Vieremän Osuusmeijeri	Vieremä	97
Virtain Osuusmeijeri	Virrat	78
Ähtärin Seudun Osuusmeijeri	Ähtäri	123
Shareholders, total		29,317
Total share capital		FIM million 586.34

Valio Consolidated and Shareholder Dairies

Net sales and personnel, 1996

	Net sales FIM mill.	Personnel Dec. 31, 1996
Valio Ltd	7,382	3,731
Valio Ltd Subsidiaries		
Valio International U.S.A. Inc.	424	197
Vache Bleue S.A. (6 months)	184	112
N.V. Valio International Belgium – Nordic Foods	170	23
Valio Sverige AB	68	26
Valio Eesti AS	52	30
VBF Trading S.A.	45	2
ZAO Valio St. Petersburg	42	19
Tapila AS	27	46
Valio Engineering Ltd	15	25
Kuivamaito Oy	533	299
Subsidiaries, total		779
Valio Consolidated, total	7,838	4,510
Owner dairies [1)]		436
Valio Group, total		4,946

[1)] Shareholder dairies which have marketing contracts with Valio and other co-operative dairies

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