Annual Report 1997

VALIO

Valio Group Trademarks

Contents

Five-year Group Statistics

	1997	1996	1995	1994	1993
Net sales, FIM million	8,055.5	7,837.6	8,181.9	8,785.9	8,844.6
Change %	+2.8	-4.2	-6.9	-0.7	+18.1
- Domestic, FIM million	5,570.7	5,866.5	6,583.4	6,575.6	6,708.5
Change %	-5.0	-10.9	+0.1	-2.0	+22.9
- International operations, FIM million	2,484.8	1,971.1	1,598.5	2,210.3	2,136.1
Change %	+26.1	+23.3	-27.7	+3.5	+5.2
Balance sheet total, FIM million	4,501.6	4,457.8	4,575.1	5,364.3	4,348.2
Liabilities as a % of the balance sheet	54.1	53.2	53.6	61.3	64.8
Equity + provisions as a % of the balance sheet	45.9	46.8	46.4	38.7	35.2
Personnel expenditure, FIM million	916.4	872.6	945.2	752.5	597.8
Personnel	4,537	4,801	5,101	4,265	3,234
Inventories, FIM million	739.8	771.5	749.8	874.1	679.9
Capital expenditure, FIM million	248.5	211.9	279.1	194.2	227.1
Total depreciation, FIM million	346.6	340.2	262.6	264.1	216.9

Valio - Responsible and Competent

Valio Ltd is Finland's leading milk processor and marketer. It is a private limited company owned by 44 co-operative dairies whose owner-members are 20,000 Finnish milk producers. Milk producers produce the best milk in the EU on their farms and entrust its processing and handling to Valio.

Valio processes milk at modern production facilities in some twenty communities throughout Finland. Valio markets, sells and distributes its products to supermarkets, restaurants, schools, convenience stores and wholesale outlets. Valio is one of Finland's best known brands and has a range of more than 800 products. Package sizes and lactose and fat contents vary according to the wishes of consumers. Valio offers a wide variety of tasty, natural products. Fresh every day.

Valio, Group Organization
January 1, 1998

ANNUAL GENERAL MEETING

SUPER-VISORY BOARD

BOARD OF DIRECTORS
CEO
Matti Kavetvuo

Research and Development
Kari Salminen
Corporate Planning
Vesa Silaskivi
Milk Pool
Pentti Moisio

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

Valio Domestic Sales
General Manager
Markku Määttänen

Valio Fresh Products
General Manager
Pentti Paloranta

Valio Cheese
General Manager
Veijo Meriläinen

Valio Edible Fats and Ingredients
General Manager
Tuomo Keurulainen

Valio Ice Cream
General Manager
Liisi Myllykangas

Review by the CEO

With respect to the Valio Group's financial performance, 1997 was much like the preceding year if the higher price for milk paid to owner co-operatives is taken into account. The stable trend evident in performance was due largely to good prices on export markets and to structural rationalization of Valio's dairy industry.

The trend in Valio's sales conformed basically to the trend prevailing throughout the period of EU membership.

In the regulated operating environment of the past, Valio held a virtual monopoly in Finland. New free trade legislation and EU membership have accelerated competition and opened the Finnish market up to imports. As a result, Valio's share of the home market has gradually declined. To offset these developments, we have increased our competitiveness in foreign markets and quickly established new positions.

Since Finland joined the EU, net sales from Valio's international operations have increased at the rate of 25 percent annually; new markets worth FIM 1 billion have been created as a result. This has required a significant reorientation of operations in a situation where Valio has been forced to adapt domestic operations, its traditional income generator, to declining production volumes.

This approach has been inevitable, given the changes occurring in consumption. For example consumption of low-fat milk, the main product of the Finnish milk sector, has fallen substantially since 1995. Low-fat milk consumption has dropped by nearly the amount of raw material used for manufacture of the cheese exported to Belgium, which is one of our principal export customers. In contrast, cheeses, yoghurts and ice cream have accounted for most of the increased consumption in Finland of recent years. Since rapidly growing imports in these product lines have limited Valio's prospects to benefit from the expanding markets, our Group has sought new outlets abroad.

Development of export markets has also been an important means of stabilizing domestic prices. Despite Valio's responsible export efforts, competition in Finland has become distorted in recent years. This is leading to a considerable decline in prices for liquid milk products, due to over capacity and steadily falling consumption.

During the current fiscal year, Valio is achieving most of the structural objectives on which its strategy for the present decade was constructed in 1992-93. Now is the time to revise the Group's strategies so that we are able to meet the challenges of the new decade and millennium.

As a dairy enterprise, Valio is relatively international. It markets a significant proportion of its foreign sales with its own familiar brands. Last year it processed 63 percent of the milk procured for the Finnish market and 37 percent for international markets.

The dairy sector is undergoing a rapid process of change worldwide. The conventional mode of operations, which relied on a comprehensive product range, is gradually yielding to an international and highly differentiated approach based on excellence in core areas. The leading companies in the sector are increasingly shifting their emphasis from raw materials and local markets to products that add value in the form of know-how and thus earn a better return than traditional, more primary products. Functional foods are a typical example of this development.

Valio seeks to play an active role in this process. In recent years we have learned new modes of operation and discovered opportunities for the future in new products and new markets. The home market has long relied on our expertise, and this will provide us with a solid foundation for future endeavor.

I would like to thank Valio's milk producers and the company's employees for their good work during the past fiscal year. I would also like to thank our customers and other stakeholders for their contribution. I believe in the future and in the capacity of Finnish milk production and processing for change, despite the problems caused by the constant and often painful need to adjust.

Matti Kavetvuo

Valio Ltd

SUPERVISORY BOARD

	Term began	Term ends
Niilo Mäki dairy farmer, Kortesjärvi Chairman until April 24, 1997	1982	
Seppo Hakola dairy farmer, Kuortane Chairman as of April 24, 1997	1994	1999
Markku Heikkinen dairy farmer, Tohmajärvi Vice Chairman	1991	2000
Pertti Hahl dairy farmer, Mikkeli	1995	1998
Kari Harsia personnel representative, Seinäjoki	1996	1999
Toivo Heikkilä dairy farmer, Haapajärvi	1996	2000
Pertti Heinonen dairy farmer, Oripää	1992	1999
Eero Hiironen dairy farmer, Saarijärvi	1991	1998
Kari Inkinen dairy farmer, Ruokolahti until June 16, 1997	1996	
Eero Jukkara dairy farmer, Savitaipale	1989	1998
Hannu Kainu dairy farmer, Kyyjärvi as of April 24, 1997	1997	1999
Matti Karvo dairy farmer, Rovaniemi	1994	1998
Anneli Koponen personnel representative, Vantaa	1996	1999
Tapio Malmiharju dairy farmer, Artjärvi	1996	2000
Martti Nevalainen dairy farmer, Valtimo	1994	1999
Paavo Niskanen dairy farmer, Iisalmi	1995	1998
Heikki Olkkonen dairy farmer, Alavus	1988	1999
Riku Ollikainen dairy farmer, Lapinlahti	1981	2000
Esko Pohjala dairy farmer, Orivesi	1992	1998
Kauko Puurula dairy farmer, Reisjärvi until April 24, 1997	1992	
Airi Raussi dairy farmer, Anjalankoski	1996	1999
Pentti Santala dairy farmer, Kauhajoki as of April 24, 1997	1997	2000
Osmo Sikanen dairy farmer, Joroinen	1991	1999
Reino Tapani managing director, Turku	1992	2000
Juhani Väänänen dairy farmer, Maaninka	1995	1998

BOARD OF DIRECTORS

	Term began	Term ends
Into Nummila dairy farmer, Iitti Chairman until December 31, 1997	1996	1997
Tauno Uitto dairy farmer, Tyrnävä Vice Chairman	1996	1998
Kari Inkinen dairy farmer, Ruokolahti as of June 16, 1997 Chairman as of January 1, 1998	1997	1999
Tauno Mikkola dairy farmer, Vilppula until June 16, 1997	1992	
Matti Kavetvuo President, CEO, Helsinki	1992	
Jussi Mönkkönen dairy farmer, Kaavi until December 31, 1997	1996	1997
Juhani Hörkkö dairy farmer, Koski Tl as of January 1, 1998	1998	2000
Esa Juntunen dairy farmer, Vieremä as of January 1, 1998	1998	2000

AUDITOR

SVH Coopers & Lybrand Oy, Authorized Public Accountants
Tauno Haataja, Authorized Public Accountant

Annual Report by the Board of Directors January 1, 1997 - December 31, 1997

GENERAL

Valio Group's performance during 1997 was on the level of the previous year when the higher price for raw milk paid to the owner co-operatives is taken into account. This steady trend can be attributed to good prices on export markets and to restructuring of the Valio dairy industry.

The volume of milk received by Valio in Finland was 1,642 million liters; there was no change from the previous year. The volume supplied by Valio's owner co-operatives also remained the same. In all, the Valio Group received 1,793 million liters of raw milk when milk procurement for Valio dairies in the United States and Estonia is included.

Net sales in Finland declined by five percent. Valio lost market share in milks and cheeses. The trend in sales of special products such as yoghurts, infant foods and low-fat and special cheeses was good.

Net sales from international operations rose by twenty-five percent. The largest increases were recorded in powders, edible fats and cheese.

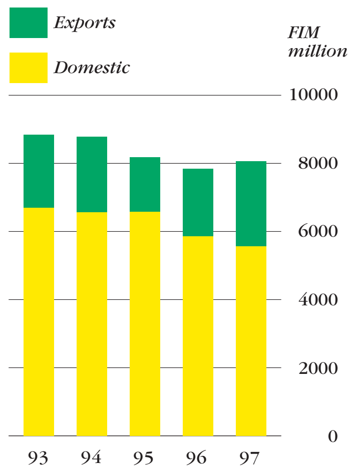
Profitability by division increased in cheese, fats and powders, and ice cream and remained on the level of the previous year in fresh products.

The price paid for raw milk was up FIM 0.04 from the previous year. Accordingly, using a comparable raw material price, consolidated net income before extraordinary items would have been FIM 65 million greater than that now shown in the statement of income.

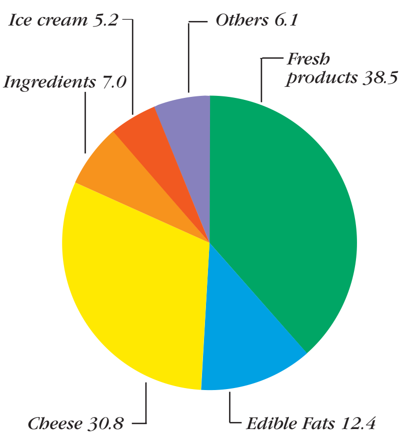
In its decision of October 1997, the Competition Council stated on the basis of a proposal by the Office of Free Competition that Valio had misused its dominant market position by introducing a discount schedule for liquid milk products and by offering marketing support to its customers. The Competition Council further ordered Valio to desist from the above practices and to pay the State FIM 5 million in sanctions, which were entered under extraordinary expenses for the fiscal year. The case is presently before the Supreme Administrative Court.

A new lease was concluded with the Maito-Aura co-operative. It will take effect on June 1, 1998 and remain in force for 10 years. The leases made with the Maito-Pirkka and Häme co-operatives will expire at the end of May 1998 and milk procurement and other co-operation with them will be terminated.

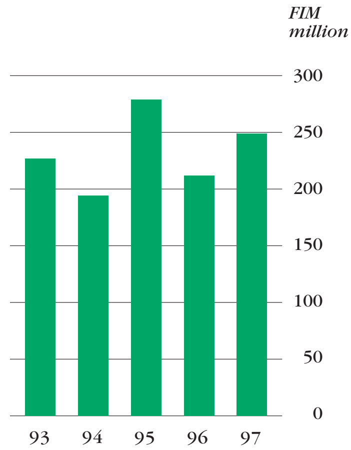
GROUP NET SALES



GROUP NET SALES BY PRODUCTS (%), 1997



CAPITAL EXPENDITURE, GROUP



SHAREHOLDERS AND SHARE CAPITAL

The number of shareholders decreased by two during the fiscal year. There were 44 shareholders at the end of the fiscal year.

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

CHANGES IN THE GROUP STRUCTURE

At the end of the fiscal year, Valio's holding in Valio Engineering Ltd rose from 60 percent to 100 percent.

In May, Kiinteistö Oy Kuivamaito sold its shares in Valio Ltd to Valio's owner dairies.

At the end of the fiscal year, Valio and Sodima International S.A. established Yoplait Valio Nord Ab and Yoplait Valio Nord Oy. Each founder has a 50 percent holding in the new companies, whose operations commenced at the beginning of 1998.

After the end of the fiscal year, Valio increased its holding in Kiinteistö Oy Kuivamaito to 100 percent. In February 1998, the boards of Valio Ltd and Kiinteistö Oy Kuivamaito approved a plan for merging Kiinteistö Oy Kuivamaito with Valio.

NET SALES/CONSOLIDATED

Consolidated net sales totaled FIM 8,056 million (FIM 7,838 million). Net sales in Finland totaled FIM 5,571 million (FIM 5,867 million). Net sales from international operations (exports from Finland and foreign subsidiaries) totaled FIM 2,485 million (FIM 1,971 million).

NET SALES/PARENT COMPANY

Valio Ltd's net sales totaled FIM 7,303 million (FIM 7,382 million). Net sales in Finland totaled FIM 5,569 million (FIM 6,037 million). Net sales from exports totaled FIM 1,734 million (FIM 1,345 million).

CAPITAL EXPENDITURE

Consolidated gross capital expenditure totaled FIM 249 million (FIM 212 million) or 3.1 percent (2.7%) of net sales. Investments of FIM 30 million were made in buildings and land and of FIM 190 million in machinery and equipment.

Investment in stocks and shares totaled FIM 3 million and in other capitalized expenditure FIM 26 million. Consolidated net capital expenditure amounted to FIM 229 million (FIM 150 million).

PERSONNEL

The Group employed an average of FIM 4,537 persons compared with 4,801 the previous year. The personnel figures at the end of the fiscal year were 4,331 and 4,510.

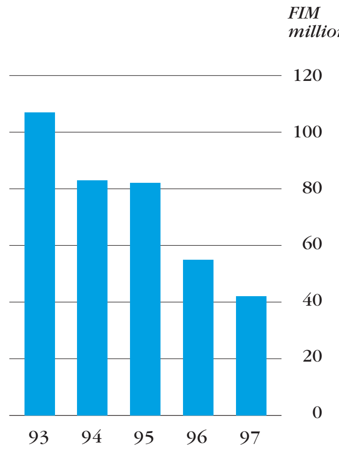
The Parent Company employed an average of 4,063 persons during the fiscal year compared with 4,058 the previous year. The personnel figures at the end of the fiscal year were 3,868 and 3,731.

WAGES AND SALARIES

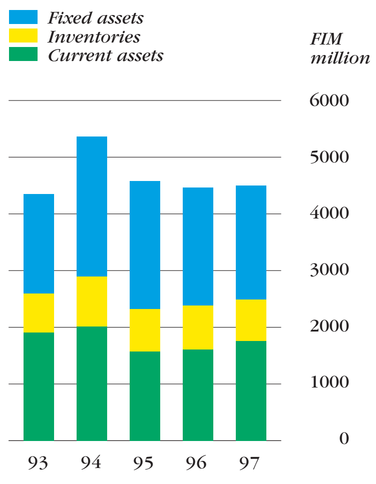
Accrual-based salaries paid to Group boards, supervisory boards and managing directors totaled FIM 7 million (FIM 7 million). Other wages and salaries were FIM 670 million (FIM 685 million).

The respective figures for Valio Ltd were FIM 2 million (FIM 2 million) and FIM 596 million (FIM 584 million). The retirement age of the Parent Company CEO has been set at 62 with earlier eligibility for a partial pension.

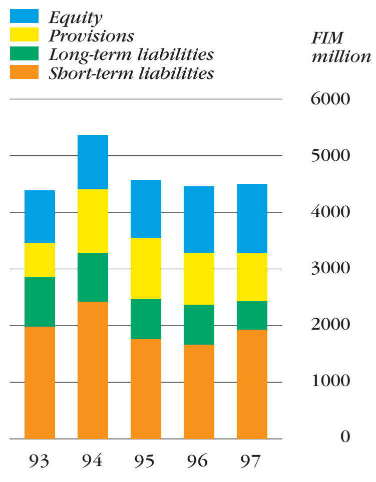
NET INTEREST EXPENSES, GROUP



GROUP BALANCE SHEET, ASSETS



GROUP BALANCE SHEET, EQUITY AND LIABILITIES



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 958 million at the end of the fiscal year compared with FIM 783 million at the beginning of the year. Inventories totaled FIM 740 million at the end of the fiscal year and FIM 771 million at the beginning. Interest-bearing liabilities totaled FIM 772 million at the end of the fiscal year and FIM 942 million at the beginning. These included liabilities denominated in foreign currencies amounting to FIM 264 million at the end of the fiscal year and FIM 290 million at the beginning. Net interest expense amounted to FIM 33 million (FIM 38 million) or 0.4 percent (0.5%) of consolidated net sales. Net interest expense amounted to FIM 42 million (FIM 55 million).

FINANCIAL PERFORMANCE

Consolidated net income before extraordinary items is FIM 184 million (FIM 208 million). Extraordinary items consisted primarily of gains on sales of fixed assets, payment of the pension liability and of the sanctions imposed by the Competition Council.

The difference between planned depreciation and book depreciation was FIM -56 million (FIM -30 million). Book depreciation was the maximum permitted under the Business Taxation Act. Taxes for the fiscal year were FIM 54 million (FIM 88 million). Net income for the fiscal year is FIM 95 million (FIM 190 million).

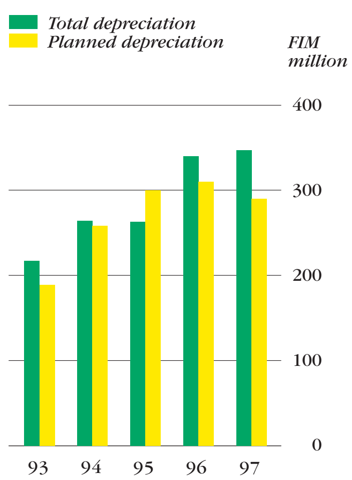
Parent Company net income before extraordinary items is FIM 200 million (FIM 331 million).

The difference between planned depreciation and book depreciation is FIM -56 million (FIM -128 million). The transitional provision was dissolved by FIM 124 million. An increase of FIM 3 million was made in the obligatory provisions. Taxes for the fiscal year were FIM 53 million (FIM 84 million). Net income for the fiscal year is FIM 117 million (FIM 210 million).

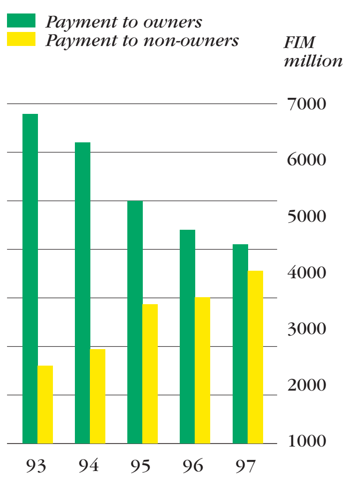
PROSPECTS FOR 1998

Competition on the Finnish milk market will intensify. As a result, the outlook for profits and dividends during the current year has deteriorated.

DEPRECIATION, GROUP



EXPENSES, GROUP



CONSOLIDATED STATEMENT OF INCOME

	1997	1996
Net sales	8,055,544	7,837,562
Increase (+)/(decrease) in finished goods	(47,496)	56,928
Other income from operations	132,312	175,765
Variable expenses:		
Materials and supplies:		
Purchases	5,465,257	5,340,333
(Increase)/decrease (+) in inventories	(149)	48,433
Outside services	112,683	107,287
Personnel expenses	538,601	524,976
Other variable expenses	621,901	630,660
	(6,738,293)	(6,651,689)
Gross profit	1,402,067	1,418,566
Fixed expenses:		
Personnel expenses	377,773	347,599
Rents	66 687	76,165
Other fixed expenses	450,497	449,417
Operating fees	-	(10,530)
	(894,957)	(862,651)
Net income before depreciation	507,110	555,915
Depreciation on fixed assets and other capitalized expenditure	276,849	296,760
Amortization of goodwill	13,419	13,628
	(290,268)	(310,388)
Net income from operations	216,842	245,527
Financing income and expenses:		
Dividend income	2,744	3,847
Interest income	31,755	32,341
Other financing income	12,389	15,709
Net income from affiliated companies	869	1,426
Interest expense	(73,974)	(87,129)
Other financing expenses	(6,756)	(3,953)
	(32,973)	(37,759)
Net income before extraordinary items, allocations and taxes	183,869	207,768
Extraordinary items:		
Income	8,226	23,692
Expenses	(94,609)	(109,885)
	(86,383)	(86,193)
Net income before allocations and taxes	97,486	121,575
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	(56,370)	(29,832)
Allocation (to)/from (+) optional provisions	124,122	185,805
Taxes		
Current period	(54,047)	(87,578)
Previous periods	(16,035)	(2,217)
Net income before minority interest	95,156	187,753
Minority interest	(155)	(1,739)
Net income	95,311	189,492

All figures in FIM 1,000

CONSOLIDATED BALANCE SHEET

ASSETS	Dec. 31, 1997	Dec. 31, 1996
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	6,127	5,655
Goodwill	52,873	67,299
Other capitalized expenditure	62,193	56,651
	121,193	129,605
Tangible assets		
Land and water areas	76,366	76,538
Buildings and constructions	827,273	894,181
Machinery and equipment	812,541	842,129
Other tangible assets	19,927	402
Advance payments and construction in progress	61,097	29,252
	1,797,204	1,842,502
Investments and non-current assets		
Investments in affiliated companies	5,959	9,693
Stocks and shares	80,671	89,017
Loans receivable	1,544	1,888
	88,174	100,598
CURRENT ASSETS		
Inventories		
Materials and supplies	129,752	134,976
Semifinished goods	83,996	173,478
Finished goods	518,682	454,861
Other inventories	7,330	8,167
	739,760	771,482
Receivables		
Accounts receivable	637,604	685,954
Accrued income and prepaid expenses	124,225	106,518
Other receivables	35,075	37,780
	796,904	830,252
Current investments	770,491	664,021
Cash and bank	187,921	119,323
	4,501,647	4,457,783

All figures in FIM 1,000

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1997	Dec. 31, 1996
SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital and legal reserves		
Share capital	586,340	586,340
Legal reserves	54,494	40,610
	640,834	626,950
Distributable earnings		
Retained earnings	482,388	350,676
Net income for the fiscal year	95,311	189,492
	577,699	540,168
MINORITY INTEREST	823	10,123
PROVISIONS		
Consolidation difference	7,108	12,783
Accumulated difference between planned and book depreciation	830,151	773,782
Optional provisions		
Other provisions	-	124,115
Obligatory provisions	10,322	7,289
	847,581	917,969
LIABILITIES		
Long-term debt		
Loans from financial institutions	396,473	579,097
Other long-term debt	106,117	120,343
	502,590	699,440
Current liabilities		
Loans from financial institutions	269,213	242,755
Advance payments received	17,486	14,872
Accounts payable	1,451,652	1 190,884
Accrued expenses and prepaid income	171,182	196,045
Other current liabilities	22,587	18,577
	1,932,120	1,663,133
	4,501,647	4,457,783

All figures in FIM 1,000

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1997	1996
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	507,110	555,915
Financing income	47,757	53,323
	554,867	609,238
Capital financing		
Increase in long-term debt	8,802	225,078
Increase in shareholders' equity	13,884	4,116
	22,686	229,194
	577,553	838,432
APPLICATION OF FUNDS		
Dividends	57,780	57,800
Financing and other expenses and taxes		
Financing expenses	80,730	91,082
Extraordinary items, (income)/expenses (+)	86,383	(28,545)
Taxes	70,082	89,795
	294,975	210,132
Capital expenditure	248,522	211,945
Other change in fixed assets	(18,375)	52,846
Increase (+)/(decrease) in loans receivable	(344)	(11,578)
Repayment of capital		
Repayment of long-term debt	205,652	220,312
Decrease in minority interest	9,145	7,935
	214,797	228,247
(Increase)/decrease (+) in obligatory provisions	(3,033)	(7,289)
Change in working capital		
Increase (+)/(decrease) in inventories	(31,722)	+21,728
Increase (+)/(decrease) in current receivables	+141,720	+37,772
(Increase)/decrease (+) in current liabilities	(268,987)	+94,629
	(158,989)	154,129
	577,553	838,432

All figures in FIM 1,000

PARENT COMPANY STATEMENT OF INCOME

	1997	1996
Net sales	7,303,382	7,382,130
Increase (+)/(decrease) in inventories	(46,027)	103,800
Other income from operations	128,619	163,801
Variable expenses:		
Materials and supplies:		
Purchases	4,935,749	5,275,853
(Increase)/decrease (+) in inventories	2,340	495
Outside services	103,595	75,771
Personnel expenses	487,072	442,472
Other variable expenses	577,297	515,819
	(6,106,053)	(6,310,410)
Gross profit	1,279,921	1,339,321
Fixed expenses:		
Personnel expenses	321,753	287,231
Rents	63,582	74,303
Other fixed expenses	397,685	392,694
Operating fees	-	(10,530)
	(783,020)	(743,698)
Net income before depreciation	496,901	595,623
Depreciation on fixed assets and other capitalized expenditure	(257,923)	(243,442)
Net income from operations	238,978	352,181
Financing income and expenses:		
Dividend income	1,750	2,615
Dividend income from subsidiaries	50	30
Dividend tax credit	700	881
Interest income	34,381	42,970
Other financing income	-	14,410
Interest expense *)	(70,544)	(81,904)
Other financing expenses	(5,044)	-
	(38,707)	(20,998)
Net income before extraordinary items, allocations and taxes	200,271	331,183
Extraordinary items:		
Income	9,408	25,231
Expenses	(91,218)	(95,735)
	(81,810)	(70,504)
Net income before allocations and taxes	118,461	260,679
(Increase)/decrease (+) of accumulated difference between planned and book depreciation	(56,436)	(128,029)
Allocation (to)/from (+) optional provisions	123,627	163,245
Taxes		
Current period	(52,985)	(84,063)
Previous periods	(16,000)	(2,119)
Net income	116,667	209,713
*) Net interest expense	36,163	38,934

All figures in FIM 1,000

PARENT COMPANY BALANCE SHEET

ASSETS	Dec. 31, 1997	Dec. 31, 1996
FIXED ASSETS AND INVESTMENTS		
Intangible assets		
Immaterial rights	5,278	4,606
Other capitalized expenditure	61,431	55,738
	66,709	60,344
Tangible assets		
Land and water areas	69,745	69,776
Buildings and constructions	798,548	849,414
Machinery and equipment	762,702	790,419
Other tangible assets	336	311
Advance payments and construction in progress	59,486	28,427
	1,690,817	1,738,347
Investments and non-current assets		
Stocks and shares	69,564	70,686
Shares in subsidiaries	342,696	326,282
Loans receivable	90,478	102,886
	502,738	499,854
CURRENT ASSETS		
Inventories		
Materials and supplies	125,318	127,144
Semifinished goods	72,341	173,478
Finished goods	388,166	332,734
Other inventories	7,330	8,167
	593,155	641,523
Receivables		
Accounts receivable	584,216	604,304
Accrued income and prepaid expenses	97,323	85,991
Other receivables	41,165	43,136
	722,704	733,431
Current investments	770,483	663,998
Cash and bank	129,185	58,216
	4,475,791	4,395,713

All figures in FIM 1,000

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31, 1997	Dec. 31, 1996
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	545,941	394,862
Net income for the fiscal year	116,667	209,713
	662,608	604,575
PROVISIONS		
Accumulated difference between planned and book depreciation	830,145	773,709
Optional provisions		
Transitional provision	-	123,627
Obligatory provisions	8,350	5,564
	838,495	902,900
LIABILITIES		
Long-term debt		
Loans from financial institutions	315,546	474,798
Other long-term debt	106,299	121,421
	421,845	596,219
Short-term debt		
Loans from financial institutions	206,493	202,165
Advance payments received	1,593	4,152
Accounts payable	1,555,229	1,274,333
Accrued expenses and prepaid income	149,156	174,299
Other current liabilities	18,452	15,150
	1,930,923	1,670,099
	4,475,791	4,395,713

All figures in FIM 1,000

PARENT COMPANY STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1997	1996
SOURCES OF FUNDS		
Financing from operations		
Net income before depreciation	496,901	595,623
Financing income	36,881	60,906
	533,782	656,529
Capital financing		
Increase in long-term debt		
Increase in loans from financial institutions	302	100,570
Increase in shareholder loans	-	49,045
	302	149,615
	534,084	806,144
APPLICATION OF FUNDS		
Dividend	58,634	58,634
Financing and other expenses and taxes		
Financing expenses	75,588	81,904
Extraordinary items, (income)/expenses (+)	81,810	(13,978)
Taxes	68,985	86,182
	226,383	154,108
Capital expenditure and other non-current investments		
Increase in tangible assets	206,529	320,048
Increase in stocks and shares and intangible assets	43,393	123,751
Decrease of fixed assets	(17,873)	(43,987)
Decrease in loans receivable	(12,408)	(78,636)
	219,641	321,176
Repayment of capital		
Repayment of long-term debt		
Decrease in loans from financial institutions	133,099	108,542
Decrease in shareholder loans	59,185	3,434
	192,284	111,976
(Increase)/decrease (+) in obligatory provisions	(2,785)	(5,564)
Change in working capital		
Increase (+)/(decrease) in inventories	(48,368)	+103,306
Increase (+)/(decrease) in current receivables	+166,728	(13,522)
(Increase)/decrease (+) in current liabilities *)	(278,433)	+76,030
	(160,073)	165,814
	534,084	806,144

*) 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 (except for Kiinteistö Oy Kuivamaito). Real estate companies in which the holding exceeds 50% are not included in the consolidated financial statements. Had they been consolidated they would not have had any effect on consolidated distributable earnings.

The consolidated financial statements have been prepared using the acquisition method. All significant intercompany accounts and transactions have been eliminated.

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 Finnish marks 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 Finnish marks at the Bank of Finland year-end average rates of exchange.

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

	CONSOLIDATED		PARENT COMPANY	
	1997	1996	1997	1996
1. NET SALES BY SEGMENTS				
Fresh products	3,104,631	3,115,544	3,031,326	3,362,381
Edible fats	1,001,358	895,129	987,530	886,759
Cheese	2,476,754	2,335,345	1,871,046	1,825,275
Ingredients	564,383	554,832	553,639	408,788
Ice cream	416,760	430,632	412,574	424,633
Others	491,658	506,080	447,267	474,294
	8,055,544	7,837,562	7,303,382	7,382,130
2. PERSONNEL EXPENSES				
Wages and salaries	677,429	692,279	597,666	585,656
Pension costs	120,393	77,562	117,054	66,539
Salary related expenses	118,552	102,734	94,105	77,508
	916,374	872,575	808,825	729,703
Fringe benefits	7,733	8,427	7,624	7,836
	924,107	881,002	816,449	737,539
3. PLANNED DEPRECIATION				
Goodwill	13,419	13,628	-	-
Immaterial rights	735	573	611	490
Other capitalized expenditure	17,893	20,204	17,321	19,182
Buildings and constructions	73,429	78,636	70,266	64,826
Machinery and equipment	180,537	197,089	169,710	158,937
Other tangible assets	4,255	258	15	7
	290,268	310,388	257,923	243,442

	CONSOLIDATED 1997	CONSOLIDATED 1996	PARENT COMPANY 1997	PARENT COMPANY 1996
(INCREASE)/DECREASE (+) OF ACCUMULATED DIFFERENCE BETWEEN PLANNED AND BOOK DEPRECIATION				
Immaterial rights	(109)	(113)	(128)	(128)
Other capitalized expenditure	(6,360)	1,108	(6,376)	1,108
Buildings and constructions	1,267	(27,654)	1,329	(69,276)
Machinery and equipment	(51,167)	(2,549)	(51,254)	(59,719)
Other tangible assets	(1)	(624)	(7)	(14)
	(56,370)	(29,832)	(56,436)	(128,029)

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
Goodwill	5
Buildings and constructions	25
Machinery and equipment	10
EDP equipment and programmes	5
Transportation and equipment	5

	CONSOLIDATED 1997	CONSOLIDATED 1996	PARENT COMPANY 1997	PARENT COMPANY 1996
4. INTERCOMPANY FINANCING INCOME AND EXPENSES				
Intercompany financing income				
Dividend income	-	-	50	30
Interest income	-	-	6,343	12,365
Intercompany financing expenses				
Interest expense	-	-	4,922	159
5. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Gain on sale of shares	7,952	23,690	9,389	25,195
Losses on sale of shares	-	-	-	(3)
Write-down of buildings	(1,892)	(32,859)	-	(1,002)
Extra depreciation of machinery and equipment	-	(22,913)	-	-
Write-down of stocks and shares	-	(14,266)	-	(77,331)
Write-down of receivables	-	-	-	(10,952)
Write-down of other fixed assets	-	-	-	(6,148)
Prior period adjustment to depreciation of goodwill	-	(39,630)	-	-
Write-down of contingent pension liabilities	(87,171)	-	(86,216)	-
Payment to the Finnish Competition Board	(5,000)	-	(5,000)	-
Other extraordinary items	(272)	(215)	17	(263)
	(86,383)	(86,193)	(81,810)	(70,504)
6. ALLOCATION (TO)/FROM OPTIONAL PROVISIONS				
Transitional provision	123,627	169,591	123,627	147,245
Replacement provision	-	16,000	-	16,000
Other provisions	495	214	-	-
(Increase)/decrease (+), total	124,122	185,805	123,627	163,245
Deferred tax included in optional provisions	-	34,752	-	-

	CONSOLIDATED 1997	CONSOLIDATED 1996	PARENT COMPANY 1997	PARENT COMPANY 1996
7. CHANGE IN OBLIGATORY PROVISIONS (INCREASE)/DECREASE (+)				
Provision for rental expenses +3,039 and for contingent pension liabilities of the parent company (5,825)	(3,033)	(7,289)	(2,786)	(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, Helsinki	100.0	2
Kiinteistö Oy Kuivamaito, Helsinki	97.8 *)	145,788
N.V. Valio International Belgium - Nordic Foods, Belgium	100.0	9,561
N.V. Nordic Immo, Belgium	100.0	23,166
N.V. Marco Casodost, Belgium	100.0	10,077
Pakkasukko Oy, Helsinki	100.0	11
Smeds & Co Oy, Helsinki	100.0	50
Tapila AS, Estonia	92.7	2,569
UAB Valio International, Lithuania	100.0	12
Vache Bleue S.A., Belgium	100.0	26,555
Frigo-Way S.P.R.L., Belgium	100.0	5,931
Vache Bleue S.A.R.L., France	100.0	2,278
Valio Eesti AS, Estonia	100.0	1,354
Valio International (Poland) Ltd, Poland	100.0	11
Valio International U.S.A. Inc., USA	100.0	85,555
McCadam Cheese Co., Inc., USA	100.0	85,555
Valio International Middle East (Holding) SAL, Lebanon	90.0	1,278
Finnish Dairy (Holding) SAL, Lebanon	20.0	-
Valio Sverige AB, Sweden	100.0	567
Valio Engineering Ltd, Helsinki	100.0	469
VBF Trading S.A., Switzerland	55.0	1,094
VBF France S.A.R.L., France	54.8	8
ZAO Valio St. Petersburg, Russia	100.0	2,705
Asunto Oy Nastolan Maitotie, Nastola	100.0	5,407
Asunto Oy Vuorikummuntie 9, Helsinki	98.5	2,718
Kiinteistö Oy Hiirakkotie 6, Vantaa	100.0	792
Kiinteistö Oy Pähkinämetsä, Vantaa	100.0	1,214
Kiinteistö Oy Pähkinäpolku, Vantaa	100.0	794
Kiinteistö Oy Ratastie, Janakkala	100.0	232

*) Jan. 5, 1998 100.0 %

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	-
Kiinteistö Oy Kuivamaito	97.8	35,191		35,191	126,597	6,966
N.V. Valio International Belgium - Nordic Foods *)	93.2	233,000	BEF	233,000	34,824	(8,365)
N.V. Nordic Immo	0.0					1,023
N.V. Marco Casodost	0.0					(1,332)
Pakkasukko Oy	100.0	150		1	1	4
Smeds & Co Oy	100.0	25		50	50	-
Tapila AS	92.7	711	EEK	1,067	416	1,398
UAB Valio International	100.0	100	LTL	10	12	-
Vache Bleue S.A.	99.9	3,369	BEF	3,369	104,245	(1,283)
Frigo-Way S.P.R.L.	0.0					(150)
Vache Bleue S.A.R.L.	0.0					298
Valio Eesti AS	100.0	15,000	EEK	1,500	2,452	(1,365)
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					(6,245)
Valio International Middle East (Holding) SAL	90.0	1,278	USD	128	722	184
Finnish Dairy (Holding) SAL	0.0					-
Valio Sverige AB	100.0	15,000	SEK	1,500	5,444	(5,545)
Valio Engineering Ltd	100.0	500		500	503	(781)
VBF Trading S.A.	55.0	330	CHF	330	890	(600)
VBF France S.A.R.L.	0.0					(11)
ZAO Valio St. Petersburg	100.0	29,010	RUR	2,901,000	3,177	(682)
Asunto Oy Nastolan Maitotie	100.0	1,361		5,444	1,829	-
Asunto Oy Vuorikummuntie 9	98.5	2,325		2,462	9,988	-
Kiinteistö Oy Hiirakkotie 6	100.0	650		650	900	-
Kiinteistö Oy Pähkinämetsä	100.0	1,000		1,000	1,213	(1)
Kiinteistö Oy Pähkinäpolku	100.0	380		798	798	-
Kiinteistö Oy Ratastie	100.0	450		450	450	-
					342,696	

*) 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, Helsinki	50.0	3,895
Suomen NP-Kierrätys Oy, Helsinki	25.0	25
Turengin Meijerikiinteistöt Oy, Janakkala	50.0	481
Yoplait Valio Nord AB, Sweden	50.0	1,039
Yoplait Valio Nord Oy, Helsinki	50.0	500

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	629
Suomen NP-Kierrätys Oy	10		10	25	-
Turengin Meijerikiinteistöt Oy *)	50		500	500	4
Yoplait Valio Nord AB **)	1,500	SEK	1,500	1,039	-
Yoplait Valio Nord Oy **)	500		500	500	-
				5,364	

*) Year-end accounts Aug. 31, 1997 and fiscal year 12 months

**) The first fiscal period is ending as at Dec. 31, 1998

83. PARENT COMPANY OTHER STOCKS AND SHARES

	Owner-ship %	Number of shares	Face value	Book value
Finnair Oy, Vantaa	0.0	28,080	140	391
Lännen Tehtaat Oy, Säkylä	5.0	324,552	3,246	7,664
Metsä-Serla Oy, Espoo	0.2	250,750	2,507	3,092
MTV Oy, Helsinki	1.6	877	438	1,742
Sampo Vakuutusosakeyhtiö, Turku	0.0	9,348	47	387
Oy Talentum Ab, Helsinki	0.6	46,800	234	1,426
Meijerien Keskinäinen Vakuutusyhtiö, Helsinki	-	100	10,000	10,064
Kiinteistö Oy Biocity, Turku	5.5	1,246	12	10,000
Shares in housing	-	-	-	19,211
Helsingin Puhelinyhdistys, Helsinki	-	303	-	639
Other stocks and shares	-	-	-	9,584
				64,200

	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
9. TANGIBLE AND INTANGIBLE ASSETS				
Immaterial rights				
Acquisition cost at beginning of year	14,557	11,807	6,350	4,928
Increases	1,290	1,467	1,283	1,422
Decreases	-	(3)	-	-
Acquisition cost at year end	15,847	13,271	7,633	6,350
Accumulated depreciation at year end	(9,720)	(7,616)	(2,355)	(1,744)
Book value at year end	6,127	5,655	5,278	4,606
Accumulated difference between planned and book depreciation at beginning of year	355	242	361	233
Increase	128	128	128	128
Decrease	(19)	(15)	-	-
Accumulated difference between planned and book depreciation at year end	464	355	489	361
Other capitalized expenditure				
Acquisition cost at beginning of year	134,442	120,906	132,806	119,322
Increases	23,075	14,542	23,034	14,286
Decreases	(113)	(1,053)	(20)	(802)
Acquisition cost at year end	157,404	134,395	155,820	132,806
Accumulated depreciation at year end	(95,211)	(77,744)	(94,389)	(77,068)
Book value at year end	62,193	56,651	61,431	55,738
Accumulated difference between planned and book depreciation at beginning of year	11,000	12,108	10,984	12,092
Increase	6,376	-	6,376	-
Decrease	(16)	(1,108)	-	(1,108)
Accumulated difference between planned and book depreciation at year end	17,360	11,000	17,360	10,984
Land and water areas				
Acquisition cost at beginning of year	76,369	75,456	69,776	70,284
Increases	506	1,607	478	17
Decreases	(509)	(525)	(509)	(525)
Book value at year end	76,366	76,538	69,745	69,776

	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
Buildings and constructions				
Acquisition cost at beginning of year	1,670,613	1,782,815	1,611,023	1,524,398
Increases	25,819	123,661	24,582	87,621
Decreases	(7,852)	(115,173)	(5,182)	(996)
Acquisition cost at year end	1,688,580	1,791,303	1,630,423	1,611,023
Accumulated difference between planned and book depreciation at year end	(861,307)	(897,122)	(831,875)	(761,609)
Book value at year end	827,273	894,181	798,548	849,414
Accumulated difference between planned and book depreciation at beginning of year	318,095	290,441	318,155	248,880
Increases	-	69,275	-	69,275
Decreases	(1,268)	(41,621)	(1,329)	-
Accumulated difference between planned and book depreciation at year end	316,827	318,095	316,826	318,155
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	2,363,640	2,416,380	2,200 929	1,981,129
Increases	163,047	341,026	150,279	242,471
Decreases	(10,964)	(123,857)	(8,247)	(22,671)
Acquisition cost at year end	2,515,723	2,633,549	2,342,961	2,200,929
Accumulated depreciation at year end	(1,683,255)	(1,791,018)	(1,579,923)	(1,410,199)
Book value at year end	832,468	842,531	763,038	790,730
Accumulated difference between planned and book depreciation at beginning of year	444,332	441,158	444,209	384,475
Increases	51,261	60,347	51,261	59,734
Decreases	(93)	(57,173)	-	-
Accumulated difference between planned and book depreciation at year end	495,500	444,332	495,470	444,209
Accumulated difference between planned and book depreciation, total	830,151	773,782	830,145	773,709
Book value of machinery at year end	633,372	648,190	592,704	611,000

10. TAXATION VALUES

	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
Land and water areas	125,851	127,448	121,054	122,831
Buildings and constructions	512,213	519,670	483,193	487,518
Stocks and shares				
Real estate subsidiaries	22,969	23,210	22,969	23,210
Subsidiaries	-	-	339,576	383,682
Other companies	84,874	85,191	84,413	76,181
	107,843	108,401	446,958	483,073

Where taxation value is not available, book value is used

	CONSOLIDATED 1997	CONSOLIDATED 1996	PARENT COMPANY 1997	PARENT COMPANY 1996
11. STOCKS AND SHARES AND LOANS RECEIVABLE INCLUDED IN LONG-TERM INVESTMENTS				
Group companies				
Stocks and shares	-	-	342,696	326,282
Loans receivable	-	-	89,916	101,980
Affiliates				
Stocks and shares	-	-	5,364	6,550
12. RECEIVABLES DUE AFTER ONE YEAR OR LATER				
Accounts receivable	1,908	2,999	1,908	2,999
Other receivables	17,344	17,396	17,299	17,300
13. RECEIVABLES AND PAYABLES/ GROUP COMPANIES AND AFFILIATES				
Accounts receivable/Group companies	-	-	56,671	85,196
Other receivables/Group companies	-	-	8,118	10,619
Other receivables/Affiliates	-	-	20	40
Accounts payable/Group companies	-	-	160,483	213,595
Accounts payable/Affiliates	-	-	1,932	10,851
14. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital, Jan. 1, 1997/Jan. 1, 1996	586,340	586,340	586,340	586,340
Share capital, Dec. 31	586,340	586,340	586,340	586,340
Legal reserves, Jan. 1, 1997/Jan. 1, 1996	40,610	36,494	35,580	35,580
Change in Group structure	8,540	-	-	-
Translation adjustments	5,344	4,116	-	-
Legal reserves, Dec. 31	54,494	40,610	35,580	35,580
Distributable earnings				
Distributable fund, Jan. 1	401,252	311,253	394,862	304,863
Transfer from retained earnings	151,079	89,999	151,079	89,999
Distributable fund, Dec. 31	552,331	401,252	545,941	394,862
Retained earnings	138,916	97,223	209,713	148,633
Dividends	-	-	(58,634)	(58,634)
Transfer to distributable fund	(151,079)	(89,999)	(151,079)	(89,999)
Group distribution of retained earnings	(57,780)	(57,800)	-	-
Retained earnings	(69,943)	(50,576)	-	-
Net income for the fiscal year	95,311	189,492	116,667	209,713
Distributable earnings, Dec. 31	577,699	540,168	662,608	604,575

	CONSOLIDATED 1997	1996	PARENT COMPANY 1997	1996
15. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from financial institutions	15,201	21,957	1,649	10,347
16. ASSETS PLEDGED AND CONTINGENCIES				
For own liabilities				
Pledges	240,427	138,574	240,427	138,574
Mortgages	1,111,175	1,172,779	1,053,025	1,086,029
For liabilities of Group companies				
Guarantees	-	-	183,040	195,899
For other companies				
Guarantees	3,000	681	3,000	681
Other contingencies				
Leasing commitments	22,676	19,951	21,420	19,525
Pension liabilities	650	15,697	-	15,233
Other contingencies	-	-	101,326	94,699
Total				
Pledges	240,427	138,574	240,427	138,574
Mortgages	1,111,175	1,172,779	1,053,025	1,086,029
Guarantees	3,000	681	186,040	196,580
Pension liabilities	650	15,697	-	15,233
Other contingencies	22,676	19,951	122,746	114,224
	1,377,928	1,347,682	1,602,238	1,550,640

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31, 1997 are FIM 577,699,000. The Parent Company distributable earnings at Dec. 31, 1996 are:

Distributable fund	FIM	545,941,237.63
Net income for the fiscal year	FIM	116,666,799.13
Total	FIM	662,608,036.76

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	58,032,799.13
Total	FIM	116,666,799.13

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
		621,919,851.98
Distributable earnings		
Distributable fund	FIM	603,974,036.76
Total shareholders' equity	FIM	1,225,893,888.74

Helsinki, March 18, 1998

Kari Inkinen *Tauno Uitto* *Matti Kavetvuo*
President, CEO

Juhani Hörkkö *Esa Juntunen*

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, 1997 through December 31, 1997. The financial statements, which have been prepared by the Board of Directors and the President include the report of the Board of Directors, the consolidated and Parent Company income statements and balance sheets and notes to the financial statements. Based on our audit we express our 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 the financial statements are to a substantial extent correctly prepared. The purpose of our audit of the administration is to examine whether members of 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 116,666,799.13 for the Parent Company and FIM 95,311,000 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 20, 1998

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 to December 31, 1997 and the auditors' report.

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

Pertti Hahl, Eero Hiironen, Eero Jukkara, Matti Karvo, Paavo Niskanen, Esko Pohjala and Juhani Väänänen are due to resign from the Supervisory Board. Furthermore, a new member must be elected to the Supervisory Board to replace Kari Inkinen and complete the remainder of his term.

Helsinki, March 25, 1998

On behalf of the Supervisory Board

Seppo Hakola
Chairman

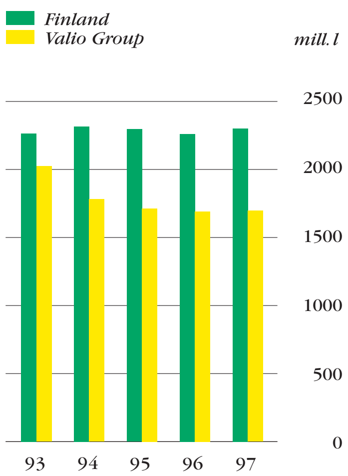
Milk Procurement

There were 27,395 milk producers in Finland at the end of 1997. A year earlier there were 29,261 milk producers; 1,866 farms terminated production during the year.

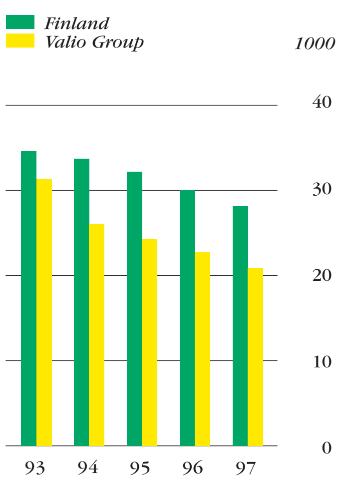
At the end of 1997 there were 20,306 Valio Group milk producers.

The Milk Pool is responsible for Valio Ltd's milk procurement and sales to production plants. It makes contracts with procurement co-operatives concerning the volume and quality of the milk purchased, prepares collection plans together with the co-operatives and sees that the milk is processed into products that guarantee owners the maximum return on their investment.

VOLUME OF DAIRY MILK



NUMBER OF MILK SUPPLIERS



In 1997, the procurement co-operatives supplied a total of 1,642 million liters of milk to the Milk Pool. This amount represented 71 percent of the national dairy milk volume. The Group took delivery of 1,793 million liters, which also includes milk supplied to units operating abroad.

Payment to owner co-operatives for milk supplied in 1997 rose by FIM 65 million compared with the figure for the previous year. This represents an increase of FIM 0.04 per liter in the price paid to producers. Owner-co-operatives received a total of FIM 2.27 per liter of milk supplied.

The seasonal variation index (the ratio of the June milk volume to the November volume) was 110 percent, compared with 111 percent for the previous year. Last year 63 percent of the milk procured by the Group was processed for the Finnish market and 37 percent for international markets.

Member Relations

In 1997, the Farm Services unit and Member Relations were combined in the Milk Pool to form the Farm Services and Member Relations function. This function comprises member relations with co-operatives, training for producers, silage production, feeding, livestock care and health, milking and milk handling on farms, monitoring of the profitability of milk production and regional laboratories. During the year, 4,000 milk producers attended 'Know Valio' sessions and visited the Valio stand at agricultural exhibitions.

The quality program of Valio milk was continued. It has clearly become one of the strengths of Valio products. The Valio co-operatives distributed quality manuals to Valio milk producers.

A survey made during the fiscal year indicated that silage quality is good. Advisory services regarding the purchase of milking machines and farm tanks employed more resources than before. Co-operation with the Agricultural Research Center continued. Consulting services were provided especially to farms planning capital expenditure, with a view to an expected increase in the construction of dairy barns.

The goal of the program for cattle health care begun during the year is to improve the well-being of animals and to make production more economical. Human EHEC epidemics and their links to cattle have received a great deal of publicity. Systematic prevention of contagious diseases succeeded, with respect to both salmonella and BVD. Finland was granted official leukose-free status from the EU.

The regional laboratories were transferred from the R&D organization to Farm Services and Member Relations. The laboratory functions of the Kouvola dairy were transferred to the regional laboratory organization. Analyses previously performed at the producer laboratory of the Joensuu plant are now conducted at the Lapinlahti regional laboratory. Analysis of household water and a revised quality assessment method for Artturi feeds were introduced at all regional laboratories.

Production Policy

The milk production quota for Finland was 2,315 million liters for the quota year ending on March 31, 1997. Milk production fell short of the quota by a good 2 percent. The country quota for the 1997/98 quota year increased by 3.7 million liters and is now 2,319 million liters.

The extension granted Finland for adjusting its producer reference volumes (the farm milk quotas) to the country quota proved inadequate. Despite the efforts made, producer reference volumes exceeded the country quota by more than 100 million liters at the end of the quota year. Producer reference volumes were therefore cut by 4.5 percent. The cut was offset by increasing the production subsidy to milk producers by FIM .04 at the end of the year and by FIM .02 during the first three months of 1998.

Trade in reference volumes has been conducted by means of an administrative system since July 1, 1997 at a price of FIM .65 per liter. Producers can sell half of their reference volume on the open market if the other half is sold through the administrative system.

An Arctic production subsidy of FIM 0.26 -1.58 per kilo was paid in region C. Transition period support of FIM 0.33 per kilo was paid. Transition period support was paid in regions A and B in southern Finland in accordance with the support package permitted under article 141 of the accession treaty.

The exchange rate for the Finnish markka was stable and consequently no change was made in the green rate during the year. Adjustment to the requirements of the GATT treaty continued within the EU. The export subsidy for butter declined by 5 percent and that for skim milk powder increased by 8 percent. There were no significant changes in subsidies for cheese exported to regions other than eastern Europe and the United States. In contrast, the subsidy for exports of emmental to the United States declined by around 40 percent and of Oltermanni cheese to Russia dropped by around 25 percent. Exports of Oltermanni cheese to Russia decreased by 25 percent. The effects were also extended for the first time to fresh products. Stabilization of export subsidies was initiated by eliminating support for low-fat milks.

Research and Product development

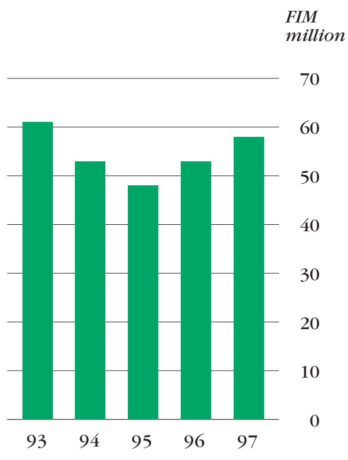
Valio Ltd's investment in research and product development during 1997 totaled FIM 58 million or 0.7 percent of net sales. The function of the Research and Development Center is to see to Group-level research projects and to offer services primarily for development of new products specified by Valio divisions. Attention was focused on development of the sensory qualities and nutritional properties of Valio products. Development of packaging materials was continued, the objective being to introduce alternatives that are more competitive and environmentally sound.

Significant research funds were allocated to diversifying the use of milk components, especially lactose and protein, and also lactic acid bacteria. The licensing of Lactobacillus GG and related expertise used in Gefilus products continued; agreements have now been made with sixteen companies in twenty-three countries. Foreign interest continues. Research on Lactobacillus GG concentrated on studies of any preventive or curative effects on food allergies.

The Valio Research and Product Development Center continues to provide services related to food product legislation, production hygiene and demanding analytical techniques.

Tekes, the Technology Development Centre of Finland, has provided significant funding for research and product development.

RESEARCH AND DEVELOPMENT EXPENSES, GROUP



THE SUONENJOKI JAM PLANT

The Suonenjoki jam plant manufactures and develops products especially for use by Valio divisions.

The plant generated net sales of FIM 109 million and employed an average of 100 persons.

Valio Fresh Products

The Valio Fresh Products division manufactures and markets fresh products in Finland and abroad. In Finland, fresh products were manufactured at 12 production plants. The division is also responsible for subsidiaries in Estonia and Sweden.

Net sales by Valio Fresh Products totaled FIM 3,248 million and capital expenditure FIM 66 million. Personnel averaged 910. Production will be further concentrated in 1998 and development of process engineering at the Turenki UHT plant will be continued. Preparations for the ISO 9002 quality system and the ISO 14001 environmental system are in progress at facilities other than Riihimäki, which has already obtained certification.

Valio Fresh Products owes its strengths to familiar brands, a refrigeration chain that guarantees product freshness, and customer-and consumer-oriented operations. The most important brands are Valio Maito (milk), Valio Piimä (fermented milk products), Valiojogurtti (yoghurt) and Tutteli (baby foods).

Total milk consumption declined in 1997 by some 2 percent from the previous year. The shift in consumption to low-fat and fat-free products continued. Sales of Valio milks in Finland declined due to increased competition.

Consumption of fermented milk products declined by 1.5 percent. Valio's market share in fermented milk products remained large, thanks to Gefilus fermented milk in particular. Overall juice consumption and sales of Valio juices declined despite a very low price for orange juice.

The decline in overall consumption of creams was accelerated by the advent of substitutes on the market. Valio lost market share and sales declined. Sales of other food preparation products were on the level of the previous year. Sales of cottage cheese increased considerably, in the manner of last year.

Sales of Valio yoghurt increased by around 3 percent from the previous year. Sales of the main product, Valiojogurtti, increased rapidly.

In the fall a joint venture - Yoplait Valio Nord - was set up with the French dairy co-operative Sodiaal to handle marketing of products manufactured under the Yoplait brand in Finland, Sweden, the Baltic countries and northwestern Russia. The joint venture started operations on January 1, 1998.

Consumption and sales of viili products were clearly on the decline as demand shifted to unflavored yoghurts. Flavored viilis were the most successful viili products, especially Viilis. Sales of light viili, with a fat content of one percent, also increased.

Sales of Nami Nami, the main ready-to-serve dessert product, were nearly on the level of the previous year, while sales of quark-based desserts fell short of targets. Competition on the dessert market increased, as new product types began to compete for the consumer's favor. Valio brought out new Yoplait products and they were well received.

The market for milk-based baby foods expanded thanks to rising sales volumes of infant formula, gruels and beverages for toddlers. Sales of Valio baby foods increased by around 3 percent from the previous year and Tutteli preserved its position as the leading brand on the Finnish baby food market.

Product development led to the launching of a milk-free Gefilus fruit drink and Gefilus capsules for sale at pharmacies. At the end of the year an organic fermented milk was introduced and the range of juices and berry soups was revised. Several new low-lactose HYLA products were developed for food preparation, especially in food service. Valio Smetana HYLA was introduced at retail stores. New flavors were developed for all key yoghurt products. New fat-free versions of the Yoplait yoghurt family were introduced. The children's dessert family Nami Nami was expanded with a new yoghurt- and quark-based product type. The baby food range was supplemented with Muksu, a new milk-based, flavored beverage. Packaging for several product families was redesigned.

The most important export targets for Valio Fresh Products were Sweden, northwestern Russia and the Baltic countries. Efforts will be made to strengthen the position of Valio brand products on these markets. Sales will be handled through Valio subsidiaries and direct exports to customers.

In 1997 Valio's exports of fresh products to northwestern Russia and the Baltic countries increased by 3 percent from the previous year. Valio Sverige AB further strengthened its position in Sweden and increased its net sales thanks to a higher sales volume for yoghurts. Exports of fresh products from Finland to Russia decreased somewhat overall, although there was a promising increase in exports of sour cream at the end of the year.

In Estonia, Valio Eesti AS continued to grow and Alma products manufactured by Tapila AS were successful in both Estonia and Russia. Sales of Alma products in Latvia and Lithuania began during the fiscal year.

Valio Cheese

The Valio Cheese division manufactures, develops and markets cheeses in Finland and at selected locations abroad. In addition to sales in Finland, the division also comprises subsidiaries in the United States and

Belgium. International cheese sales exceeded sales in Finland when local production in the United States is included.

Valio Cheese has seven production plants in Finland. Apart from these, subsidiaries have a cheese packing facility in Belgium and a production plant and packing facility in the United States. Restructuring of the domestic cheese industry begun previously was continued; production was terminated at Nivala and at the Jämsä cheese packing facility and their operations were transferred to plants at Joensuu and Vaarala. Decisions concerning continuation of production at plants at Toholampi, Äänekoski and Iisalmi will be made during 1998. The structural development of Valio Cheese that began in 1995 is therefore nearing completion.

Net sales by Valio Cheese, including subsidiaries, totaled FIM 2,531 million. Net sales increased by 4 percent from the previous year. Capital expenditure, including subsidiaries, totaled FIM 79 million. Key investments were in the development of production lines at Lapinlahti, Haapavesi and Joensuu. Personnel averaged 1,171, of which 849 were employed in Finland.

The success of Valio Cheese on the Finnish market is based on continuous development of our most important brands, Valio Edam, Valio Emmental, Oltermanni, Polar, Aura and Aamupala. There was a slight quantitative drop in the total market for cheese in Finland after two years of growth. Sales of edam declined most, as Finnish producers attempted to increase profitability by raising prices. Demand then shifted from basic cheeses to reduced fat and special varieties. As a result of changes in the market and prices, imports rose to one-fifth of the Finnish market. Edam accounted for the largest increase in the volume of imported cheese.

Significant changes occurred in the EU's policy on exports to third countries. EU adjustments to GATT restrictions further cut subsidies and altered market priorities. Valio Cheese improved its position in Russia, where gains were made especially by Viola processed cheese and Oltermanni. Thanks to strong growth, Russia is the largest market for Valio Cheese. Opportunities offered by the IPR duty-free system for cheese manufacture increased the potential for success on the Russian processed cheese market. Despite export subsidy cuts for natural cheeses, the position of Valio Finlandia cheese on the US market strengthened thanks to successful marketing and to delivery problems experienced by competitors. Positions were preserved in the other main foreign markets of the United States, Belgium and the Middle East.

Valio Cheese owes its strength to a market and customer orientation, to profit orientation and to international cheese expertise. To enhance the customer orientation, development programs already under way in brand positioning and category management advanced to the stage of concrete customer projects. Quality systems, operating processes and quality management remained the other priorities of Valio Cheese. Valio Cheese obtained ISO 9001 certification for the division. Establishment of the ISO 4001 environmental management standard has begun at the cheese plants. Development projects already implemented or presently under way are expected to have a positive impact on development of the Valio Cheese division's market position.

Valio Edible Fats and Ingredients

The Valio Edible Fats and Ingredients division markets, sells and develops edible fats, powders and added value products in response to markets and with an emphasis on profitability into high-quality products for Finnish and international customers. The division is also responsible for the Swiss subsidiary VBF Trading S.A. The business operations of Edible Fats and Ingredients were combined during the fiscal year and production was conducted at five production plants. During the fiscal year, efforts were concentrated on combining organizations and business operations and on introducing a uniform, continuously developing management model.

Quality systems were also standardized in the process of combining the business operations of Edible Fats and Ingredients. All production plants have obtained ISO 9002 quality certification and preparations for the ISO 14001 environmental management system are in progress.

Net sales for the fiscal year were FIM 1,581 million; the target was exceeded by 11 percent. Domestic sales accounted for 40 percent of net sales, foreign sales for 56 percent and sales through subsidiaries for 4 percent. Foreign sales increased by 52 percent and sales of edible fats and milk powders in particular increased favorably.

Capital expenditures during the fiscal year totaled FIM 31.5 million. The major expenditure items were on modernization of process automation systems and production machinery. Personnel in the division averaged 469.

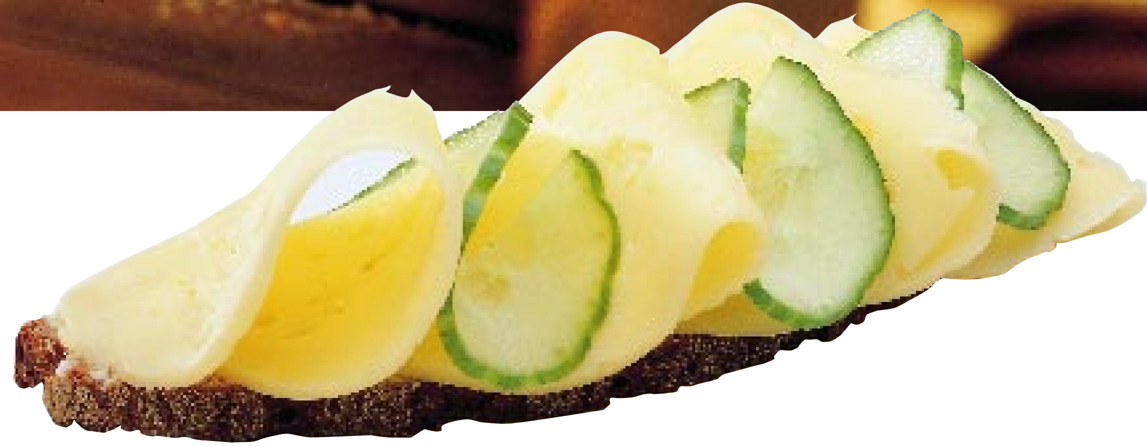
The most important brands of Valio Edible Fats are Voimariini, Valio Meijerivoi, Voilevi and Midnight Sun, which is marketed abroad. New arrivals on the market are the low-salt Valio Meijerivoi, HYLA and low-salt Voimariini, HYLA.

Retail sales of all edible fats on the Finnish market declined by 5 percent. Use of edible fat declined, particularly in home baking. Valio's market share of all retailed edible fats was 27 percent.

Of powder products, the best known domestic Valio brand is Valio Maitojauhe (milk powder), while Tutteli is well-known abroad. The competitive situation on the Finnish powder market intensified in milk powders due to foreign imports. On the whole, Valio's share remained on the level of the previous year.

Foreign sales increased, and targets for net sales and profits were exceeded by a good margin. In edible fats, priority was on increasing the share of selected markets. Midnight Sun butter pats became the second best known brand on the Moscow and St. Petersburg markets. Vologda, a new butter-type product, was launched on the Russian market. Sales of industrial butter increased encouragingly in the EU, the Middle East and the CIS countries.

Sales of powder products increased by 52 percent. Sales of milk powders increased rapidly during the past year and were channeled mainly to Mexico, the Far East and the Middle East. In whey powders, we were able to maintain our good market positions in both the EU and the Far East. Sales of Tutteli infant formula increased favorably in Russia and the CIS.



Ice Cream

The Valio Ice Cream Division manufactures ice cream and markets it in Finland and in neighboring countries.

Net sales by Valio Ice Cream totaled FIM 438 million and capital expenditure FIM 10.5 million. Personnel averaged 238.

Valio ice cream is manufactured at the Turenki plant. Priority in the development of operations was on increasing the efficiency of the product development process and on making the entire operational logic and operation of the plant more responsive to demand and more cost-effective. Valio Ice Cream has had ISO 9001 certification for production, product development, marketing and exports since 1994. Environmental management standards are presently under development.

Valio Ice Cream is the market leader in Finland, and retained this position during 1997. Sales of Valio ice cream in Finland increased slightly more than those of the sector as a whole. Valio Ice Cream owes its strength to well-known quality brand products, expertise in the ice cream product category and a diverse product range.

Apart from its seasonal nature, rapid revisions of the product range and a large number of new products are characteristic of the ice cream market. One-fifth of Valio Ice Cream's range was revamped last year. In spring 1997, Valio Ice Cream brought out 18 new ice cream products, which were very successful in the impulse product groups: cones, sticks and water ices. In fall 1997, Valio Ice Cream brought 8 new products onto the market.

Valio Ice Cream's main brands are Pingviini, Classic, Valiojäätelö, Joke, Super and La Gala. Pingviini is the best-selling impulse product in Finland. Chocolate is the most popular Pingviini flavor, and it has already topped the range for years.

The ice cream year made a slow start. The total market for ice cream decreased by 10 percent from the previous year in January-May. Although the ice cream season was delayed until June, an unusually beautiful and hot summer raised consumption. Nevertheless, the total market increased by two percent, remaining below the record year of 1995. Per capita consumption was 13.9 liters. Home packages increased their proportion of consumption for the second consecutive year and this reduced profitability.

In impulse products, sales of cones increased, while those of premium sticks, which had increased rapidly in recent years, decreased. Total sales of water ice increased encouragingly, and market share was regained with the market-leading Joke brand.

Exports of ice cream were concentrated on the Baltic countries and Russia. The volume of sales declined somewhat from the previous year, due primarily to the development of local ice cream manufacturing and price competition.

Net sales by the subsidiary Valio Pietari increased by a good 20 percent, although changing administrative decrees and operating methods were an almost daily challenge. A wide range of Valio products was delivered directly from the Lappeenranta terminal to Russian retail outlets in St. Petersburg and now in Moscow as well. There is also a wholesale ice cream outlet in St. Petersburg.

Valio 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 and to produce services related to marketing.

For these purposes, the country was divided into nine sales and distribution areas. Facilities are located in Helsinki, Turku, Tampere, Riihimäki, Kouvola, Seinäjoki, Jyväskylä, Joensuu, Oulu and also Rovaniemi. For sales to institutional kitchens and industry the above areas were combined into larger entities. No changes were made in the facilities during the year.

The regional profit centers of the Domestic Sales division were replaced by a line organization at the beginning of 1997.

Net sales by the division totaled FIM 5,253 million and capital expenditure FIM 29.7 million. Personnel averaged 1,144, with a decrease of 94 persons due to the organizational changes.

As a result of the pricing strategy, keener competition and declining consumption in many product categories, the volume of sales fell by a further 7 percent but still conformed basically to the budgeted figures.

Priority in development of operations during the year was on more effective control of sales based on the principles of category management, on increased operational quality in accordance with the ISO 9002 standard and on improvement of the order-delivery process.

The regional and functional changes caused by termination of milk packaging at the Pitäjänmäki dairy began at the end of the year. Planning for the changes caused by transfer of operations at the Tampere dairy to a competitor were also begun at the end of the year. The aim is to relocate the Tampere functions at the Lakalaiva property by spring of the current year.

A corporate image survey of consumers made in the spring showed that Valio's corporate image has continued to improve with respect to those of its competitors. Together with a high level of customer satisfaction, this will help Valio cope with intensified competition on the Finnish milk market during the current year.

Chef of the Year 1997
Michael Björklund

Responsibility as a Challenge

The concept of high and responsible quality was built into Valio's culture years ago. In a time of environmental change and an increasingly international food products trade, food purity and safety are seen in a new light, and not merely in technical terms. We now view entire product life cycles critically and also consider the ethical aspects. The entire quality chain must be customer-oriented, reliable and responsible.

The main principles of the Valio milk quality program - healthy livestock and respect for the environment and for animals - are included in the quality manuals used by milk producers. Individual treatment of livestock and preventive health care are established practice in Valio animal husbandry. All dairy farms committed to the quality program will be producing milk by 1998 in accordance with the terms of the EU's environmental support.

Valio is responsible for collection of more than 1.6 billion liters of milk annually. The distance traveled by milk from farm to store is kept as short as possible by computer-optimization of collection and distribution routes. Milk collected from farms every other day is processed at the dairy in less than 24 hours. Milk temperature is checked on farms, in trucks, on arrival at dairies, during the production process, in refrigerated storage, while en route to retail outlets and at stores. The continuous refrigerated chain is ensured by means of quality programs.

Establishment of the ISO 14001 environmental management standard has begun at all Valio dairies. The objective is to extend environmental management to all company operations.

Valio seeks to reduce the volume of packaging waste, and together with its customers has developed reusable distribution units such as roll containers, boxes and trays. More than 80% of the products packaged by Valio are transported to stores in these units. Significant reductions in the amount of disposable packaging material have been achieved with the new units.

Valio favors packaging that can be recycled or used as a source of energy. Milk and juice cartons made of board are the largest group. To ensure recycling of board packaging, Valio is a shareholder in Suomen NP-kierrätys Oy, which arranges collection in communities of more than 10,000 people throughout Finland. Coreboard is made from the liquid packaging recovered from consumers.

Valio Ltd Owners December 31, 1997

	Domicile	Number of shares à FIM 20,000
Alavuden Osuusmeijeri	Alavus	102
Alueosuuskunta Promilk	Lapinlahti	2,218
Etelän Maitokunta	Vihti	393
Evijärven Osuusmeijeri	Evijärvi	42
Finnmilk Oy	Tampere	347
Hirvijärven Osuusmeijeri	Jalasjärvi	46
Hämeen Osuusmeijeri	Valkeakoski	233
Hämeenlinnan Osuusmeijeri	Hämeenlinna	1
Härmän Seudun Osuusmeijeri	Alahärmä	82
Iisalmen Osuusmeijeri	Iisalmi	287
Kainuun Osuusmeijeri	Kajaani	898
Kangasniemen Osuusmeijeri	Kangasniemi	80
Kauhavan Osuusmeijeri	Kauhava	72
Kaustisen Osuusmeijeri	Kaustinen	1
Keski-Pohjan Juustokunta	Toholampi	1,271
Keski-Suomen Maitokunta	Jyväskylä	1,253
Kiuruveden Osuusmeijeri	Kiuruvesi	233
Koilliskuntain Osuusmeijeri	Salla	112
Kortesjärven Osuusmeijeri	Kortesjärvi	37
Kuusamon Osuusmeijeri	Kuusamo	265
Kyrönmaan Osuusmeijeri	Isokyrö	124
Kärsämäen Osuusmeijeri	Kärsämäki	88
Laaksojen Maitokunta	Ylivieska	1
Lammin Osuusmeijeri	Lammi	113
Liperin Osuusmeijeri	Liperi	162
Nilsiän Osuusmeijeri	Nilsiä	288
Nurmeksen Osuusmeijeri	Nurmes	626
Osuuskunta Idän Maito	Joensuu	2,877
Osuuskunta Lapin Maito	Rovaniemi	584
Osuuskunta Maito-Aura	Turku	1,571
Osuuskunta Maitojaloste	Seinäjoki	2,508
Osuuskunta Maitokolmio	Toholampi	244
Osuuskunta Maitomaa	Suonenjoki	290
Osuuskunta Maito-Pirkka	Tampere	1,036
Osuuskunta Normilk	Jyväskylä	5
Osuuskunta Pohjolan Maito	Haapavesi	2,750
Osuuskunta Rannikon Maito	Raahe	142
Osuuskunta Satamaito	Pori	348
Osuuskunta Tuottajain Maito	Riihimäki	7,250
Paavolan Osuusmeijeri	Ruukki	32
Tyrnävän Osuusmeijeri	Tyrnävä	1
Vieremän Osuusmeijeri	Vieremä	99
Virtain Osuusmeijeri	Virrat	80
Ähtärin Seudun Osuusmeijeri	Ähtäri	125
Shareholders, total 44		29,317
Total share capital		FIM million 586.34

Valio Consolidated and Shareholder Dairies

Net sales and personnel, 1997

	Net sales FIM mill.	Personnel Dec. 31, 1997
Valio Ltd	7,303	3,868
Valio Ltd Subsidiaries		
Valio International U.S.A. Inc.	473	197
Vache Bleue S.A.	306	91
N.V. Valio International Belgium - Nordic Foods	161	21
Valio Sverige AB	68	25
Valio Eesti AS	69	19
VBF Trading S.A.	55	2
ZAO Valio St. Petersburg	52	27
Tapila AS	41	57
Valio Engineering Ltd	13	23
Valio International Middle East SAL	0.4	1
Subsidiaries, total		463
Valio Consolidated, total	8,056	4,331
Owner dairies [1)]		378
Valio Group, total		4,709

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

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