

Annual Report 1999





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Five-year Group Statistics

	1999	1998	1997	1996	1995
Net turnover, FIM m	7,454.0	7,623.5	8,075.2	7,847.0	8,189.6
Change %	-2.2	-5.6	2.9	-4.2	-6.8
- Domestic, FIM m	5,243.5	5,293.2	5,570.7	5,866.5	6,583.4
Change %	-0.9	-5.0	-5.0	-10.9	0.1
- International operations, FIM m	2,210.5	2,330.3	2,504.5	1,980.5	1,606.3
Change %	-5.1	-7.0	26.5	23.3	-27.3
Balance sheet total, FIM m	3,963.4	4,097.9	4,501.6	4,457.8	4,575.1
Liabilities as a percentage of the balance sheet total	54.8	56.5	54.1	53.2	53.6
Equity + provisions as a percentage of the balance sheet total	45.2	43.5	45.9	46.8	46.4
Personnel expenditure, FIM m	846.8	871.9	898.2	860.7	935.5
Number of personnel	4,215	4,517	4,537	4,801	5,101
Inventories, FIM m	837.8	733.0	739.8	771.5	749.8
Capital expenditure, FIM m	197.2	329.0	248.5	211.9	279.1
Planned depreciation	287.0	282.4	290.3	310.4	299.5

¹⁾ The allocation of appropriations to equity and deferred tax liability is included in the figures for 1998 and 1999.



Valio - Milk for All Tastes



Valio was established in 1905 as an export venture for co-operative dairies. Operations have expanded from exporting to milk processing and marketing in Finland and overseas. Valio today is Finland's biggest dairy business, market leader in all major dairy product groups and also widely known outside the country.

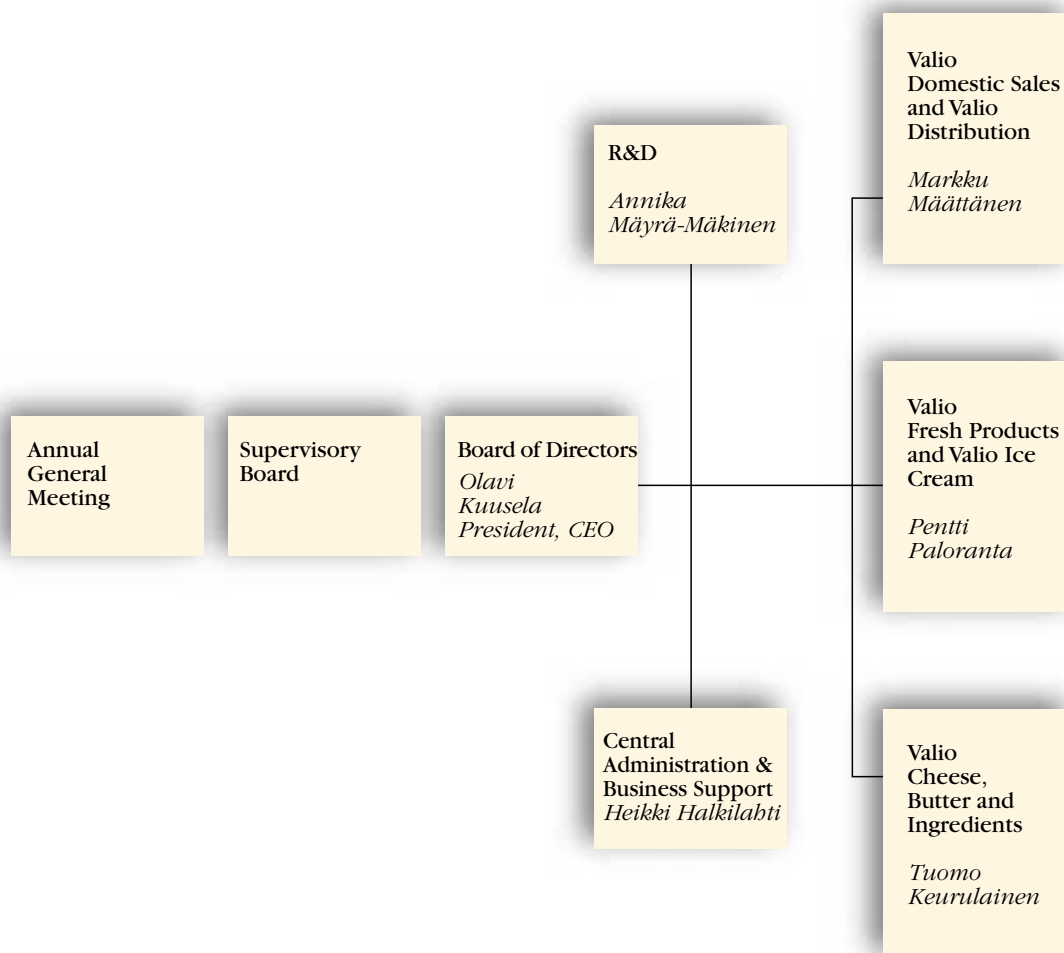
For Finnish dairy farmers, Valio is a secure and reliable marketing channel that enables them to carry on their business. The company is owned by 34 dairy co-operatives with 16,600 farmer members.

For consumers, Valio is a guarantee of quality. Valio is also one of the best known brands in Finland with a product range of some 800 packaged items. Continuous product development is carried out according to customer needs, so that all users of Valio products find what they want in terms of flavour, fat content, package size and more.

For retail chains, the company is an active co-operation partner in retailer development of new ways of working in line with consumer wishes.

Valio makes tasty, natural, healthy and untainted foods. Fresh every day.

Valio, Group Organization Jan. 1st, 2000



Annual Review by the CEO

The past decade will be remembered in the dairy industry as one of change. A central concern has been to secure profitability in such a way that Finnish milk production will continue in the long term. The dominant characteristics of ongoing developments have been the falling number of farms, adaptation of processing capacity and improvement of cost-effectiveness.

In Valio Group, the 1990's were a

oped favourably, especially in the United States where expectations were clearly exceeded. The development of Estonian and Swedish subsidiaries was also encouraging. Exports and international operations accounted for approximately one-third of Valio Group net turnover, and that share is still rising.

It is anticipated that this decade will be at least as significant for the dairy industry as the last. Forthcom-

in the chain delivers Valio an advantage that is hard for competitors to follow.

Valio brand strengths are top quality, freshness and safety allied to continuous development. Each of us builds added value into the brand through our work, and this is a key factor in Valio's success. Open and constructive co-operation with customer chains, different interest groups and other professionals in the field ensures successful operation in the consumer market. Our solid position in the domestic market creates the pre-requisites for Valio to succeed outside Finland, to export its know-how and the products created through it, and effectively utilize the power of different alliances.

In Finnish and international markets alike, Valio Group success is based on knowledge of neighbouring regions and on making good use of specialized know-how in specific fields. Success requires the right to operate with the same competitive instruments as the business world around us.

I am convinced that our owners, the Valio milk producers, have the ability and drive to see things in a sufficiently wide perspective, the goal being to secure their long-term livelihood. I further believe that the personnel is ready to face new challenges and develop their working community, so that the company retains the open and rewarding atmosphere that strengthens professional skills. Valio continues striving to be a partner with whom it's good to build a future.

I should like to thank all Valio milk producers and our personnel for their significant working contribution, and take this opportunity to welcome new producers on board. Special thanks go out to my predecessor, Matti Kavetvuo, who ran the company skilfully through the great changes described. I am also grateful to our partners and interest groups for their constructive co-operation, and hope that same co-operative spirit and the will to succeed prevail into the future.

Olavi Kuusela
President, CEO



Valio's new CEO Olavi Kuusela (pictured right), took over from Matti Kavetvuo at the turn of the millennium.

time of renewal. Valio's incorporation, the strengthening of its international profile and overall dairy industry deregulation all meant change. Dealing with that has required of all parties a fundamental reassessment of key issues and ways of working. Financial success proves that Valio has managed these changes well enough and better, although the favourable development finally ground to a halt for reasons both internal and external to the business.

The last year in Valio Group was financially satisfactory, despite persisting problems in Russian trade, the low world market price for milk powders, and the ongoing domestic price war. Swift cost-cutting and strict operational control compensated the drop in gross income. Production rationalization continued and centralization created a competitive edge for Valio that enabled the price paid for raw milk to be kept at the previous year's level, despite a drop in dairy product selling prices. Valio market shares remained stable.

Milk intake volumes rose last year in line with the Finnish national trend. The financial position and sales of foreign subsidiaries devel-

ing resolutions both in the EU and worldwide will affect the future of the whole business. These decisions will impact heavily on how and what kind of milk production and processing can be practiced in Finland.

It is to be hoped that decision-makers understand both the contemporary and future value of milk as an important basic food. And, as a result, that they will help secure sustainable development, the vitality of the Finnish countryside and provision of safe, untainted foodstuffs. While product development prospects for milk-based foodstuffs are positive, it is a pre-requisite that Finnish dairy farmers can look to the future with confidence.

Valio has long traditions as the leading dairy company in Finland and also operates in Europe and further afield. Our product development and technical skills are globally competitive, creating a sound basis for success in the consumer market. Primary production know-how, the leading expertise of Valio milk producers and personnel, teamed with strong ethical values, make up the foundation on which our whole milk chain is built. Caring for all the links

SUPERVISORY BOARD

	Term began	Term ends		Term began	Term ends
Seppo Hakola Dairy farmer, Kuortane Chairman	1994	2002	Reino Parkko Dairy farmer, Elimäki member as of April 21st, 1999	1999	2001
Markku Heikkinen Dairy farmer, Tohmajärvi Vice Chairman to April 21st, 1999	1991	2000	Antti Rauhamaa Dairy farmer, Kärkölä	1998	2000
Osmo Sikanen Dairy farmer, Joroinen Vice Chairman as of April 21st, 1999	1991	2002	Airi Raussi Dairy farmer, Anjalankoski member to April 21st, 1999	1996	
Kauko Ali-Rantala Dairy farmer, Punkalaidun member as of April 21st, 1999	1999	2002	Terttu Repo Personnel Representative, Haapavesi	1999	2001
Pertti Hahl Dairy farmer, Mikkeli member to April 21st, 1999	1995		Pentti Santala Dairy farmer, Kauhajoki	1997	2000
Kari Harsia Personnel Representative, Seinäjoki	1996	2001	Matti Siitonen Dairy farmer, Parikkala	1998	2001
Toivo Heikkilä Dairy farmer, Haapajärvi	1996	2000	Reino Tapani Managing Director, Turku member to April 21st, 1999	1992	
Maija-Leena Heiniö Dairy farmer, Kisko member as of April 21st, 1999	1999	2000	Juhani Väänänen Dairy farmer, Maaninka	1995	2001
Pertti Heinonen Dairy farmer, Oripää member to April 21st, 1999	1992		BOARD OF DIRECTORS		
Eero Hiironen Dairy farmer, Saarijärvi	1991	2001	Kari Inkinen Dairy farmer, Ruokolahti Chairman	1997	2002
Hannu Kainu Dairy farmer, Kyyjärvi	1997	2002	Tauno Uitto Dairy farmer, Tynävä Vice Chairman	1996	2001
Matti Karvo Dairy farmer, Rovaniemi	1994	2001	Matti Kavetvuoto President, CEO, Helsinki (to December 31st, 1999)	1992	
Matti Lehtinen Dairy farmer, Tammela member as of April 21st, 1999	1999	2002	Olavi Kuusela President, CEO, Helsinki (as of January 1st, 2000)	2000	2002
Pekka Lestinen Dairy farmer, Sysmä	1998	2001	Juhani Hörkkö Dairy farmer, Koski Tl	1998	2000
Eino Lumiaho Dairy farmer, Vihanti	1998	2001	Esa Juntunen Dairy farmer, Vieremä	1998	2000
Tapio Malmiharju Dairy farmer, Artjärvi	1996	2000	AUDITORS		
Martti Nevalainen Dairy farmer, Valtimo	1994	2002	SVH Pricewaterhouse Coopers Oy, Authorized Public Accountants, Helsinki		
Heikki Olkkonen Dairy farmer, Alavus	1988	2002	Tauno Haataja, MBA, Authorized Public Accountant		
Riku Ollikainen Dairy farmer, Lapinlahti	1981	2000			

Board of Directors Report

January 1st, 1999 – December 31st, 1999

GENERAL

Valio Group financial performance for 1999 stood at FIM 39 million, which was FIM 14 million higher than the previous year. Since the unit price for milk was essentially the same in both years, these figures are directly comparable.

Financial performance developed well after a weak start to the year, and this favourable development continued to the year-end. A cost rationalization program initiated in Spring, 1999 will continue to have a significant impact in the year 2000.

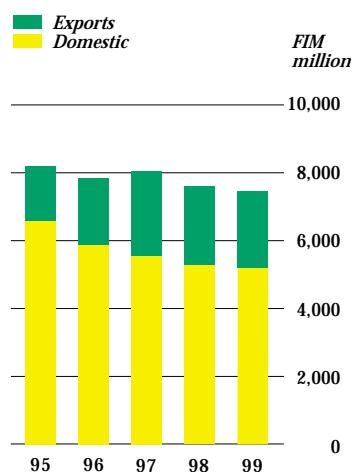
In Finland, Valio took in 1,585 million liters of milk or the same quantity as the previous year. Valio milk procurement co-operatives' share of Finnish dairy milk volumes decreased by 0.8 percentage points to stand at 68.2 per cent. As a result of a number of milk producers moving into Valio cooperatives towards the end of the year, the procurement share in December, 1999

stood at 69 per cent compared to 67.5 per cent the previous year. Valio Group took in total deliveries of 1,771 million liters of raw milk, which includes milk procurement for Valio dairies in the United States and Estonia.

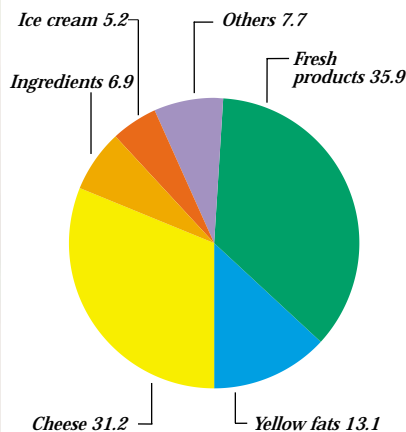
Domestic net turnover was down one per cent on the year. Net turnover for liquid milk products continued to decline due to ongoing tight price competition. Net turnover for other product groups grew. Valio's market share for cheese and ice creams remained at the previous year's level, while that of liquid milk products and yellow fats decreased somewhat.

Net turnover from international operations declined by five per cent and exports from Finland fell by 12 per cent. The drop was greatest in cheese and powder exports. Foreign subsidiaries' net turnover grew by 11 per cent. Net turnover for subsidiaries in the United States and Sweden also increased significantly.

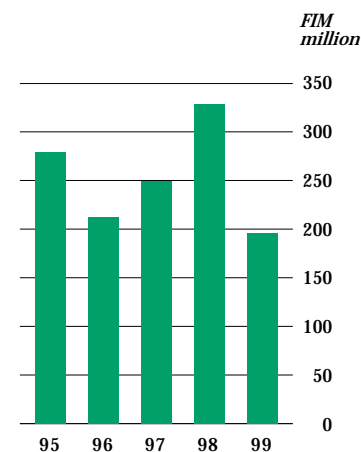
GROUP NET TURNOVER



GROUP NET TURNOVER BY DIVISION (%) 1999



GROUP CAPITAL EXPENDITURE



SHAREHOLDERS AND SHARE CAPITAL

The number of shareholders fell by three due to merger activities, and one further shareholder sold its stake to leave 34 at the end of the financial year.

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

CHANGES IN GROUP STRUCTURE

Valio sold its stake in Valio International Middle East (Holding) SAL during the financial year.

Valio's ownership share in Yoplait Valio Nord Oy decreased from 50 to 49 per cent.

RESEARCH AND PRODUCT DEVELOPMENT

Personnel numbers in research and development stood at 120. Around a third of these staff focused on long-term strategic development projects. Functional dairy products are now a key area of emphasis in Valio R & D.

Valio R & D investment for 1999 totalled FIM 52 million (1998: FIM 50 million) or 0.7 per cent of net turnover (0.7 per cent).

CONSOLIDATED NET TURNOVER

Consolidated net turnover totalled FIM 7,454 million (FIM 7,624 million). Domestic net turnover stood at FIM 5,243 million (FIM 5,293 million). Net turnover from international operations (exports from Finland and foreign subsidiaries) totalled FIM 2,211 million (FIM 2,331 million).

PARENT COMPANY NET TURNOVER

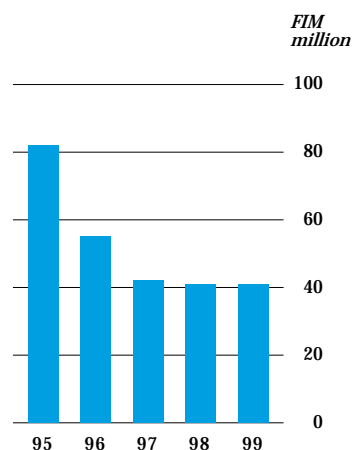
Valio Ltd net turnover totalled FIM 6,703 million (FIM 6,944 million). Domestic net turnover stood at FIM 5,243 million (FIM 5,291 million) and net turnover from exports at FIM 1,460 million (FIM 1,653 million).

INVESTMENTS

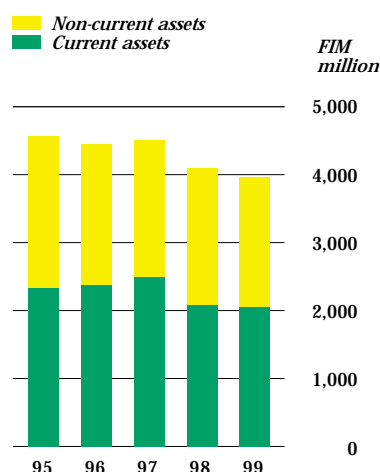
Consolidated gross investments totalled FIM 197 million (FIM 329 million) or 2.6 per cent (4.3 per cent) of net turnover. Investments of FIM 18 million were made in land and buildings and FIM 146 million in machinery and equipment.

Investments in stocks and shares totalled FIM 2 million; and capitalized long-term expenses stood at FIM 31 million. Consolidated net investments stood at FIM 181 million (FIM 301 million).

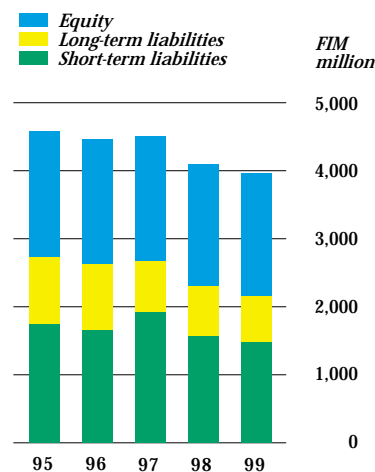
GROUP NET INTEREST EXPENSES



GROUP BALANCE SHEET, ASSETS



GROUP BALANCE SHEET, EQUITY AND LIABILITIES



FINANCE

Both Group and parent company liquidity remained satisfactory throughout the financial year. Cash plus bank and short-term deposits totalled FIM 529 million at the year-end compared to FIM 639 million at the start. Stocks stood at FIM 838 million at the end of the financial year and FIM 733 million at the beginning. Interest-bearing liabilities totalled FIM 619 million at the financial year-end and FIM 683 million at the start. Net financing expenses amounted to FIM 35 million (FIM 42 million) or 0.5 per cent (0.6 per cent) of consolidated net turnover. Net interest expenses were unchanged at FIM 41 million.

FINANCIAL PERFORMANCE

Consolidated profit before extraordinary items was FIM 22 million (FIM 37 million). Net taxes for the financial year were positive at FIM 15 million (FIM -9 million). Profit for the financial year stood at FIM 39 million (FIM 25 million).

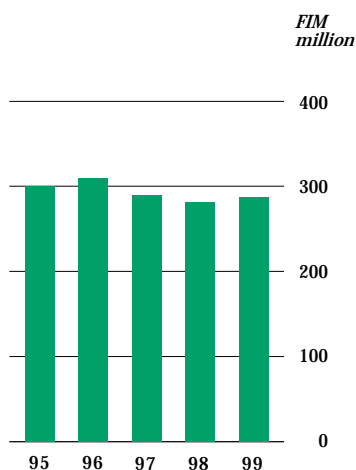
Parent company profit before extraordinary items was unchanged at FIM 15 million (FIM 15 million). The difference between planned depreciation and book depreciation amounted to FIM 72 million (FIM 51 million). Book depreciation was within the maximum permitted under Finland's Business Taxation Act. Parent company income taxes for the financial year totalled FIM 11 million (FIM 21 million). Profit for the financial year stood at FIM 77 million (FIM 66 million).

YEAR 2000

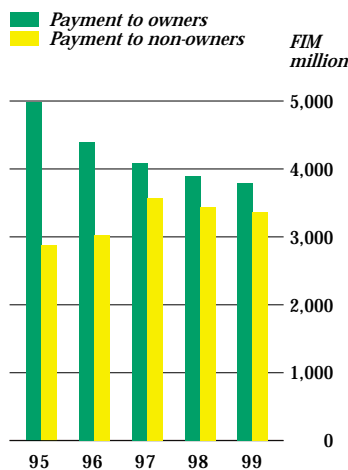
The turn of the millennium did not produce any Y2K problems.

The outlook for profits and dividends in the current year is similar to that of the year under review. An agreement was made in January, 2000 to merge the operations of Kainuun Osuusmeijeri and Maito-Pirkka into Valio. The agreement is subject to approval by the Finnish Office of Free Competition. A positive decision will increase operational volume but incur one-off expenses in the transition phase.

PLANNED DEPRECIATION, GROUP



GROUP EXPENSES



CONSOLIDATED STATEMENT OF INCOME

	1999	1998
NET TURNOVER	7,453,991	7,623,512
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	71,606	-5,623
Other operating income	145,410	164,947
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	5,207,625	5,217,442
Increase (-) / decrease (+) in stocks	-16,902	-10,482
External services	109,180	118,589
	-5,299,903	-5,325,549
Staff expenses		
Wages and salaries	665,293	674,878
Social security expenses		
Pension expenses	108,680	112,163
Other social security expenses	72,876	84,849
	-846,849	-871,890
Depreciation and reduction in value		
Depreciation according to plan	270,268	266,905
Reduction in value of goods held as non-current assets	6,500	5,432
Exceptional reduction in value of current assets	66	-
Depreciation of goodwill	18,847	18,888
Reduction of consolidation difference	-2,109	-3,404
	-293,572	-287,821
Other operating charges	-1,173,590	-1,218,610
OPERATING PROFIT	57,093	78,966
Financial income and expenses		
Income from other investments held as non-current assets	3,601	3,706
Other interest and financial income	21,815	40,089
Net income from associated companies	399	-808
Reduction in value of investments held as non-current assets	-200	-
Interest expenses and other financial expenses	-60,451	-85,130
	-34,836	-42,143
PROFIT BEFORE EXTRAORDINARY ITEMS	22,257	36,823
Extraordinary items		
Income	5,092	2,915
Expenses	-2,475	-6,354
	2,617	-3,439
PROFIT BEFORE APPROPRIATIONS AND TAXES	24,874	33,384
Income taxes	-6,365	-22,461
Change in deferred tax liability	21,016	13,528
Profit before minority interest	39,525	24,451
Minority interest	6	-215
PROFIT FOR THE FINANCIAL YEAR	39,519	24,666

All figures in FIM '000s

CONSOLIDATED BALANCE SHEET

ASSETS	Dec. 31st, 1999	Dec. 31st, 1998
NON-CURRENT ASSETS		
Intangible assets		
Immaterial rights	7,171	6,582
Goodwill	15,374	34,303
Other capitalized long-term expenses	83,460	82,898
	106,005	123,783
Tangible assets		
Land and waters	74,485	75,915
Buildings	736,002	791,131
Machinery and equipment	846,158	845,005
Other tangible assets	16,783	16,716
Advance payments and construction in progress	27,990	65,077
	1,701,418	1,793,844
Investments		
Shares in group companies	16,974	16,974
Shares in associated companies	7,303	7,078
Other shares and similar rights of ownership	77,236	73,117
	101,513	97,169
CURRENT ASSETS		
Stocks		
Raw materials and consumables	140,766	139,744
Work in progress	93,992	88,059
Finished products / goods	599,993	501,310
Other stocks	3,035	3,851
	837,786	732,964
Debtors		
Non-current		
Loan receivables	1,167	1,217
Other receivables	5,977	6,321
	7,144	7,538
Current		
Trade debtors	547,563	556,154
Amounts owed by participating interests	721	999
Loan receivables	14	31
Other debtors	86,217	77,267
Prepayments and accrued income	45,893	68,827
	680,408	703,278
Investments		
Other shares and similar rights of ownership	-	30,000
Other investments	474,102	530,889
	474,102	560,889
Cash in hand and at banks	54,974	78,443
ASSETS, TOTAL	3,963,350	4,097,908

All figures in FIM '000s

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31st, 1999	Dec. 31st, 1998
CAPITAL AND RESERVES		
Subscribed capital	586,340	586,340
Other reserves	58,321	45,093
Retained earnings	1,098,566	1 116,903
Profit for the financial year	39,519	24,666
MINORITY INTEREST	70	138
PROVISIONS		
Other provisions	7,190	7,540
CONSOLIDATION DIFFERENCE	1,595	3,704
CREDITORS		
Non-current		
Loans from credit institutions	276,671	321,297
Deferred tax liability	205,770	218,964
Other creditors	199,092	197,787
	681,533	738,048
Current		
Loans from credit institutions	141,579	108,120
Advances received	4,122	4,735
Trade creditors	1,058,059	1,048,487
Amounts owed to participating interests	6,186	953
Other creditors	112,523	245,025
Accrued expenses and prepaid income	167,747	168,156
	1,490,216	1,575,476
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	3,963,350	4,097,908

All figures in FIM '000s

***CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION***

	1999	1998
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	57,093	78,966
Adjustments to operating profit	280,744	281,635
Change in working capital	-81,642	-63,959
Interest and other financial expenses paid	-56,279	-74,544
Dividends received	3,601	3,706
Interest and other financial income received	22,164	34,143
Income taxes paid and refunded	9,023	-37,830
Cash flow from operating activities	234,704	222,117
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure in investments	-2,509	-42,177
Capital expenditure in tangible and intangible assets	-194,682	-288,096
Gains from sale of investments	1,034	10,584
Gains from sale of tangible and intangible assets	18,939	20,821
Cash flow from investing activities	-177,218	-298,868
CASH FLOW BEFORE FINANCING ACTIVITIES	57,486	-76,751
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from non-current liabilities	107,765	160,463
Payment of non-current liabilities	-202,668	-143,969
Increase (-) / decrease (+) in non-current receivables	394	70
Increase (+) / decrease (-) in current liabilities	-46,075	-188,235
Dividends paid	-35,181	-58,634
Other	8,023	-12,024
Cash flow from financing activities	-167,742	-242,329
NET CHANGE IN CASH AND CASH EQUIVALENTS	-110,256	-319,080
Cash and cash equivalents at Jan. 1st	639,332	958,412
CASH AND CASH EQUIVALENTS AT DEC. 31st	529,076	639,332

All figures in FIM '000s

PARENT COMPANY STATEMENT OF INCOME

	1999	1998
NET TURNOVER	6,702,778	6,943,941
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	44,370	15,759
Other operating income	137,625	157,440
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	4,673,945	4,757,220
Increase (-) / decrease (+) in stocks	-849	-1,863
Outside services	102,143	110,394
	-4,775,239	-4,865,751
Staff expenses		
Wages and salaries	583,711	605,688
Social security expenses		
Pension expenses	105,171	108,819
Other social security expenses	64,623	76,500
	-753,505	-791,007
Depreciation and reduction in value		
Depreciation according to plan	250,970	250,867
Reduction in value of goods held as non-current assets	6,500	5,432
	-257,470	-256,299
Other operating charges	-1,054,811	-1,123,803
OPERATING PROFIT	43,748	80,280
Financial income and expenses		
Income from group companies	72	-
Income from participating interests	174	298
Income from other investments held as non-current assets		
From others	3,599	3,226
Other interest and financial income		
From group companies	388	3,272
From others	19,410	38,007
Reduction in value of investments held as non-current assets	-1,517	-40,000
Interest and other financial expenses		
To group companies	-63	-3,699
To others	-50,408	-66,370
	-28,345	-65,266
PROFIT BEFORE EXTRAORDINARY ITEMS	15,403	15,014
Extraordinary items		
Income	4,100	22,605
Expenses	-3,847	-1,000
	253	21,605
PROFIT BEFORE APPROPRIATIONS AND TAXES	15,656	36,619
Appropriations		
Increase (-) / decrease (+) in depreciation difference	72,416	51,143
Income taxes	-11,469	-21,523
PROFIT FOR THE FINANCIAL YEAR	76,603	66,239

All figures in FIM '000s

PARENT COMPANY BALANCE SHEET

ASSETS	Dec. 31st, 1999	Dec. 31st, 1998
NON-CURRENT ASSETS		
Intangible assets		
Immaterial rights	6,963	6,351
Other capitalized long-term expenses	79,293	81,645
	86,256	87,996
Tangible assets		
Land and waters	72,467	72,567
Buildings	712,246	764,954
Machinery and equipment	805,316	804,505
Other tangible assets	361	348
Advance payments and construction in progress	25,362	64,221
	1,615,752	1,706,595
Investments		
Shares in group companies	189,383	190,727
Shares in participating interests	7,284	7,293
Other shares and similar rights of ownership	77,232	72,400
	273,899	270,420
CURRENT ASSETS		
Stocks		
Raw materials and consumables	127,739	129,415
Work in progress	93,946	88,023
Finished products / goods	431,277	389,489
Other stocks	3,035	3,851
	655,997	610,778
Debtors		
Non-current		
Amounts owed by group companies	24,734	24,466
Loan receivables	-	14
Other receivables	5,977	6,321
	30,711	30,801
Current		
Trade debtors	429,323	447,719
Amounts owed by group companies	66,094	41,366
Amounts owed by participating interests	-	999
Loan receivables	14	31
Other debtors	71,045	78,095
Prepayments and accrued income	38,022	59,993
	604,498	628,203
Investments		
Other shares and similar rights of ownership	-	30,000
Other investments	470,013	530,881
	470,013	560,881
Cash in hand and at banks	20,165	37,851
ASSETS, TOTAL	3,757,291	3,933,525

All figures in FIM '000s

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31st, 1999	Dec. 31st, 1998
CAPITAL AND RESERVES		
Subscribed capital	586,340	586,340
Other reserves		
Legal reserve	35,580	35,580
Retained earnings	635,032	603,974
Profit for the financial year	76,603	66,239
APPROPRIATIONS		
Accumulated depreciation difference	706,586	779,002
PROVISIONS		
Other provisions	7,190	7,540
CREDITORS		
Non-current		
Loans from credit institutions	164,304	251,409
Other creditors	192,524	131,715
	356,828	383,124
Current		
Loans from credit institutions	87,096	88,821
Advances received	-	1,427
Trade creditors	1,001,416	982,371
Amounts owed to group companies	7,559	2,889
Amounts owed to participating interests	3,578	953
Other creditors	107,164	250,787
Accrued expenses and prepaid income	146,319	144,478
	1,353,132	1,471,726
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	3,757,291	3,933,525

All figures in FIM '000s

*PARENT COMPANY STATEMENT OF
CHANGES IN FINANCIAL POSITION*

	1999	1998
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	43,748	80,280
Adjustments to operating profit	256,131	238,195
Change in working capital	-29,860	-52,727
Interest and other financial expenses paid	-47,471	-59,483
Dividends received	3,845	3,524
Interest and other financial income received	20,147	35,333
Income taxes paid and refunded	3,919	-36,892
Cash flow from operating activities	250,459	208,230
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure in investments	-3,245	-60,967
Capital expenditure in tangible and intangible assets	-178,630	-267,008
Gains from sale of investments	1,797	141,344
Gains from sale of tangible and intangible assets	16,259	20,393
Cash flow from investing activities	-163,819	-166,238
CASH FLOW BEFORE FINANCING ACTIVITIES	86,640	41,992
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from non-current liabilities	60,953	93,870
Payment of non-current liabilities	-140,192	-175,331
Increase (-) / decrease (+) in non-current receivables	231	65,741
Increase (+) / decrease (-) in current liabilities	-81,258	-290,179
Dividends paid	-35,181	-58,634
Group contributions paid	-1,500	-1,000
Other	1,753	22,605
Cash flow from financing activities	-195,194	-342,928
NET CHANGE IN CASH AND CASH EQUIVALENTS	-108,554	-300,936
Cash and cash equivalents at Jan. 1st	598,732	899,668
CASH AND CASH EQUIVALENTS AT DEC. 31st	490,178	598,732

All figures in FIM '000s

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the new Accounting Act. The financial statements for the previous year have been changed accordingly. The consolidated financial statements include the parent company and the subsidiaries in which the parent company holds more than 50% of the voting rights, either directly or indirectly. Real estate companies 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. Significant associated companies have been consolidated using the equity method. All significant inter-company 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 '000s.

NOTES TO THE INCOME STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
1. NET TURNOVER BY DIVISION				
Fresh products	2,673,924	2,859,603	2,610,927	2,796,883
Yellow fats	974,776	953,974	974,275	952,854
Cheese	2,322,883	2,446,975	1,738,705	1,858,151
Ingredients	516,722	528,935	516,636	526,245
Ice cream	387,073	377,260	378,735	367,390
Others	578,613	456,765	483,500	442,418
	7,453,991	7,623,512	6,702,778	6,943,941
2. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Compensation for damages	4,100	-	4,100	-
Merger gain	-	-	-	22,605
Gain on sales of fixed assets	-	2,915	-	-
Other extraordinary income	992	-	-	-
Group contribution	-	-	-1,500	-1,000
Write-off of production line	-	-5,606	-	-
Other extraordinary items	-2,475	-748	-2,347	-
	2,617	-3,439	253	21,605

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998

3. PLANNED DEPRECIATION

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

	Years
Immaterial rights and other capitalized expenditure	5 or 10
Goodwill	5
Buildings and constructions	25
Machinery and equipment	10
EDP equipment and software	5
Transportation and equipment	5

4. CHANGE IN PROVISIONS INCREASE (-) / DECREASE (+)

Provision for rental expenses 941 and for contingent pension liabilities of the parent company - 591	350	2,782	350	810
--	-----	-------	-----	-----

5. OTHER OPERATING CHARGES

Energy expenses	120,948	117,824	111,486	109,350
Water expenses	36,698	37,496	36,698	37,496
Transportation expenses	341,479	339,558	328,424	329,400
Rental expenses	54,852	61,712	50,805	59,173
Expenses for maintenance of real estate and machinery	95,760	106,066	87,369	105,321
Marketing expenses	243,878	250,766	208,517	222,805
Travel expenses	24,644	33,285	24,644	33,285
IT expenses	49,968	45,348	49,251	44,434
Administrative expenses	77,241	92,910	65,619	79,222
Voluntary staff expenses	23,963	29,854	13,750	20,853
Credit loss	4,327	13,892	3,252	12,472
Other expenses	99,832	89,899	74,996	69,992
	<u>1,173,590</u>	<u>1,218,610</u>	<u>1,054,811</u>	<u>1,123,803</u>

6. NUMBER OF PERSONNEL, AVERAGE

Manual workers	2,264	2,380	2,044	2,199
Technical dairy employees	757	774	757	774
Management staff	449	503	435	489
Clerical staff	745	860	549	611
	<u>4,215</u>	<u>4,517</u>	<u>3,785</u>	<u>4,073</u>

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
7. SALARIES AND BONUSES OF DIRECTORS				
Supervisory board, Board, CEO	6,778	5,958	2,273	2,204

NOTES TO THE BALANCE SHEETS

8. PREPAYMENTS AND ACCRUED INCOME

Investment grants	-	6,696	-	6,696
Royalties	5,670	7,319	5,670	7,319
Health care repayments	3,588	1,521	3,588	1,521
Tax receivables	5,633	21,194	4,675	20,063
Annual credits	1,655	3,304	1,655	3,304
Other prepayments and accrued income	29,347	28,793	22,434	21,090
	45,893	68,827	38,022	59,993

9. INTANGIBLE ASSETS

Immaterial rights				
Acquisition cost at beginning of year	10,091	8,226	9,446	7,633
Increases	1,853	1,874	1,775	1,813
Decreases	-262	-	-255	-
Acquisition cost at year-end	11,682	10,100	10,966	9,446
Accumulated depreciation at beginning of year	-3,518	-2,648	-3,095	-2,355
Depreciation for the year	-993	-870	-908	-740
Accumulated depreciation at year-end	-4,511	-3,518	-4,003	-3,095
Book value at year-end	7,171	6,582	6,963	6,351
Other capitalized expenditure				
Acquisition cost at beginning of year	288,829	261,171	182,342	155,820
Increases	23,544	37,908	20,110	37,192
Decreases	-4,349	-828	-4,349	-29
Decreases ⁾	-	-10,641	-	-10,641
Acquisition cost at year-end	308,024	287,610	198,103	182,342
Accumulated depreciation at beginning of year ⁾	-	10,641	-	10,641
Accumulated depreciation at beginning of year	-171,562	-144,840	-100,697	-94,390
Depreciation for the year	-37,628	-36,218	-18,113	-16,948
Accumulated depreciation at year-end	-209,190	-170,417	-118,810	-100,697
Book value at year-end	98,834	117,193	79,293	81,645
Intangible assets, total	106,005	123,775	86,256	87,996

⁾ Other capitalized expenditure no longer in use

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
10. TANGIBLE ASSETS				
Land and waters				
Acquisition cost at beginning of year	75,625	73,194	72,567	69,745
Increases	-	3,718	-	3,718
Decreases	-1,140	-1,338	-100	-896
Acquisition cost at year-end	74,485	75,574	72,467	72,567
Book value at year-end	74,485	75,574	72,467	72,567
Buildings and constructions				
Acquisition cost at beginning of year	1,729,977	1,687,788	1,670,719	1,630,423
Increases	23,968	51,586	21,991	44,501
Decreases	-2,462	-11,751	-594	-4,205
Acquisition cost at year-end	1,751,483	1,727,623	1,692,116	1,670,719
Accumulated depreciation at beginning of year	-937,996	-859,788	-905,765	-831,874
Depreciation for the year	-70,985	-71,281	-67,605	-68,459
Reduction in value of goods held as non-current assets	-6,500	-5,432	-6,500	-5,432
Accumulated depreciation at year-end	-1,015,481	-936,501	-979,870	-905,765
Book value at year-end	736,002	791,122	712,246	764,954
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	2,725,379	2,513,235	2,549,497	2,342,961
Increases	186,224	227,122	172,372	213,997
Decreases	-11,910	-27,648	-7,204	-7,461
Acquisition cost at year-end	2,899,693	2,712,709	2,714,665	2,549,497
Accumulated depreciation at beginning of year	-1,857,243	-1,673,213	-1,744,644	-1,579,924
Depreciation for the year	-179,509	-177,424	-164,344	-164,720
Accumulated depreciation at year-end	-2,036,752	-1,850,637	-1,908,988	-1,744,644
Book value at year-end	862,941	862,072	805,677	804,853
Advance payments and construction in progress				
Acquisition cost at beginning of year	65,215	60,341	64,221	59,486
Increases	26,979	61,774	25,345	61,774
Decreases	-64,204	-57,039	-64,204	-57,039
Acquisition cost at year-end	27,990	65,076	25,362	64,221
Book value at year-end	27,990	65,076	25,362	64,221
Tangible assets, total	1,701,418	1,793,844	1,615,752	1,706,595
Planned depreciation for the year, total	-289,115	-285,793	-250,970	-250,867
Book value of production machinery and equipment at year-end	709,073	682,151	671,827	645,702

11. CONSOLIDATED AND PARENT COMPANY HOLDINGS

GROUP COMPANIES

	Consolidated Ownership and voting rights %	Parent company Ownership and voting rights %
Jäätelöyhtymä Oy, Helsinki, Finland	100.0	100.0
N.V. Valio - Vache Bleue S.A., Belgium ^{*)}	100.0	98.3
Frigo-Way S.P.R.L., Belgium	100.0	0.0
Vache Bleue S.A.R.L., France	100.0	0.0
Pakkasukko Oy, Helsinki, Finland	100.0	100.0
Smeds & Co Oy, Helsinki, Finland	100.0	100.0
Tapila AS, Estonia	98.7	98.7
UAB Valio International, Lithuania	100.0	100.0
Valio Eesti AS, Estonia	100.0	100.0
Valio International (Poland) Ltd, Poland	100.0	100.0
Valio International U.S.A. Inc., USA	100.0	100.0
McCadam Cheese Company, Inc., USA	100.0	0.0
Finlandia Cheese, Inc., USA	100.0	0.0
Valio Sverige AB, Sweden	100.0	100.0
Valio Engineering Ltd, Helsinki, Finland	100.0	100.0
ZAO Valio St. Petersburg, Russia	100.0	100.0

^{*)} Group company Smeds & Co Oy owns remaining 1.7%

PARTICIPATING INTERESTS

ASSOCIATED COMPANIES

Creative Food Systems Ltd, UK	20.0	20.0
Pakastamo Oy, Helsinki, Finland	50.0	50.0
Suomen NP-Kierrätys Oy, Helsinki, Finland	25.0	25.0
Yoplait Valio Nord AB, Sweden	50.0	50.0
Yoplait Valio Nord Oy, Helsinki, Finland	49.0	49.0

REAL ESTATE COMPANIES

			Equity	Net income/ loss in latest year- end accounts
Asunto Oy Nastolan Maitotie, Nastola	100.0	100.0	5,407	-
Asunto Oy Vuorikummuntie 9, Helsinki	98.5	98.5	2,760	-
Kiinteistö Oy Hiirakkotie 6, Vantaa	100.0	100.0	792	-
Kiinteistö Oy Pähkinämetsä, Vantaa	100.0	100.0	1,214	-
Kiinteistö Oy Pähkinäpolku, Vantaa	100.0	100.0	795	-
Kiinteistö Oy Ratastie, Janakkala	100.0	100.0	232	-
Kiinteistö Oy Tehontie 31, Kouvola	100.0	100.0	2,323	21
Kiinteistö Oy Pupuhuhta, Jyväskylä	49.2	49.2	26	-
Kiinteistö Oy Teollisuusneliö, Haapavesi	39.0	39.0	761	94
Turengin Meijerikiinteistöt Oy, Janakkala ^{*)}	50.0	50.0	964	-

^{*)} Year-end accounts Aug. 31st, 1999 and financial year 12 months

12. PARENT COMPANY INVESTMENTS

	Shares in group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	291,771	-	101,684
Increase	736	-	2,509
Decrease	-722	-10	-874
Reclassifications	-	7,294	-7,294
Acquisition cost at year-end	291,785	7,284	96,025
Accumulated depreciation and write-offs Jan. 1st	101,044	-	21,991
Write-off for the year	1,358	-	-
Accumulated depreciation and write-offs Dec. 31st	-102,402	-	-21,991
Reversal of write-offs	-	-	3,198
Book value at year-end	189,383	7,284	77,232

13. GROUP INVESTMENTS

	Shares in group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	16,974	-	101,688
Increase	-	225	2,509
Decrease	-	-5	-874
Reclassifications	-	7,294	-7,294
Acquisition cost at year-end	16,974	7,514	96,029
Accumulated depreciation and write-offs Jan. 1st	-	211	21,991
Accumulated depreciation and write-offs Dec. 31st	-	-211	-21,991
Reversal of write-offs	-	-	3,198
Book value at year-end	16,974	7,303	77,236

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998

14. RECEIVABLES FROM GROUP COMPANIES

Trade debtors	-	-	61,369	35,555
Other receivables	-	-	4,725	5,811
	-	-	66,094	41,366

15. RECEIVABLES FROM PARTICIPATING INTERESTS

Trade debtors	721	684	-	684
Other receivables	-	315	-	315
	721	999	-	999

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
16. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital, Jan. 1st, 1999 / Jan. 1st, 1998	586,340	586,340	586,340	586,340
Share capital, Dec. 31st	586,340	586,340	586,340	586,340
Legal reserves				
Jan. 1st, 1999 / Jan. 1st, 1998	45,093	54,494	35,580	35,580
Translation adjustments	13,228	-9,401	-	-
Legal reserves Dec. 31st	58,321	45,093	35,580	35,580
Retained earnings Jan.1st	1,208,202	1,150,169	603,974	545,941
Transfer from retained earnings	31,058	58,033	31,058	58,033
Retained earnings Dec. 31st	1,239,260	1,208,202	635,032	603,974
Retained earnings from previous year	-66,633	25,368	66,239	116,667
Dividends	-	-	-35,181	-58,634
Transfer to retained earnings	-31,058	-58,033	-31,058	-58,033
Change in allocation of appropriations	-7,822	-	-	-
Group distribution of retained earnings	-35,181	-58,634	-	-
Retained earnings	-140,694	-91,299	-	-
Profit for the financial year	39,519	24,666	76,603	66,239
Shareholders' equity Dec. 31st	1,782,746	1,773,002	1,333,555	1,292,133

17. DISTRIBUTABLE EARNINGS

Retained earnings Jan.1st	1,133,747	1,175,537
Group distribution of retained earnings	-35,181	-58,634
Appropriations included in retained earnings	-503,782	-563,054
Profit for the financial year	39,519	24,666
	634,303	578,515

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
18. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from credit institutions	149	13,109	149	149
19. ACCRUED EXPENSES AND PREPAID INCOME				
Interest	8,110	5,204	8,015	5,015
Holiday accrual including social security	81,099	91,779	81,099	91,779
Rebates granted	2,222	3,286	2,050	3,286
Wages and salaries including social security	27,069	20,610	18,247	13,569
Royalties	4,877	3,865	4,877	3,865
Social security	18,748	6,799	18,748	6,799
Other accrued expenses and prepaid income	25,622	36,613	13,283	20,165
	<u>167,747</u>	<u>168,156</u>	<u>146,319</u>	<u>144,478</u>
20. AMOUNTS OWED TO GROUP COMPANIES				
Trade creditors	-	-	4,261	2 889
Other creditors	-	-	3,298	-
	<u>-</u>	<u>-</u>	<u>7,559</u>	<u>2 889</u>
21. AMOUNTS OWED TO PARTICIPATING INTERESTS				
Trade creditors	5 557	953	2 949	953
Other creditors	629	-	629	-
	<u>6 186</u>	<u>953</u>	<u>3 578</u>	<u>953</u>

	CONSOLIDATED		PARENT COMPANY	
	1999	1998	1999	1998
22. CONTINGENT LIABILITIES				
For own commitments				
Mortgages	785,810	1,066,940	785,810	1,066,940
Pledges	94,325	122,832	94,325	122,832
Guarantees	-	-	123,405	88,039
Leasing commitments	36,264	22,387	24,785	21,550
Pension liabilities	-	561	-	-
For commitments of group companies	-	-	236,447	212,720
For commitments of participating interests	906	906	906	906
For commitments of others	18,800	10,300	18,800	10,300
For own operations	916,399	1,212,720	1,028,325	1,299,361
For group companies	-	-	236,447	212,720
For participating interests	906	906	906	906
For others	18,800	10,300	18,800	10,300
	<hr/>	<hr/>	<hr/>	<hr/>
	936,105	1,223,926	1,284,478	1,523,287

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31st, 1999 are FIM 634,303,000.
The parent company distributable earnings at Dec. 31st, 1999 are:

Retained earnings	FIM	635,032,219.09
Profit for the financial year	FIM	76,603,089.37
<hr/>		
Total	FIM	711,635,308.46

The board of directors proposes to the Annual General Meeting that
a dividend of 7% on the nominal value of the shares of FIM 1,400
be declared

	FIM	41,043,800.00
to retained earnings be carried over	FIM	35,559,289.37
<hr/>		
Total	FIM	76 603 089.37

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

Share capital	FIM	586,340,000.00
Legal reserves	FIM	35,579,851.98
Retained earnings	FIM	670,591,508.46
<hr/>		
Total shareholders' equity	FIM	1,292,511,360.44

Helsinki, March 16th, 2000

Kari Inkinen

Tauno Uitto

Olavi Kuusela
President, CEO

Juhani Hörkkö

Esa Juntunen

AUDITORS REPORT

To the shareholders of Valio Ltd

We have audited the accounting, the financial statements and the corporate governance of Valio Ltd for the period January 1st, 1999 through December 31st, 1999. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on the corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Supervisory Board, the Board of Directors, and the Managing Directors have legally complied with the rules of the Companies Act.

In our opinion the financial statements showing a profit of FIM 76,603,089.37 for the parent company and FIM 39,519,000 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 of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board, the Board of Directors, and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable earnings is in compliance with the Companies Act.

Helsinki, March 16th, 2000

SVH Pricewaterhouse Coopers Oy
Authorized Public Accountants

Tauno Haataja
Authorized Public Accountant

STATEMENT BY THE SUPERVISORY BOARD

We have examined the financial statements for January 1st to December 31st, 1999 and the auditors report.

We recommend approval of the parent company income statement and balance sheet, and the consolidated income statement and balance sheet, and concur with the Board of Directors proposal for profit disposal.

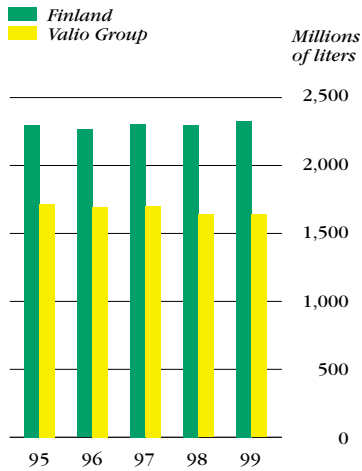
The term in the Supervisory Board ends this year for the following members: Toivo Heikkilä, Markku Heikkinen, Maija-Leena Heiniö, Tapio Malmiharju, Riku Ollikainen, Antti Rauhamaa and Pentti Santala.

Helsinki, March 17th, 2000

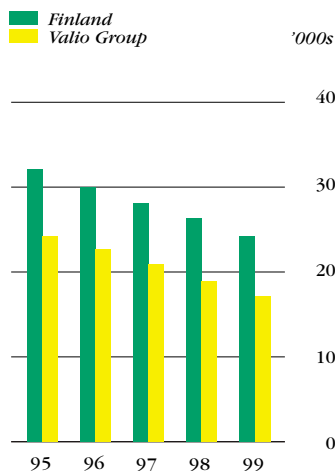
On behalf of the Supervisory Board

Seppo Hakola
Chairman

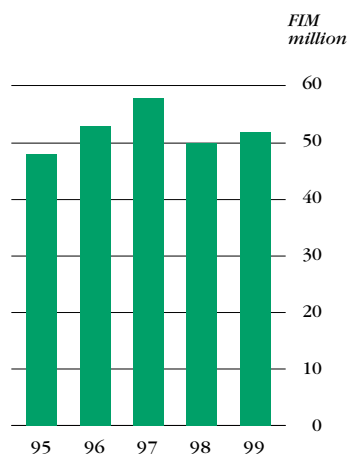
VOLUME OF DAIRY MILK



NUMBER OF MILK SUPPLIERS



GROUP RESEARCH AND DEVELOPMENT EXPENSES



Milk Procurement

Valio Milk Pool draws up contracts and makes collection plans with the co-operatives for the volume and quality of milk purchased. The Pool then sees that the milk is processed into products that guarantee owners the maximum return on their investment. Assistance is made available to farmers from Milk Pool Farm Services and Member Relations. Development work together with the co-operatives on Milk Procurement data systems was completed during 1999.

There were 23,361 milk producers in Finland at the end of 1999. The year before, that number stood at 25,431; 2,070 farms ended production. Valio Group comprised 16,571 milk producers at the close of 1999, a year that saw 282 producers move into Valio co-operatives and add 32 million liters of milk to annual capacity.

The owner co-operatives supplied a total of 1,585 million liters (68.2 per cent of Finnish production) to the Milk Pool in 1999. Valio Group took delivery of 1,771 million liters including milk taken in by units operating abroad.

The volume of organic milk supplied grew by more than 25 per cent in 1999; Valio Group took in 5.5 million liters.

The seasonal variation index (June/November milk volume ratio) stood at 106 per cent, compared with 111 per cent the year before. A 61 per cent share of Valio Group milk intake in 1999 was processed for the domestic market and 39 per cent for foreign markets.

Member Relations

Milk Pool Farm Services and Member Relations handles member relationships with the co-operatives and milk producers, trains the producers, offers expertise in silage production, feeding, cattle care and health, milking and milk handling on the farms, and runs Valio's regional laboratories.

Member relations with the co-operatives' staff and the milk producers were maintained as usual through the producer magazine and bulletins. The Milk Pool and the co-operatives together dealt with the harmonization of milk procurement operations. This process was promoted through joint planning on key issues and the arrangement of staff training.

There were five dairy cattle healthcare projects running in Valio Group co-operatives in 1999. Preventive healthcare is establishing its role as a part of the dairy farms' quality system. The Farm Services advisory unit assisted dairy farms in their functional planning for farm buildings and silage systems, as well as in the purchase of milk-handling equipment. Herbage cutting-time analyses were further developed and the results were also made available on the Internet for the first time. Milking machine testing was successfully negotiated with the machines' suppliers.

Research and development was carried out together with the Agricultural Research Centre of Finland and some key interest groups. The most important joint research projects concerned pre-wilted and round-bale silage, mixed silage feeding, liners for milking machines, test milking frequency, and the creation of a model for monitoring herbage growth.

Analysis volumes for laboratory operations remained at the previous year's level, while there was a significant increase in the number of milk recording samples and mastitis samples taken. Analyzers for bacteria content determination were upgraded in the Lapinlahti and Seinäjoki laboratories, as well as those for composition and somatic cells. Sampling plans and analysis results were transferred into the new milk procurement data system towards the end of the year. The Haapavesi regional laboratory ended operations in December as per the rationalization plan, and the Lapinlahti laboratory was officially accredited.

Production Policy

The EU country quota for milk production in Finland was 2,325.1 million liters for the quota year ended March 31st, 1999. The dairies' milk intake was 42 million liters short of quota at 98.2 per cent. Milk production in Autumn 1999 increased significantly over the previous year.

Trade in reference volumes (quotas) through the administrative system continued as before. The administrative price remained at FIM 0.65 per liter. In addition to sales through the system, each producer can sell the same amount of milk at a self-determined price as it traded through the quota system. Average prices in free quota trade varied from FIM 0.74 to 0.96 per liter.

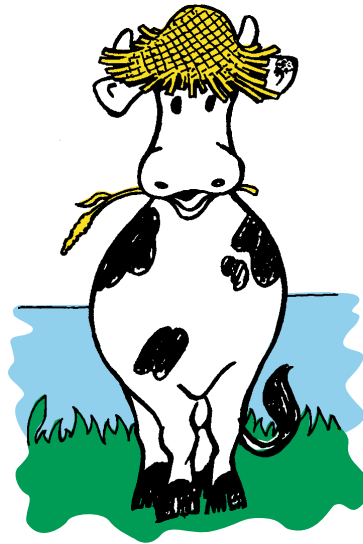
Nationally financed transition period support in 1999 was paid at FIM 0.39 per milk kilo in Zones A and B, and FIM 0.10 in Zone C. Support values were respectively FIM 0.03 and FIM 0.12 lower than the previous year. An Arctic subsidy of FIM 0.41 - 1.74 per milk kilo was paid in Zone C, an increase of FIM

0.08 - 0.09 on the previous year.

In December 1999, the EU Commission resolved to continue national aid beyond the year 2000 for the solution of serious difficulties. The subsidy decision will be reconsidered in 2003. Support values in Zones A and B will decline by FIM 0.05 - 0.06 in 2000 - 2003 as a result of the EU decision.

The Finnish markka (FIM) exchange rate was permanently bound to the euro from the beginning of 1999. The introduction of the exchange rate at a higher level than the green rate brought the total of Finnish markka subsidies paid by the EU down by 1.4 per cent. The fixed exchange rate eliminated the variations in subsidies caused by exchange rate fluctuation.

Export subsidies fluctuated



according to the world market situation. In early 1999, milk powder subsidies were raised but declined again towards the end of the year, so that the total decrease during the year stood at 1-2 per cent.

Subsidies for cheeses exported to Russia were raised twice, by a total of 25 per cent, although their initial level was below that of the general cheese export subsidy. Subsidies for cheeses exported to the United States were decreased late in the year due to the strong dollar.

The butter export subsidy was the most stable, remaining unchanged throughout the year.

Subsidy restrictions hit processed product export subsidies late in the year, and for the first time they were cut at a different pace than farm product subsidies.



A Strong Brand Based On Values

A trademark is not in itself a brand; a picture or product name is not enough. A real brand creates a consistent and sought-after image in consumers' hearts and minds. So the brand alone is not a sufficient value; there must be a deep understanding of buyer motives behind it. The brand is a promise redeemed by the tangible and emotive qualities of the product itself, and by the brand owner's entire way of working.

BRAND VALIO

Valio is a house brand as both the company and its key products carry the same name. The Valio brand is nearly a hundred years old and the company has focused on producing goods of the highest quality since the very beginning. In Finnish, *Valio* means "the very best".

Valio has built a strong corporate culture over the years around the concept of pure Finnish milk and the very best in dairy products. Valio brand positioning naturally reflects this value: "Valio means the best and most continuously developed Finnish dairy products, in whose quality, freshness and safety we can trust." This is how we want consumers to perceive Valio products.

FRESH

Broadly interpreted, freshness embraces Valio products' quality chain management from the dairy farm to the retailer's refrigerator. This unbroken refrigeration chain together with date stamping guarantees consumers get their products "Fresh every day". Freshness also means untainted dairy products with real taste and as few additives as possible. All Valio production plants have ISO 9002 quality certificates.

DEVELOPING

The Valio brand is applied to basic dairy products such as milk, fermented milk, butter, *villi* fermented milk, and Edam and Emmental cheeses; but it's also a parent brand and guarantee for new, innovative products. Functional dairy products, such as *Gefilus* and *HYLA*, create

added value and a competitive edge for the Valio parent brand, which guarantees safe and familiar quality for new Valio products that enter the market-place. A successful brand lasts and continuous development makes it responsive to future challenges. Low-energy foods and convenience are contemporary phenomena reflected in numerous Valio low fat versions and e.g. handy packaging solutions.

SAFE

Product safety and ethical values in the international trade in foods have attracted considerable public debate, primarily regarding environmental risks and the conditions under which farm animals are kept. The process of building ethical added value into the Valio brand began a few years ago, and we believe this will create a competitive edge into the future.

Expanding Valio brand values to encompass ethical responsibility naturally requires that Finnish milk is the raw material for products sold in Finland. The Valio milk quality program run together by the producers and Farm Services advisory unit plays an important role in building Valio's credible, ethical image.

Responsibility is the key to the company's core values and Valio brand loyalty is closely linked to that. Ethical Valio equates to a responsible Valio. That means taking personal responsibility for the quality and outcome of one's work, and above all for the well-being of people, animals and the environment. It is on this value base that the Valio brand will continue to thrive and strengthen amongst growing international challenges.



Valio Fresh Products and Valio Ice Cream

Valio Fresh Products and Valio Ice Cream division manufactures and markets fresh products, ice cream and jams in Finland and abroad. As Finnish market leader, Valio promotes the success of the company and its customers' business by offering more value-added products, and doing this in a profitable and competitive way.

Fresh products are manufactured at ten production plants in Finland, ice cream at one more and jams at another. Key production development projects were the improvement of cost-effectiveness, the use of capacity measurement in operations management, and work on our data systems. In addition, the divisional ISO 9001 quality system was certified during the year. All Valio production plants have a working environmental system.

Valio Fresh Products and Valio Ice Cream net turnover totalled FIM 3,332 million in 1999 and investments stood at FIM 59 million, while personnel numbers averaged 1,130. The division is responsible for subsidiaries in Sweden, Estonia and Lithuania.

Valio Fresh Products and Valio Ice Cream strengths lie in a group of well-known brands, customer- and consumer-oriented operations, and a refrigeration chain that guarantees product freshness. The key brands are Valio *maito* (milk), Valio *piimä* (fermented milk), *Valiojogurtti* (yogurt), *Gefilus* (LGG products), *Tutteli* (baby foods), and *Valio-jäätelö*, *Pingviini*, *Classic* and *Puffet* ice creams.

Total milk consumption in Finland for 1999 declined by approximately 1 per cent against the previ-

ous year, while the shift in consumption to low-fat and skim-milk products continued. Sales of Valio milks in Finland fell in an increasingly competitive environment. But the special milks' share of total sales continued to grow.

Consumption of fermented milks declined by more than 2 per cent in Finland. Valio continued to hold its large market share, thanks to strong sales of special fermented milks and the *Gefilus* brand in particular.

The overall consumption of creams remained static. Valio sales in this sector decreased by around 3 per cent, but sales of other cooking and catering products remained at the previous year's level. Cottage cheese sales developed favourably, while those of curds fell below target.





Valio organic products were gathered under the *Valio Oma* brand and sales increased. *Valio Oma* organic strawberry flavoured yogurt was launched in the Summer.

Yogurt consumption in Finland remained stable, showing only marginal changes in market share. Valio met its market share goals and sales figures remained at the previous year's level. Sales of fat-free yogurts continued to develop favourably and *Valio A jogurtti* sales also increased.

The marketing of Yoplait products was handled by Yoplait Valio Nord Oy, a joint venture started by Valio and French dairy co-operative Sodiaal. Yoplait Valio Nord Ab markets these products in Sweden.

The falling trend in consumption and sales of *villi* fermented milks that had continued for several years ended in 1999. Sales slightly exceeded target to stand only marginally below those of the previous year. Growth was strongest in flavoured varieties, especially *Viilis*.

Sales of pudding and dessert products remained at almost the same level as the year before, while competition in ready-to-serve desserts for children and other desserts grew. *Nami nami* sales declined slightly, but those of *Fanny* products developed favourably.

Sales of Valio juices and berry soups rose significantly against the previous year. Sales of *Gefilus* juices continued to grow strongly. The *Bahi Premium* juice series was launched in Spring. Sugar-free raspberry soup was added to the range of berry soups.

Tutteli continued to be the overwhelming Finnish market leader in milk-based baby foods, where total sales developed much better than projected. The birth rate in Finland was slightly higher than expected, which had a favourable effect on infant formula sales, and the demand for ready-to-serve porridge and gruel also increased.

Ice cream consumption in 1999 returned to 1997 levels, thanks to the hot summer and excellent sales in June in particular. Despite the tight competitive situation, *Valiojäätelö* retained its undisputed position as Finnish market leader. *Pingviini*, *Classic* and *Puffet* lead in impulse items and *Valiojäätelö* in take-home items and scoop ice cream.

Product development led to new product launches in all groups. Low-lactose, fat-free *HYLA* milk was introduced and *Neo* fermented milk was redeveloped as a fat-free product. Fat-free cottage cheese was the most significant new product in cooking and catering. The *Gefilus* range was developed through the launch of high calcium content pineapple-carrot juice and *Gefilus* six-pack mini-bottles.

In yogurts, *Valiojogurtti* seasonal flavours established their market position and consumers keenly anticipated the introduction of new flavours. Valio's highly popular baked-apple flavour was made available in a 1 kilo pack and new products were added to the fat-free *A jogurtti* series. New flavours were introduced in all key snack product series.

Valio launched more than 20 new products on the Finnish ice cream market during the year. The most important were *Pingviini* liquorice and *Classic* fruit flavours, and in take-

home items, 1.5 liter *Valiojäätelö* packs and premium grade ice cream.

The key export market for Valio Fresh Products is Sweden, where a local subsidiary handles sales and marketing. Yogurts are the core export product there and sales grew strongly; Valio's share of the Swedish fruit-flavoured yogurt market broke the 20 per cent mark last year. Overall Swedish export performance developed favourably as business grew. In addition to its own brand products, Valio also makes Yoplait yogurts for the Swedish market.

Operations in Estonia are increasingly based on local production. Ice creams are the most important product group still exported there from Finland. *Alma* fresh products are manufactured by Tapila AS, located near Tartu, and include milks, yogurts, sour cream and more. They were a success in Estonia and took a greater market share. Valio Eesti AS markets and sells products manufactured by Tapila and those exported from Finland. The performance of both Estonian subsidiaries improved last year.

Lithuanian subsidiary UAB Valio International commenced operations during 1999 and products such as *Tutteli* baby foods and *Valiojäätelö* ice cream were exported to this Baltic State. Ice cream exports to England sold under the importers' brands began well. Baby foods were exported to a number of countries, while exports of fresh products and ice cream to Russia remained significantly lower than in the previous two years.





Valio Cheese, Butter and Ingredients

Valio Cheese, Butter and Ingredients develops, manufactures, markets and sells cheeses, yellow fats, powders and value-added products. The division is characterized by its market responsiveness and a firm emphasis on profitability for Finnish and foreign customers alike.

In addition to its Finnish operations, the division is responsible for subsidiaries in the United States, Belgium and Russia. Valio also has a representative office in Moscow.

There are nine production plants in Finland: cheeses were manufactured in five, powders in three and butter production has been concentrated to Seinäjoki. Cheese manufacturing was ended in Iisalmi and transferred to other production plants. Powders are no longer manufactured in Varkaus, while calf feed production moved to Haapavesi.



The Finnish production plants' quality systems were standardized across different production lines in 1999. All production plants have a certified ISO 9002 quality system and, with the exception of Toholampi, are also environmental system certified.

Two production plants are based overseas: McCadam Cheese Co., Inc. manufactures and packs cheese in the United States, and Valio - Vache Bleue packs cheese in Belgium.

Net turnover for the financial year totalled FIM 3,908 million to stand at the previous year's level. Cheeses accounted for FIM 2,417 million of the total, yellow fats FIM 974 million

and powders FIM 517 million. Domestic net turnover rose by 3 per cent to FIM 1,823 million. Foreign net turnover declined due to decreasing sales to Russia. Net turnover for subsidiaries totalled FIM 944 million, showing 11 per cent growth.

Personnel numbers for the year averaged 1,526, of whom 1,216 were employed in Finland and 310 in foreign subsidiaries. The reduction in the number of production plants together with organizational changes resulted in there being a total of 61 fewer personnel.

Investments totalled FIM 88.4 million. The most significant investment projects were new production lines for pre-sliced and pre-packed chunks of cheese at the Vantaa and Joensuu plants, the purchase of nano-filtration and reverse osmosis equipment for the Lapinlahti powder plant, and a flexible manufacturing line for the Lapinlahti cheese plant.

Valio strengths in domestic consumer products lie in the company's customer-oriented way of working, based on category management that ensures co-operation partners' success in their own operations. This approach is centered on brands that are appreciated by the consumer, high-quality products and continuous development of the product range.

The most important cheese brands are *Valio Emmental*, *Valio Edam*, *Oltermanni*, *Aura*, *Aamupala*, *Polar*, *Turunmaa*, *Punaposki*, *Hovi*, *Olympia* and *Koskenlaskija*, while core brands in yellow fats are *Voimariini*, *Kevyt Levi* (butter blends) and *Valio voi* (dairy butter).

The sales of *Aura*, *Aamupala*, *Polar* and *Hovi* cheeses in particular developed favourably. Although there was a fall in the level of cheese prices in the EU, domestic prices remained stable. A number of new cheese product items were launched – pre-packed cheese chunks and slices for retail packages and *Aura Gold* – and have all been well received.

Sales of yellow fats developed well in Finland. Market share grew significantly and Valio strengthened





its position as market leader. Sales of *Voimariini* were particularly healthy.

The strengths of Valio consumer products in Russia lie in brands highly regarded by consumers there: *Viola*, *Oltermanni*, *Valio* butter and *Tutteli*. Russian operations are based on co-operation with reliable, long-term distributors. Exports to Russia have clearly grown since the period following the economic crisis there in August 1998. Sales of butter pats and *Viola* developed particularly favourably during the financial year and *Oltermanni* sales also went well.

Quality and reliable deliveries were what helped Valio successfully defend its market position as a supplier of industrial products. In industrial powders, Valio focused on *Demi* - demineralized whey powder - and expanded its markets for that product. Growth in raw material quantities increased powder exports. The market situation in Russia increased the supply of industrial butter on world markets and this was reflected in price levels.

Cheese marketing through subsidiaries proceeded smoothly with volumes up on the previous year. Positive demand, successful marketing and enhanced operational effectiveness improved sales and performance in Valio subsidiaries operating in the United States. Organizational changes in Valio's Belgian subsidiary were finalized; Valio - Vache Bleue was thus able to retain its market position despite changes in its customers.



Valio Domestic Sales and Valio Distribution



Valio Domestic Sales and Valio Distribution division serves as the sales and distribution organization for Valio product category divisions and produces marketing-related services.

Valio divides Finland into eight sales and distribution areas. Domestic sales offices are located in Helsinki, Turku, Kouvola, Joensuu, Jyväskylä, Seinäjoki and Oulu, with smaller operations in Rovaniemi and Riihimäki. The Helsinki and Riihimäki sales and distribution areas were united in 1999, and the decision was made to scale down the Joensuu operation to a fresh products terminal during Spring 2000.

Divisional net turnover totalled FIM 5,046 million, investments stood at FIM 14.8 million and personnel numbers averaged 1,142. Net turnover fell slightly from the previous year, mainly due to a decrease in

the volume of milk sales and the still continuing decline in milk prices.

Valio began moving to cut costs during the review year. Personnel numbers will have decreased by 10 per cent from 1998 to the year 2000, calculated on comparable figures. Other arrangements to improve cost-effectiveness were the relocation of primary warehousing for frozen products from Helsinki to Turku, and the concentration of customer marketing and consumer and expert services from other divisions into Valio Domestic Sales and Valio Distribution. The number of sales areas in the food services sector regional organization was cut from six to five.

Surveys indicate that both customers and consumers have an extremely positive image of Valio and its products. Customer co-operation

K Alliance retailers and Finnish corporation Kesko chose Valio as their Supplier of the Year. Pictured here is Kesko's Citymarket in Espoo, near Helsinki.

with Valio was further developed through product category management and the application of joint data systems. Successful long-term co-operation with K Alliance retailers and Finnish corporation Kesko resulted in Valio's nomination as their Supplier of the Year.

Developing customer co-operation is a key issue for the year 2000, and having all customer marketing functions in a single division is proving to be a good starting point. Other challenges are to improve cost-effectiveness, maintain customer satisfaction, and develop Valio personnel know-how and motivation.

Research and Development

Valio investment in research and development totalled FIM 52 million or 0.7 per cent of Group net turnover in 1999. Personnel numbers in R & D stood at 120. Around a third of these staff focused on long-term strategic development projects that are expected to create new, innovative products and technology applications.

Special analytical services as well as know-how in sensory evaluation, packaging technology and legislative issues all support product development. Valio has invested in product safety in particular, building an effective hygiene program for each production plant.

Valio R & D also emphasizes work on functional dairy products, which requires expertise in nutrition, microbiology and technology.

Dependable development of functional foods requires clinical research. Valio has set tight criteria for its own functional food products to ensure:

- Placebo-controlled double-blind studies.
- Product effects have been verified in at least two independent research studies.
- Research has been carried out using the finished product at a recommended daily intake.

R & D internal business is growing steadily and entails international licensing of Lactobacillus GG (LGG), and production and sales of special starter cultures and antibiotic tests. LGG has now been licensed to 23 countries and is one of the leading probiotics in the world.

SPECIAL APPLICATIONS FOR LACTIC ACID BACTERIA

More than 60 per cent of Valio products are made using lactic acid bacteria, including all cheeses and fermented milk products. These useful bacteria impact on the taste and texture of the product.

Lactic acid bacteria also possess special properties that can be employed in place of, for example, preservatives. Valio utilization of these 'protective cultures' enables the company to manufacture curds and feta cheese without those preservatives. Bioprofit is a patented protective culture that Valio has licensed internationally.

Bioprofit prevents the growth of moulds and yeast. Valio granted a permit in 1999 to market Bioprofit for the manufacture of pre-wilted silage. Kemira took this up and began to market the product.

Probiotics

A probiotic is a live bacterium that has a clinically verified positive effect on the intestine. Lactobacillus GG is used in Valio Gefilus products and meets all the international requirements set out for probiotics. As many as one hundred scientific articles have already been published on LGG and it has been the subject of more than ten doctoral theses.

Clinical testing has proved beyond doubt the beneficial effects of LGG on the prevention and care of different types of diarrhoea. An extensive study, carried out with some 600 kindergarten children in Helsinki in 1999, showed that the children who had drunk Gefilus milk caught 10 per cent fewer infections. LGG has also been proved to diminish the symptoms of children suffering from lactose intolerance. And the research continues.

Probiotics work in treating diarrhoea in calves in a similar way as LGG works on humans. Calf diarrhoea is common and is usually been treated with antibiotics; Valio probiotics for calves were developed to substitute for antibiotics. This substitute product constitutes one of the most significant develop-



Lactobacillus GG is the most extensively researched functional lactic acid bacterium. In Finland, LGG bacteria can be found in Valio Gefilus products.

ment objects in animal feeds, since resistant bacterial strains have become so common as to have created a real problem. The product requires EU approval and an application was submitted in 1999.

NEW FUNCTIONAL MILK COMPONENTS

Bioactive peptides

Milk as such is a multipurpose foodstuff. There is a large number of new functional raw materials to be found in some milk components, such as fat, lactose, proteins and minerals.

Bioactive peptides that lower blood pressure can be degraded from milk proteins. In producing peptides, certain lactic acid bacteria can be used in a new way. Developing tasty products that contain enough of the right kinds of peptide requires special technical know-how.

Plant sterols

Plant sterols are natural fats found in plants and proven to lower cholesterol. Sterols can be added to dairy products and clinical testing on such products has shown cholesterol decreases of 10-13 per cent.

Plant sterols do not naturally occur in dairy products and so their use falls under the new legislation on novel foodstuffs. Valio has submitted the first Finnish foodstuffs application, and its progress will determine when the first products will be launched.

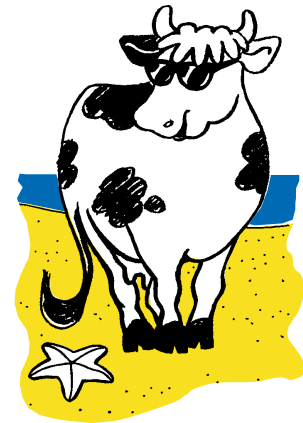
Conjugated linoleic acid

Milk fat contains conjugated linoleic acid (CLA). The effects of CLA on the prevention of breast cancer are now undergoing extensive research. Milk fat is an essential source of CLA, inasmuch as some 80 per cent of personal intake comes from milk consumption. The drop in milk fat consumption has approximately halved CLA intake in the last 20 years.

Both animal testing and epidemiological breast cancer research have provided indications of the positive effects of CLA. Research in cow feeding, as well as clinical testing, continues but applications are still under development at this stage.

TOP TECHNOLOGY IN TRADITIONAL DAIRY PRODUCTS

Chromatographic separation can be used in the production of lactose-



free milk. Lactose is completely separated from the milk in this process and the resulting milk product still tastes like real milk, rather than becoming sweet like HYLEA low-lactose milks.

Micro-, ultra- and nano-filtration, reverse osmosis and electro-dialysis are all membrane-filtering techniques, whose importance is growing in milk and whey processing. These techniques enable the separation of microbes, fat, protein, lactose, minerals and even precious components that appear in very small quantities, in an economically feasible way from whey or milk. Such techniques are already being widely utilized at Valio in whey powders manufacturing, starter production and in the production of new functional foods.



LGG on the world map



The children who had drunk Valio Gefilus milk caught 10 per cent fewer infections in a study carried out with some 600 kindergarten children in 1999

Valio Ltd Owners
December 31st, 1999

Name	Domicile	Number of shares
Alavuden Osuusmeijeri	Alavus	102
Alueosuuskunta Promilk	Lapinlahti	2,604
Evijärven Osuusmeijeri	Evijärvi	42
Hirvijärven Osuusmeijeri	Jalasjärvi	46
Hämeenlinnan Osuusmeijeri	Hämeenlinna	1
Härmän Seudun Osuusmeijeri	Alahärmä	82
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	1,378
Kiuruveden Osuusmeijeri	Kiuruvesi	233
Koilliskuntain Osuusmeijeri	Salla	112
Kortesjärven Osuusmeijeri	Kortesjärvi	37
Kuusamon Osuusmeijeri	Kuusamo	265
Kyrönmaan Osuusmeijeri	Isokyrö	124
Laaksojen Maitokunta	Ylivieska	1
Lammin Osuusmeijeri	Lammi	113
Liperin Osuusmeijeri	Liperi	162
Nilsian Osuusmeijeri	Nilsia	288
Nurmeksen Osuusmeijeri	Nurmes	626
Osuuskunta Idän Maito	Joensuu	2,877
Osuuskunta Lapin Maito	Rovaniemi	584
Osuuskunta Maito-Aura	Turku	1,964
Osuuskunta Maitojaloste	Seinäjoki	2,588
Osuuskunta Maitokolmio	Toholampi	244
Osuuskunta Maitomaa	Suonenjoki	290
Osuuskunta Maito-Pirkka	Tampere	1,616
Osuuskunta Normilk	Jyväskylä	5
Osuuskunta Pohjolan Maito	Haapavesi	2,981
Osuuskunta Satamaito	Pori	348
Osuuskunta Tuottajain Maito	Riihimäki	7,250
Paavolan Osuusmeijeri	Ruukki	32
Shareholders, total 34		29,317
Total share capital		FIM 586.34 million

Valio Group and Owner Dairies

	Net turnover FIM million Dec. 31st, 1999	Personnel
Valio Ltd	6,703	3,363
Valio Ltd Subsidiaries		
Valio International U.S.A. Inc.	590	188
McCadam Cheese Co., Inc.	425	180
Finlandia Cheese Co., Inc.	297	8
Valio - Vache Bleue S.A.	345	111
Valio Sverige AB	89	23
Valio Eesti AS	55	16
ZAO Valio St. Petersburg	17	18
Tapila AS	38	62
Valio Engineering Ltd	7	14
UAB Valio International	0.4	2
Valio Group, total	7,454	3,797
Owner dairies ¹⁾		343

¹⁾ Shareholder dairies that have marketing contracts with Valio, and other co-operative dairies.

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VALIO CHEESE, BUTTER AND INGREDIENTS

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VALIO FRESH PRODUCTS AND VALIO ICE CREAM

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Fax + 358 10381 2539

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