



A **ANNUAL** *R* **REPORT**
1999 / 2000



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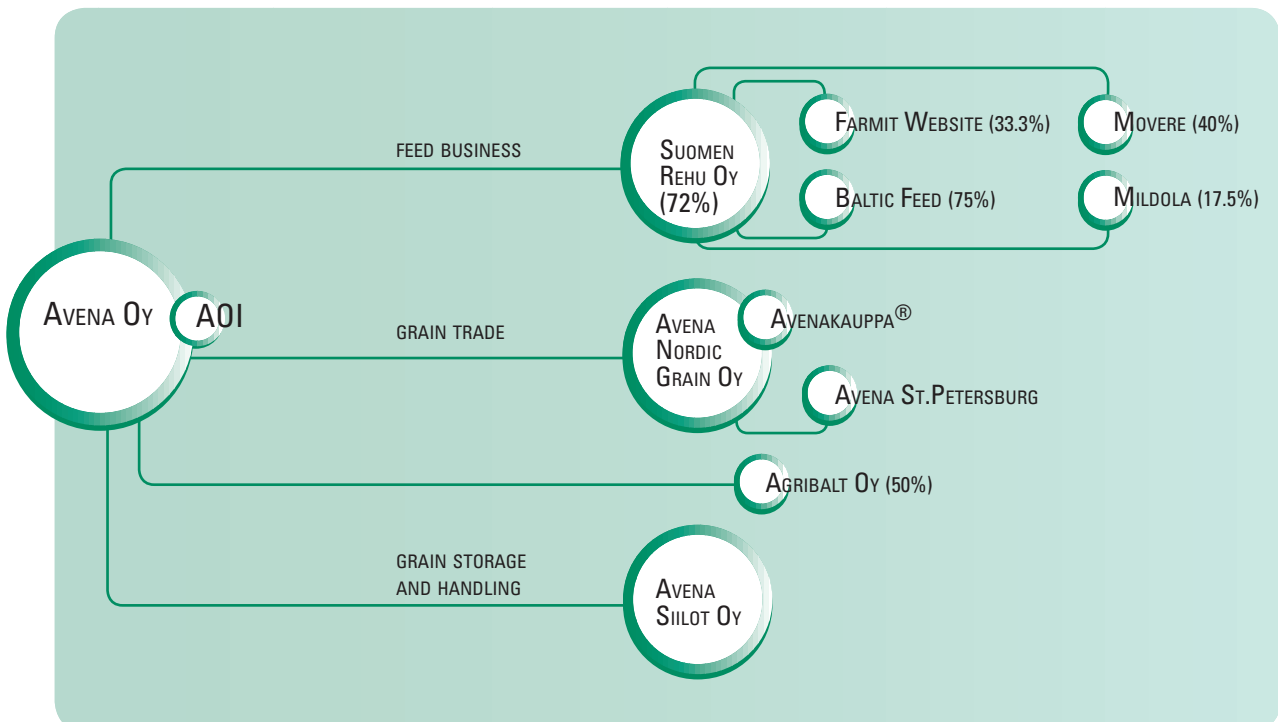
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FISCAL YEAR EVENTS 1.6.1999-31.12.2000

- The summer of 1999 yielded a meagre grain harvest for the second year in a row.
- In October 1999, the internet based Avenakauppa® was opened.
- In November 1999, the business operations of Suomen Rehu were made part of the group.
- The grain harvest of summer 2000 turned out to be the best since Finland joined the European Union.
- In December 2000, the EU prohibited the use of bone meal as farm feed as well as the use of fish-meal at factories manufacturing bovine feed.

A VENA GROUP





REVIEW

Avena Group has changed considerably in the course of the last financial year. The acquisition of Suomen Rehu increased the company size and strengthened our know-how. The acquisition also prompted us to change our fiscal year to that of a calendar year. As we are closing the books on a long fiscal period, the first part already seems distant. The small grain harvest of the summers of 1998 and 1999 cast their shadow on the first half of the period. The unhealthy price competition on the feed markets that began in spring 1999 was still affecting the profit development of the group in the winter of 2000. The large grain harvest of 2000 raised the company profit level. We have invested in the start-up of the new oats processing business and, through the Agribalt joint venture, focused on developing business in the Baltic region. Because of these new investments and the generally difficult market situation, we can be satisfied with having achieved a result of approximately FIM 15 million, which corresponds to the operational profitability goals set for the extended fiscal year.

Aside from the acquisition of Suomen Rehu, the biggest change occurring during the last fiscal year was the launch of Avena Nordic Grain Oy's Avenakauppa®. This internet based initiative brought transparent pricing to the Finnish grain markets as well as the first grain deals to the Internet.

The central development area for the whole group is food safety and hygiene, since we are part of the food supply chain in all our fields of business. In keeping with our vision, we aim to be a strong link and forerunner in the advancement

of Finnish food industry safety. The development of a new oats business is also a project that brings together different lines of business.

Our business environment is continually facing challenges. The vast changes in market and support rules for the farmers, the coming of the euro at the beginning of next year, the food safety crisis, the eastern expansion of the European Union and the changing rules of the WTO are breeding grounds for constant change. We in Avena strive to develop animal nutrition and the marketing and handling of the harvest to the benefit of the farmer.

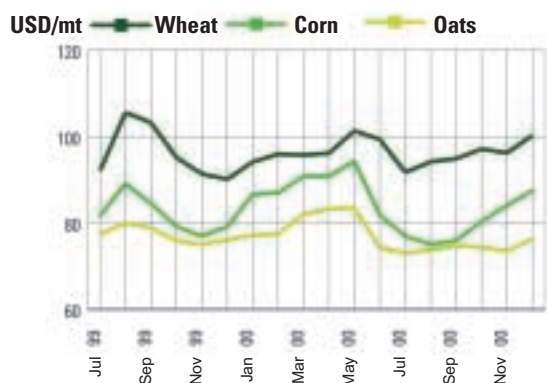
We have become used to constant change in Avena's business operations. Additionally, difficult times in the markets have overloaded our personnel also during the last fiscal year. A heartfelt 'thank you' for good work accomplished goes out to the entire personnel. The market situation for many of our clients has also been difficult, but trust and long traditions of co-operation have proved fruitful. We thank our clients for their confidence in us.

Avena Group is developing business also in the Baltic region. Here in Finland we not only need local suppliers in the food and agriculture sector, but also larger companies that are successful in the international development of the field. It is not only company size but also the development of business know-how and, among other things, the innovations of the new economy that serve the Finnish farmers. Avena Group is a key player in this development.

Hannu Pelttari

President

DEVELOPMENT IN WORLD MARKET PRICES FOR GRAIN
Chicago Board of Trade Quotations (daily observations, nearby CBOT futures)



GRAIN MARKETS

In 1999/2000 the EU's grain production amounted to slightly less than 200 million tons. Export markets were to a large extent served from intervention stocks which were drawn down from 18 million to 7.5 million tons by the end of that season. For the campaign 2000/01, the production is estimated at about 210 million tons.

Unfortunately, Finland's crop in 1999/2000 was subnormal for the second year in a row. The barley crop was just sufficient to cover the needs of the internal market, whereas malting barley had to be imported. About 100 000 tons of feed barley for export to Third Countries were released from intervention stocks. The size of the oat crop still allowed for exports of about 200 000 tons, of which one third was delivered to the European milling industry.

The wheat crop suffered badly from the dry conditions and more than 200 000 tons had to be imported to cover domestic needs. In addition, rye was in short supply and 80 000 tons were imported.

Favoured by good drilling and growing conditions, Finland produced a crop in 2000 just short of 4 million tons, which was also of good quality. The import demand for wheat and rye for the current season will be negligible, whereas the exportable surplus is estimated at 200 000 tons of feed barley and 350 000 tons of oats. A good part of the oat surplus will be supplied to the European milling industry.

The strong Dollar, coupled with improving world market prices, enhanced the competitiveness of grain and products from the European Union. In the second half of the calendar year 2000, the major surplus commodities like wheat and barley and products thereof were exported at zero refund. As the European Commission sold the majority of the intervention

stocks at the beginning of the season, further demand had to be sourced from the free market. The price level throughout the EU moved well above the support level which, as per the Agenda 2000, has been cut by 7.5 %. Strong feed-stuff prices, coupled with the strong Dollar and the ban on meat and bone meal for ruminants, put additional upward pressure on grain prices.

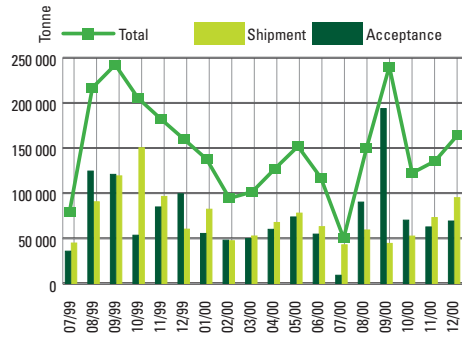
The debate about genetically modified organisms and other issues concerning feed and food safety is intensifying. The European Commission has taken a step in the right direction and has adopted a proposal establishing the European Food Agency (EFA).

The main focus of the EFA will be to provide excellent, independent scientific advice and to establish a network of close co-operation with similar institutions in Member States. It will have a key function in assessing risks related to all feed and food operations.

The present outlook is that on a global basis we shall enter the coming season with a rather low stock level. In November 2000 the International Grains Council estimated the world ending stocks for wheat and coarse grains (without rice) to be 239 million tons compared to 276 million tons for the previous year. Good crops are necessary in order to prevent a further drawdown of stock. Presently, however, the prospects for larger crops are somewhat limited. Wet conditions during the autumn in the European Union have delayed the planting of winter grains. At the same time, the Balkan states are suffering from drought conditions. The winter wheat area in the United States will be the smallest since 1971. Corn plantings are also expected to be reduced, partly due to high energy costs for irrigation and higher fertilizer costs.



AVENA SIILOT OY'S PROCEDURES 1999/2000



HANDLING AND STORAGE OF GRAIN

Avena Siilot Oy's handling volume of bulk goods during the fiscal year (18 month period) was 3,035 million tonnes. The company turnover was FIM 120 million, and the number of personnel 96. The volume of the activities was less than average, since the harvest of summer 1999 was smaller than usual. The small harvest decreased the export of grain and consequently, warehouse volumes shrunk. The import of wheat and rye partly compensated for the decrease in grain export. Because of fluctuations in volume, the turnover of the company was smaller than predicted.

The harvest of summer 2000 was Finland's best since joining the EU, approximately 4 million tonnes. Autumn 2000 was a busy intake time, and in September the record for receiving Finnish grain was broken. The unusually busy grain intake period called for increased flexibility among the staff.

During the last fiscal year, the discussion on food safety in the European Union once again became front-page news, due to the rising number of BSE cases discovered. The scandals dealt a severe blow to consumer trust and demanded increased precision and care from suppliers in the food supply chain. Avena Siilot Oy's certified quality system ISO 9002 provides us in this respect with a reliable base for developing our operations together with the clients, in such a way that the raw material supply chain works as well as possible while meeting the set quality and hygiene demands.

In keeping with our strategy, we have placed great emphasis on maintaining contact with our clients and recognising their

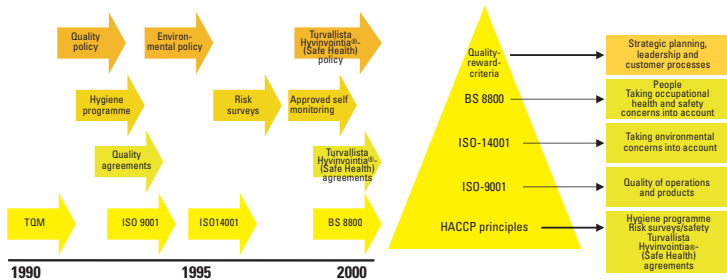
needs while developing the business. During this period, several new development projects have been started in order to diversify the company's handling, warehousing and production services. Staff training has been a key factor in the development efforts. Training topics that have concerned the entire staff have included quality work, hygiene and Balanced Score Cards.

The operations of Avena Siilot Oy's technical unit have grown. The unit established its position as machine supplier and installation contractor. The turnover for the unit was FIM 22 million, i.e. roughly a sixth of the entire company turnover.

In January 2001, the Finnish Competition Office reached a conclusion on its analysis of Avena Siilot Oy. The decision made states that Avena Siilot Oy's way of operating and pricing forms functioning competitive conditions for the Finnish grain market.

The outlook for the year to come is good, since the ice situation is not likely to hinder the export shipments of grain. The abundant grain harvests of last autumn will keep us busy well into the spring months. We will be further developing our co-operation with the clients by bringing to a close the development projects and investments that have already been undertaken. For the future, our belief is that Finnish grain cultivation will retain the current level and strengthen its position as clean and trustworthy food supply both domestically and abroad.

DEVELOPING THE TURVALLISTA HYVINVOINTIA® (SAFE HEALTH) SYSTEM OF SUOMEN REHU



ANIMAL FEED BUSINESS ACTIVITIES

Suomen Rehu became part of Avena Group on November 1999. The turnover for the feed business for the time period 1.11.1999-31.12.2000 was FIM 1,124 million. The average number of personnel has been 270. The profitability was affected by the unusually tough price competition during the first few months of the fiscal year. Since spring 2000, the profitability has improved due to better margins and cost management.

The total demand for industrial feed in Finland (1, 342 million tonnes) stayed approximately at last year's level, despite the good grain harvest, which this time did not lead to farmers increased use of their own feed. Suomen Rehu's market position was strengthened.

The programme for Safe Health (Turvallista Hyvinvointia - TH) was established in order to ensure food safety regarding feed. The safety system was certified in accordance with the occupational health and safety system BS-8800 standard and was made part of the Safe Health programme. During the year, quality-related TH agreements have been reached with leading food enterprises. The hygiene level during feed transport has been further improved by developing an TH transport system together with associated company Movere Oy. The system also includes a driver's exam. Drivers who have passed the exam receive an TH badge for their vehicles. The drastic increase in oil prices put pressure on the feed freights, but Movere Oy's exercised control and co-operation with its driver partners kept the price increase in check.

The most important development project was the launch of antibiotic-free pig feed. A global patent has been sought for this innovation. Because of the antibiotic-free pig programme, the profitability of the swine group has increased significantly and the pig feed market share has grown. Efforts are being

made to export this technology, and it will be strongly marketed in the Nordic countries and the rest of Europe during 2001.

In order to develop environmentally friendly pig and poultry production, the SYMPO® co-operation project was established. The SYMPO system forms part of the co-operation between Suomen Rehu and the farms, and is closely connected to the marketing of Suomen Rehu's pig and poultry feed.

The second stage of bovine feed programme NARU®, TERVEYS-NARU, was launched on the markets. The development work is being done together with veterinarians and farms. TERVEYS-NARU has brought plenty of new products to the special feeds group. Over 3000 dairy farms participate in the NARU® production programme.

In autumn, an EPO patent was granted for the environmentally friendly ISO-VILJA® production method. Grain research will continue in efforts to develop grain into raw material for feed. The ISO-VILJA® system forms the foundation for the national quality training programme in grain growing. The manufacturing method for poultry feed was renewed and, as a result, the new poultry feeds have become popular.

The domestic animal section of the Farmit (internet) portal strongly developed during the fiscal year and the system is now being developed into an ordering and payment channel for payable services and feeds. The Farmit portal is content-wise the largest and most popular service channel directed at Finnish farms.

At the end of the year 2000, the EU decided to prohibit the use of bone meal as farm feed, as well as the use of fish meal at factories manufacturing bovine feed. This prohibition led also to some new investments needed to separate different processing lines in factories as well as in transportation.



*P*RODUCT DEVELOPMENT AND QUALITY WORK

PRODUCT DEVELOPMENT

The group's most significant product development effort is the development of the new oats processing business. Avena Oat Ingredients (AOI) develops, manufactures and sells oat bran rich in beta-glucan, oat starch and other oat products, especially as raw material for health-edifying foods for industrial clients, mostly in Europe and North America. Special emphasis is placed on production technology, product qualities, safety and quality as well as the development of product applications.

The aim of the development work is to produce high-quality, clean and safe oat products that can be traced back to the raw material source. As an important part of customer service is to provide the clients with technical support and reliable information on the oat product applications.

The product development activities of Suomen Rehu have been closely linked to its business development. New business is developed on, among other things, an antibiotic-free meat production programme. The company is seeking

a global patent for the procedure. The product development effort of Avena Nordic Grain Oy is focused on developing the Avenakauppa® both technically and with reference to its commercial services. Avena Siilot Oy is continually developing the company know-how and a business practice that takes full advantage of the company facilities. The best results can be seen in the effort to expand the business operations of the technical unit.

QUALITY WORK

The numerous food safety crises and the genetic manipulation of raw materials have sped up the process of preparing new legislation within the European Union. The Commission has also prepared a new food safety programme – White Book – and decided to establish a European food agency. The most important duties of the agency are to provide high-quality, independent scientific information as well as establish a fixed co-operative network with corresponding agencies in all





member countries. The European food agency will be a key player in the identification of risks related to the food supply chain. In Finland, food monitoring was centralised in a new food agency at the beginning of 2001.

At Avena Group, we have always focused a lot of attention on the quality and reliability of our operations. The group wants to promote food safety and consumer well-being. In this way, we will secure both our own competitiveness as well as that of our partners.

In all our business units, comprehensive quality development has been implemented by utilising – among other things – systematic self-evaluation. Suomen Rehu has established the Safe Health (Turvallista Hyvinvointia) programme in order to ensure food safety in animal feeds. Avena Siilot Oy's quality policy has been sharpened and the company's certified quality system provides a good base for further developing the operations together with the client. A handbook describing Avena Nordic Grain Oy's good trading practices is in the finishing stages. The company is also part of COCERAL's

project of defining a Code of Good Trading Practices. The oat used as raw material in the new oat processing business can be traced all the way back to the farm it came from, thanks to operations models built by other group companies.

Avena's grain business develops, steers and monitors product safety through a system that evaluates the risks and monitors the critical stages of the process. International partners have aided the implementation of the system, and helped in applying the safety demands in order to meet the strictest international demands. A quality guidance system built upon the ISO standard (ISO 2000) is currently being developed, ensuring not only product safety but also product quality and traceability.





THE BOARDS OF DIRECTORS OF AVENA GROUP, THE MANAGEMENT GROUP AND AUDITORS

AVENA OY'S BOARD OF DIRECTORS

Chairman: Chief Director **Ilkka Ruska**

Director of Finance **Ilkka Arjaluoto**

Managing Director **Olavi Kuusela**

(from 4/4/01)

Director **Esko Lindstedt**

(until 4/4/01)

Board Counsellor **Elise Pekkala**

(until 4/4/01)

Managing Director **Asko Schrey**

Chief Director **Kare Turtiainen**

Group Treasurer **Seppo Viitanen**

(until 4/4/01)

AVENA NORDIC GRAIN OY'S BOARD OF DIRECTORS

Chairman: President **Hannu Pelttari**

Managing Director **Asko Schrey**

Managing Director **Kaija Viljanen**

AVENA SIILOT OY'S BOARD OF DIRECTORS

Chairman: President **Hannu Pelttari**

Director of Finance

Ilkka Arjaluoto (from 4/4/01)

Maintenance Technician

Erkki Bamberg (from 4/4/01)

CEO

Henri Kuitunen (until 4/4/01)

Managing Director **Kari Nurmentaus**

Managing Director

Ilkka Rantasalo (from 4/4/01)

Maintenance Technician

Ilari Virta (until 4/4/01)

SUOMEN REHU OY'S BOARD OF DIRECTORS

Chairman: President **Hannu Pelttari**

Chairman of the Board

Mikko Haapanen

Director **Olavi Määttä**

President **Antero Nyyssönen**

Chief Director **Kare Turtiainen**

THE GROUP'S MANAGEMENT TEAM

Chairman: President **Hannu Pelttari**

Managing Director **Kari Nurmentaus**

President **Antero Nyyssönen**

Managing Director **Kaija Viljanen**

Director of Development

Asko Haarasilta

Director of Finance **Timo Heikkerö**

Controller **Heikki Hirvelä**

Director of Finance **Timo Keinänen**

Legal Counsellor **Asmo Ritala**

Chief Development Officer **Pauli Rätty**

THE AUDITORS OF AVENA YHTIÖT

APA **Tomi Englund**,

Tilintarkastajien Oy, Ernst & Young

APA **Jorma Heikkinen**, the State

Audit Office





PROFIT AND LOSS ACCOUNT

FIM 1 000	1.7.1999 - 31.12.2000	1.7.1998 - 30.6.1999
Net sales	1 854 741	573 381
Other operating income	26 027	7 730
Manufacture for own use	3 317	598
Cost of goods sold	1 384 173	422 829
Personnel costs	127 078	29 155
Depreciations	55 999	15 236
Other operating expenses	285 219	75 645
Operating profit	31 616	38 844
Financial income (+) and expenses (-) (net)	-15 123	-1 918
Profit before reserves and taxes	16 493	36 926
Taxes	1 777	15 436
Minority interest	-71	
Profit for the period	14 645	21 490

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KEY FIGURES

		12/00	6/99	6/98	6/97	4/96
Net sales (FIM million)		1 854.7	573.3	903.4	1 116.4	1 094.5
Operating profit (FIM million)		31.6	38.8	16.9	54.9	89.8
% of the turnover		1.7 %	6.8 %	1.9 %	4.9 %	8.2 %
Profit before extraordinary items, reserves and taxes (FIM million)		16.5	36.9	12.9	55.2	93.9
% of the turnover		0.9 %	6.4 %	1.4 %	4.9 %	8.6 %
Profit for the period (FIM million)		14.6	21.5	9.2	40.4	34.4
% turnover		0.8 %	3.7 %	1.0 %	3.6 %	3.1 %
Return on equity %	(*	3%	6%	3%	11%	21%
Return on capital employed %	(*	4%	9%	5%	12%	18%
Solidity %		43%	74%	69%	75%	54%
Number of personnel (average)		416	132	130	120	115
Earnings per share (FIM)		488.17	1 074.48	458.87	1 793.16	1 374.64
Equity per share (FIM)		18 901.92	17 740.03	16 769.45	16 911.31	15 489.91
Dividend per share (FIM)		350.00	400.00	100.00	600.00	600.00
Dividend % of the profit	(*	71.7 %	37.2 %	21.8 %	33.5 %	43.6 %
Number of shares adjusted for share issue		20 000	20 000	20 000	20 000	20 000
Current ratio		1.30	2.88	1.81	2.19	1.92
Quick ratio		0.67	2.49	1.23	1.49	1.04

(* Annualised figures)

BALANCE SHEET

ASSETS FIM 000s	31.12.2000	30.6.1999
FIXED ASSETS		
Intangible assets	121 147	1 342
Tangible assets	435 443	205 459
Stocks and shares	16 725	2 040
	573 315	208 841
CURRENT ASSETS		
Inventories	149 615	36 978
Receivables	129 469	44 995
Other financial assets	19 070	179 736
Cash and bank receivables	12 087	11 599
	310 241	273 308
ASSETS TOTAL	883 556	482 149
LIABILITIES FIM 000s	31.12.2000	30.6.1999
EQUITY		
Share capital	100 000	100 000
Share premium reserve	175 362	175 362
Retained earnings from previous years	71 869	57 949
Profit for the period	14 645	21 490
	361 876	354 801
Equity loan	300	
MINORITY INTEREST	15 945	
PROVISIONS		14 175
LIABILITIES		
Deferred tax liability	7 181	8 385
Long-term liabilities	258 840	
Short-term liabilities	239 415	104 789
	505 436	113 174
LIABILITIES TOTAL	883 556	482 149

The board of Avena Oy has confirmed the principles of Corporate Governance.

The group administration will adhere to the Finnish Companies Act and Avena Oy's Articles of Association. The Avena governance arrangements have taken into account the 1997 recommendations of the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers, as well as those of the Ministry of Trade and Industry given in 2000.

The Avena Group is governed, in keeping with good business principles, and increasing the economic value of the Group in the long-term. The main responsibility for the group governance and operations lies with the administrative bodies of Avena Oy, which include the general meeting, the Board, the President and the auditors.

Operationally, the Avena Group is divided into three main lines of business organised as subsidiary companies. Group management includes the parent company Board of Directors, the President and directors reporting to the President. The subsidiaries report to their own boards of directors and to the President, and are responsible for business development and results, as well as for managing the governing of companies that form part of the line of business. The subsidiaries have their own boards.

SELECTION AND TERM OF OFFICE FOR THE MEMBERS OF THE BOARD

The general meeting appoints the board for the time period between annual general meetings. The board has a maximum

of six members. The board chooses a Chairman and Vice Chairman from among the board members. The board will convene between 9-12 times a year and always when need arises. A person who is 65 years of age or older cannot be elected as a board member.

THE ASSIGNMENTS AND RESPONSIBILITIES OF THE BOARD

The assignments and responsibilities of the board are defined based on the Companies Act and Avena Oy's Articles of Association. The board is, together with the President, responsible for the economic governance of the group. The main assignments of the board are:

- to ensure due arrangement of group governance and operations
- to prepare the annual general meeting agenda and ensure the execution of decisions made at the annual general meeting
- to set and approve planned strategic and annual goals
- to decide on significant investments (e.g. business acquisitions, expansion of operations, investments on equity, R & D projects).
- to decide on taking long-term credit as well as relinquishing and pledging immovables
- to decide on the business and financing risk policy of the group

The board will approve the core values of the group. The board will set the measuring standard for economic value added for the entire group, as well as for separate



lines of business. Additionally, the board will name and discharge the President of the group and group management personnel reporting to the President, and approve the terms of employment of the said individuals.

SALARIES AND FEES

The reward system consists of an active salary policy and incentive salaries in the form of bonuses.

RISK MANAGEMENT

Risks central to group operations are linked to the development of Finnish agricultural production and food industry, changes in grain and grass harvests as well as price fluctuations in feed raw material. The changes in competition in the feed markets as well as issues of hygiene in the food industry as a whole also present significant risks to the group.

In order to manage these business risks, the cost effectiveness and quality of the operations have been systematically developed. Certified quality systems are used in Avena Siilot Oy and Suomen Rehu Oy. Avena Nordic Grain Oy has a similar quality system in place. The price fluctuations in raw materials are managed within the framework of confirmed principles while also taking advantage of proper derivative contracts. Maximum limits have been defined for open trade positions. In product pricing we seek to secure the necessary flexibility of fluctuating raw material prices.

OTHER MATTERS

The group's internal audit has been organised as part of the development of the quality for the financial administration and general operations. Avena Oy's President functions as Chairman of the subsidiary companies' boards.

The owner has not given specific commitments regarding the company liabilities or the share capital.

Individuals belonging to the group management and their families do not have business relations with the group.



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