

A person wearing a white lab coat is holding a small, square chalkboard with a wooden frame. The chalkboard has the words "Good from the start..." written on it in white chalk. The person is also wearing a blue apron over the lab coat. The background is a bright, slightly blurred indoor setting.

Good
from
the start...

Annual Report 2000





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Five-year Group Statistics

	2000	1999	1998	1997	1996
Net turnover, FIM m	8 215	7 454	7 624	8 075	7 847
Change %	10.2	-2.2	-5.6	2.9	-4.2
- Domestic, FIM m	5 455	5 243	5 293	5 571	5 866
Change %	4.0	-0.9	-5.0	-5.0	-10.9
- International Operations, FIM m	2 760	2 211	2 331	2 504	1 981
Change %	24.9	-5.1	-7.0	26.5	23.3
Balance sheet total, FIM m	4 257	3 963	4 098	4 502	4 458
Liabilities % of the balance sheet total ¹⁾	57	55	56	54	53
Capital and reserves + provisions % of the balance sheet total ¹⁾	43	45	44	46	47
Personnel expenditure, FIM m	804	847	872	898	861
No. of personnel	4 083	4 215	4 517	4 537	4 801
Inventories, FIM m	829	838	733	740	771
Investments, FIM m	272	197	329	249	212
Planned depreciation, FIM m	296	287	282	290	310
Price paid for milk to the co-operatives by Valio, per liters total FIM ²⁾	2.17	2.12	2.11	2.14	2.10

¹⁾ The allocation of appropriations to capital and reserves and deferred tax liability is included in the figures.

²⁾ Includes base price, and any extra payments according to composition and quality; milk price adjustments.



Good from the start.

Annual review by the CEO

When food tastes good, we all feel better. Proper and varied nourishment that's made good from the start goes to the heart of well-being.

Responsibility for well-being is the core value here at Valio. In short, that means securing high-quality products for consumers. Responsibility is also about the continuous long-term development of co-operation between Valio and customers to build for the future.

Each member of Valio personnel has an important part to play, as a product progresses toward consumer satisfaction. Taking care of well-being includes consistent personal growth and the development of our working community. Taking time out to care for animals and a clean environment is also part of responsibility. That helps secure quality throughout the whole chain and assure sustainable development, reconciling the functions of Valio Group with its share of social responsibility. This is the best way to promise a positive future for milk-based foods in general and for the continuity of Finnish dairy farmers' livelihood.

Valio products are familiar, reliable and now innovative foods that produce a good feeling for consumers every day. Those products underwrite our name for

the best dairy foods and internationally respected know-how in research and development.

The past year 2000 was satisfactory as a whole, with an improvement in financial performance over the previous year. Positive development was significantly affected by long-term reductions in costs incurred and the development programs undertaken in the company.

The domestic market prices of some products continued to fall. While we were unable to pass all the resulting cost differential through to retail prices, the favourable development of foreign and export operations contributed to correcting the situation.

The new functional organization introduced in the Spring better outlined the company's overall goals, offering a clearer opportunity to deal with overlapping functions. It also means more goal-directed co-operation between operational management and core administration.

Reorganization involving Osuuskunta Maito-Pirkka and Kainuun Osuusmeijeri was completed in the Autumn. Merging their joint marketing company into Valio meant the end to a situation that had financially weakened dairy operations. I believe that the new arrangement will allow for the economically feasible, long-term development of the dairy business.

The strategic scenario drawn up towards the end of the year 2000 will guide the operations of our company through the coming years. The enlarging of the domestic market area to include regions around Finland, and the plan for networking co-operation, are a solid foundation for operations both in Finland and overseas. Our strong position in and control over the domestic market combine well with strategic research and development, so that we can create added value in even basic products.

Cost-effective production that meets strict hygiene requirements, along with advanced collection and distribution logistics, give Valio a real competitive advantage. With skilful and energetic staff and owners with the necessary economic application, Valio can be sure of a positive financial result.

Good from the start, is simple shorthand that describes how Valio sees its responsibility for well-being. It says what Valio's products are all about and communicates Valio company values. So I was pleased to see this approach borne out, as our domestic operations were granted ISO 14001 environmental certification in June 2000, following intensive inspections carried out by an impartial, international agency. The certificate covers the company's 17 places of business as well as research and development, administrative functions, purchasing, sales and marketing. Maintaining the environmental certificate requires ongoing development, which Valio purposefully implements by using natural resources sparingly and decreasing environmental loading.

I am happy to thank our clients and other partners for their constructive co-operation and our staff for their hard work. Owners and interest groups have played a central role in developing our operations, and to them I also extend my thanks. We advance into the year at hand able to believe in ourselves and rely on co-operation.

Olavi Kuusela, President, CEO

Supervisory Board

	Term began	Term ends
Seppo Hakola Dairy farmer, Kuortane Chairman	1994	2002
Osmo Sikanen Dairy farmer, Joroinen Vice Chairman	1991	2002
Kauko Ali-Rantala Dairy farmer, Punkalaidun	1999	2002
Kari Harsia Personnel Representative, Seinäjoki	1996	2001
Toivo Heikkilä Dairy farmer, Haapajärvi	1996	2003
Markku Heikkinen Dairy farmer, Tohmajärvi member to April 27th, 2000	1991	
Maija-Leena Heiniö Dairy farmer, Kisko	1999	2003
Eero Hiironen Dairy farmer, Saarijärvi	1991	2001
Hannu Kainu Dairy farmer, Kyyjärvi	1997	2002
Matti Karvo Dairy farmer, Rovaniemi	1994	2001
Matti Lehtinen Dairy farmer, Tammela	1999	2002
Pekka Lestinen Dairy farmer, Sysmä	1998	2001
Eino Lumiaho Dairy farmer, Vihanti	1998	2001
Tapio Malmiharju Dairy farmer, Artjärvi	1996	2003
Martti Mustonen Dairy farmer, Ilomantsi member as of April 27th, 2000	2000	2003
Martti Nevalainen Dairy farmer, Valtimo	1994	2002
Heikki Olkkonen Dairy farmer, Alavus	1988	2002
Riku Ollikainen Dairy farmer, Lapinlahti	1981	2003
Reino Parkko Dairy farmer, Elimäki	1999	2001

Antti Rauhamaa Dairy farmer, Kärkölä	1998	2003
Terttu Repo Personnel Representative, Haapavesi	1999	2001
Pentti Santala Dairy farmer, Kauhajoki	1997	2003
Matti Siitonen Dairy farmer, Parikkala	1998	2001
Juhani Väänänen Dairy farmer, Maaninka	1995	2001

Board of Directors

Kari Inkinen Dairy farmer, Ruokolahti Chairman	1997	2002
Tauno Uitto Dairy farmer, Tyrnävä Vice Chairman	1996	2001
Juhani Hörkkö Dairy farmer, Koski TI	1998	2003
Esa Juntunen Dairy farmer, Vieremä	1998	2003
Olavi Kuusela President, CEO, Helsinki	2000	2002

Auditors

SVH Pricewaterhouse Coopers Oy,
Authorized Public Accountants, Helsinki

Tauno Haataja, MBA, Authorized Public Accountant

Board of Directors Report January 1st, 2000 – December 31st, 2000

General

Valio Group financial performance for the year 2000 stood at FIM 58 million, which was FIM 19 million higher than the previous year. Adjusting for the higher unit price paid for milk to owner co-operatives in the year 2000 over 1999, the result is improved by a further FIM 41 million to a total of FIM 60 million.

Favourable development of the financial performance resulted from the cost rationalization program initiated in 1999, significantly lower pension costs, as well as stabilized price levels in Finland and higher price levels in export markets.

In Finland, Valio took in 1,708 million liters of milk, or 8 per cent more than the previous year. The average procurement share of owner co-operatives delivering milk to Valio increased by 4 percentage

points to stand at 72 per cent. The operations of Kainuun Osuusmeijeri and Osuuskunta Maito-Pirkka were merged into Valio at the beginning of September, 2000. As a result, the procurement share stood at 78 per cent in December 2000, compared to 69 per cent a year before. Valio Group took in total deliveries of 1,907 million liters of raw milk in the year 2000, which includes milk procurement for Valio dairies in the United States and Estonia.

Domestic net turnover grew by four per cent. Net turnover increased in all product groups, except for ice creams and powders. The market share of liquid milk products grew, while that of yellow fats remained unchanged and that of cheeses decreased.

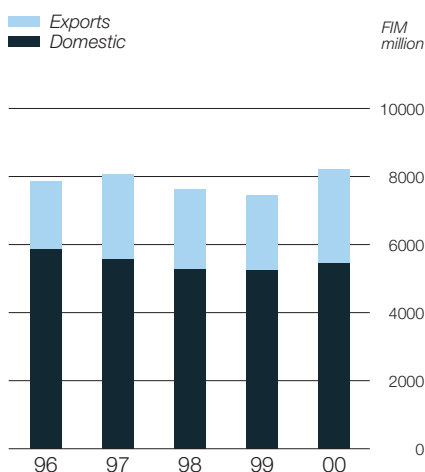
Net turnover from international operations grew by 25 per cent. Exports from Finland increased by 35 per cent. The

greatest growth was recorded in exports of cheeses, powders and butter. Net turnover for foreign subsidiaries increased by 10 per cent, and the growth was most significant in the United States and Estonia.

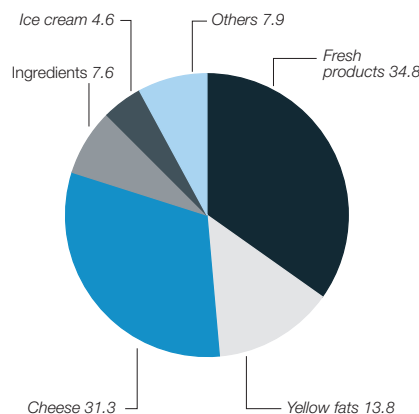
The Finnish Competition Authority approved on June 20th, 2000, the Finnish agreements on production plant leasing and product marketing made by Valio Ltd with Kainuun Osuusmeijeri, Osuuskunta Maito-Pirkka and Aito Maito Fin Oy. The decision of the Finnish Competition Authority approved a number of significant conditions, the contents of which were negotiated with Valio. These conditions were to ensure that sufficient prerequisites for competition existed in the milk market, once the agreement became effective.

The Boards of the contracting parties approved the decision of the Finnish

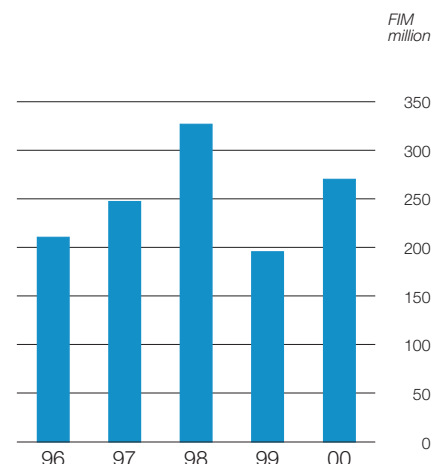
GROUP NET TURNOVER



GROUP NET TURNOVER BY DIVISION (%) 2000



GROUP CAPITAL EXPENDITURE



Competition Authority including the conditions, and agreed at the same time that Valio would therefore take over production in the Sotkamo and Tampere dairies as of September 1st, 2000. The transfer of business went smoothly. As provided in the conditions, raw milk was delivered to the competitors from Autumn on, and the Into brand was sold in February 2001.

Shareholders and share capital

The number of shareholders fell by one due to merger activities to stand at 33 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 bought a minority shareholding in Tapila AS, and sold its minority holding in Creative Foods Systems Ltd, during the financial year.

Research and product development

Personnel numbers in research and development stood at 110. Around one-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. The Evolus milk drink was launched in November. It is the first European functional food that lowers blood pressure.

Valio R & D investment for the year 2000, totalled FIM 56 million (1999: FIM 52 million) or 0.7 per cent of net turnover (0.7 per cent).

Consolidated net turnover

Consolidated net turnover totalled FIM 8,215 million (FIM 7,454 million). Domestic net turnover stood at FIM 5,455 million (FIM 5,243 million). Net turnover from international operations (exports from Finland and foreign

subsidiaries) totalled FIM 2,760 million (FIM 2,211 million).

Parent company net turnover

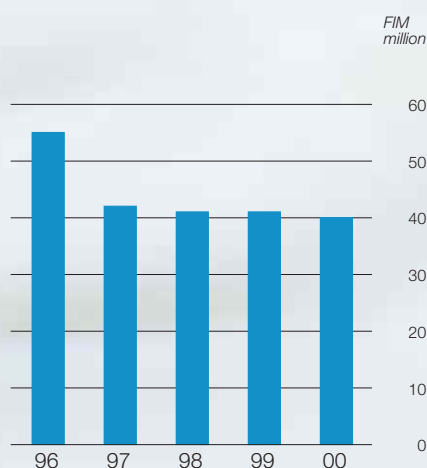
Valio Ltd net turnover totalled FIM 7,433 million (FIM 6,703 million). Domestic net turnover stood at FIM 5,455 million (FIM 5,243 million) and net turnover from exports at FIM 1,978 million (FIM 1,460 million).

Investments

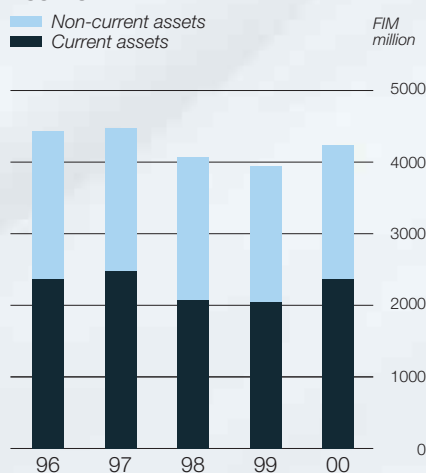
Consolidated gross investments totalled FIM 272 million (FIM 197 million) or 3.3 per cent (2.6 per cent) of net turnover. Investments of FIM 75 million were made in land and buildings and FIM 151 million in machinery and equipment.

Investments in stocks and shares totalled FIM 2 million, and in intangible assets FIM 44 million. Consolidated net investments stood at FIM 262 million (FIM 181 million).

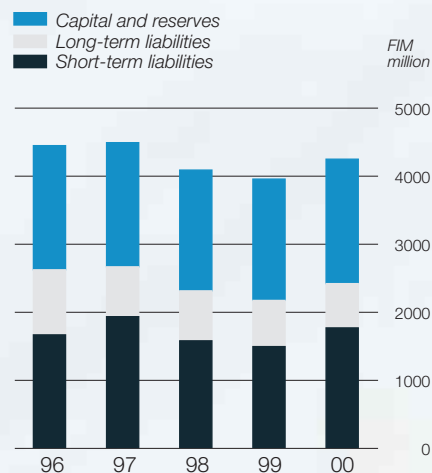
GROUP NET INTEREST EXPENSES



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 813 million at the year-end, compared to FIM 529 million at the start. Stocks stood at FIM 829 million at the end of the financial year and FIM 838 million at the beginning. Interest-bearing liabilities totalled FIM 610 million at the financial year-end and FIM 619 million at the start. Net financing expenses amounted to FIM 36 million (FIM 35 million) or 0.4 per cent (0.5 per cent) of consolidated net turnover. Net interest expenses stood at FIM 40 million (FIM 41 million).

Financial performance

Consolidated profit before extraordinary items was FIM 64 million (FIM 22 million). Net taxes for the financial year totalled FIM -6 million (FIM +15 million). Profit for the financial year stood at FIM 58 million (FIM 39 million).

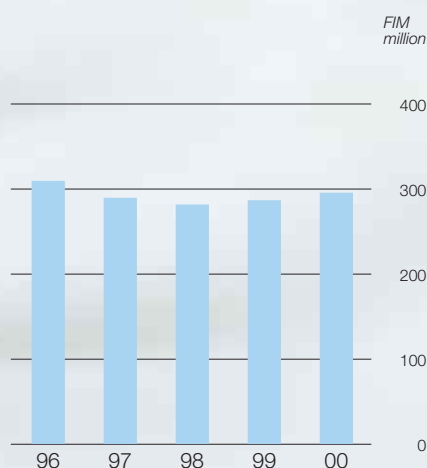
Parent company losses before extraordinary items stood at FIM -6 million (FIM +15 million). The reduction in share value does not affect the consolidated profit. The difference between planned depreciation and book depreciation amounted to FIM 60 million (FIM 72 million). Book depreciation was within the maximum permitted under Finland's Business Taxation Act. Parent company

income taxes for the financial year totalled FIM 17 million (FIM 11 million). Profit for the financial year stood at FIM 37 million (FIM 77 million).

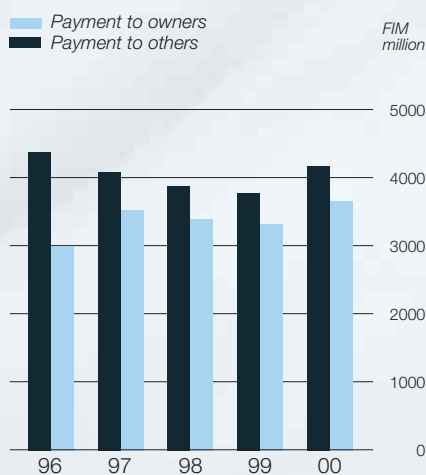
Year 2001

The outlook for profits and dividends in the current year is similar to that of the year under review.

PLANNED DEPRECIATION
GROUP



GROUP EXPENSES



CONSOLIDATED INCOME STATEMENT

	2000	1999
NET TURNOVER	8 215 351	7 453 991
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	-27 218	71 606
Other operating income	183 086	145 410
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	5 742 804	5 207 625
Increase (-) / decrease (+) in stocks	-18 428	-16 902
External services	118 084	109 180
	-5 842 460	-5 299 903
Staff expenses		
Wages and salaries	677 435	665 293
Social security expenses		
Pension expenses	57 390	108 680
Other social security expenses	69 554	72 876
	-804 379	-846 849
Depreciation and reduction in value		
Depreciation according to plan	281 500	270 268
Reduction in value of goods held as non-current assets	-	6 500
Exceptional reduction in value of current assets	-	66
Depreciation of goodwill	15 331	18 847
Reduction of consolidation difference	-1 046	-2 109
	-295 785	-293 572
Other operating costs	-1 328 569	-1 173 590
OPERATING PROFIT	100 026	57 093
Financial income and expenses		
Income from other investments held as non-current assets	4 181	3 601
Other interest and financial income	33 961	21 815
Net income from associated companies	1 187	399
Reduction in value of investments held as non-current assets	-	-200
Interest expenses and other financial expenses	-75 838	-60 451
	-36 509	-34 836
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	63 517	22 257
Extraordinary items		
Income	815	5 092
Expenses	-577	-2 475
	238	2 617
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	63 755	24 874
Income taxes	-23 680	-6 365
Change in deferred tax liability	17 642	21 016
Profit before minority interest	57 717	39 525
Minority interest	-	6
PROFIT FOR THE FINANCIAL YEAR	57 717	39 519

All figures in FIM '000s

CONSOLIDATED BALANCE SHEET

ASSETS	Dec. 31st, 2000	Dec. 31st, 1999
NON-CURRENT ASSETS		
Intangible assets		
Immaterial rights	9 288	7 171
Goodwill	43	15 374
Other capitalized long-term expenses	77 986	83 460
	87 317	106 005
Tangible assets		
Land and water	75 200	74 485
Buildings and constructions	734 627	736 002
Machinery and equipment	825 987	846 158
Other tangible assets	14 450	16 783
Advance payments and construction in progress	42 322	27 990
	1 692 586	1 701 418
Investments		
Shares in group companies	17 793	16 974
Shares in associated companies	7 222	7 303
Other shares and similar rights of ownership	70 860	77 236
	95 875	101 513
CURRENT ASSETS		
Stocks		
Raw materials and consumables	152 999	140 766
Unfinished products	78 671	93 992
Finished product / goods	593 896	599 993
Other stocks	3 662	3 035
	829 228	837 786
Debtors		
Non-current		
Loan receivables	-	1 167
Other receivables	5 699	5 977
	5 699	7 144
Current		
Trade debtors	602 204	547 563
Amounts owed by participating interests	1 234	721
Loan receivables	-	14
Other debtors	79 249	86 217
Prepayments and accrued income	50 328	45 893
	733 015	680 408
Investments		
Other investments	740 675	474 102
Cash in hand and at banks	72 756	54 974
TOTAL ASSETS	4 257 151	3 963 350

All figures in FIM '000s

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31st, 2000	Dec. 31st, 1999
CAPITAL AND RESERVES		
Subscribed capital	586 340	586 340
Other reserves	66 652	58 321
Retained earnings	1 097 041	1 098 566
Profit for the financial year	57 717	39 519
MINORITY INTEREST	-	70
PROVISIONS		
Other provisions	29 700	19 349
CONSOLIDATION DIFFERENCE	576	1 595
CREDITORS		
Non-current		
Loans from credit institutions	276 230	276 671
Deferred tax liability	188 128	205 770
Other creditors	189 156	199 092
	653 514	681 533
Current		
Loans from credit institutions	99 020	141 579
Advances received	192	4 122
Trade creditors	1 217 586	1 058 059
Amounts owed to participating interests	8 863	6 186
Other creditors	269 760	112 523
Accrued expenses and prepaid income	170 190	155 588
	1 765 611	1 478 057
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4 257 151	3 963 350

All figures in FIM '000s

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	2000	1999
CASH FLOW FROM OPERATIONS		
Operating profit	100 026	57 093
Adjustments to operating profit	278 480	280 744
Change in working capital	119 714	-81 642
Interest and other financial expenses paid	-72 559	-56 279
Dividends received	4 181	3 601
Interest and other financial income received	32 442	22 164
Income taxes paid and refunded	-24 836	9 023
Cash flow from operations	437 448	234 704
CASH FLOW FROM INVESTMENTS		
Capital expenditure in investments	-2 250	-2 509
Capital expenditure in tangible and intangible assets	-270 243	-194 682
Gains from sale of investments	30 723	1 034
Gains from sale of tangible and intangible assets	9 991	18 939
Cash flow from investments	-231 779	-177 218
CASH FLOW BEFORE FINANCING ACTIVITIES	205 669	57 486
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from non-current liabilities	170 075	107 765
Payment of non-current liabilities	-177 305	-202 668
Increase (-) / decrease (+) in non-current receivables	1 445	394
Increase (+) / decrease (-) in current liabilities	117 184	-46 075
Dividends paid	-41 044	-35 181
Other	8 331	8 023
Cash flow from financing activities	78 686	-167 742
NET CHANGE IN CASH AND CASH EQUIVALENTS	284 355	-110 256
Cash and cash equivalents at Jan. 1st	529 076	639 332
CASH AND CASH EQUIVALENTS AT DEC. 31ST	813 431	529 076

All figures in FIM '000s

PARENT COMPANY INCOME STATEMENT

	2000	1999
NET TURNOVER	7 432 741	6 702 778
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	-32 885	44 370
Other operating income	163 339	137 625
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	5 213 927	4 673 945
Increase (-) / decrease (+) in stocks	-8 018	-849
External services	106 708	102 143
	-5 312 617	-4 775 239
Staff expenses		
Wages and salaries	590 032	583 711
Social security expenses		
Pension expenses	53 476	105 171
Other social security expenses	60 906	64 623
	-704 414	-753 505
Depreciation and reduction in value		
Depreciation according to plan	262 039	250 970
Reduction in value of goods held as non-current assets	-	6 500
	-262 039	-257 470
Other operating costs	-1 189 139	-1 054 811
OPERATING PROFIT	94 986	43 748
Financial income and expenses		
Income from Group companies	-	72
Income from participating interest	80	174
Income from other investments held as non-current assets		
From others	4 181	3 599
Other interest and financial income		
From Group companies	96	388
From others	31 315	19 410
Reduction in value of investments held as non-current assets	-73 168	-1 517
Interest expenses and other financial expenses		
To Group companies	-144	-63
To others	-63 098	-50 408
	-100 738	-28 345
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	-5 752	15 403
Extraordinary items		
Income	-	4 100
Expenses	-	-3 847
	-	253
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-5 752	15 656
Appropriations		
Increase (-) / decrease (+) in depreciation difference	60 397	72 416
Income taxes	-17 171	-11 469
PROFIT FOR THE FINANCIAL YEAR	37 474	76 603

All figures in FIM '000s

PARENT COMPANY BALANCE SHEET

ASSETS	Dec. 31st, 2000	Dec. 31st, 1999
NON-CURRENT ASSETS		
Intangible assets		
Immaterial rights	9 106	6 963
Other capitalized long-term expenses	69 411	79 293
	78 517	86 256
Tangible assets		
Land and water	73 073	72 467
Buildings	706 365	712 246
Machinery and equipment	778 756	805 316
Other tangible assets	347	361
Advance payments and construction in progress	36 347	25 362
	1 594 888	1 615 752
Investments		
Shares in Group companies	117 066	189 383
Shares in associated companies	6 438	7 284
Other shares and similar rights of ownership	70 856	77 232
	194 360	273 899
CURRENT ASSETS		
Stocks		
Raw materials and consumables	136 444	127 739
Unfinished products	78 557	93 946
Finished product / goods	412 469	431 277
Other stocks	3 660	3 035
	631 130	655 997
Debtors		
Non-current		
Amounts owed by Group companies	36 865	24 734
Other receivables	4 763	5 977
	41 628	30 711
Current		
Trade debtors	470 338	429 323
Amounts owed by participating interests	72 872	66 094
Loan receivables	-	14
Other debtors	73 828	71 045
Prepayments and accrued income	48 110	38 022
	665 148	604 498
Investments		
Other investments	737 383	470 013
Cash in hand and at banks	38 575	20 165
TOTAL ASSETS	3 981 629	3 757 291

All figures in FIM '000s

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31st, 2000	Dec. 31st, 1999
CAPITAL AND RESERVES		
Subscribed capital	586 340	586 340
Other reserves		
Legal reserve	35 580	35 580
Retained earnings	670 591	635 032
Profit for the financial year	37 474	76 603
APPROPRIATIONS		
Accumulated depreciation difference	646 189	706 586
PROVISIONS		
Pension provisions	26 015	19 349
CREDITORS		
Non-current		
Loans from credit institutions	151 859	164 304
Other creditors	187 060	192 524
	338 919	356 828
Current		
Loans from credit institutions	70 473	87 096
Trade creditors	1 153 275	1 001 416
Amounts owed to Group companies	5 218	7 559
Amounts owed to participating interests	3 857	3 578
Other creditors	265 398	107 164
Accrued expenses and prepaid income	142 300	134 160
	1 640 521	1 340 973
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3 981 629	3 757 291

All figures in FIM '000s

PARENT COMPANY STATEMENT OF CHANGES IN FINANCIAL POSITION

	2000	1999
CASH FLOW FROM OPERATIONS		
Operating profit	94 986	43 748
Adjustments to operating profit	240 714	256 131
Change in working capital	122 936	-29 860
Interest and other financial expenses paid	-60 539	-47 471
Dividends received	4 261	3 845
Interest and other financial income received	29 892	20 147
Income taxes paid and refunded	-18 327	3 919
Cash flow from operations	413 923	250 459
CASH FLOW FROM INVESTMENTS		
Capital expenditure in investments	-1 862	-3 245
Capital expenditure in tangible and intangible assets	-238 353	-178 630
Gains from sale of investments	31 069	1 797
Gains from sale of tangible and intangible assets	9 620	16 259
Cash flow from investments	-199 526	-163 819
CASH FLOW BEFORE FINANCING ACTIVITIES	214 397	86 640
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from non-current liabilities	101 065	60 953
Payment of non-current liabilities	-89 891	-140 192
Increase (-) / decrease (+) in non-current receivables	-10 917	231
Increase (+) / decrease (-) in current liabilities	112 170	-81 258
Dividends paid	-41 044	-35 181
Group contributions paid	-	-1 500
Other	-	1 753
Cash flow from financing activities	71 383	-195 194
NET CHANGE IN CASH AND CASH EQUIVALENTS	285 780	-108 554
Cash and cash equivalents at Jan. 1st	490 178	598 732
CASH AND CASH EQUIVALENTS AT DEC. 31ST	775 958	490 178

All figures in FIM '000s

NOTES TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

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 intercompany accounts and transactions have been eliminated.

Inventories are stated at the lower of cost on a first-in first-out basis, or market. Fixed assets are depreciated on a straight line basis over their estimated economic lives. R & D costs have been charged to income as incurred.

The minority interest in consolidated net income and equity is disclosed as a separate item in the income statement and the balance sheet.

The financial statement of foreign subsidiaries has 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	
	2000	1999	2000	1999
1. NET TURNOVER BY DIVISION				
Fresh products	2 861 470	2 673 924	2 771 336	2 610 927
Yellow fats	1 131 286	974 776	1 130 222	974 275
Cheese	2 572 090	2 322 883	2 023 679	1 738 705
Ingredients	624 882	516 722	624 432	516 636
Ice cream	376 993	387 073	374 358	378 735
Others	648 630	578 613	508 714	483 500
	8 215 351	7 453 991	7 432 741	6 702 778
2. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Compensation for damages	-	4 100	-	4 100
Other extraordinary income	815	992	-	-
Group contribution	-	-	-	-1 500
Other extraordinary items	-577	-2 475	-	-2 347
	238	2 617	-	253

	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
3. PLANNED DEPRECIATION				
Planned depreciation is calculated at 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			
ADP equipment and software	5			
Transportation and equipment	5			
4. CHANGE IN PROVISIONS				
INCREASE (-) / DECREASE (+)				
Provision for contingent pension liabilities -6 666 (parent company)	-10 351	-11 809	-6 666	-11 809
5. OTHER OPERATING EXPENSES				
Energy expenses	145 215	120 948	134 781	111 486
Water expenses	43 004	36 698	42 709	36 698
Transportation expenses	386 096	341 479	373 519	328 424
Rental expenses	67 420	54 852	61 131	50 805
Expenses for maintenance of real estate and machinery	116 896	95 760	108 607	87 369
Marketing expenses	256 655	243 878	218 046	208 517
Travel expenses	31 618	24 644	27 730	24 644
IT expenses	57 565	49 968	57 189	49 251
Administrative expenses	85 515	77 241	76 193	65 619
Voluntary staff expenses	32 310	23 963	13 446	13 750
Credit loss	554	4 327	372	3 252
Other expenses	105 721	99 832	75 416	74 996
	1 328 569	1 173 590	1 189 139	1 054 811
6. NUMBER OF PERSONNEL, AVERAGE				
Manual workers	2 263	2 264	2 035	2 044
Technical dairy employees	729	757	729	757
Management staff	439	449	423	435
Clerical staff	652	745	460	549
	4 083	4 215	3 647	3 785
7. SALARIES AND BONUSES OF DIRECTORS				
Supervisory Board, Board, CEO	5 969	6 778	2 107	2 273

NOTES TO THE BALANCE SHEET

	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
8. PREPAYMENTS AND ACCRUED INCOME				
Investment grants	2 781	-	2 781	-
Royalties	6 536	5 670	6 536	5 670
Healthcare repayments	3 171	3 588	3 163	3 588
Tax receivables	6 525	5 633	5 831	4 675
Annual credits	-	1 655	-	1 655
Other prepayments and accrued income	31 315	29 347	29 799	22 434
	50 328	45 893	48 110	38 022
9. INTANGIBLE ASSETS				
Immaterial rights				
Acquisition cost at beginning of year	11 684	10 098	10 966	9 446
Increases	17 467	1 846	17 390	1 775
Decreases	-	-262	-	-255
Acquisition cost at year-end	29 151	11 682	28 356	10 966
Accumulated depreciation at beginning of year	-4 511	-3 518	-4 003	-3 095
Depreciation for the year	-15 352	-993	-15 247	-908
Accumulated depreciation at year-end	-19 863	-4 511	-19 250	-4 003
Book value at year-end	9 288	7 171	9 106	6 963
Other capitalized expenditure				
Acquisition cost at beginning of year	308 714	288 829	198 103	182 342
Increases	20 615	23 544	15 016	20 110
Decreases	-1 584	-4 349	-1 584	-4 349
Acquisition cost at year-end	327 745	308 024	211 535	198 103
Accumulated depreciation at beginning of year	-209 881	-171 562	-118 810	-100 697
Depreciation for the year	-39 835	-37 628	-23 314	-18 113
Accumulated depreciation at year-end	-249 716	-209 190	-142 124	-118 810
Book value at year-end	78 029	98 834	69 411	79 293
Total intangible assets	87 317	106 005	78 517	86 256

	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
10. TANGIBLE ASSETS				
Land and water				
Acquisition cost at beginning of year	74 515	75 625	72 467	72 567
Increases	756	-	677	-
Decreases	-71	-1 140	-71	-100
Acquisition cost at year-end	75 200	74 485	73 073	72 467
Book value at year-end	75 200	74 485	73 073	72 467
Buildings and constructions				
Acquisition cost at beginning of year	1 752 888	1 729 977	1 692 116	1 670 719
Increases	68 414	23 968	60 542	21 991
Decreases	-534	-2 462	-534	-594
Acquisition cost at year-end	1 820 768	1 751 483	1 752 124	1 692 116
Accumulated depreciation at beginning of year	-1 016 468	-937 996	-979 870	-905 765
Depreciation for the year	-69 673	-70 985	-65 889	-67 605
Reduction in value of goods held as non-current assets	-	-6 500	-	-6 500
Accumulated depreciation at year-end	-1 086 141	-1 015 481	-1 045 759	-979 870
Book value at year-end	734 627	736 002	706 365	712 246
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	2 906 895	2 725 379	2 714 665	2 549 497
Increases	151 643	186 224	135 292	172 372
Decreases	-5 254	-11 910	-4 277	-7 204
Acquisition cost at year-end	3 053 284	2 899 693	2 845 680	2 714 665
Accumulated depreciation at beginning of year	-2 040 876	-1 857 243	-1 908 988	-1 744 644
Depreciation for the year	-171 971	-179 509	-157 589	-164 344
Accumulated depreciation at year-end	-2 212 847	-2 036 752	-2 066 577	-1 908 988
Book value at year-end	840 437	862 941	779 103	805 677
Advance payments and unfinished acquisitions				
Acquisition cost at beginning of year	28 199	65 215	25 362	64 221
Increases	37 725	26 979	34 587	25 345
Transfer to finished acquisitions	-23 602	-64 204	-23 602	-64 204
Acquisition cost at year-end	42 322	27 990	36 347	25 362
Book value at year-end	42 322	27 990	36 347	25 362
Total tangible assets	1 692 586	1 701 418	1 594 888	1 615 752
Planned depreciation for the year, total	-296 831	-289 115	-262 039	-250 970
Book value of production machinery and equipment at year-end	694 600	709 073	649 977	671 827

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	100.0	100.0
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 Company, 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

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	5 403	-4
Asunto Oy Vuorikummuntie 9, Helsinki	98.5	98.5	2 760	-
Kiinteistö Oy Hiirakkotie 6, Vantaa	100.0	100.0	793	-
Kiinteistö Oy Pähkinämetsä, Vantaa	100.0	100.0	1 217	3
Kiinteistö Oy Pähkinäpolku, Vantaa	100.0	100.0	795	-
Kiinteistö Oy Tehontie 31, Kouvola	100.0	100.0	2 317	-6
Turengin Meijerikiinteistöt Oy, Janakkala	100.0	100.0	964	-
Kiinteistö Oy Pupuhuhta, Jyväskylä	49.2	49.2	26	-
Kiinteistö Oy Teollisuusneliö, Haapavesi	39.0	39.0	763	3

12. PARENT COMPANY INVESTMENTS

	Shares in group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	291 785	7 284	96 025
Increase	802	-	848
Decrease	-450	-346	-7 644
Reclassifications	500	-500	-
Acquisition cost at year-end	292 637	6 438	89 229
Accumulated depreciation and write-offs Jan. 1st	102 403	-	21 991
Write-offs for the year	73 168	-	212
Accumulated depreciation and write-offs Dec. 31st	-175 571	-	-22 203
Reversal of write-offs	-	-	3 830
Book value at year-end	117 066	6 438	70 856

13. GROUP INVESTMENTS

	Shares in group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	16 974	7 514	96 029
Increase	769	1 107	848
Decrease	-450	-688	-7 644
Reclassifications	500	-500	-
Acquisition cost at year-end	17 793	7 433	89 233
Accumulated depreciation and write-offs Jan. 1st	-	211	21 991
Write-offs for the year	-	-	212
Accumulated depreciation and write-offs Dec. 31st	-	-211	-22 203
Reversal of write-offs	-	-	3 830
Book value at year-end	17 793	7 222	70 860

CONSOLIDATED		PARENT COMPANY	
2000	1999	2000	1999

14. RECEIVABLES FROM GROUP COMPANIES

Trade debtors	-	-	69 406	61 369
Other receivables	-	-	3 466	4 725
	-	-	72 872	66 094

15. RECEIVABLES FROM PARTICIPATING INTERESTS

Trade debtors	1 234	721	-	-
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	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
16. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital, Jan. 1st, 2000 / Jan. 1st, 1999	586 340	586 340	586 340	586 340
Share capital, Dec. 31st	586 340	586 340	586 340	586 340
Legal reserves				
Jan. 1st, 2000 / Jan. 1st, 1999	58 321	45 093	35 580	35 580
Translation adjustments	8 331	13 228	-	-
Legal reserves Dec. 31st	66 652	58 321	35 580	35 580
Retained earnings from previous year, Jan. 1st	1 138 085	1 141 569	711 635	670 213
Dividends	-41 044	-35 181	-41 044	-35 181
Change in allocation of appropriations	-	-7 822	-	-
Retained earnings	1 097 041	1 098 566	670 591	635 032
Profit for the financial year	57 717	39 519	37 474	76 603
Shareholders equity Dec. 31st	1 807 750	1 782 746	1 329 985	1 333 555
17. DISTRIBUTABLE EARNINGS				
Retained earnings Dec. 31st	1 097 041	1 098 566		
Appropriations included in retained earnings	-460 589	-503 782		
Profit for the financial year	57 717	39 519		
	694 169	634 303		
18. CALCULATORY TAX CLAIMS				
From matching differences	17 959	12 398	-	-
19. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from credit institutions	149	149	149	149
20. ACCRUED EXPENSES AND PREPAID INCOME				
Interest	11 389	8 110	10 718	8 015
Holiday accrual including social security	91 308	81 099	90 771	81 099
Rebates granted	3 711	2 222	3 177	2 050
Wages and salaries including social security	22 773	27 069	15 268	18 247
Royalties	6 695	4 877	6 695	4 877
Social security	6 513	6 589*)	3 846	6 589*)
Other accrued expenses and prepaid income	27 801	25 622	11 825	13 283
	170 190	155 588	142 300	134 160

*) Provision for pension liabilities for the comparison year, FIM 12 159 000, transferred to provisions

	CONSOLIDATED		PARENT COMPANY	
	2000	1999	2000	1999
21. AMOUNTS OWED TO GROUP COMPANIES				
Trade creditors	-	-	418	4 261
Other creditors	-	-	4 800	3 298
	-	-	5 218	7 559
22. AMOUNTS OWED TO PARTICIPATING INTERESTS				
Trade creditors	8 863	5 557	3 857	2 949
Other creditors	-	629	-	629
	8 863	6 186	3 857	3 578
23. CONTINGENT LIABILITIES				
For own commitments				
Mortgages	782 810	785 810	782 810	785 810
Pledges	92 105	94 325	92 105	94 325
Guarantees	202 095	123 405	202 095	123 405
Leasing commitments	43 430	36 264	30 427	24 785
For commitments of Group companies	-	-	323 612	236 447
For commitments of participating interests	906	906	906	906
For commitments of others	18 853	18 800	18 853	18 800
For own operations	1 120 440	1 039 804	1 107 437	1 028 325
For Group companies	-	-	323 612	236 447
For participating interests	906	906	906	906
For others	18 853	18 800	18 853	18 800
	1 140 199	1 059 510	1 450 808	1 284 478

Valio Engineering Ltd has been presented with a claim for damages that may cause at most an expense of FIM 2.5 million for the Group.

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31st, 2000 are FIM 694 169 000
The parent company distributable earnings at Dec. 31st are:

Retained earnings	670 591 508.46 FIM
Profit for the financial year	37 473 640.53 FIM
<hr/>	
Total	708 065 148.99 FIM

The Board of Directors proposes to the Annual General Meeting
that a dividend of 8% on the nominal value of the shares of FIM 1 600 be declared

46 907 200.00 FIM

Dividends from earnings of the financial year	37 473 640.53 FIM
Dividends from retained earnings	9 433 559.47 FIM

Total	46 907 200.00 FIM
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Should the Annual General Meeting approve the above proposal,
company shareholders' equity would be as follows:

Share capital	586 340 000.00 FIM
Legal reserves	35 579 851.98 FIM
Retained earnings	661 157 948.99 FIM
<hr/>	
Total shareholders' equity	1 283 077 800.97 FIM

Helsinki, March 15th, 2001

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 1.1.2000 - 31.12.2000. 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 Director have legally complied with the rules of the Companies Act.

In our opinion the financial statements showing a profit of FIM 37,473,640.53 for the parent company and FIM 57,717,000 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 Director 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 15th, 2001

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, 2000 and the auditors' report.

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

The term in the Supervisory Board ends this year 2001 for the following members: Eero Hiironen, Matti Karvo, Pekka Lestinen, Eino Lumiaho, Reino Parkko, Matti Siitonen and Juhani Väänänen. In addition, Martti Nevalainen and Osmo Sikanen have resigned; and new members must be elected to replace them.

Helsinki, March 16th, 2001

On behalf of the Supervisory Board

Seppo Hakola
Chairman

DIVISION BOARDS IN 2001

Valio Supervisory Board appoints Division Boards, comprising elected officials, so that functional divisions may have owner supervision. Milk producers and personnel are represented on these Boards.

Division Boards monitor Valio's general development and the operations, finances and investments of their own functional division. They may take initiatives, make propositions and offer recommendations for action to Valio's decision-making bodies.

Division Boards in 2001

Production	term expires	Domestic Sales and Marketing	term expires
Tauno Uitto, Chairman	2001	Esa Juntunen, Chairman	2001
Esa Juntunen, Vice Chairman	2001	Juhani Hörkkö, Vice Chairman	2001
Toivo Heikkilä	2002	Kauko Ali-Rantala	2001
Eero Hiironen	2001	Hannu Kainu	2002
Pekka Isohanni	2002	Timo Kässi	2002
Martti Mustonen	2002	Matti Lehtinen	2001
Heikki Olkkonen	2001	Pekka Lestinen	2001
Antti Rauhamaa	2001	Martti Nevalainen	2002
Pekka Ruoppa	2002	Pentti Santala	2001
Matti Siitonen	2001	Riku Ollikainen	2002
Juhani Väänänen	2002	Leena Ryytänen	2002
Ari Auvinen ¹⁾	2002	Juha Tuikkanen ¹⁾	2002

Materials Operations

Juhani Hörkkö, Chairman	2001
Tauno Uitto, Vice Chairman	2001
Seppo Hakola	2001
Majja-Leena Heiniö	2001
Matti Karvo	2001
Eino Lumiaho	2002
Tapio Malmiharju	2002
Reino Parkko	2002
Kari Piironen	2002
Osmo Sikanen	2001
Pentti Vartiainen	2002
Pekka Hauru ¹⁾	2002

¹⁾ Personnel Representative

Valio Ltd



*Member of Valio Management Group

Valio Group and owner dairies

Net turnover and personnel, 2000

	Net turnover FIM mill.	Personnel Dec. 31st, 2000
Valio Ltd	7 433	3 662
Valio International U.S.A. Inc.	648	182
- McCadam Cheese Co., Inc.	466	172
- Finlandia Cheese, Inc.	316	10
Valio - Vache Bleue S.A.	369	115
Valio Sverige AB	91	27
Valio Eesti AS	65	18
ZAO Valio St. Petersburg	23	14
Tapila AS	57	74
UAB Valio International	0.3	2
Valio Engineering Ltd	7	13
Valio Group, total	8 215	4 107

VALIO LTD OWNERS DECEMBER 31ST, 2000

Valio Ltd is a company of Finnish dairy farmers. Valio is owned by dairy farmer communities that collect or process milk (co-operatives). Valio buys all the milk the co-operatives collect from their members. Valio's core task is to process and market dairy products in

a consumer- and customer-oriented way, in Finland and abroad. This is so that its operations enable Valio's dairy farmers to carry on their business, in the long term and in a profitable way. Production is primarily based on raw milk delivered by co-operatives com-

mitted to Valio. The company's owner-management comprises the Annual General Meeting, Supervisory Board, Board of Directors, and the Division Boards for each function.

Name	Domicile	No. of shares (FIM 20 000)
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
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	696
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 33		29 317
Total share capital		FIM 586,34 mill.

* No procurement or marketing agreement with Valio.

Research and Development that
increases well-being

Strong research and development lies at the heart of dairy products manufactured and marketed by Valio. Milk is one of the most researched foods, but to guarantee the high quality of our products and respond to the demand for new ones, we need to make a continuous research contribution.

Research and development maintains the quality of items under production, supports ongoing production process development and helps bring new products to market. Good from the start is the cornerstone of Valio R & D as well as our basic promise. Products that taste good, offer uncompromising quality and significant technical benefits, come in environmentally proper packaging and are the key ingredients of Valio success.

Valio R & D investment totalled FIM 56 million (EUR 9.5 mill.) or 0.7 per cent of net turnover in the year 2000. The company commits 110 members of staff to the task, and around a third of those works in long-term development projects seeking new production technologies and new products. The focus in new product development lies on value added products, the most important of which at this time are functional foods. We possess exceptional know-how in the field of lactic acid bacteria and more than 60 per cent of Valio products are made using it, including all the cheeses and fermented milk products. Valio functional products, Gefilus and Evolus, are also based on the unique properties of lactic acid bacteria

New products, better health

The precondition for successful development work is knowing what customers want. Continuous consumer research and close R & D links with Valio marketing help us follow trends and develop products that interest the consumer.

Valio R & D emphasizes its work on functional dairy products. Certain diseases are a national problem in Finland, such as cardiovascular diseases and osteoporosis. They pose a serious health risk that can be countered by diet. We apply scientific methods to find the components and effect mechanisms in milk that can prevent and treat these diseases.

Valio has established strict criteria for its own functional foods. Before a market launch, the product undergoes placebo-controlled double-blind studies, and its effects are researched in at least two independent studies. Test subjects must have received a recommended daily intake of the finished product.

Help for hypertension

Valio launched the new functional Evolus drink in Autumn, 2000. Evolus is made by fermenting milk with natural lactic acid bacteria that split milk proteins into bio-active peptides. These then lower blood pressure and this effect has been proven in an experimental blood pressure model and in clinical studies. Evolus combines powerful Valio lactic acid bacteria know-how with sound process technology control. Evolus was launched quickly thanks to Valio R & D. Studies continue and new information will be secured on product effects. New Evolus products will be launched in 2001.



Evolus drinks are especially good for people with high blood pressure. They can be used alone or in combination with a drug treatment program. The recommended daily intake of Evolus is 150 ml. Clinical tests have shown this is enough to reduce blood pressure after 5-7 weeks of regular use. Continued use helps keep blood pressure at the right level.

Works wonders for your stomach

A probiotic is a live bacterium with proven positive effects on the intestine. Lactobacillus GG is Valio's own probiotic. It is one of the most researched in the world and has been the subject of more than ten doctoral theses and around 130 scientific publications.

Clinical tests prove undeniably the effects of LGG in, for instance, the prevention and care of different types of diarrhoea. Now the focus of research has shifted to immunology. The intestine is the body's most important organ in immune responses, and LGG has been demonstrated to work through the intestine by improving resistance and decreasing infection. An extensive study with around 600 children was carried out in kindergartens in Helsinki in 1999. It showed that children who had drunk GEFILUS milk, which contains Valio LGG, caught around 10 per cent fewer infections and so needed less antibiotic treatment.

One new product launched in the year 2000 was GEFILUS cheese. Valio LGG is a unique probiotic that remains in the cheese throughout maturing and storing. The effective daily intake is one glass of a GEFILUS drink or three to four slices of cheese.

LGG has been licensed in 29 countries. Valio produces and delivers freeze-dried LGG bacteria, transferring the technological product know-how to the client that then launches products containing LGG under its own brands. The bacteria are produced at Valio's starter plant in Tikkurila, Helsinki. The commercialization of LGG continues; promising market areas include the United States, where interest in probiotics is just emerging. New applications, such as cheeses and juices, have also generated international interest

Cholesterol down with dairy products

Plant sterols are natural fats found in plants and proven to lower cholesterol. Valio made a co-operation agreement with Raisio Group in December, 2000 to use Benecol stanol ester in dairy products that bring cholesterol down. Valio has pioneered research and development on milk and lactic acid bacteria, while Raisio Group has special know-how in vegetable fats. The Benecol agreement brings together two leading Finnish food companies and their core know-how. The first low-fat and fat-free Valio dairy products with Benecol launch in Spring, 2001.

According to the agreement, Raisio Group delivers patent Benecol stanol ester to Valio along with the related know-how. Valio is responsible for development, manufacturing and sales. Co-operation covers dairy products, excluding spreads and fresh cheeses that are part of the Raisio Group product range. The initial markets will be Finland, Sweden and the Baltic States.

Valio is also researching the effects on the prevention of breast cancer of another natural fatty acid present in milk fat, called conjugated linoleic acid (CLA). Both animal tests and epidemiological breast cancer studies already suggest CLA does indeed demonstrate positive effects.

Research for today and tomorrow

The long-term goal of Valio R & D is to develop new functional foods with international demand, while keeping Valio's position as the leading domestic manufacturer of dairy products. So that our basic products stay safe and competitive to meet consumer demands. We will continue to serve only the best to consumers into the future as well as now.



Valio Group Research and Development expenses

<i>Year</i>	<i>FIM Mill.</i>
1996	53
1997	58
1998	50
1999	52
2000	56

Valio knows its responsibility for the environment

Valio was granted the ISO 14001 environmental certificate in June, 2000 after inspections by an impartial international certification agency. The company's 17 places of business are covered by the certificate, as well as administrative functions, purchasing, sales, marketing, and of course research & development. Environmental certification means continuing improvement.



A good product comes from
the best raw materials



The milk produced on Finnish dairy farms is of the very highest quality in Europe measured by bacteria and cell counts. Family farms where the cattle are treated as individuals ensure the best ethical production values.

In Valio's milk production chain, the dairy farmers are responsible for the raw material; the co-operatives handle member relations and advisory services; and Valio processes and markets the milk collected from the farms.

Valio and the co-operatives organize training for the farmers. Valio offers its expertise in silage production, feeding, cattle care and health, as well as milking and milk-handling on the farms. Valio also runs regional laboratories for milk and feed analysis.

Milk production is an expert field

There were several health care projects for dairy cattle, ongoing or under preparation in Valio Group co-operatives in the year 2000, implemented together with rural centers and partly funded by the EU. Preventive healthcare is an established part of the dairy farms' quality system.

High-quality milk production requires great expertise of the farmers. Valio assists them in functional planning for farm buildings and silage systems, as well as in purchasing milk-handling equipment. Milk quality and content is monitored at three regional laboratories in Seinäjoki, Lapinlahti and Kouvola. Research and development was carried out together with the Agricultural Research Centre of Finland and other interest groups in the year 2000.

Customized production

Valio production is designed to be customer-oriented: the plants make as much product as Valio International and Domestic Sales order. Valio Production processes the raw milk efficiently, flexibly and without compromising on quality or clean environmental systems.

Liquid dairy products (milk, fermented milks, creams, yogurts, sour cream, quark) are processed and packed all over Finland in Riihimäki, Turku, Tampere, Jyväskylä, Kouvola, Seinäjoki, Oulu, Sotkamo and Rovaniemi. There is a distribution terminal to serve each of the nine dairies.

Valio is concentrating yogurt production in Riihimäki and a new yogurt plant will be completed there during the year 2001. Valio Group production of yellow fats is located in Seinäjoki. As total milk volume remains unchanged within the EU country quota, and consumption focuses increasingly on low-fat and fat-free products, the amount of milk fat to be processed grows.

Valio manufactures cheeses in Lapinlahti (Valio Emmental, Valio Edam, Turunmaa), Joensuu (Polar, Hovi, Valio Edam), Haapavesi (Oltermanni, Valio Punaposki), Toholampi (Valio Emmental), Äänekoski (Aura, Mozzarella), Vantaa (cheese spreads, slices, pre-packed chunks) and Sotkamo (traditional oven-baked cheese). Cheese for export is produced in Toholampi, Lapinlahti, Joensuu, Haapavesi and Vantaa. The most important cheese export brands are Valio Emmental, Oltermanni, Polar, and Viola. Cottage cheese is manufactured in Turku.

Total cheese production grew during the year 2000, while our plants operated at full capacity. The degree to which cheese is processed has risen: cheese is increasingly e.g. sliced or grated at the plant and then packed.

The consumption of low-fat and fresh cheeses is on the increase.

Milk powders and whey products are raw materials for baby foods. Valio produces milk powder in Lapinlahti and Seinäjoki and whey products, as well as calf feed powder, are processed in Haapavesi. A powder line was also introduced at the Joensuu plant in the year 2000. The Sotkamo plant produces milk powder and casein.

Valio ice cream production is concentrated in Turenki. Most of the UHT products are also made there, along with some in Sotkamo.

The Helsinki plant makes and packs Valio juices, while jams are produced in Suonenjoki.

Total quality is the key now and into the future

Like all other Valio Group functions, Valio Production bears responsibility for the well-being of people, animals, the environment and above all, for the total quality of the entire production chain. It is customer-oriented leading all the way to the dining table.

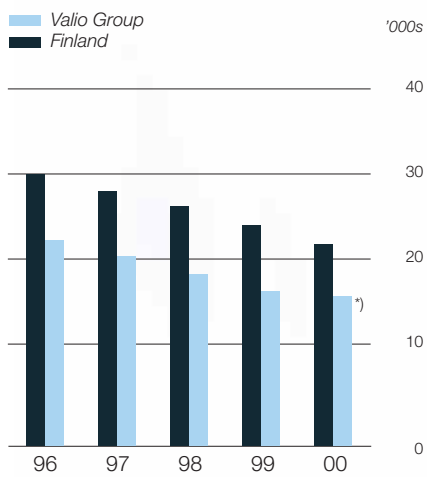
Reliable deliveries, cost-effectiveness, quality assurance and troubleshooting will continue to be the key factors of production, even as operations undergo further development.

Valio Ltd has 18 production plants. Two new ones were added in the year 2000, one in Tampere and another in Sotkamo, after Valio and Aito Maito Fin Oy had agreed on transferring AMF production and marketing to Valio.



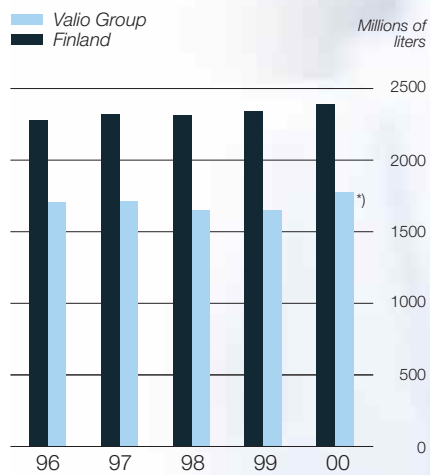
Production

NUMBER OF MILK SUPPLIERS



^{*)} incl. 101 organic farmers at year-end. Data collection on organic farming officially began year 2000.

VOLUME OF DAIRY MILK



^{*)} of which organic milk is 12 mill. liters



Valio Ltd personnel

The number of personnel by site at the end of the year under review totalled 3 662 (includes part-timers and those on fixed-term employment)

Helsinki	735
Vantaa (Tikkurila)	15
Seinäjoki	340
Äänekoski	66
Vantaa (Vaarala)	172
Toholampi	66
Haapavesi	128
Riihimäki (Herajoki)	208
Joensuu	150
Jyväskylä	227
Kouvola	234
Lapinlahti	260
Lappeenranta	9
Oulu	179
Rovaniemi	26
Sotkamo, incl. Kajaani	146
Suonenjoki	88
Tampere	194
Turenki	219
Turku	197
Nastola	3
Total	3 662

- 53 per cent of staff is female and 47 per cent is male
- average time in employment, 13.8 years
- average age, 40.2 years



Valio is a trusted brand



Valio Domestic Sales and Marketing delivers modern dairy products for consumers to increase their well-being and pleasure. Responsibility for well-being is Valio's core value. It means Valio makes safe and high-quality products for consumers. Responsibility also involves developing co-operation between the company and its customers.

Valio brand promise rests in its core value. Valio is a reliable and well-recognized Finnish company that produces a healthy feeling for consumers every day. We strive to be original in thought, dynamic in development, and a purveyor of good taste. This is what consumers see in Valio and can rely on, as does the retail trade and our other partners.

Partnership is the key word working with today's retail trade. Retail business appreciates a supplier that actively seeks common development targets. Partnership begins with Valio's own suppliers. With the retail business and other clients, co-operation is conducted in category management, product mix development and the search for environmentally sound solutions. The recognition afforded Valio by so many suppliers is simply an expression of mutual appreciation.

Its nationwide operating model is Valio's absolute competitive asset. As retail business structures develop into increasingly chained models, Valio has responded with its network organization.

Familiar and safe, new and innovative

Valio brand is not just a guarantee of the best everyday dairy foods. It also stands for fresh ideas and highly innovative products. The new dairy products with health-promoting effects are significant factors building the competitive edge and added value of the Valio brand. New functional foods are jointly developed by Valio R & D and Domestic Sales & Marketing. Products in the range deliver different levels of fat content. Low-lactose HYLEA products are a real bonus for people with lactose intolerance. GEFILUS products containing *Lactobacillus GG* improve the equilibrium in your stomach. In Autumn 2000, Valio launched Evolus fermented milk drink to reduce high blood pressure.

Good from the start is the promise that underpins the Valio brand. A promise that sends out the core message of Valio products and communicates Valio as a company. Good from the start to the origins of Valio products, reaching all the way to the beginning of the production chain, in Finnish fields and meadows. It tells of high-quality production and safe development work.

Good from the start also refers to the different phases of the human life-cycle. Valio is a household name in its domestic markets and Finns are demanding consumers. Valio products are enjoyed throughout life, the food-stuffs brand you can really trust. The basic promise also comes out in cooking. Starting out with good Valio products makes for good food to eat. Valio's honest and positive company history is yet another basic promise we shall keep into the future, too.

2000 – the year of new products

Several new products were launched during the year 2000. Evolus drink that lowers blood pressure was well received. The GEFILUS product family grew with a cheese and new flavours of juice. Valio launches new ice cream products every year and the most significant in the year 2000 were new Classic flavours, KunkkuPingviini cones and Hurmaava tubs. Valio also brought out a fat-free cottage cheese.

Valio's market share in yellow fats increased and Voimariini spreads sales growth was particularly positive. The leading cheese brands were Aura and Koskenlaskija while the new slices also sold well.

Personnel is a key resource for every company. We act on our responsibility towards people and their well-being. Valio's in-house personnel survey was carried out, together with the Finnish Institute of Occupational Health, for the promotion of staff well-being. It mapped atmosphere and operations, supervisor roles, job content and personal development, along with commitment and job satisfaction in a working community. Based on the results, Valio drew up concrete development plans; realization and results will be tracked annually. Activities to maintain working capacity focused on promoting the strength of individuals. An exercise campaign and fitness tests were arranged during the year and participation on exercise courses grew. Personnel representation runs to the Supervisory Board and Division Boards.

Valio leads in logistics

Valio runs a smooth transportation net, so products make their way efficiently from the farm, via the dairy, to the shop and on to the consumers' table. Valio is Finland's largest distributor of fresh and frozen products: more than 800 thousand metric tonnes of milk, cheese and yogurt is transported annually. Some 200 contractors and 300 delivery trucks are on the road every day to ensure that sensitive, high-quality products are delivered from plant and storage to retail outlets without delay.

Valio's own distribution works bringing fresh products from dairies in Riihimäki, Turku, Tampere, Kouvola, Seinäjoki, Jyväskylä, Oulu, Sotkamo and Rovaniemi. There is storage and a distribution terminal to serve each of the nine dairies. The main warehouse for solid products is in Helsinki, with others in Jyväskylä, Tampere and Oulu. Solid and frozen products are delivered from these four warehouses and added to the fresh product loads at distribution terminals.

The main warehouse for frozen products is located in Turku. Early in 2001, Valio began acting to concentrate frozen product warehousing in Tuusula near Helsinki.

Uninterrupted refrigeration chain

Valio delivers fresh products to clients daily or at least twice a week; cool and frozen products go out on average once a week. So consumers can always find fresh, top quality Valio products in the shops. A significant amount of other food manufacturers' products, mainly frozen, are also delivered via Valio's distribution net.

For the consumer, it's essential that the refrigeration chain is fast and unbroken. Once a product is ready at the plant, it is immediately refrigerated at a maximum of +6°C or frozen at a minimum -18°C. Our transportation partners must meet the strictest quality requirements and the chain is tightly managed the whole way along.

Linked logistics end with satisfied customers

Valio Materials Operations gets "the right products in the right place at the right time and at the right temperature". That's the way we work and when deliveries are fast, the refrigeration chain is uninterrupted, schedules are precisely kept and, most importantly, our clients' needs are met.

Customer satisfaction is measured in many ways and the retail business has voted Valio its Supplier of the Year several times. Most recently, Osuuskauppa Keskimaa in Jyväskylä compared its suppliers' efficiency and Valio came out top.

An agreement was drawn up by Valio Ltd and Aito Maito Fin Oy (AMF) to transfer AMF operations to Valio as of September 1st, 2000. AMF's distribution system was merged into Valio Distribution during the Autumn. All routes were reorganized and the new system was up and running by January 1st, 2001. Further restructuring led to the closure of Valio's Joensuu milk packing operation and distribution in that area is now handled out of Oulu, Jyväskylä and Kouvola. The Riihimäki warehouse was transferred to Helsinki.

Valio meets its environmental responsibilities

Valio Materials Operations carries large amounts of goods in a variety of packaging, spaces have to be refrigerated and so on. Hand in hand, prudent and tightly controlled energy consumption significantly impacts our environment and operational costs.

In fact, Valio Values make certain of development and promotion of environmentally sound operating models. For instance, liquid milk products are loaded on to trolleys and into boxes that shops return to be used again. Proper logistic organization means an absolute minimum of unnecessary travel to make deliveries.



Valio International

High-quality products
at home and abroad

Valio export has long traditions. In fact, the company was established in 1905 to handle butter exports for co-operative dairies. Changes in the Finnish foods industry and at Valio in the 1990's meant shifting into a pan-European market. This has placed new emphasis on exports and overseas. Valio has progressed from a traditional exporter of basic agricultural products to an international marketer of high-quality items sold under a variety of brands. International operations grew to account for nearly 34 per cent of Valio's business in the year 2000. Our focus for the future lies on consumer products. International strategic goals are to succeed in neighbouring markets, in the western cheese market, and globally in industrial products.

Central and Southern Europe

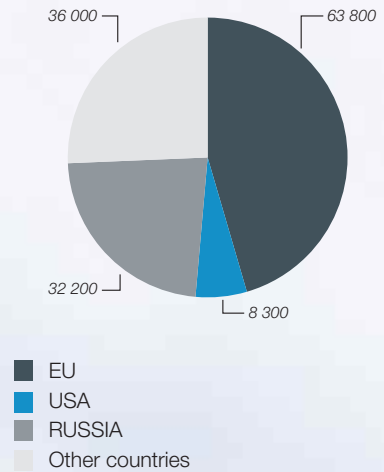
Valio has occupied a significant position in Belgium since the 1930's. Valio's subsidiary Valio - Vache Bleue SA packs, markets, sells and distributes Valio Emmental, which is a leading imported cheese in the Belgian market. The company also holds a stable position in packaging and as a logistics partner.

Cheese exports grew significantly in the year 2000. This meant a stronger market position in European countries such as Greece, Cyprus, Spain and Austria.

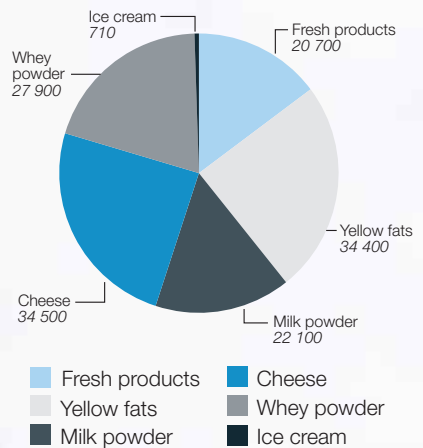
Sweden

Valio Sverige Ab, a subsidiary, handles product marketing and sales in Sweden. It serves as the marketing channel for fresh products such as yogurt, juices and LGG items, where Valio has achieved a significant one-fifth market share in flavoured yogurts. Yoplait brand products, manufactured by Valio under license in Finland, are also sold through Valio Sverige Ab in Sweden. LGG products were successfully launched on the Swedish market in the year 2000 under the name Gefilac.

EXPORTS BY AREA IN YEAR 2000 (tonnes)



EXPORTS BY PRODUCT GROUP IN YEAR 2000 (tonnes)





Valio International



Estonia

Valio Eesti AS represents Valio sales and marketing in Estonia. In addition to Valio's Finnish products, the range includes Alma products from Valio-owned production company Tapila AS. Alma is market leader in milks, yogurts and sour cream in Estonia. Valio has made a particular investment in product quality and marketing in the country. Extending the product mix, developing client co-operation and expanding into other Baltic States is the key to growing Valio operations in the region.

Russia

ZAO Valio St. Petersburg is a Valio subsidiary located in St. Petersburg itself. It sells and distributes the same products in the St. Petersburg area as Valio does in Finland, namely milk, cream, yogurt, cheeses etc. The majority of the Russian trade is handled directly from Finland via local Russian import companies; the main market is Moscow. Leading Valio products are Oltermanni, Viola and Valio cheeses; Valio and Midnight Sun butter; and milk-based baby food powders. Following the devaluation of the rouble, exports to Russia fell sharply in 1998, as consumer buying power diminished. In the year under review, however, Valio exports to Russia have returned to almost the same level as before the market collapsed; sales of butter pats and Oltermanni cheese have been particularly positive. Viola and Oltermanni are among the best-known Western food brands in Russia.

The United States

Finlandia Cheese, Inc. imports and markets Valio cheese in the United States and McCadam Cheese, Inc. produces, packs and distributes cheeses there. Valio cheeses have been on the US market since the 1960's and Finlandia Swiss Cheese is one of the leading imported cheeses in the country. Cheese exports to the US continue to rise. McCadam produces a cheddar, and is a real force in producing private label cheese products for retail chains.

The main export goods in industrial products are butter, milk powder and demineralized whey powder (DEMI). Valio has achieved significant standing as a direct supplier of large European foods companies and a leading global supplier of DEMI.

The future is our challenge

The traditional dairy products, namely butter, cheese and milk powder, will continue to be the mainstay of our export strategy. At the same time, we aim to increase the share of other consumer products and of value added items. The demand for functional foods is increasing, although there is substantial variation between market areas. In order to reach the goals set, Valio has for instance opened a representative office in China in early 2001, while beginning to establish a presence in Greece. Valio as an exporter has the reputation of being an excellent, high-quality supplier. Our quality image is as it should be and we are considered a reliable partner.

ADDRESSES

Valio Ltd, Head Office
Meijeritie 6
PO Box 10
FIN-00039 Helsinki
FINLAND
Tel. + 358 1038 1121
Fax + 358 9 562 5068
Internet <http://www.valio.fi/english/>

R & D
Meijeritie 4
PO Box 30
FIN-00039 Helsinki
FINLAND
Tel. + 358 1038 1121
Fax + 358 10381 3019

Domestic Sales and Marketing
Meijeritie 6
PO Box 10
FIN-00039 Helsinki
FINLAND
Tel. + 358 1038 1121
Fax + 358 1038 2209

Production
Meijeritie 6
PO Box 10
FIN-00039 Helsinki
FINLAND
Tel. + 358 1038 1121
Fax + 358 10381 2385

Materials Operations
Meijeritie 3
PO Box 50
FIN-00039 Helsinki
Tel. + 358 1038 1121
Fax + 358 10381 2089

Valio International
Meijeritie 6
PO Box 10
FIN-00039 Helsinki
Tel. + 358 1038 1121
Fax + 358 10381 2512

Subsidiaries

Finlandia Cheese, Inc.
1140 Parsippany Blvd.
Parsippany, NJ 07054
USA
Tel. +1 973 316 6699
Fax +1 973 316 6609

McCadam Cheese Co., Inc.
PO Box 345/Annette Street 12
Heuvelton, N.Y. 13654
USA
Tel. + 1 315 344 2441
Fax + 1 315 344 7291
Internet
<http://www.mccadam.com/>

Tapila AS Laeva Meierei
Laeva vald
EE2463 Tartumaa
ESTONIA
Tel. + 372 7 301 660
Fax + 372 7 301 662

Valio Eesti AS
Karu 19/11
EE0001 Tallinn
ESTONIA
Tel. + 372 6 605 752
Fax + 372 6 268 620

Valio Engineering Ltd
Meijeritie 4
PO Box 122
FIN-00371 Helsinki
FINLAND
Tel. + 358 1038 1172
Fax + 358 10381 2959
Internet <http://www.valioeng.fi/>

UAB Valio International
Kumeliu Str. 11-2,
LT-3000 Kaunas
LITHUANIA
Tel. + 370 7 202478
Fax + 370 7 202478

ZAO Valio St. Petersburg
Vasiljevski Ostrov 18. linia d. 47
199178 St. Petersburg
RUSSIA
Tel. + 7 812 325 8303
Fax + 7 812 325 8545

Valio Sverige AB
PO Box 10094, Arenavägen 23
S-121 27 Stockholm-Globen
SWEDEN
Tel. + 46 8 725 5150
Fax + 46 8 725 5151

Valio - Vache Bleue S.A.
Grand Route 552
B-1428 Lillois-Witterzee
BELGIUM
Tel. + 32 6789 4946
Fax + 32 6721 8215

Representative offices

Valio Ltd. Shanghai
Representative Office
Unit 1401 Office Tower,
Shanghai Times Square
93 Huai Hai Zhong Lu
Shanghai 200021
P.R. CHINA
Tel. + 86 21 639 10381
Fax + 86 21 639 10383

Valio Moscow
Representative Office
Korovy val 7 Office
117049 Moscow Cis
RUSSIA
Tel: + 7-095-956 1229
Fax + 7-095-230 2910



