Annual Report 2001

VALIO

Our Mission

Generating quality, pleasure and added value for consumers, success for committed partners, and thereby promoting the business of Valio milk producers.

Our Values

Responsibility for well-being

Ensuring safe and high-quality products from farm to consumer.

Developing co-operation between Valio and its clients.

Promoting the well-being of our personnel, the development of individuals and their work community, and fostering co-operation.

Caring for the environment and tending to the well-being of animals.

Securing the continuity of our dairy farmers' work.

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Annual Review by the CEO

A significant downturn in the leading international economies was reflected in Finland's weakening export figures. Positive expectations for the domestic economy in early 2001 were marked down and consumer spending slowed. Nevertheless, production levels in the Finnish food industry developed quite well and better than many other business sectors in 2001. This was due to increased demand in domestic and international markets. Food prices rose in both Finland and export markets, improving profitability for companies in the industry.

Demand and prices in international dairy markets had developed well for almost a year and a half but fell fast after the early months of last year. The change especially affected trading in ingredients and no significant improvement is likely in the near future. But Finland's dairy business remains secure, given the positive outlook in both domestic and key Valio export markets.

Valio Group set and reached its financial goals with a fair degree of success in 2001. The company maintained its position in the domestic market and some cost increases were passed on in retail prices. International operations exceeded targets and made significant inroads in new markets. We were able to pay a higher milk price to owner co-operatives and so to dairy farmers as well.

Valio made several significant decisions in 2001 to ensure favourable development. Valio brand strategy was sharpened in line with overall policy. *Good all the way* is the promise that Valio is the reliable Finnish company with a household name that produces a good feeling for people every day. The core of Valio brand strategy is to strengthen our position as the leading company in the Finnish dairy business.

Valio began a complete overhaul of its information systems in a financially significant investment move. New generation systems enhance the efficient flow of goods and information together with our customers.

The decision was taken in spring to concentrate fresh products production in just three dairies by the end of the decade. This will reduce costs and help to direct investments in the long-term. This extensive development program makes Valio stronger and more competitive in dealing with imported foods, and advances logistics co-operation with different customer groups.

International operations implemented new product and area guidelines to direct export resources into key Valio markets abroad. This gets us the best possible price for the more than one-third of Finnish milk exported.

Valio Board of Directors took the decision that offers a system of payment by results to all staff. This is one of the key means by which the company will reach its future goals. It means reward according to expertise and increasing the number of personnel representatives in the company's administrative bodies. That supports long-term development and a broader understanding of the different aspects of milk processing.

The core value at Valio is responsibility for well-being. This means ensuring safe and high-quality products from farm to consumer. Devoting resources to research and development while driving the highest hygiene expertise is a prerequisite. Seamless co-operation working as a partnership with suppliers and retail personnel is another essential part of responsibility.

Confidence in continuing success in the current year is high. Ongoing training of the working community at Valio along with the development of ethical and environmental values secures a solid base for the future.

I am happy to thank Finnish consumers and our co-operation partners in Finland and overseas for the part they have played in the past year. Valio's dairy farmers and their elected representatives have been particularly constructive in their approach. Our personnel has successfully applied new work in practice. We have a good platform on which to build into the future. Thank you all.

Olavi Kuusela

Research and Development emphasizes innovation and know-how

The long-term goal of R & D at Valio is to develop new functional foods in line with international demand. And to hold position as the leading dairy products manufacturer in Finland's domestic market. Core products remain secure and competitive, meeting consumer expectations.

Valio R & D investment totalled FIM 59 million or 0.7 per cent of net turnover in the year 2001. The company commits 120 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 of product development continues to lie in functional foods. Valio has high-quality, in-house expertise in microbiology, nutrition and technology; combining with clinical research carried out in co-operation with leading medical experts. The size of the global market for functional foods is estimated to multiply by a factor of ten to fifteen over the next five years.

The health benefits of how different milk components work and the treatments that can be applied are an increasingly popular subject of discussion in the media and elsewhere. Lactose intolerance was "discovered" in the

1970's. Valio developed low-lactose HYLA products and there are currently as many as 80 different HYLA items on the market in different product groups. The effects of milk fat on cardiovascular diseases came under the spotlight in the 1980's. Valio responded with low-fat and fat-free products as well as those containing vegetable fat. This type of product is taking a significant and ever-growing proportion of the market in a variety of product groups.

The topical issue now is milk proteins, which may cause intestinal problems similar to those of lactose intolerance, in a few per cent of the adult population. The effect of the homogenization process has also emerged in Finland as one that may produce unintended side effects. Valio of course takes all milk-related problems seriously and runs investigative clinical tests. If problems are found, they are considered new opportunities and challenges to develop special products for the consumer groups concerned.

Research and development activities also focus on maintaining the quality of items already on the market. Production processes and products themselves are under continuous development to meet consumer needs. Valio placed a particular emphasis on the development of technology in low-fat cheese production in 2001, improving taste, composition and texture.

Evolus product family grows

Launched in autumn 2000, Evolus fermented milk drink established a regular user group during the year under review. Evolus lowers blood pressure, and has aroused wide international interest. The taste and composition of the product has been developed further, and production technology has been improved for inter-

Valio Group R & D expenses

Year	FIM mill.
1997	58
1998	50
1999	52
2000	56
2001	59

national licensing, which commenced in autumn 2001. The favourable effect of Evolus on elevated blood pressure has been proven in clinical trials, and research continues in different target groups.

Evolus Benecol yogurts with plant stanol that lowers cholesterol were launched in the Evolus product family in May 2001. The yogurts (in three flavours) contain only a little fat, and no milk fat. Just one cup (150 ml) per day is enough to lower cholesterol by around 14 %. The development of the product family continues and export potential is under examination.

More information on the health effects of LGG

Products containing Lactobacillus GG (LGG) are available in 29 countries. Dairy products, mostly yogurts, are marketed in 26 countries and pharmaceutical products, such as capsules, in seven. LGG was launched in Taiwan, Spain, Indonesia, Ireland and the United Arab Emirates in 2001.

New studies published during the year, on LGG preventive effects in allergies and infections in children, increased specific interest in pharmaceutical and even medical applications.

The most recent study on LGG effects was published in the Caries Research journal of dentistry in December 2001. The study showed that the effect of milk in protecting teeth can be enhanced with LGG bacteria. The risk of caries fell by six per cent in children who drank Gefilus milk, while increasing four per cent in the control group. This opens up interesting opportunities for product development.

Valio is the pioneer in probiotics research and LGG is the world's most researched probiotic, i.e. a live bacterium that has positive effects on health. LGG effects are unambiguously proven in clinical tests. High-quality research data helps in LGG international licensing and marketing; and the research continues.

Lactose-free milk drink is a huge hit

Milk is not just milk. It can be branded in many ways for the needs of different consumer groups. Lactose-free milk drink is an excellent example of a new generation product for people with lactose intolerance. Approximately one in five Finns suffers from intestinal symptoms caused by the lactose in milk. Lactose tolerance levels vary from one person to another, and HYLA products that contain little lactose are often ideal for people with lactose intolerance. For those with an even lower tolerance, lactose-free milk drink is the perfect solution.

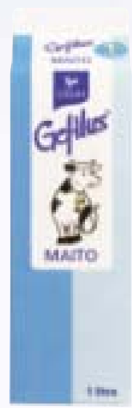
Valio lactose-free milk drink was developed to taste like real milk. The lactose that makes HYLA products rather sweet has been removed entirely. The product is manufactured using Valio patented chromatographic separation, where lactose is mechanically separated from other milk components.

The success of lactose-free milk drink exceeded all expectations: the good taste of milk even brought back some consumers who had stopped drinking milk altogether!

Interest in the new technology is naturally growing abroad. The proportion of the population with lactose intolerance is higher outside Finland and no special products have been developed for that target group. Valio will start licensing the technology.

Properties of lactose-free milk drink:

- *100 % lactose-free*
- *tastes just like real milk*
- *less calories than semi-skimmed milk*
- *ideal for cooking*



Gefilus milk reduces the risk of caries in children.

A good product comes from the best raw materials

Valio Production takes responsibility for the well-being of people, animals and the environment. This affects the quality of the entire production chain.

In Valio's supply 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 had 16 262 dairy farmers at the end of the year 2001. Valio dairy farms produce milk of the very highest technical quality and ethical production values are key. More than 90 per cent of the milk comes from contract farms working to agreed quality production guidelines. More than one-third of the farmers has already completed supplementary quality training. Farmers can consult with Valio and its co-operation partners about silage production, feeding, cattle care and health, as well as milking and milk-handling issues. Valio also runs two regional laboratories.

Milk production is an expert field

Preventive healthcare for dairy cattle is an established part of the dairy farms' quality system. There were ten healthcare projects running in Valio Group co-operatives in 2001, all implemented together with rural centers.

High-quality milk production requires great expertise on the part of the farmers. Valio assists them in the planning of farm buildings and silage systems, as well as in purchasing milk-handling equipment. Milk and silage samples are analyzed at the regional laboratories in Lapinlahti and Seinäjoki. Research into primary production was carried out together with MTT Agrifood Research Finland, the University of Helsinki and other interest groups.

Customized production

Consumer needs are the prime consideration in production planning. Domestic Sales and Valio International work with production supervisors to draw up a sales plan for three months ahead at a time. This is based on forecast data for domestic sales, exports and milk volumes.

Valio Production processes milk efficiently, flexibly and without compromise on high-quality output. Support is available through the company's operating system set up in 2001. It covers quality, environmental and safety issues. Valio production is already certified and the goal is to have the entire system certified by 2003.

Valio has 18 production plants in Finland. Cheese-making contracts continue with Liperin Osuusmeijeri and Juustoportti Oy, and production co-operation will commence with Milka. Production co-operation with Kyrönmaan Osuusmeijeri and Lammin Osuusmeijeri was brought to a close in 2001.

Operations around the country

Fresh 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 made the decision to start a fresh products development program in 2001. Production will be actively concentrated in four dairies (Jyväskylä, Oulu, Riihimäki and Tampere) in the near future, and then in just three by the end of the decade. The concentration of yogurt production in Riihimäki has already begun, and preparations have been made to transfer production of quark and cottage cheese to Seinäjoki.

Valio manufactures cheese in Lapinlahti (Valio Emmental, Valio Edam, Turunmaa), Joensuu (Polar, Hovi, Valio Edam, slices and pre-packed chunks), Haapavesi (Oltermanni, Valio Punaposki, Mozzarella), Toholampi (Valio Emmental), Äänekoski (Aura, Feta), Vantaa (Viola, Aamupala, Koskenlaskija and other processed cheeses, slices, pre-packed chunks) and Sotkamo (traditional Finnish oven-baked cheese). Cheese for export

The latest organic product range pictured together: low-salt organic butter, organic emmental cheese, organic orange juice and Tutteli organic porridge.
Valio organic products are now available in nearly all product groups.

is produced in Toholampi, Lapinlahti, Joensuu, Haapavesi and Vantaa. The most important cheese export brands are Finlandia Swiss, Valio Emmental, Oltermanni, Lappi, Polar, and Viola.

Total cheese production grew during 2001 and our plants operated at full capacity. Manufacture of Oltermanni was concentrated in Haapavesi and Valio Mustaleima emmental is produced by the Toholampi and Vantaa plants in co-operation. The degree to which cheese is processed will be raised further, as demand for sliced and grated cheese and pre-packed chunks is on the increase. The consumption of low-fat, functional and fresh cheese is also growing. The biggest investment projects underway are the construction of new milk reception and handling facilities in Lapinlahti, and the renovation of the Aura cheese production plant in Äänekoski.

Valio Group yellow fats production is located in Seinäjoki. The low-volume output of organic butter is handled in Sotkamo. As modern consumer preferences are increasingly focused on low-fat and fat-free products, consumption grows and more milk fat must be processed. The total volume of milk produced remains unchanged, so the Seinäjoki plant operates in three shifts right around the year. The most significant development project there invests in eliminating the use of cardboard packaging used in the manufacture of butter for industrial use.

Valio produces milk powders and whey products for raw materials in babyfoods. The Lapinlahti plant focuses on the production of demineralized whey powders and babyfood powders; Haapavesi manufactures low-salt whey powders and calf milk replacers. The Seinäjoki plant makes milk powders used to level out seasonal and weekly variations of milk received. The installation of new milk powder equipment in Seinäjoki will be completed in 2002. The production of casein and other milk powders was ended in Sotkamo in 2001.

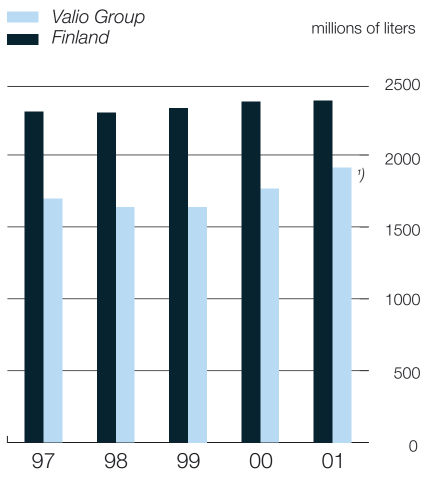
Valio ice cream production takes place in Turenki. Most of the ultra heat treated (UHT) products are also made there, along with some in Sotkamo. The fresh products development program plans to concentrate UHT production in Turenki.

The Helsinki plant makes and packs juices, while fruit preparations are produced in Suonenjoki for Valio internal use and for bakeries.

Valio progressed key production goals in 2001: service levels exceeded 99.6 per cent, and quality costs were cut by 10 %.

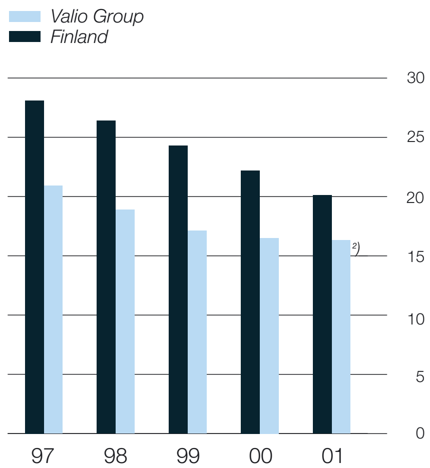
The number of personnel initiatives grew four-fold and special attention was paid to the creation and implementation of individual learning plans.

VOLUME OF DAIRY MILK



¹) of which organic milk is 16 mill. liters

NUMBER OF MILK SUPPLIERS



²) incl. 115 organic farmers. All data are taken at the year-end.

Promoting the well-being of our personnel

Managing human resources is a central competitive factor. Promoting the well-being of personnel is a natural part of our daily work.

Two separate personnel inquiries are conducted every year to track the effectiveness of development activities and the working capacity of personnel. Findings from these lead to concrete operating plans for each unit. Working capacity remained strong in the year 2001; the mean index value on a scale of 7-49 stood at 41.7 (year 2000: 41.6).

Valio's theme for working capacity maintenance last year was Leadership and the improvement of supervision work. It was based on the results of the personnel inquiry conducted in the year 2000. Management was provided with training in Learning Leadership. In addition, Valio supervisor training developed the interaction skills of supervisors for development discussions. The importance of supervisor skills, communication and personal support was also emphasized in Valio's development program.

Safety at work was evaluated at all offices and plants. Any measures necessary were taken according to Valio zero accident policy.

Development of the staff initiative system along with a number of in-house competitions stimulated new channels for staff innovations. Our *Weeti* intranet provided personnel with a fresh medium for open discussion and communication.

The number of personnel representatives on the Supervisory Board has increased and there is also representation on Division Boards.

Valio Ltd personnel

The number of personnel by site at the end of the year under review totalled 3 657 (including part-timers and those on fixed-term employment).

Helsinki	802
Vantaa (Tikkurila)	15
Seinäjoki	340
Äänekoski	58
Vantaa (Vaarala)	172
Toholampi	55
Haapavesi	121
Riihimäki	223
Joensuu	150
Jyväskylä	238
Kouvola	223
Lapinlahti	267
Lappeenranta	11
Oulu	201
Rovaniemi	22
Sotkamo	99
Suonenjoki	84
Tampere	176
Turenki	216
Turku	182
Nastola	2
Total	3 657

- 53 per cent of staff is female, 47 per cent male.
- Average time in employment is 14.1 years.
- Average age is 40.3 years.

Responsibility for well-being is Valio's core value. For Domestic Sales and Marketing that means ensuring fresh, high-quality products for consumers. Responsibility also involves developing co-operation between the company and its customers.

Valio brand stands for reliability and Finnish quality. Valio is innovative, expert and dynamic in its development. A purveyor of good taste that creates a good feeling for consumers every day. These values are what consumers appreciate in Valio, and the retail trade and other co-operation partners can rely on.

Partnership is the key word working with today's retail trade. Retail business appreciates a supplier that actively seeks common development targets. Valio develops its product range and category management in harmony with retail and other clients. Environmentally sound solutions are a consistent priority. Its nationwide operating model is Valio's absolute competitive asset. This ensures that the company responds effectively to the development of retail business structures.

Good all the way

Good all the way is the promise that underpins Valio brand. A promise that sends out the core message of Valio products and communicates Valio as a company. It is about the origins of Valio products through the whole quality chain, from fields and pastures to the table.

Good all the way also refers to the different phases of the human lifecycle. Valio products are enjoyed right from the start and throughout life. Valio is a household name in its domestic markets and Finns are demanding consumers. In the kitchen, starting out with Valio products simply makes good food to eat. Valio continues to keep its promises now and into the future, as it always has throughout its history.

The brand guide helps train every member of staff to adopt the goals and content of Valio brand.

2001 – the year of new products

Functional dairy products add significant value and a truly competitive edge to the Valio brand. New functional foods are created in seamless co-operation with Valio Research and Development, and naturally in a consumer-oriented way.

Several new products were launched during 2001. Evolus Benecol yogurts were introduced in spring as the first dairy products in Finland containing plant stanol that lowers cholesterol. Valio now offers a low-fat edam cheese containing Finnish brand Pan salt, which is low in sodium, and has launched another low-fat edam in the Gefilus product family that contains LGG. A lactose-free milk drink triumphed on the milk market in the autumn.

Valio provides the broadest range of organic dairy products in Finland. This now includes orange juice, a low-salt butter, organic emmental cheese and a porridge in the Tutteli babyfoods range. All were launched during the year under review.

New and easy-to-use low-fat cooking products – cooking yogurt and crème fraîche – will make many a tasty meal. Grated cheese is now packed in handy resealable packages. Continuous product development achieving increasingly successful environmental packaging solutions also led to the introduction of paper wraps for butter.

Valio launches new ice cream products every year and the most successful in 2001 were new Classic flavours, full-flavoured Sweet Seasons take-home items and the Puffet Roll bar.

Expertise rewarded

Valio is yet again Number 1 with consumers, according to a corporate image survey of food manufacturers conducted by Food and Farm Facts Ltd. The high quality of its products is cited as Valio's greatest strength.

Evolus fermented milk drink won the drinks category in the Finnish Food Product of the Year competition and was elected star product of 2001. Valio Gefilus emmental-type low-fat cheese is another success, winning a special award in the sandwich toppings category.

Evolus Benecol yogurt is intended for people with a high level of cholesterol. It can be combined with cholesterol medication. One cup (150 ml) per day is enough to lower cholesterol, by around 14 per cent. The effect can be observed after just 1-2 weeks of regular use.
The yogurt comes in three flavors.

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 your table. The majority of Valio products are fresh and frozen, requiring refrigerated transportation. An unbroken cold chain at different stages of manufacture, transport and storage demands the best equipment and the most responsible staff to operate it.

Valio is Finland's largest distributor of fresh and frozen products. More than 900 million kilos of milk, cheese, yogurt and co-operation partner products is transported annually. Some 200 contractors and 300 delivery vans and 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, Jyväskylä, Oulu, Sotkamo and Rovaniemi. There is storage and a distribution terminal to serve each of the eight 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 has been located in Tuusula near Helsinki as of spring 2001. Frozen products with longer distribution cycles are delivered to terminals from there.

Unbroken cold chain

Valio delivers fresh products to clients daily or at least twice a week; chilled 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 quantity of other food manufacturers' products, mainly frozen, is also delivered via the Valio distribution net.

For the consumer, it's essential that the cold chain is fast and unbroken. Once a product is ready at plant, it is immediately chilled at a maximum of +6°C or frozen at a minimum –18°C. Our transportation partners and their vehicle fleet must meet the strictest quality requirements and the chain is tightly managed all the 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 cold chain is unbroken, schedules are precisely kept to and, most importantly, client needs are met.

Customer satisfaction is measured in many ways and the retail business has voted Valio Supplier of the Year several times. In surveys, Valio drivers are without exception ranked highest.

The volume of goods transported in 2001 was significantly greater than that of the previous year, which helped keep Valio Distribution cost per unit even lower than for the year 2000. This was achieved despite increases in some costs.

Valio ended milk packing in Seinäjoki during the year under review, and distribution in the area is now handled from Oulu, Jyväskylä and Tampere. This change in regional organization was conducted with predictable expertise that more than maintained client satisfaction.

Sweet Seasons is a soft and delicious ice cream.

Regional renewal is our objective

Valio International exports a variety of products that account for more than one-third of the milk Valio receives in Finland. Key international markets include nearby countries Russia, the Baltic States and Sweden, along with other EU countries and the United States. Valio International also has a significant presence in specifically targeted areas such as China and the Middle East.

The growth of Valio domestic procurement sets greater challenges to meet abroad. Valio International now sells more than 650 million liters of milk as a variety of dairy foods. The most important product groups are cheese, butter, ingredients and fresh products.

Valio International focuses on the importance of exporting an increasing volume of consumer product that carries added value in terms of innovation and marketing. The process of transferring sales operations to regional subsidiaries continues to build a local presence in the main market areas.

Russia

ZAO Valio St. Petersburg is a Valio subsidiary located in St. Petersburg itself. It sells and distributes the same products as Valio does in Finland, to the largest retail outlets in Moscow and St.Petersburg. Valio has four other distributors in Russia that sell much of our product volume there. The primary markets are the Moscow and St. Petersburg areas, and the leading Valio products are Oltermanni, Viola processed cheese and Valio butter.

Exports to Russia fell radically in 1998 following the collapse of the rouble, as the buying power of the Russian people declined. But exports have grown steadily since that time and last year returned almost to levels prior to the economic crisis there. Sales of packed butter and Oltermanni cheese have been particularly positive. Viola and Oltermanni are among the best-known Western food brands in Russia.

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, fermented milk, puddings, juices, and HYLA and LGG items. The low-lactose Valio HYLA product family offers the widest range of low-lactose items available on the Swedish market. LGG products were launched in Sweden in the year 2000 under the name Gefilac, and e.g. juices were added to the range in 2001. Valio has taken one-fifth of the market for flavoured yogurts in the fresh products sector. Yoplait brand products, manufactured by Valio under license in Finland, are also sold through Valio Sverige Ab in Sweden. Valio sells emmental and Aura cheese in Sweden.

The Baltic States

Valio Eesti AS represents Valio sales and marketing in Estonia. In addition to Valio Finnish products, the range includes Alma products from the Valio owned Laeva dairy, and Valio Gefilus products. Alma is the market leader in milks, yogurts, fermented milk, kefir 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. During the year 2002, the Alma product range will be complemented with, for instance, quark desserts and cottage cheese.

Valio is strong in the market for baby-foods in the Baltic States. Ready-to-serve Tutteli products are now sold, in addition to powdered products. Small quantities of Valio cheese sell in Lithuania, and some cheese and ice cream in Latvia. Opportunities to start marketing Gefilus products are being explored in both Latvia and Lithuania.

The European Union

Valio has occupied a significant position in Belgium since the 1930's. A 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 2001. This means a stronger market position in other European countries such as Greece, Cyprus and Spain. At the end of the year, Valio launched a cheese range in Germany under the Midnight Sun concept.

Midnight Sun is a range of high-quality dairy products with a fresh genuine taste from the untouched North.

The United States

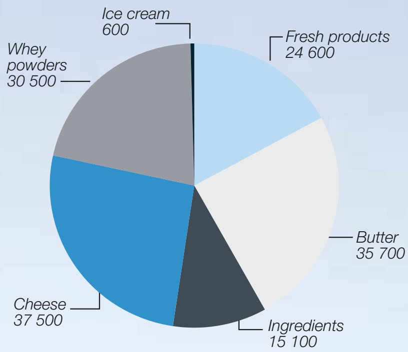
Finlandia Cheese Inc. imports and markets Valio cheese in the United States, and McCadam Cheese Inc. produces, packs and distributes cheese there. Valio cheese has been on the US market since the 1960's and Finlandia Swiss Cheese is one of the leading imported cheeses in the country. Cheese exports to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

Ingredients

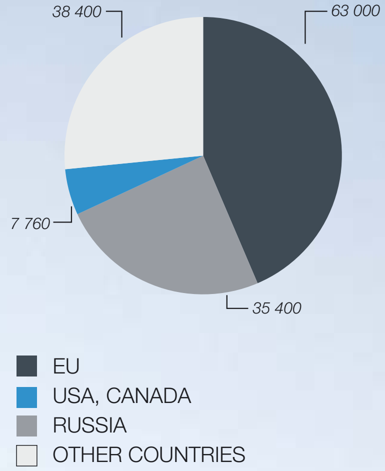
Butter, milk powder and demineralized whey powder (DEMI) are the main Valio industrial product exports. The company has made a real impact as a supplier of butter for European bakeries. Valio sales of milk powders were exceptionally strong at the beginning of 2001, declining during the second half. DEMI markets remained stable throughout the year and showed a clear improvement in profitability for 2001.

Valio opened a representative office in China in early 2001 to strengthen its position as a supplier of industrial products there. Interest in other Valio products is under assessment in a rapidly growing foodstuffs market.

SALES VOLUME
BY PRODUCT GROUP (tonnes) 2001



SALES VOLUME BY AREA (tonnes) 2001



Valio and environment

Valio was granted the ISO 14001 environmental certificate in the year 2000. It covers all its domestic operations: research and development, production, sales and marketing, and distribution. The operating environmental system is regularly evaluated both internally and externally, by unit and for Valio as a whole.

Valio has set environmental objectives for the years 1999-2002. The primary targets are to reduce energy consumption by five per cent and cut waste-water loading by two per cent, proportional to production volumes. We further aim to decrease the amount of waste disposed of as refuse by 20 per cent, and increase the amount of material sent for recycling by five per cent. Redundant product packaging will be made more suitable for recycling and for green energy production.

Lloyd's Register Quality Assurance reported that Valio maintained its environmental system largely to plan for the year 2001. The requirements of the ISO standard have been met and no serious deviations were observed. Loading management could be more effective, which would help reach the targets set. Almost half the organic waste-water loading stems from the two plants manufacturing demineralized whey products. The use of steam has been partially replaced by electricity in the whey concentration process and the energy consumption goal is attainable.

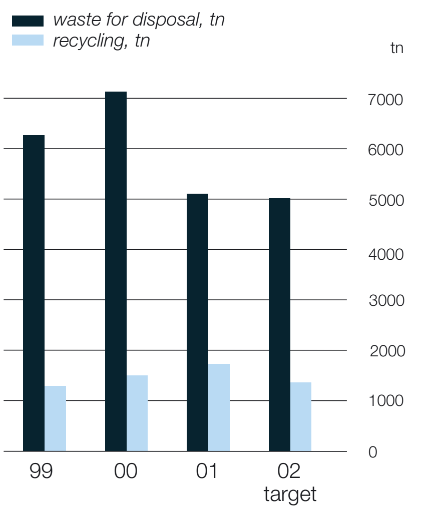
Less waste for disposal

The absolute quantity of refuse for disposal has decreased significantly, despite merging the Tampere and Sotkamo plants into Valio in autumn 2000. This positive development is due in part to growing opportunities to recycle packing waste for deployment in energy production. In the years to come, disposal charges at waste dumps, and refuse taxes, will probably rise and restrictions be put into place regarding the disposal of organic waste. The disposal of liquid waste as refuse was in fact prohibited at the beginning of this year, 2002. Valio was ready and equipment had been purchased to open liquid product packages. The contents go for animal feed and the packaging material is recycled.

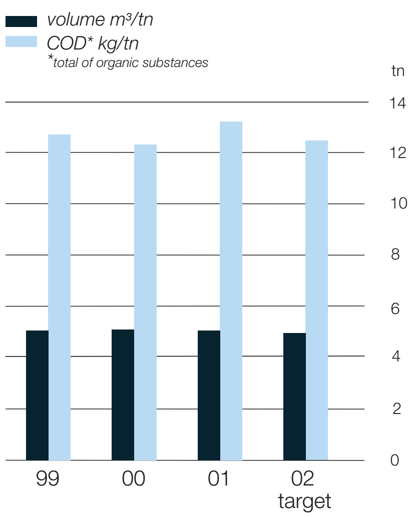
Valio has been developing its product packaging since 1993. The company has worked with materials suppliers to reduce the chlorine content in the plastics commonly used in the industry. The reduction of aluminium in domestic butter wraps is a significant example of success, and a project concerning cup covers is already in progress. Overall implementation is linked to development programs in fresh product dairies. PVDC plastic in wrapping Oltermanni cheese was eliminated in summer 2001, and all PVDC use in Valio packaging will end in 2002.

Valio participated in a project run by the Technical Research Centre of Finland VTT on the quality of recovered fuels; and the Food Chain project of VTT and MTT Agrifood Research Finland. The latter studies the environmental effects of product lifecycles. Valio selected its emmental cheese.

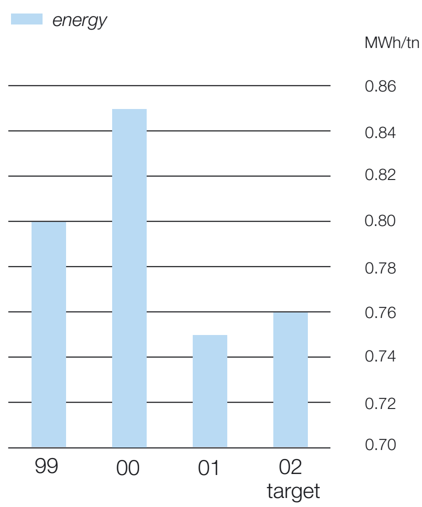
DECREASE IN WASTE FOR DISPOSAL –20%
INCREASE IN RECYCLING +5%
1999 - 2002



DECREASE IN WASTE-WATER
VOLUME AND LOAD –2% PER TONNE
PRODUCT MANUFACTURED 1999-2002



DECREASE IN ENERGY CONSUMPTION
–5% PER 1 TONNE OF PRODUCT
MANUFACTURED 1999 - 2002



Valio Ltd

1.4.2002

Supervisory Board

Board of Directors

CEO
Olavi Kuusela*

Corporate Communications
Pia Kontunen

Controller
Liisi Myllykangas

Domestic Sales and Marketing
Pentti Paloranta*

Valio International
Veijo Meriläinen*

R & D
Annika Mäyrä-Mäkinen*

Production
Tuomo Keurulainen*

Materials Operations
Markku Määttänen*

Group Administration
Heikki Halkilahti*

*Member of Valio Management Group

Valio Group

Net turnover and personnel 2001

	Net turnover FIM mill.	EUR mill.	Personnel 31 Dec. 2001
Valio Ltd	8 074	1 358	3 657
Valio International U.S.A. Inc.	704	118	197
-McCadam Cheese Co., Inc.	518	87	185
-Finlandia Cheese Co., Inc.	405	68	12
Valio - Vache Bleue S.A.	484	81	118
Valio Sverige AB	110	19	34
Valio Eesti AS	85	14	99
ZAO Valio St. Petersburg	57	10	23
UAB Valio International	-	-	2
Valio Engineering Ltd	7	1	1
Valio Group total	9 033	1 519	4 131

DIVISION BOARDS

Valio Supervisory Board appoints Division Boards consisting of elected officials to supervise the owners' interests. Dairy farmers and personnel are represented on the Division Boards.

Division Boards monitor Valio's general development and the operations, finances and investments of the division.

Division Boards in 2002

Production	term expires
Esa Juntunen, Chairman	2002
Juhani Hörkkö, Vice Chairman	2002
Ari Auvinen [1)]	2002
Toivo Heikkilä	2002
Tapio Hytönen	2003
Pekka Isohanni	2002
Matti Lehtinen	2003
Pekka Lestinen	2003
Martti Mustonen	2002
Pekka Ruoppa	2002
Pentti Santala	2003
Juhani Väänänen	2002

Materials Operations	
Tauno Uitto, Chairman	2002
Esa Juntunen, Vice Chairman	2002
Kauko Ali-Rantala	2003
Pekka Hauru [1)]	2002
Pentti Hynninen	2002
Miika Kiiskinen	2003
Harri Laamanen	2003
Tapio Malmiharju	2002
Heikki Olkkonen	2003
Reino Parkko	2002
Kari Piironen	2002
Jaakko Rouhiainen	2003
Pentti Vartiainen	2002

Domestic Sales and Marketing	term expires
Juhani Hörkkö, Chairman	2002
Tauno Uitto, Vice Chairman	2002
Seppo Hakola	2003
Maija-Leena Heiniö	2003
Hannu Kainu	2002
Timo Kässi	2002
Riku Ollikainen	2002
Mauri Penttilä	2003
Antti Rauhamaa	2003
Leena Ryynänen	2002
Matti Siitonen	2003
Juha Tiukkanen [1)]	2002
Onni Törrönen	2002

[1)] Personnel representative

Five-year Group Statistics

	2001	2000	1999	1998	1997
Net turnover, FIM mill.	9 033	8 215	7 454	7 624	8 075
Change %	10.0	10.2	-2.2	-5.6	2.9
- Domestic, FIM mill.	6 021	5 455	5 243	5 293	5 571
Change %	10.4	4.0	-0.9	-5.0	-5.0
- International Operations, FIM mill.	3 012	2 760	2 211	2 331	2 504
Change %	9.1	24.9	-5.1	-7.0	26.5
Balance sheet total, FIM mill.	4 395	4 257	3 963	4 098	4 502
Liabilities % of the balance sheet total 1)	57	57	55	56	54
Capital and reserves + provisions % of the balance sheet total 1)	43	43	45	44	46
Personnel expenditure, FIM mill.	973	804	847	872	898
No. of personnel	4 347	4 083	4 215	4 517	4 537
Inventories, FIM mill.	963	829	838	733	740
Investments, FIM mill.	281	272	197	329	249
Planned depreciation, FIM mill.	271	296	287	282	290
Price paid for milk to the co-operatives by Valio, per liter total FIM 2)	2.21	2.17	2.12	2.11	2.14

1) The allocation of appropriations to capital and reserves and deferred tax liability is included in the figures for 1998-2001.

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

Supervisory Board

	Term began	Term ends
Seppo Hakola Dairy farmer, Kuortane, Chairman	1994	2002
Osmo Sikanen Dairy farmer, Joroinen Vice Chairman, to April 24th 2001	1991	
Jaakko Rouhiainen Dairy farmer, Juva Vice Chairman, as of April 24th 2001	2001	2002
Kauko Ali-Rantala Dairy farmer, Punkalaidun	1999	2002
Kari Harsia 1) Reception manager, Seinäjoki member to December 31st 2001	1996	2001
Toivo Heikkilä Dairy farmer, Haapajärvi	1996	2003
Maija-Leena Heiniö Dairy farmer, Kisko	1999	2003
Pentti Hynninen Dairy farmer, Vaala member as of April 24th 2001	2001	2004
Tapio Hytönen Dairy farmer, Konnevesi member as of April 24th 2001	2001	2004
Hannu Kainu Dairy farmer, Kyyjärvi	1997	2002
Miika Kiiskinen Dairy farmer, Kestilä member as of April 24th 2001	2001	2003
Jouko Kärki 1) Mechanic, Tampere member as of January 1st 2002	2002	2004
Harri Laamanen Dairy farmer, Ylitornio member as of April 24th 2001	2001	2004
Matti Lehtinen Dairy farmer, Tammela	1999	2002
Pekka Lestinen Dairy farmer, Sysmä	1998	2004
Pirjo Louhevirta 1) Telephone sales employee, Turku member as of January 1st 2002	2002	2004
Tapio Malmiharju Dairy farmer, Artjärvi	1996	2003
Martti Mustonen Dairy farmer, Ilomantsi	2000	2003
Martti Nevalainen Dairy farmer, Valtimo member to April 24th 2001	1994	
Heikki Olkkonen Dairy farmer, Alavus	1988	2002
Riku Ollikainen Dairy farmer, Lapinlahti	1981	2003

	Term began	Term ends
Juha Pantsu 1) Shift supervisor, Jyväskylä member as of January 1st 2002	2002	2004
Reino Parkko Dairy farmer, Elimäki	1999	2004
Mauri Penttilä Dairy farmer, Vesilahti member as of April 24th 2001	2001	2004
Antti Rauhamaa Dairy farmer, Kärkölä	1998	2003
Terttu Repo 1) Dairy employee, Haapavesi member to December 31st 2001	1999	2001
Pentti Santala Dairy farmer, Kauhajoki	1997	2003
Matti Siitonen Dairy farmer, Parikkala	1998	2004
Kari Toikkanen 1) Product Development Manager, Helsinki member as of January 1st 2002	2002	2004
Onni Törrönen Dairy farmer, Juuka member as of April 24th 2001	2001	2002
Juhani Väänänen Dairy farmer, Maaninka	1995	2004

1) Personnel representative

Board of Directors

Kari Inkinen Dairy farmer, Ruokolahti, Chairman	1997	2002
Tauno Uitto Dairy farmer, Tyrnävä Vice Chairman	1996	2004
Juhani Hörkkö Dairy farmer, Koski Tl	1998	2003
Esa Juntunen Dairy farmer, Vieremä	1998	2003
Olavi Kuusela Managing Director, Helsinki	2000	2002

Auditors

PricewaterhouseCoopers Oy,
Authorized Public Accountants, Helsinki

Tauno Haataja, MBA, Authorized Public Accountant

Board of Directors' Report 1 January 2001 – 31 December 2001

General

Valio Group financial performance before extraordinary items stood at FIM 85 million, which was FIM 21 million higher than the previous year. Adjusting for the higher unit price paid for milk to owner co-operatives in the year 2001 over 2000, the result is improved by a further FIM 85 million.

The positive development of financial performance was based on high capacity utilization, stronger price levels in the domestic market, and favourable export prices especially during the first half of the year.

In Finland, Valio received 1 873 million liters of milk or 10 per cent more than the previous year. The average procurement share of owner co-operatives delivering milk to Valio increased by 7 percentage points from the previous year and totalled 79 per cent of the Finnish dairy milk volume. Valio Group received total deliveries of 2 053 million liters of milk, which includes procurement for Valio dairies in the United States and Estonia.

Domestic net turnover grew by 10 per cent. Net turnover increased in all product groups except for dairy fats. The market shares of liquid milk products, dairy fats and ice cream rose, while that of cheese remained at the level of the previous year.

Net turnover from international operations grew by 9 per cent, and exports from Finland increased by 4 per cent. The growth was greatest in exports of cheese and dairy fats. Net turnover for overseas subsidiaries rose by 20 per cent. The most significant growth came from the Belgian, Swedish and Russian subsidiaries.

Euro

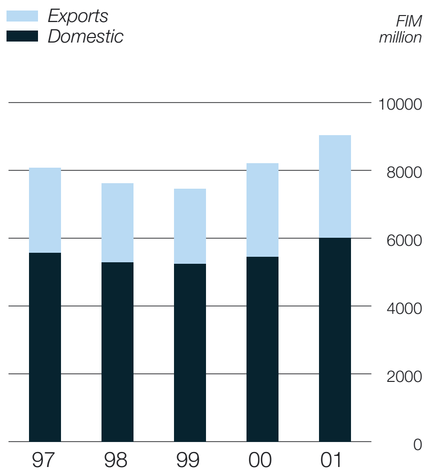
The accounts and financial statements for the financial year have been drawn up in Finnish markka. The euro was introduced as the common currency at the beginning of 2002. The conversion caused no problems at Valio.

Shareholders and share capital

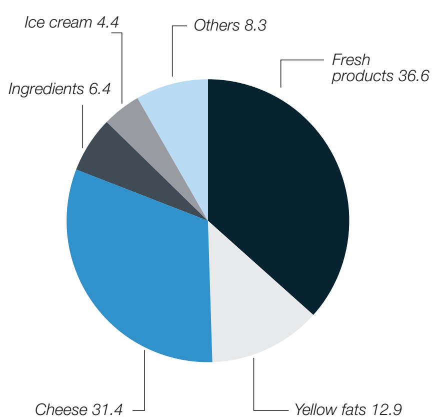
The number of shareholders fell by two due to merger activities to stand at 31 at the end of the financial year.

The share capital of Valio Ltd was increased with a bonus issue by FIM 6 317 285.80. As a result of that, the total paid-up capital is FIM 592 657 285.80.

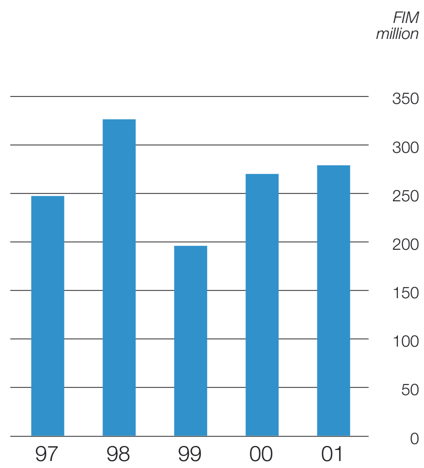
GROUP NET TURNOVER



GROUP NET TURNOVER BY PRODUCT (%) 2001



GROUP CAPITAL EXPENDITURE



Research and development

Personnel numbers in research and development stood at 120. Around one-third of these staff focused on long-term strategic development projects. Functional dairy products are a key area of emphasis in R & D. Valio launched a lactose-free milk drink that tastes like real milk and contains zero lactose thanks to the patented Valio separation method.

Valio R & D investment for 2001 totalled FIM 59 million (2000: FIM 56 million) or 0.7 per cent of net turnover (2000: 0.7 per cent).

Consolidated net turnover

Consolidated net turnover totalled FIM 9 033 million (2000: FIM 8 215 million). Domestic net turnover stood at FIM 6 021 million (2000: FIM 5 455 million). Net turnover from international operations (exports from Finland and foreign subsidiaries) totalled FIM 3 012 million (2000: 2 760 million).

Parent company net turnover

Valio Ltd net turnover totalled FIM 8 074 million (2000: 7 433 million). Domestic net turnover stood at FIM 6 020 million (2000: FIM 5 455 million) and net turnover from exports at FIM 2 054 million (2000: FIM 1 978 million).

Investments

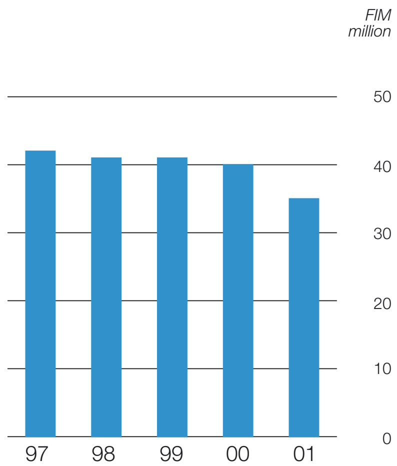
Consolidated gross investments totalled FIM 281 million (2000: 272 million) or 3.1 per cent (2000: 3.3 per cent) of net turnover. Investments of FIM 71 million were made in land and buildings and FIM 170 million in machinery and equipment.

Investments in stocks and shares totalled FIM 3 million, and in intangible assets and advance payments FIM 37 million. Consolidated net investments stood at FIM 274 million (2000: FIM 262 million).

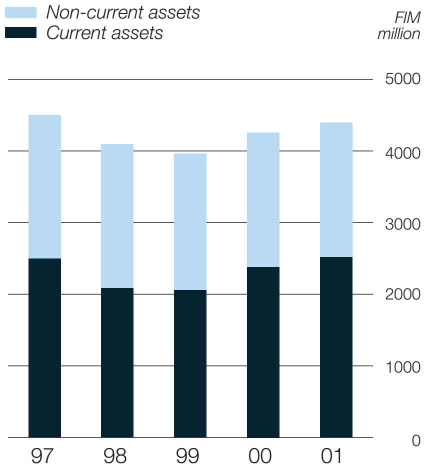
Finance

Both group and parent company liquidity remained satisfactory throughout the financial year. Cash plus bank and short-term deposits totalled FIM 543 million at the year-end, compared to FIM 813 million at the start. Stocks stood at FIM 963 million at the end of the financial year and FIM 829 million at the beginning. Interest-bearing liabilities totalled FIM 588 million at the end of the financial year

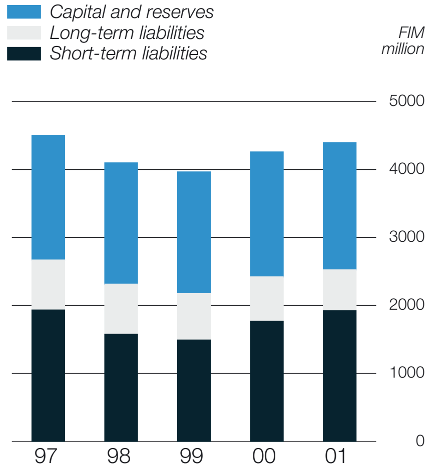
GROUP NET INTEREST EXPENSES



GROUP BALANCE SHEET, ASSETS



GROUP BALANCE SHEET, EQUITY AND LIABILITIES



and FIM 610 million at the beginning. Net financing expenses amounted to FIM 36 million (2000: FIM 36 million) or 0.4 per cent (2000: 0.4 per cent) of consolidated net turnover. Net interest expenses stood at FIM 35 million (2000: FIM 40 million).

Financial performance

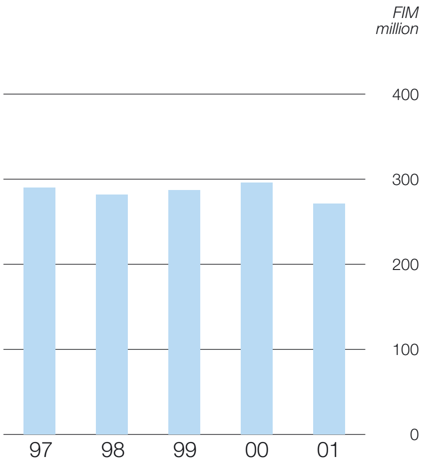
Consolidated profit before extraordinary items was FIM 85 million (2000: FIM 64 million). Net taxes for the financial year totalled FIM 9 million (2000: FIM 6 million). Profit for the financial year stood at FIM 76 million (FIM 58 million).

Parent company profit before extraordinary items stood at FIM 82 million (2000: FIM -6 million). The difference between planned depreciation and book depreciation amounted to FIM 58 million (2000: FIM 60 million). Book depreciation was within the maximum permitted under Finland's Business Taxation Act. Income taxes for the financial year totalled FIM 37 million (2000: FIM 17 million). Profit for the financial year stood at FIM 103 million (2000: FIM 37 million).

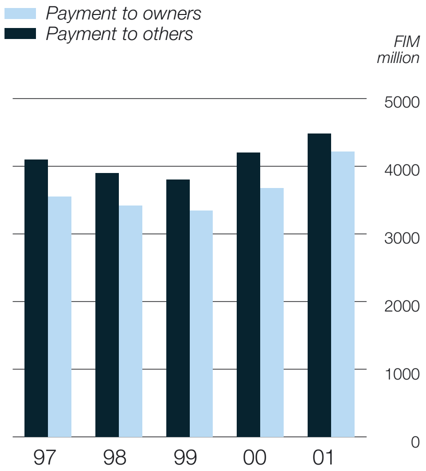
Year 2002

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

	2001	2000
NET TURNOVER	9 033 066	8 215 351
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	131 256	-27 218
Other operating income	177 130	183 086
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	6 348 555	5 742 804
Increase (-) / decrease (+) in stocks	-3 596	-18 428
External services	132 887	118 084
	-6 477 846	-5 842 460
Staff expenses		
Wages and salaries	756 064	677 435
Social security expenses		
Pension expenses	131 809	57 390
Other social security expenses	85 102	69 554
	-972 975	-804 379
Depreciation and reduction in value		
Depreciation according to plan	271 977	281 500
Reduction in value of goods held as non-current assets	30	-
Depreciation of goodwill	43	15 331
Reduction of consolidation difference	-576	-1 046
	-271 474	-295 785
Other operating costs	-1 498 987	-1 328 569
OPERATING PROFIT	120 170	100 026
Financial income and expenses		
Income from other investments held as non-current assets	4 956	4 181
Other interest and financial income	31 496	33 961
Net income from associated companies	-432	1 187
Interest expenses and other financial expenses	-71 584	-75 83
	-35 564	-36 509
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	84 606	63 517
Extraordinary items		
Income	15	815
Expenses	-70	-577
	-55	238
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	84 551	63 755
Income taxes	-25 675	-23 680
Change in deferred tax liability	16 869	17 642
Profit before minority interest	75 745	57 717
PROFIT FOR THE FINANCIAL YEAR	75 745	57 717

All figures in FIM '000s

CONSOLIDATED BALANCE SHEET

ASSETS	Dec. 31st, 2001	Dec. 31st, 2000
NON-CURRENT ASSETS		
Intangible assets		
Immaterial rights	17 589	9 288
Goodwill	-	43
Other capitalized long-term expenses	72 282	77 986
	89 871	87 317
Tangible assets		
Land and water	76 023	75 200
Buildings and constructions	709 202	734 627
Machinery and equipment	772 618	825 987
Other tangible assets	14 637	14 450
Advance payments and construction in progress	122 288	42 322
	1 694 768	1 692 586
Investments		
Shares in group companies	18 113	17 793
Shares in associated companies	6 790	7 222
Other shares and similar rights of ownership	70 239	70 860
	95 142	95 875
CURRENT ASSETS		
Stocks		
Raw materials and consumables	158 394	152 999
Unfinished products	71 234	78 671
Finished product / goods	729 402	593 896
Other stocks	4 048	3 662
	963 078	829 228
Debtors		
Non-current		
Other receivables	4 600	5 699
Current		
Trade debtors	818 994	602 204
Receivables from participating interests	4 435	1 234
Other receivables	112 267	79 249
Prepayments and accrued income	69 375	50 328
	1 005 071	733 015
Investments		
Other investments	446 219	740 675
Cash in hand and at banks	96 298	72 756
TOTAL ASSETS	4 395 047	4 257 151

All figures in FIM '000s

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31st, 2001	Dec. 31st, 2000
CAPITAL AND RESERVES		
Subscribed capital	592 657	586 340
Other reserves		
Other reserves	73 212	66 652
Retained earnings	1 101 534	1 097 041
Profit for the financial year	75 745	57 717
PROVISIONS		
Other provisions	28 916	29 700
CONSOLIDATION DIFFERENCE	-	576
CREDITORS		
Non-current		
Loans from credit institutions	199 014	276 230
Deferred tax liability	171 258	188 128
Other creditors	231 547	189 156
	601 819	653 514
Current		
Loans from credit institutions	157 886	99 020
Advances received	1 216	192
Trade creditors	984 210	1 217 586
Amounts owed to participating interests	12 395	8 863
Other creditors	500 041	269 760
Accrued expenses and prepaid income	265 416	170 190
	1 921 164	1 765 611
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4 395 047	4 257 151

All figures in FIM '000s

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	2001	2000
CASH FLOW FROM OPERATIONS		
Operating profit	120 170	100 026
Adjustments to operating profit	263 926	278 480
Change in working capital	-166 759	119 714
Interest and other financial expenses paid	-68 027	-72 559
Dividends received	4 956	4 181
Interest and other financial income received	33 783	32 442
Income taxes paid and refunded	-15 416	-24 836
Cash flow from operations	172 633	437 448
CASH FLOW FROM INVESTMENTS		
Capital expenditure in investments	-2 832	-2 250
Capital expenditure in tangible and intangible assets	-278 336	-270 243
Gains from sale of investments	2 961	30 723
Gains from sale of tangible and intangible assets	9 525	9 991
Cash flow from investments	-268 682	-231 779
CASH FLOW BEFORE FINANCING ACTIVITIES	-96 049	205 669
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from non-current liabilities	122 392	170 075
Payment of non-current liabilities	-144 055	-177 305
Increase (-) / decrease (+) in non-current receivables	1 099	1 445
Increase (+) / decrease (-) in current creditors	-114 764	117 184
Dividends paid	-46 097	-41 044
Other	6 560	8 331
Cash flow from financing activities	-174 865	78 686
NET CHANGE IN CASH AND CASH EQUIVALENTS	-270 914	284 355
Cash and cash equivalents at Jan. 1st	813 431	529 076
CASH AND CASH EQUIVALENTS AT DEC. 31ST	542 517	813 431

All figures in FIM '000s

PARENT COMPANY INCOME STATEMENT

	2001	2000
NET TURNOVER	8 074 035	7 432 741
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	67 131	-32 885
Other operating income	153 680	163 339
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	5 619 429	5 213 927
Increase (-) / decrease (+) in stocks	-2 941	-8 018
External services	121 843	106 708
	-5 738 331	-5 312 617
Staff expenses		
Wages and salaries	665 545	590 032
Social security expenses		
Pension costs	127 877	53 476
Other social security expenses	73 868	60 906
	-867 290	-704 414
Depreciation and reduction in value		
Depreciation according to plan	-251 273	-262 039
Other operating costs	-1 327 149	-1 189 139
OPERATING PROFIT	110 803	94 986
Financial income and expenses		
Income from participating interest	-	80
Income from other investments held as non-current assets		
From others	4 956	4 181
Other interest and financial income		
From Group companies	329	96
From others	29 399	31 315
Reduction in value of investments held as non-current assets	-503	-73 168
Interest expenses and other financial expenses		
To Group companies	-146	-144
To others	-63 194	-63 098
	-29 159	-100 738
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	81 644	-5 752
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	81 644	-5 752
Appropriations		
Increase (-) / decrease (+) in depreciation difference	57 678	60 397
Income taxes	-36 572	-17 171
PROFIT FOR THE FINANCIAL YEAR	102 750	37 474

All figures in FIM '000s

PARENT COMPANY BALANCE SHEET

ASSETS	Dec. 31st, 2001	Dec. 31st, 2000
NON-CURRENT ASSETS		
Intangible assets		
Immaterial rights	17 399	9 106
Other capitalized long-term expenses	64 492	69 411
	81 891	78 517
Tangible assets		
Land and water	73 875	73 073
Buildings	683 520	706 365
Machinery and equipment	720 723	778 756
Other tangible assets	332	347
Advance payments and construction in progress	108 261	36 347
	1 586 711	1 594 888
Investments		
Shares in Group companies	142 846	117 066
Shares in associated companies	6 438	6 438
Other shares and similar rights of ownership	70 235	70 856
	219 519	194 360
CURRENT ASSETS		
Stocks		
Raw materials and consumables	139 409	136 444
Unfinished products	71 125	78 557
Finished product / goods	486 643	412 469
Other stocks	4 025	3 660
	701 202	631 130
Debtors		
Non-current		
Amounts owed by Group companies	38 156	36 865
Other receivables	3 664	4 763
	41 820	41 628
Current		
Trade debtors	659 133	470 338
Amounts owed by participating interests	101 575	72 872
Loan receivables	3 110	-
Other debtors	92 459	73 828
Prepayments and accrued income	62 848	48 110
	919 125	665 148
Investments		
Other investments	440 316	737 383
Cash in hand and at banks	34 176	38 575
TOTAL ASSETS	4 024 760	3 981 629

All figures in FIM '000s

SHAREHOLDERS' EQUITY AND LIABILITIES	Dec. 31st, 2001	Dec. 31st, 2000
CAPITAL AND RESERVES		
Subscribed capital	592 657	586 340
Other reserves		
Legal reserve	35 580	35 580
Retained earnings	654 841	670 591
Profit for the financial year	102 750	37 474
APPROPRIATIONS		
Accumulated depreciation difference	588 510	646 189
PROVISIONS		
Pension provisions	28 046	26 015
CREDITORS		
Non-current		
Loans from credit institutions	97 726	151 859
Other creditors	228 994	187 060
	326 720	338 919
Current		
Loans from credit institutions	57 904	70 473
Trade creditors	897 075	1 153 275
Amounts owed to Group companies	4 347	5 218
Amounts owed to participating interests	6 125	3 857
Other creditors	497 732	265 398
Accrued expenses and prepaid income	232 473	142 300
	1 695 656	1 640 521
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4 024 760	3 981 629

All figures in FIM '000s

PARENT COMPANY STATEMENT OF CHANGES IN FINANCIAL POSITION

	2001	2000
CASH FLOW FROM OPERATIONS		
Operating profit	110 803	94 986
Adjustments to operating profit	247 100	240 714
Change in working capital	-157 058	122 936
Interest and other financial expenses paid	-59 784	-60 539
Dividends received	4 956	4 261
Interest and other financial income received	32 016	29 892
Income taxes paid and refunded	-26 313	-18 327
Cash flow from operations	151 720	413 923
CASH FLOW FROM INVESTMENTS		
Capital expenditure in investments	-28 292	-1 862
Capital expenditure in tangible and intangible assets	-249 479	-238 353
Gains from sale of investments	2 961	31 069
Gains from sale of tangible and intangible assets	8 883	9 620
Cash flow from investments	-265 927	-199 526
CASH FLOW BEFORE FINANCING ACTIVITIES	-114 207	214 397
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from non-current liabilities	41 933	101 065
Payment of non-current liabilities	-113 481	-89 891
Increase (-) / decrease (+) in non-current receivables	-193	-10 917
Increase (+) / decrease (-) in current liabilities	-416	-
Increase (+) / decrease (-) in current creditors	-68 196	112 170
Dividends paid	-46 907	-41 044
Cash flow from financing activities	-187 260	71 383
NET CHANGE IN CASH AND CASH EQUIVALENTS	-301 467	285 780
Cash and cash equivalents at Jan. 1st	775 958	490 178
CASH AND CASH EQUIVALENTS AT DEC. 31ST	474 491	775 958

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 financial statement of foreign subsidiaries has been translated into Finnish currency at the European Central Bank rate of exchange on the closing day of the financial year. 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 currency at the European Central Bank rate of exchange on the closing day of the financial year.

The Fresh Products development program for the years 2002 - 2008: an obligatory provision of FIM 6.5 million was entered in the financial statements as a personnel support package; in accordance with the Fresh Products development program stretching over several years, as approved by the Board of Directors of Valio Ltd in May 2001. The value of the plants to be closed will be re-assessed in connection with future financial statements, as the measures of the development program will be more definite. The company has an obligation to purchase some of the production plants that are now leased.

All figures in the notes are in FIM '000s.

NOTES TO THE INCOME STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	2001	2000	2001	2000
1. NET TURNOVER BY DIVISION				
Fresh products	3 304 870	2 861 470	3 196 519	2 771 336
Yellow fats	1 169 033	1 131 286	1 166 177	1 130 222
Cheese	2 835 696	2 572 090	2 215 421	2 023 679
Ingredients	582 796	624 882	580 862	624 432
Ice cream	393 690	376 993	389 116	374 358
Others	746 981	648 630	525 940	508 714
	9 033 066	8 215 351	8 074 035	7 432 741
2. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income and expenses comprise the following items:				
Compensation for damages	15	-	-	-
Other extraordinary income	-	815	-	-
Other extraordinary items	-70	-577	-	-
	-55	238	-	-

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000

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 (+)

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
Provision for contingent pension liabilities	784	-10 351	-2 031	-6 666

5. OTHER OPERATING EXPENSES

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
Energy expenses	164 498	145 215	153 671	134 781
Water expenses	46 998	43 004	45 993	42 709
Transportation expenses	418 156	386 096	394 715	373 519
Rental expenses	84 886	67 420	77 151	61 131
Expenses for maintenance of real estate and machinery	138 395	116 896	129 303	108 607
Marketing expenses	283 894	256 655	235 179	218 046
Travel expenses	39 794	31 618	34 245	27 730
IT expenses	72 071	57 565	69 808	57 189
Administrative expenses	90 429	85 515	82 462	76 193
Voluntary staff expenses	40 347	32 310	19 154	13 446
Credit loss	2 045	554	499	372
Other expenses	117 474	105 721	84 969	75 416
	1 498 987	1 328 569	1 327 149	1 189 139

6. NUMBER OF PERSONNEL, AVERAGE

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
Manual workers	2 422	2 263	2 155	2 035
Technical dairy employees	816	729	798	729
Management staff	508	439	469	423
Clerical staff	601	652	453	460
	4 347	4 083	3 875	3 647

7. SALARIES AND BONUSES OF DIRECTORS

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
Supervisory Board, Board, CEO	6 782	5 969	2 027	2 107

NOTES TO THE BALANCE SHEET

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
8. PREPAYMENTS AND ACCRUED INCOME				
Investment grants	-	2 781	-	2 781
Royalties	4 186	6 536	4 186	6 536
Healthcare repayments	3 910	3 171	3 910	3 163
Tax receivables	7 402	6 525	5 906	5 831
Annual credits	466	-	-	-
Pension costs	28 946	-	28 946	-
Industrial butter subsidy	5 462	4 426	5 462	4 426
Other prepayments and accrued income	19 003	26 889	14 438	25 373
	69 375	50 328	62 848	48 110
9. INTANGIBLE ASSETS				
Immaterial rights				
Acquisition cost at beginning of year	29 123	11 684	28 356	10 966
Increases	10 223	17 467	10 077	17 390
Decreases	-241	-	-200	-
Acquisition cost at year-end	39 105	29 151	38 233	28 356
Accumulated depreciation at beginning of year	-19 835	-4 511	-19 250	-4 003
Depreciation for the year	-1 681	-15 352	-1 584	-15 247
Accumulated depreciation at year-end	-21 516	-19 863	-20 834	-19 250
Book value at year-end	17 589	9 288	17 399	9 106
Other capitalized expenditure				
Acquisition cost at beginning of year	328 264	308 714	211 535	198 103
Increases	24 483	20 615	23 214	15 016
Decreases	-5 499	-1 584	-5 499	-1 584
Acquisition cost at year-end	347 248	327 745	229 250	211 535
Accumulated depreciation at beginning of year	-250 235	-209 881	-142 124	-118 810
Depreciation for the year	-24 731	-39 835	-22 634	-23 314
Accumulated depreciation at year-end	-274 966	-249 716	-164 758	-142 124
Book value at year-end	72 282	78 029	64 492	69 411
Total intangible assets	89 871	87 317	81 891	78 517

	CONSOLIDATED		PARENT COMPANY	
	2001	2000	2001	2001
10. TANGIBLE ASSETS				
Land and water				
Acquisition cost at beginning of year	75 221	74 515	73 073	72 467
Increases	862	756	862	677
Decreases	-60	-71	-60	-71
Acquisition cost at year-end	76 023	75 200	73 875	73 073
Book value at year-end	76 023	75 200	73 875	73 073
Buildings and constructions				
Acquisition cost at beginning of year	1 820 666	1 752 888	1 752 124	1 692 116
Increases	45 234	68 414	44 556	60 542
Decreases	-	-534	-	-534
Acquisition cost at year-end	1 865 900	1 820 768	1 796 680	1 752 124
Accumulated depreciation at beginning of year	-1 085 775	-1 016 468	-1 045 759	-979 870
Depreciation for the year	-70 923	-69 673	-67 401	-65 889
Accumulated depreciation at year-end	-1 156 698	-1 086 141	-1 113 160	-1 045 759
Book value at year-end	709 202	734 627	683 520	706 365
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	3 055 400	2 906 895	2 845 680	2 714 665
Increases	114 435	151 643	104 355	135 292
Decreases	-4 938	-5 254	-3 039	-4 277
Acquisition cost at year-end	3 164 897	3 053 284	2 946 996	2 845 680
Accumulated depreciation at beginning of year	-2 203 247	-2 040 876	-2 066 577	-1 908 988
Depreciation for the year	-174 395	-171 971	-159 364	-157 589
Accumulated depreciation at year-end	-2 377 642	-2 212 847	-2 225 941	-2 066 577
Book value at year-end	787 255	840 437	721 055	779 103
Advance payments and unfinished acquisitions				
Acquisition cost at beginning of year	42 584	28 199	36 347	25 362
Increases	127 115	37 725	107 495	34 587
Transfer to finished acquisitions	-47 411	-23 602	-35 581	-23 602
Acquisition cost at year-end	122 288	42 322	108 261	36 347
Book value at year-end	122 288	42 322	108 261	36 347
Total tangible assets	1 694 768	1 692 586	1 586 711	1 594 888
Depreciation of entrance fees for the financial year 2001	-290	-	-290	-
Planned depreciation for the year, total	-272 020	-296 831	-251 273	-262 039
Book value of production machinery and equipment at year-end	646 569	694 600	604 200	649 977

11. CONSOLIDATED AND PARENT COMPANY HOLDINGS

GROUP COMPANIES

	Consolidated Ownership and voting rights %	Parent company Ownership and voting rights %
Jäätelöyhtymä Oy, 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, Finland	100.0	100.0
Smeds & Co Oy, Finland	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 , 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, Finland	50.0	50.0
Suomen NP-Kierrätys Oy, Finland	25.0	25.0
Yoplait Valio Nord AB, Sweden	50.0	50.0
Yoplait Valio Nord Oy, 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	5 400	-3
Asunto Oy Vuorikummuntie 9, Helsinki	100.0	100.0	2 734	-26
Kiinteistö Oy Hiirakkotie 6, Vantaa	100.0	100.0	793	-
Kiinteistö Oy Pähkinämetsä, Vantaa	100.0	100.0	1 217	-
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	963	-1
Kiinteistö Oy Pupuhuhta, Jyväskylä	49.2	49.2	20	-
Kiinteistö Oy Teollisuusneliö, Haapavesi	39.0	39.0	767	3

12. PARENT COMPANY INVESTMENTS

	Shares in group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	292 637	6 438	89 229
Increase	25 780	-	2 512
Decrease	-	-	-2 844
Acquisition cost at year-end	318 417	6 438	88 897
Accumulated depreciation and write-offs Jan. 1st	175 571	-	22 203
Write-offs for the year	-	-	289
Accumulated depreciation and write-offs Dec. 31st	-175 571	-	-22 492
Reversal of write-offs	-	-	3 830
Book value at year-end	142 846	6 438	70 235

13. GROUP INVESTMENTS

	Shares in group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	17 793	7 433	89 233
Increase	320	-	2 512
Decrease	-	-432	-2 844
Acquisition cost at year-end	18 113	7 001	88 901
Accumulated depreciation and write-offs Jan. 1st	-	211	22 203
Write-offs for the year	-	-	289
Accumulated depreciation and write-offs Dec. 31st	-	-211	-22 492
Reversal of write-offs	-	-	3 830
Book value at year-end	18 113	6 790	70 239

	CONSOLIDATED		PARENT COMPANY	
	2001	2000	2001	2000
14. RECEIVABLES FROM GROUP COMPANIES				
Trade debtors	-	-	100 762	69 406
Other receivables	-	-	426	3 466
	-	-	101 575	72 872
15. RECEIVABLES FROM GROUP COMPANIES				
Trade debtors	4 435	1 234	3 111	-

	CONSOLIDATED		PARENT COMPANY	
	2001	2000	2001	2000

16. CHANGES IN SHAREHOLDERS' EQUITY

Share capital, Jan. 1st, 2000 / Jan. 1st, 1999	586 340	586 340	586 340	586 340
Addition 24th April 2001, decision on bonus issue by the Annual General Meeting	6 317	-	6 317	-
Share capital, Dec. 31st	592 657	586 340	592 657	586 340
Legal reserves				
Jan. 1st, 2000 / Jan. 1st, 1999	66 652	58 321	35 580	35 580
Translation adjustments	6 560	8 331	-	-
Legal reserves Dec. 31st	73 212	66 652	35 580	35 580
Retained earnings from previous year, Jan. 1st	1 154 758	1 138 085	708 065	711 635
Dividends	-46 907	-41 044	-46 907	-41 044
Addition 24th April 2001, the Annual General Meeting	-6 317	-	-6 317	-
Retained earnings	1 101 534	1 097 041	654 841	670 591
Profit for the financial year	75 745	57 717	102 750	37 474
Shareholders equity Dec. 31st	1 843 148	1 807 750	1 385 828	1 329 985

17. DISTRIBUTABLE EARNINGS

Retained earnings Dec. 31st	1 101 534	1 097 041
Appropriations included in retained earnings	-419 288	-460 589
Profit for the financial year	75 745	57 717
	757 991	694 169

18. CALCULATORY TAX CLAIMS

From matching differences	32 265	17 959	18 551	-
of which the calculated tax refund has been entered in the financial statements with caution	19 620	-	5 906	-

19. LIABILITIES DUE AFTER FIVE YEARS OR LATER

Loans from credit institutions	149	149	149	149

20. ACCRUED EXPENSES AND PREPAID INCOME

Interest	14 297	11 389	14 275	10 718
Holiday accrual including social security	100 541	91 308	100 250	90 771
Rebates granted	6 167	3 711	3 093	3 177
Wages and salaries including social security	25 849	22 773	16 254	15 268
Royalties	4 880	6 695	4 880	6 695
Social security	37 928	6 513	37 928	3 846
Other accrued expenses and prepaid income	75 754	27 801	55 793	11 825
	265 416	170 190	232 473	142 300

	CONSOLIDATED 2001	CONSOLIDATED 2000	PARENT COMPANY 2001	PARENT COMPANY 2000
21. AMOUNTS OWED TO GROUP COMPANIES				
Trade creditors	-	-	108	418
Other creditors	-	-	4 239	4 800
	-	-	4 347	5 218
22. AMOUNTS OWED TO PARTICIPATING INTERESTS				
Trade creditors	12 395	8 863	6 125	3 857
23. CONTINGENT LIABILITIES				
For own commitments				
Mortgages	782 810	782 810	782 810	782 810
Pledges	87 714	92 105	87 714	92 105
Guarantees	201 969	202 095	201 969	202 095
Leasing commitments	47 903	43 430	34 365	30 427
For commitments of Group companies	-	-	340 354	323 612
For commitments of participating interests	-	906	-	906
For commitments of others	12 800	18 853	12 800	18 853
For own operations	1 120 396	1 120 440	1 106 858	1 107 437
For Group companies	-	-	340 354	323 612
For participating interests	-	906	-	906
For others	12 800	18 853	12 800	18 853
	1 133 196	1 140 199	1 460 012	1 450 808

Valio Engineering Ltd has been presented with a claim for damages that may cause at most an expense of FIM 3 million for the Group.

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The consolidated distributable earnings at Dec. 31st, 2001 are FIM 757 991 000.
The parent company distributable earnings at Dec. 31st are:

Retained earnings	654 840 663.19 FIM
Profit for the financial year	102 750 082.62 FIM
Total	757 590 745.81 FIM
	127 417 616.64 EUR

The Board of Directors proposes to the Annual General Meeting that a dividend of 8% on the nominal value of the shares of EUR 272 (FIM 1 617.24) be declared	7 974 224.00 EUR
To be retained as earnings carried over	9 307 099.34 EUR
	17 281 323.34 EUR

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

Share capital	99 677 800.00 EUR
Legal reserves	5 984 101.53 EUR
Retained earnings	119 443 392.64 EUR
Total shareholders' equity	225 105 294.17 EUR

Helsinki March 14th, 2002

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 1.1.2001 - 31.12.2001 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 102 750 082.62 for the parent company and FIM 75 745 000 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, 14 March 2002

PricewaterhouseCoopers Oy
Authorized Public Accountants

Tauno Haataja
Authorized Public Accountant

STATEMENT BY THE SUPERVISORY BOARD

We have examined the financial statements for 1 January to 31 December 2001, and the auditors' report.

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

The term in the Supervisory Board ends this year for the following members: Kauko Ali-Rantala, Seppo Hakola, Hannu Kainu, Matti Lehtinen, Heikki Olkkonen, Jaakko Rouhiainen and Onni Törrönen.

Helsinki, 15 March 2002.

On behalf of the Supervisory Board

Seppo Hakola
Chairman

VALIO LTD OWNERS DECEMBER 31ST 2001

Valio Ltd is a company of Finnish dairy farmers. Valio is owned by dairy farmer communities that collect or process milk. Production is primarily based on milk delivered by co-operatives committed 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 20 215.48)
Alavuden Osuusmeijeri	Alavus	102
Alueosuuskunta Promilk	Lapinlahti	2 837
Evijärven Osuusmeijeri	Evijärvi	42
* Hirvijärven Osuusmeijeri	Jalasjärvi	46
* Hämeenlinnan Osuusmeijeri	Hämeenlinna	1
Härmän Seudun Osuusmeijeri	Alahärmä	82
Kainuun Osuusmeijeri	Sotkamo	898
* Kangasniemen Osuusmeijeri	Kangasniemi	80
* Kaustisen Osuusmeijeri	Kaustinen	1
Keski-Pohjan Juustokunta	Toholampi	1 271
Keski-Suomen Maitokunta	Jyväskylä	1 378
Kortesjärven Osuusmeijeri	Kortesjärvi	37
* Kuusamon Osuusmeijeri	Kuusamo	265
Kyrönmaan Osuusmeijeri	Isokyrö	124
* Laaksojen Maitokunta	Ylivieska	1
Lammin Osuusmeijeri	Lammi	113
Liperin Osuusmeijeri	Liperi	162
Nilsiän Osuusmeijeri	Nilsiä	288
Nurmeksen Osuusmeijeri	Nurmes	626
Osuuskunta Idän Maito	Joensuu	2 877
Osuuskunta Lapin Maito	Rovaniemi	696
Osuuskunta Maito-Aura	Turku	1 964
Osuuskunta Maitojaloste	Seinäjoki	2 660
* 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 31		29 317
Total share capital		FIM 592 66 mill.

* No procurement or marketing agreement with Valio.

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