

ANNUAL REPORT 2002



## The leading dairy company in Finland

*Valio Ltd is the biggest food business in Finland by net turnover, a dairy company that processes around 80 per cent of all milk produced in the country. Valio is the market leader in all key dairy product groups in Finland and a world-class pioneer as the developer of functional foods. International operations account for one third of net turnover.*

### 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.*



## Contents

|  |    |
|--|----|
| Annual Review by the CEO   | 4  |
| Innovative product development, reliable research                      | 5  |
| Controlled quality chain from farm to shop                             | 8  |
| Valio and the environment  | 10 |
| Efficiency through concentration and investment                        | 13 |
| Cooperation with clients is a benefit for consumers                    | 14 |
| High-quality supplier in nearby areas, EU countries and export markets | 16 |
| Personnel is our asset   | 18 |
| Valio Ltd Organization   | 21 |
| Net Turnover and Personnel   | 21 |
| Five-year Group Statistics   | 22 |
| Supervisory Board, Board of Directors and Auditor                      | 23 |
| Board of Directors' Report   | 24 |
| Consolidated Income Statement  | 27 |
| Consolidated Balance Sheet   | 28 |
| Consolidated Statement of Changes in Financial Position                | 30 |
| Parent Company Income Statement  | 31 |
| Parent Company Balance Sheet   | 32 |
| Parent Company Statement of Changes in Financial Position              | 34 |
| Notes to the Consolidated and Parent Company Financial Statements      | 35 |
| Notes to the Income Statements   | 35 |
| Notes to the Balance Sheet   | 37 |
| Proposal by the Board of Directors to the Annual General Meeting       | 43 |
| Auditor's Report   | 44 |
| Statement by the Supervisory Board                                     | 44 |
| Valio Ltd owners   | 45 |
| Division Boards  | 45 |
| Addresses  | 46 |



The result of Valio's business operations developed favourably and the goals set were substantially achieved. The total result for the year 2002 was nevertheless constrained significantly by some extraordinary factors. These include the write-down for the Sotkamo production plant to be closed in spring 2003, a capital loss from McCadam Cheese Co., Inc. in the US that was sold in January 2003, and additional cover for pension liabilities.

Valio's total market share in Finland grew in 2002. The company also strengthened its position in nearby countries Russia, Estonia and Sweden. Development was particularly positive in Russia, where activities were simplified by transferring import operations to the local subsidiary.

The largest investments were made in Lapinlahti, Seinäjoki and Äänekoski. Valio's development program for fresh products directs investment to those production plants where operations will be concentrated. The project, named KEHO, was

ratified by the Supervisory Board in spring 2001. It will mean significant investment in the coming years to secure the competitiveness of Finnish milk processing in the long term.

Valio expertise has been recognized by a number of bodies. An independent personnel survey rated Valio best company in terms of expertise, working conditions and motivation, polling second in a separate study on business and social responsibility. Valio lactose-free milk drink was elected star

product of 2002 in the Finnish Food Product of the Year competition, while being voted Advertiser of the Year 2002 was a natural recognition of our long-term brand building program. These awards are a sign of the expertise and active contribution of our staff.

Finnish consumer goods business, especially in the food sector, is being opened up to European competition later than the food industry. Increased competition in the retail trade presents Valio with the challenge of making a bigger domestic impact and competing strongly with imports. The advantages we have in open and constructive long-term interaction with clients and suppliers together with uniform operations are the keys to success. At its best, domestic cooperation between the retail trade and Valio is a success factor for both parties.

Competition will become fiercer as the EU expands, so it is important to focus especially on research and development and identify the needs of our clients. Valio

R & D investment for 2002 was above average for the dairy business at more than four per cent of value added. We must continue to create the leading-edge products resulting from this activity and meet consumer needs that develop demand beyond domestic markets. We are well placed with cooperation agreements formed in Norway, Switzerland and Spain in 2002.

The changes to the Agenda 2000 decision suggested by the EU Commission, and the earlier implementation of these, would cause substantial market disturbance and hinder long-term planning at farms. The proposed additional reductions in intervention prices, asymmetrical cuts in butter and milk powder prices with only partial compensation paid to the farmers, as well as the separation of subsidies from production, will all create uncertainty throughout the dairy business. Export operations that are of particular importance to the Finnish dairy industry would also suffer a great deal, weakening profitability and threatening the operating structure of the entire line of business.

Confidence in the future goes hand in hand with my thanks at this time for all who are working with Valio. Our clients and other cooperation partners, dairy farmers and their representatives, as well as personnel all made important contributions last year as ever. The development programs currently underway at Valio will make us an even more efficient and competitive dairy company. All of this inspires success as we secure the transparency of the Finnish quality dairy chain that leads all the way from the farm to the consumer.

Olavi Kuusela

## Innovative product development, reliable research

**The products developed by Valio fall into three groups: health, indulgence and basic. The majority are high-quality basic products meeting customer needs. Functional foods and value-added products are often built on patent-protected innovations or new technological applications.**

Valio R & D investment totalled € 9.7 million, which is 4.3 per cent of value added and 0.6 per cent of net turnover in the year 2002.

Research and development employs 120 people and around one-third of them works in development projects related to new technologies or product concepts. The focus of product development lies in functional foods, such as the Gefilus product range containing probiotics, as well as the Evolus and Benecol product ranges.

The development of functional dairy products is just a part of the development effort. Continuous work on the extensive range of basic products, in types such as low-lactose/lactose-free, low-fat/fat-free, enriched products and so on requires the greatest contribution in product development.

Lactose-free milk drink could not have been created without years of technological development in low-lactose HYLEA products. Low-fat cheeses could not have been made tastier without long-term expertise in starter bacteria and technology. Broad-range, interdisciplinary expertise is emphasized most especially in innovation.

### Pioneering work requires real know-how

Functional foods do not as yet have an official definition in the EU and it is likely to be several years before they do. Valio nevertheless sets stringent criteria regarding the need for clinical testing. The Gefilus, Evolus and Benecol product ranges are defined as functional foods on that basis.

Evolus milk drink for controlling blood pressure has been on the market in Finland for two years now, attracting a regular group of users. Evolus production technology has been enhanced and the taste made milder for international markets. The first licensing agreements in Europe were signed last year – products will be launched during 2003. The effect of Evolus on blood pressure is demonstrated in three clinical tests and using a number of test models.

The Benecol product range for lowering cholesterol expanded from fat-free yogurts into fat-free fermented milk, while matured low-fat Valio Benecol cheese was launched at the beginning of 2003. Benecol cheese made with vegetable fat has a fat content of only 17 per cent, of which one third is rapeseed oil. Benecol products have been clinically tested and shown to lower cholesterol at the recommended daily dose.

Lactobacillus GG is the most researched probiotic in the world and Valio has now licensed it in as many as 30 countries. There are dairy products, mostly yogurts, containing Lactobacillus GG on the market



*Benecol product range now includes fat-free fermented milk alongside yogurts.*

in 27 countries, and pharmaceutical products, such as capsules, in 7 countries. Three new licensing agreements were signed last year, so more new products will be launched during 2003.

The demand for pharmaceutical LGG capsules increased last year as a result of new clinical trials. The Gefilus range contains LGG and offers many different

Innovative product development,  
reliable research

products in Finland. The technology developed for different product applications will gradually open up new applications worldwide. In addition to yogurts there will be probiotic cheeses and juices, which have been available in Finland for many years. Research into the effects of LGG in both the digestive tract and the immune system continues.

### New business from lactose technology

The lactose-free milk drink patented by Valio is a second generation product for lactose intolerants. Dairy companies around the world are interested in licensing the product and the first licensing agreement has been signed in Europe.

Valio and Nordzucker AG have made an agreement under which Valio will sell immobilized lactase enzyme to Nordzucker, along with related technology for hydrolyzing lactose. Nordzucker AG will begin to manufacture the low-calorie sweetener tagatose in spring 2003. Valio's method is a part of this manufacturing process.

In continuous hydrolysis, the immobilized lactase enzyme degrades lactose into galactose and glucose. Hydrolyzed lactose is about twice as sweet as lactose, so when lactose is split, the product becomes sweeter. The continuous method is significantly less expensive than a batch process.

Valio was developing immobilized enzyme technology as early as the 1970s, and also began the continuous hydrolyzation of lactose contained in whey at that time. Today, Valio applies this method to produce different whey syrups

that are used in sweetening e.g. different juices.

### Special expertise in low-fat cheeses

The taste and composition of low-fat cheeses (maximum fat content 17 per cent) has been improved in recent years by attending to the different phases of production. Special focus has been placed on the maturation process and Valio's own starter bacteria that provide taste. In-house starter production makes it possible to develop new cultures for internal use.

Optimized processes are used in the production of all Valio's low-fat cheeses, but they have been combined in a special way in Polar 5 cheese. It contains only 5 per cent fat and was launched at the beginning of 2003 as the result of years of product development. Valio low-fat cheeses contain a normal amount of salt – the technology used provides enough taste without its excessive addition.

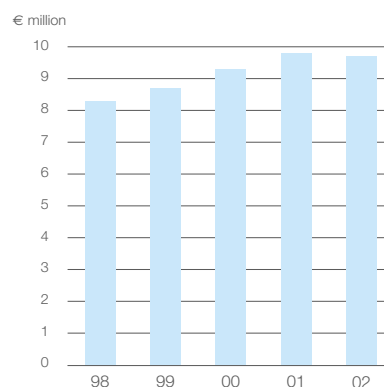
### Networking delivers added strengths

The range of dairy products is so broad that overstretching can easily dilute the focus of development. Networking adds pace and strength to product development. Valio R & D has made a cooperation agreement in product development with three European dairy companies: Emmi of Switzerland, Iparlat of Spain and Tine of Norway. These companies have priority access rights to all Valio's patented innovations. Valio in turn is able to draw on the special expertise of each company in appropriate areas of product development.



*Valio lactose-free milk drink was selected star product of 2002 in the drinks category of the Finnish Food Product of the Year competition.*

VALIO GROUP R & D EXPENSES



*Safe and high-quality  
products*

Controlled quality chain  
from farm to shop





**The Valio milk quality system starts at the dairy farm and continues along an unbroken chain to the supermarket shelf and consumer. Each stage is controlled by experts committed to common goals.**

Valio Group had 15 264 dairy farmers at the end of the year 2002. Valio took in 80 per cent of all the milk delivered to Finnish dairies last year. Because the dairy farmers play a critical part in the milk quality chain, Valio Group has paid special attention to building a quality system for the farms.

More than 92 per cent of the milk comes from quality contract farms. Each one employs a regularly updated quality manual that includes instructions for working to sound production practices. The dairy farmers play a key role in quality assurance. Advisors to the cooperatives make regular evaluation visits to ensure that the jointly determined quality criteria are being met.

The quality of the milk produced in Valio dairy farms in 2002 was excellent. Measured by the amount of bacteria, 99 per cent of the milk was rated E (top) class, as it also was by cell count at 94 per cent. The sensory quality of raw milk as evaluated in 2002 had improved over the previous survey conducted in 1997.

### Quality training and advice

Valio dairy farmers have actively developed their own expertise by participating in quality training arranged by the cooperatives and their partners. Around 40 per cent had completed supplementary quality training by the end of 2002.

In recognition of realizing high quality milk, and promoting the well-being of animals along with environmental care, a dairy farm that meets the requirements set can be granted Valio Farm status. Around 10 per cent of the dairy farms have earned this right that acts as a guide to the source of high-quality milk.

Valio and its partners support dairy farm development through advisory services that cover silage production, animal health, feeding, milking and milk handling.

The accessibility of advisory services was improved by enhancing ease of use for the Valio dairy farmers' intranet service *Valma*. Valio is also responsible for the operation of two regional laboratories. They offer analyses that are utilized by dairy farms, milk pricing and the milk processing industry.

The most important procedure in 2002 was the evaluation of silage risk and determination of best feeding practices. Perhaps the most significant instructions passed on during the year were deciding on the minimum daily ration of roughage for the cows, and on an obligation to analyze the composition and quality of silage produced on each farm.

### Certified production

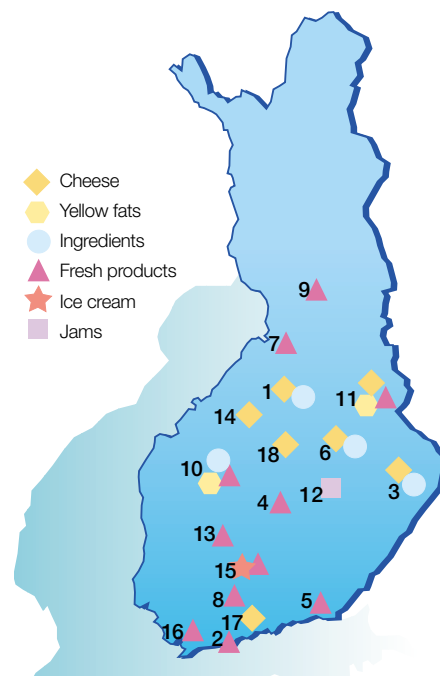
Valio production plants have a certified quality management system including both quality and environmental certificates. Criteria for hygienic ways of working were added to the system as the basis for developing plant hygiene.

The new decree in Finland on milk hygiene entered into force in 2002. Its requirements state that production plants must be divided into separate hygiene areas, and the standard required of each will be determined according to what is done there.

Fast delivery and an unbroken cold chain are essential elements of product safety. A large proportion of Valio fresh products are delivered to the client on the day of production, within just a few hours of an order placement.

The safe transportation of milk from farm to retailer is tracked by a number of quality indicators in line with Valio's quality management system. For example, the proportion of class II raw milk produced, deviations in the quality of milk loads, production wastage of milk and in packing materials, and the amount of consumer feedback are all followed. These factors are included in the performance and quality production capacity indicator for the entire Valio production chain. The company's total error costs in production fell by around € 1 million compared with 2001.

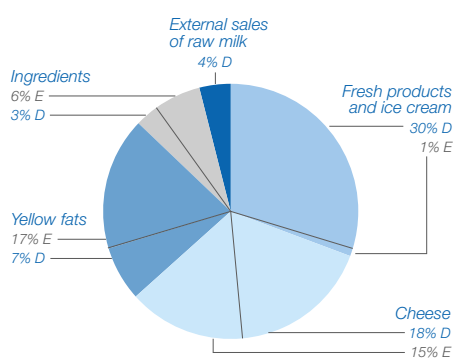
### Valio Ltd production plants



#### Locations

- |                             |                                     |
|-----------------------------|-------------------------------------|
| 1. Haapavesi                | 11. Sotkamo (closing 2003)          |
| 2. Helsinki                 | 12. Suonenjoki                      |
| 3. Joensuu                  | 13. Tampere (planned to close 2008) |
| 4. Jyväskylä                | 14. Toholampi                       |
| 5. Kouvola (closing 2004)   | 15. Turenki                         |
| 6. Lapinlahti               | 16. Turku (closing 2003)            |
| 7. Oulu                     | 17. Vantaa                          |
| 8. Riihimäki                | 18. Äänekoski                       |
| 9. Rovaniemi (closing 2003) |                                     |
| 10. Seinäjoki               |                                     |

SHARE OF MILK USED FOR MAIN PRODUCT GROUPS IN DOMESTIC SALES AND EXPORTS



D = products sold in domestic market  
E = products sold in foreign markets

## Valio and the environment

**Valio's environmental objectives are to save energy, cut the quantity and loading of waste-water, reduce the amount of waste disposed of as refuse and increase waste recycling.**

In the Finnish survey *Yritykset ja yhteiskunnallinen vastuu* (businesses and social responsibility) conducted by Marketing Radar Ltd in 2002, consumers felt that Valio's attitude towards social responsibility was the second best of the 22 companies assessed. The survey found that the prevention of environmental pollution is considered by far the most important factor related to social responsibility.

Consumers rated the promotion of energy saving measures as factor number two.

Valio holds an ISO 14001 environmental certificate covering all its domestic operations. The operating environmental system is regularly evaluated both internally and externally, by unit and for Valio as a whole.

Valio reached its environmental objectives set for 1999–2002, the one exception being a targeted 2 per cent decrease in the quantity of waste-water produced. But the waste-water load, or total amount of organic substances per tonne of product manufactured, was reduced by 2 per cent as set.

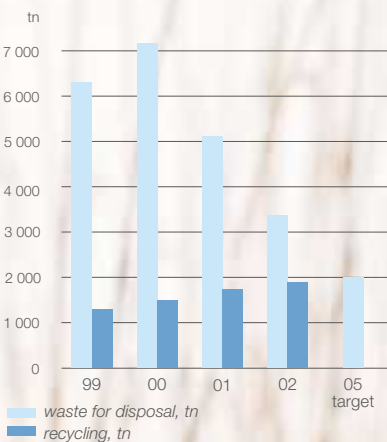
In accordance with two objectives per tonne of product manufactured, the quantity of material available for recycling was increased by five per cent and energy consumption decreased by five per cent.

The quantity of waste for disposal was reduced by significantly more than the 20 per cent goal set for the years 1999–2002. This was due to improved recycling of packing waste and better opportunities for its use in producing energy.

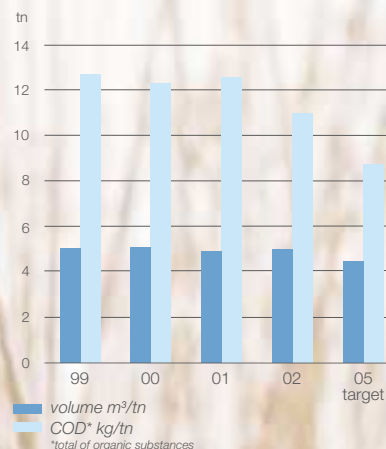
The disposal of liquid waste as refuse was prohibited at the beginning of 2002. Valio was ready and equipment had been purchased to open liquid product packages. The contents go for animal feed and the packaging material itself is recycled. Liquids not suited for use as animal feed are sent for anaerobic decomposition mixed with sewage sludge. The resulting gas can be utilized as energy.

New objectives have been set for 2003–2005 accounting for the status quo at the end of 2002. These are to reduce energy consumption by 10 per cent, the quantity of waste-water produced by 10 per cent, and waste-water load by 20 per cent proportional to production volumes. The amount of waste that can be disposed of will rise by 40 per cent, package use will be reduced by 4.5 per cent, and the

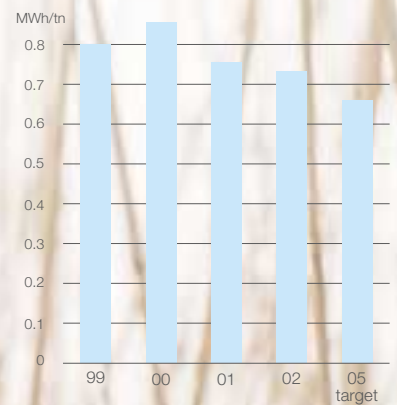
DECREASE IN WASTE FOR DISPOSAL 40%  
2002 – 2005



DECREASE IN WASTE-WATER  
VOLUME 10% AND LOAD 20% PER TONNE  
PRODUCT MANUFACTURED 2002 – 2005



DECREASE IN ENERGY CONSUMPTION 10%  
2002 – 2005





*Valiojäätelö Ruutu lemon-licorice, best-selling indulgence ice cream in Finland 2002.*

usability of recycled material for energy production must be improved.

### Packages reused to advantage

Valio products come in disposable consumer packages, and their recycling and utilization in energy production continues to improve. The company has worked with materials suppliers since 1993 to reduce the amount of aluminium in packages, as well as the use of plastics containing chlorine.

The quantity of aluminium present in domestic butter wraps has been especially reduced in recent years. A survey concerning the aluminium wraps of Koskenlaskija and Aura cheeses was completed in 2002, and new, low aluminium wraps are being introduced early this year. The use of plastics containing chlorine in domestic consumer packages ended altogether in 2002. Their use in export packaging will end this year.

Valio persists in its long-practiced policy of minimizing the quantity of transport packaging material, through the development of multi-purpose package units and re-usable transport packages – milk boxes, trolleys and dollies. This system based on rolling transport units continues to broaden its scope and a significant number of corrugated board boxes, currently used in wholesale packaging, will be replaced with new plastic boxes during 2003-2004. As the system is introduced in all product groups, the use of corrugated board will decrease by around 3 600 tonnes per year.

A significant reduction in the use of corrugated board in industrial butter packaging can now be made starting this year.

### More efficient transportation

Rather than run its own fleet of collection and distribution vehicles, Valio arranges transportation to carry milk from farms to dairies and distribute products to clients. Computerized route optimization and avoiding rush hour traffic keeps distances travelled to the minimum possible.

The haulage equipment is used efficiently. One articulated vehicle for collection can carry as much as 40 000 liters of milk. The utilization rate of distribution vehicles has been increased by transporting other than Valio foodstuffs.

Distances covered will grow as the fresh products development program proceeds, and their production is concentrated to three dairies by 2008. Valio aims to decrease the environmental effects of transportation by shifting further toward two-tier distribution vehicles. This will reduce kilometers travelled in distribution by about 5 per cent.

The engines running haulage equipment are also becoming increasingly environment friendly. The development of engine efficiency that is already foreseeable

indicates a lower level of environmental emissions by 2005 than today.

### Ethical quality in primary production

The ethical quality of milk takes in production methods and the circumstances in which the cows live. Environmental issues at the farm contribute to ethical values. Valio contract farms have committed to follow the Valio milk quality program that takes ethical qualities into account.

The well-being of animals involves attending to typical species behaviour, individual care and the prevention of illness. A farm environment run as per the quality program communicates systematic operation, cleanliness and care.

Valio participated in the "Environmental effects in the food basket – FOODCHAIN" project of the Technical Research Centre of Finland VTT and MTT Agrifood Research Finland. A part of the project comprises a lifecycle evaluation of blue label Finnish Emmental cheese, and the environmental load in accordance with actual production chains was studied.

The project's conclusions have added weight to the idea that a significant proportion of environmental effects caused by a production chain lie in primary production. The study found items for improvement to decrease the environmental load of milk production. The results will be employed in advisory services and in planning environmental indicators for primary production.

# Efficiency through concentration and investment

**Securing continuity for the work of dairy farmers is one of Valio's core values. The goal is that the producer price for milk is on a par with the best dairy companies in Europe, and that goal has been met.**

The further enhancement of production and logistics is necessary in a market where competition is increasingly fierce. In accordance with Valio's development program for fresh products (KEHO), production will be concentrated in just three dairies by the end of 2008 – Jyväskylä, Oulu and Riihimäki. Sufficient investments have been made so they can absorb the capacity of the units to be closed.

In fact, investments in production have increased significantly from previous years to stand at € 53 million. Valio Production succeeded in keeping the cost per liter of milk taken in at the same level as the year before, while KEHO will begin to create cost savings in the years to come.

The producer price of milk rose at the beginning of 2002, but Valio compensated for the majority of the increased raw material costs by cutting wastage and other error costs.

## Investments in 2002

The largest investment in 2002 was the new milk reception and processing facility at the Lapinlahti plant to increase milk processing capacity and meet new hygiene requirements.

Another big project was the renovation of the Aura cheese plant in Äänekoski to increase production capacity for Aura cheese and also raise the level of production hygiene.

There were a number of developments in Seinäjoki. A new packing line for industrial butter was an environmentally significant investment that eliminates Valio's use of

corrugated cardboard packaging. Cost savings will at the same time be made both in production and for clients. The concentration of quark production and transfer of cottage cheese production began. A new, low-energy evaporation plant was completed, which increases production capacity for milk powder and improves product quality.

Yogurt production was concentrated at Riihimäki in line with the fresh products development program. In order to respond to high demand for lactose-free milk drink, production equipment investments were made in Joensuu and Kouvola.

## Investments planned

Production investments for the year 2003 will total around € 70 million.

Cottage cheese and quark will be produced solely in Seinäjoki by the end of the year. New warehousing facilities for returnable goods will be completed in Riihimäki, alongside product storage automation.

The Jyväskylä plant will switch to the component production of dairy products. This means making different types of milk using the packing machine to mix skim milk with either light cream or whole milk. Products will no longer be pre-mixed in the tank prior to packing and this allows for a more flexible operating structure. Heat treatment equipment guarantees longer preservation for milks and creams and will be installed at Jyväskylä. The new products stemming from these different ways of working will taste exactly the same as now. Storage facilities will also be upgraded in Jyväskylä and Oulu to handle a higher volume of liquids there as KEHO program reorganization begins to take effect.

In Haapavesi, production capacity for Oltermanni cheese will be increased to meet growing demand, and whey processing will be upgraded by the purchase of

## Securing the work of dairy farmers



*Liquid Voimariini has the same great taste and cooking qualities of Voimariini in a handy new bottle!*

new electro dialysis equipment for the removal of whey salts.

Milk reception facilities will be upgraded in Joensuu and the fresh cheese packing line will be replaced with a new and more flexible one.

All plants have drawn up plans to improve hygiene levels in accordance with new milk hygiene standards. The allocation of different hygiene areas will require significant investments.

## Cooperation with clients is a benefit for consumers

**Valio is the market leader in all key dairy products in Finland. The objective of Valio Domestic Sales and Marketing is to respond to the changing needs of consumers through close cooperation with its clients.**

Cooperation with clients sets out to help them succeed. A profound customer orientation requires that Valio and its clients – the retail trade, HoReCa (hotel, restaurant, catering) and industry – work together in analyzing markets, product groups, service company customers and consumers.

Such analyses create a foundation on which to construct operations that support the business idea of clients and seek success. Partnership is created when both parties are committed to common goals.

### **New products**

The Valio brand has strong roots and is accorded pioneer status in its field. A corporate image survey conducted by the Finnish Food Producers association, and a number of brand studies, consider Valio the highest quality and most trustworthy foodstuffs brand in Finland. Its promise to consumers is crystallized in the slogan "Good all the way" which takes in respon-

sibility for the entire operating chain and is an expression of the company's core values.

The success of Valio lactose-free milk drink strengthened consumer relations in marketing. It took first prize in the drinks category of the Finnish Food Product of the Year competition and was elected star product of 2002. In the special milks category, Valio Luomumaito organic milk is also developing favourably.

Valio's pioneering lead is shown in its functional food products such as the flavoured, non-fat Viili fermented milks launched in the Gefilus product range in spring. Evolus milk drink that reduces blood pressure was joined by a new, sugar-free strawberry drink. A joint product of Valio and Raisio, Benecol fermented milk with plant stanol for lowering cholesterol was also launched in 2002.

New Valio yogurt Helmi with a fat content of 0.1% was added to the company's yogurt selection.

Sales of Valio low-fat cheeses were boosted by improvements in taste and texture. In total, low-fat cheeses account for as much as one third of all sandwich cheese sales in Finland, and their market share grew by more than 13 per cent in

2002. Valio's sales in this category grew over 20 per cent.

An autumn launch in the yellow fats category, liquid Voimariini in a plastic bottle represents a new kind of thinking at Valio.

Summer 2002 was perfect for ice cream. Previous sales records for the season were broken as measured both by value and volume. The three best-selling new impulse products in Finland were Valio-jäätelö Juhlattuutti, Classic Maximum cream toffee and Pingviini kinuski. The Valiojäätelö Ruutu series was launched as a take-home item in the indulgence category and became very popular.

### **Direct customer relations**

Services for consumers are an important part of Valio product information services. More than 20 000 telephone calls about products and their use were expertly handled by our consumer advisors during the year.

In addition to cooking, product and nutrition brochures, we published *Meillä kokataan* in our cookbook series and it was an instant success. More than one thousand recipes were tried out in the Valio test kitchen.

Valio's website at [www.valio.fi](http://www.valio.fi) was upgraded in spring 2002 in terms of both content and design. The site contains a corporate component and a large section on food and nutrition for consumers. The electronic cookbook compiled by Valio test kitchen is one of the most extensive in Finland.

It is possible to register free of charge as an active user in order to take advantage of the extended service.

A lively interest has been shown in the new online service, attracting more than 50 000 visitors per month. There are more than 30 000 active registered users.

The new online service complements the *Kodin Ruokavuosi* magazine and offers fresh and different kinds of interactive involvement for users. *Kodin Ruokavuosi* has around 200 000 subscribers and is in effect one of the most popular food magazines in Finland.



*Soft and full, Helmi yogurt is fat-free and filled with fruit. Enjoy it with a clean conscience!*



## High-quality supplier in nearby areas, EU countries and export markets



**The strategic focus of Valio International lies in nearby areas: Sweden, the Baltic States and North-West Russia, including Moscow. The objective is to improve the profitability of Valio milk sold abroad. This is achieved by selling more consumer products with market and added value to nearby areas and the EU countries. Nearly 40 per cent of the milk taken in by Valio is sold as different products in international markets.**

Valio is highly regarded in the EU and export markets as a reliable supplier and cooperation partner. Pure milk as the raw material for milk processing and the trace-

ability of its origin is emphasized in sales. Clients in international markets that purchase butter and ingredients particularly appreciate the fact that the end product can be traced all the way back to the dairy farm.

Import operations in Russia were transferred completely for handling by Valio's subsidiary in St. Petersburg at the beginning of 2002. The change in strategy was very successful. Sales in Russia grew by more than 20 per cent and the net turnover of ZAO Valio St. Petersburg increased ten-fold compared with 2001.

The growth in Russian sales was also affected by the increased purchasing power of Russian consumers as the economic

and political situation in the country stabilized. Sales were further boosted by greater investments in Valio butter marketing, and in Viola and Oltermanni cheeses that have a long history in Russia with a safe and familiar image.

Valio established a joint venture in Latvia with Rigas Piena Kombinats, a dairy company based in Riga. The core business of the new company SIA RPK-Valio is to market functional foods in Latvia, especially Valio Gefilus products, along with other added-value products and indulgence items. Finnish retail chains are vigorously expanding to the Baltic States, and our objective is to support our clients' requirements for growth.



Valio subsidiary Valio-Vache Bleue S.A. in Belgium has acquired status as an important supplier to the Carrefour chain. The companies also have close cooperation in logistics.

Valio's English-language website at [www.valio.com](http://www.valio.com) was upgraded in spring. It now provides an even better service for our clients and caters increasingly to consumers as well. Valio magazine Milkshake provides information for international clients and has been published in a revised form for two years now.

### The best-known export brands

In **Sweden**, sales of Valio lactose-free milk drink began in November. The product became an instant success with sales in the first couple of months exceeding forecasts by a factor of ten.

The new Vanilj yogurt product range was also well received and complements the already well-established selection of Valio yogurts in Sweden.

In **Estonia**, Valio's Alma and Gefilus brands hold a strong position in the fresh products sector. Alma is the brand market leader in milks, cream, fermented milk and yogurts; dessert quarks quickly rose to second slot after their market launch.

In **Russia**, Valio is the market leader in processed cheese and butter. Valio butter and Viola processed cheese are both popular with Russian consumers. Valio butter was elected "brand of 2002" in the butters category.

Oltermanni cheese has also become very popular among consumers. Taking in Moscow and St. Petersburg, Valio is the market leader in hard cheeses.

In the **United States**, Valio subsidiary Finlandia Cheese launched its Sandwich Naturals products for the cheese shelf. Cheese had mainly been sold at the cheese counter in the US before that. The cheese exported from Finland is sliced for sale in consumer packs.

Finnish Emmental cheese, Finlandia Swiss, is the leading imported Emmental cheese and highly regarded by consumers. Product distribution covers nearly 100 per cent of retail outlets in the North-East US.

In **Belgium**, the Valio brand is known as Finnish Emmental. Vache Bleue is a pioneer of packed cheeses and cheeses for cooking, and Bellelignee is a recognized low-fat cheese.

In the industrial products sector, Valio is one of the world's leading producers of



*The National Trading Association of Russia awarded the gold medal for 2002 to Valio butter in its product category.*

demineralized whey powder. Valio intensified cooperation with international clients as a supplier of DEMI and created new client relations.

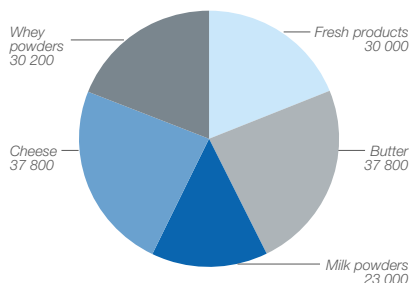
Valio stabilized its position in sales of industrial butter to bakeries in the EU countries.

### Improving the consumer position

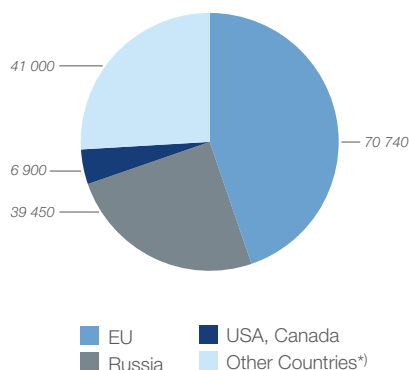
Consumer needs are followed with regular, market-specific surveys. The results are used to guide operations and new product development. The goal is to develop a consistent Valio brand and adapt it to different market areas in order to establish a strong regional presence.

The brand image is built around untainted Northern origins and unspoilt, even exotic nature. Emphasis is also placed on reliability, tasty products and strong expertise.

SALES VOLUME BY PRODUCT GROUP (tonnes) 2002



SALES VOLUME BY AREA (tonnes) 2002



\*) Far East, Southeast Asia, Middle East, Africa, Latin America, Baltic States

## Personnel is our asset

**In order to succeed, a company needs a reliable staff made up of different types of people and varied expertise. Valio has done well in caring for this important asset. A personnel survey of 28 Finnish companies, conducted by IC Insight Oy in 2002, ranked Valio top in all areas examined – expertise, motivation and the prerequisites for work.**

Healthy Organization is a personnel inquiry conducted each year to measure Valio's working atmosphere and personnel well-being. In 2002, the study indicated that working atmosphere and well-being developed positively in as many as 13 factors out of 16. Development discussions in particular saw great improvement.

The results of the inquiry encouraged Valio to focus especially on the development of involved leadership and expertise.

### Learning, leadership and expertise

The Learning Leadership training program arranged in cooperation with the University of Jyväskylä initiated a number of practical projects during 2002. They focused on learning and the development of the working community. The majority of supervisors participated in training that involved planning sound measures for the workplace, to improve learning and increase the challenge presented by work itself.

Valio invested nearly € 1.5 million (direct cost) in training during the year. The goal was to prepare an individual learning plan for each Valio employee.

Since 1988, every Valio employee has had the opportunity to complete a Valio course that comprehensively familiarizes the trainee with the company's operations. Study materials were put on the Valio intranet in 2002, supporting written information with interactive exercises and

a wealth of visual images. The online training package was well received and as time goes on will allow a significant increase in the number of students.

### Working capacity and working environment

The working capacity of Valio employees is strong: the mean index value on a scale of 7–49 stood at 41.6 (year 2001: 41.7). Working capacity is significantly affected by the working environment to which we pay special attention, drawing up new safety plans for each Valio unit in 2002.

Crime and fire safety audits were carried out together with an insurance company in key production plants, based on which an extensive development program for several years ahead was accepted for Valio Group. It includes investments that safeguard structural and technical aspects of the buildings, as well as investments in safety training.

Due to increase in the number of accidents involving slipping and falling, a tidiness and organization campaign was arranged at the plants. The Finnish Institute of Occupational Health has developed the so-called Tuttava method for safely productive working practices, which Valio has adopted.

Individual well-being was supported with a weight-control program and Valio employees lost a total of nearly 1 800 kilos! Better health improved working atmosphere, too.

### Anticipating change

Valio fresh products development may mean transfers and shutdowns of production plants in the coming years. This will require strength and a readiness for change, most especially amongst our staff. Valio created a special support package in 2001 to facilitate the change. It includes both psychological and financial support.

During the year 2002, 25 employees moved to a unit under development, and plans were drawn up involving another 121 people.

Valio has developed recruitment in the long term, which attracts interest in the company as an employer. According to a survey carried out by Universum Communications at the beginning of 2002, Valio's employer image among students of

### Valio Ltd Personnel

The number of personnel by site on 31 December 2002 totalled 3 723 (including part-time workers and those on fixed-term employment).

|                    |              |
|--------------------|--------------|
| Haapavesi          | 130          |
| Helsinki           | 805          |
| Joensuu            | 156          |
| Jyväskylä          | 290          |
| Kouvola            | 205          |
| Lapinlahti         | 261          |
| Lappeenranta       | 11           |
| Nastola            | 2            |
| Oulu               | 220          |
| Riihimäki          | 268          |
| Rovaniemi          | 22           |
| Seinäjoki          | 315          |
| Sotkamo            | 63           |
| Suonenjoki         | 86           |
| Tampere            | 182          |
| Toholampi          | 67           |
| Turenki            | 220          |
| Turku              | 168          |
| Vantaa (Tikkurila) | 14           |
| Vantaa (Vaarala)   | 186          |
| Äänekoski          | 52           |
| <b>Total</b>       | <b>3 723</b> |

- 53 per cent of staff is female, 47 per cent male.
- Average time in employment is 13.6 years.
- Average age is 39.8 years.

economics rose in ranking to 16 (from 67 in 2001), and among students of technology from 46th to 21st.

Valio has also been intensely involved in the Milk Works dairy industry joint project. Its objective is to raise awareness amongst young people about training for the dairy industry. Results were already visible in spring 2002: the numbers of applicants to Häme Vocational Institute and for the Dairy

Technology Option at Häme Polytechnic had doubled from the previous year.

Employee initiatives were boosted by a specific campaign and 65 per cent were approved. Valio employees produced 61 initiatives per 100 people.

### Open cooperation

Cooperation between different personnel groups is close and the personnel cooper-

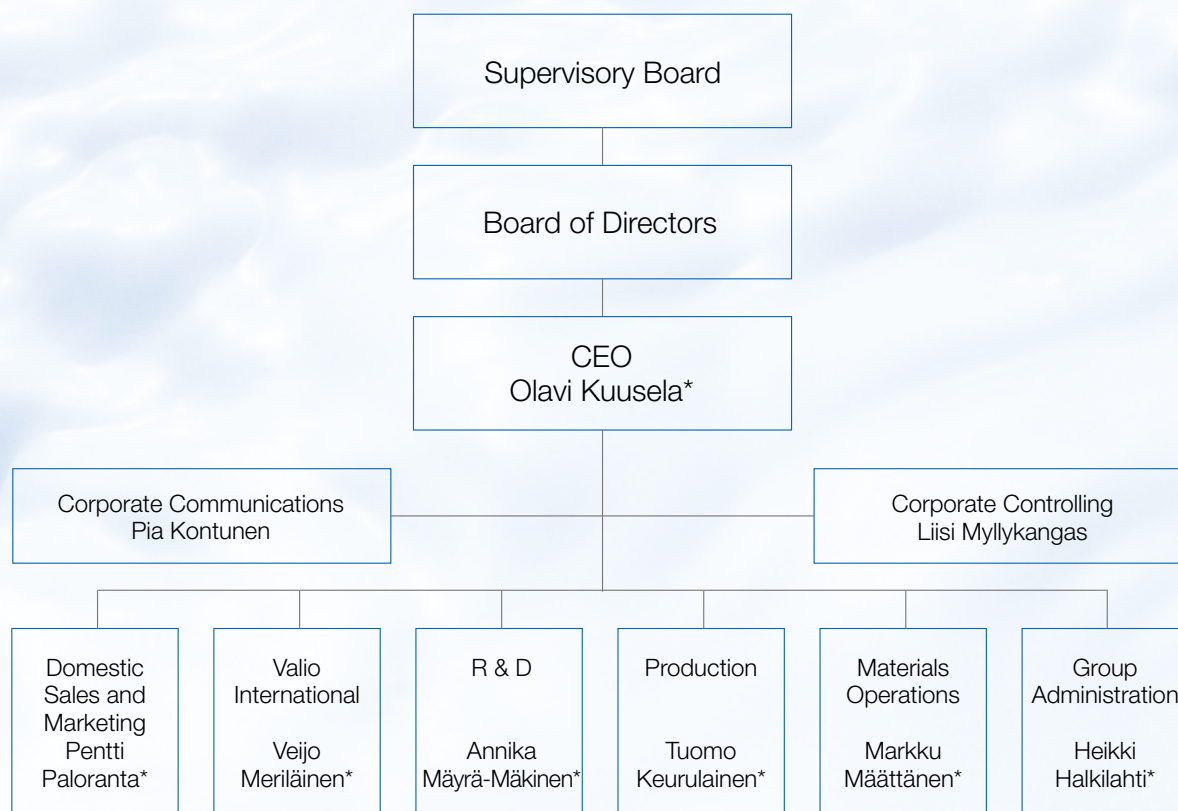
ation body convened five times. The meetings dealt extensively with both day-to-day and long-term personnel strategy issues.

Valio management and chief shop stewards convened twice during the year to assess the present situation. Four personnel representatives sit on the Supervisory Board and there are also representatives in the Division Boards.





# Valio Ltd



\*Member of Valio Management Group

## Valio Group

### Net turnover and personnel 2002

|                                 | Net turnover<br>€ '000s | Average no.<br>of personnel | Personnel<br>31 Dec. 2002 |
|---------------------------------|-------------------------|-----------------------------|---------------------------|
| Valio Ltd                       | 1 423 177               | 3 902                       | 3 723                     |
| Valio International U.S.A. Inc. | 98 468                  | 194                         | 180                       |
| - McCadam Cheese Co., Inc.      | 70 261                  | 181                         | 167                       |
| - Finlandia Cheese Co., Inc.    | 43 471                  | 13                          | 13                        |
| Valio - Vache Bleue S.A.        | 92 202                  | 117                         | 117                       |
| Valio Sverige AB                | 22 854                  | 36                          | 36                        |
| Valio Eesti AS                  | 14 164                  | 120                         | 120                       |
| ZAO Valio St. Petersburg        | 89 187                  | 28                          | 32                        |
| UAB Valio International         | 457                     | 3                           | 3                         |
| Valio Engineering Ltd           | 77                      | -                           | -                         |
| <b>Valio Group total</b>        | <b>1 600 129</b>        | <b>4 400</b>                | <b>4 211</b>              |

## Five-year Group Statistics

|  | 2002  | 2001  | 2000  | 1999  | 1998  |
|--|-------|-------|-------|-------|-------|
| Net turnover, € million  | 1 600 | 1 519 | 1 382 | 1 254 | 1 282 |
| Change %   | 5.3   | 10.0  | 10.2  | -2.2  | -5.6  |
| - Domestic, € million  | 1 070 | 1 013 | 918   | 882   | 890   |
| Change %   | 5.7   | 10.4  | 4.0   | -0.9  | -5.0  |
| - International Operations, € million  | 530   | 506   | 464   | 372   | 392   |
| Change %   | 4.6   | 9.1   | 24.9  | -5.1  | -7.0  |
| Balance sheet total, € million   | 754   | 739   | 716   | 667   | 689   |
| Liabilities % of the balance sheet total   | 59    | 57    | 57    | 55    | 56    |
| Capital and reserves + provisions % of the balance sheet total                         | 41    | 43    | 43    | 45    | 44    |
| Personnel expenditure, € million   | 178   | 164   | 135   | 142   | 147   |
| No. of personnel   | 4 400 | 4 347 | 4 083 | 4 215 | 4 517 |
| Inventories, € million   | 137   | 162   | 139   | 141   | 123   |
| Investments, € million   | 66    | 47    | 46    | 33    | 55    |
| Planned depreciation, € million  | 46    | 46    | 50    | 48    | 47    |
| Price paid for milk to the co-operatives by Valio, per liter total cents <sup>1)</sup> | 37.9  | 37.1  | 36.5  | 35.7  | 35.5  |

<sup>1)</sup> Includes base price, and any extra payments according to composition and quality; milk price adjustments.

## Supervisory Board

|  | Term began | Term ends |   |      |      |
|--|------------|-----------|---|------|------|
| Seppo Hakola<br>Dairy farmer, Kuortane<br>Chairman                     | 1994       | 2005      | Juha Pantsu <sup>1)</sup><br>Shift supervisor, Jyväskylä      | 2002 | 2004 |
| Jaakko Rouhiainen<br>Dairy farmer, Juva<br>Vice Chairman               | 2001       | 2005      | Reino Parkko<br>Dairy farmer, Elimäki                         | 1999 | 2004 |
| Toivo Heikkilä<br>Dairy farmer, Haapavesi                              | 1996       | 2003      | Mauri Penttilä<br>Dairy farmer, Vesilahti                     | 2001 | 2004 |
| Majja-Leena Heiniö<br>Dairy farmer, Kisko                              | 1999       | 2003      | Antti Rauhamaa<br>Dairy farmer, Kärkölä                       | 1998 | 2003 |
| Pentti Hynninen<br>Dairy farmer, Vaala                                 | 2001       | 2004      | Pentti Santala<br>Dairy farmer, Kauhajoki                     | 1997 | 2003 |
| Tapio Hytönen<br>Dairy farmer, Konnevesi                               | 2001       | 2004      | Matti Siitonen<br>Dairy farmer, Parikkala                     | 1998 | 2004 |
| Hannu Kainu<br>Dairy farmer, Kyyjärvi                                  | 1997       | 2005      | Kari Toikkanen <sup>1)</sup><br>Development Manager, Helsinki | 2002 | 2004 |
| Merja Keisala<br>Dairy farmer, Töysä<br>member as of 17 April 2002     | 2002       | 2005      | Onni Törrönen<br>Dairy farmer, Juuka                          | 2001 | 2005 |
| Miika Kiiskinen<br>Dairy farmer, Kestilä                               | 2001       | 2003      | Juhani Väänänen<br>Dairy farmer, Maaninka                     | 1995 | 2004 |
| Jouko Kärki <sup>1)</sup><br>Mechanic, Tampere                         | 2002       | 2004      |   |      |      |
| Harri Laamanen<br>Dairy farmer, Ylitornio                              | 2001       | 2004      | <sup>1)</sup> Personnel representative                        |      |      |
| Matti Lehtinen<br>Dairy farmer, Tammela                                | 1999       | 2005      |   |      |      |
| Pekka Lestinen<br>Dairy farmer, Sysmä                                  | 1998       | 2004      |   |      |      |
| Pirjo Louhevirta <sup>1)</sup><br>Telephone sales employee, Turku      | 2002       | 2004      |   |      |      |
| Sauli Lähteenmäki<br>Dairy farmer, Rusko<br>member as of 17 April 2002 | 2002       | 2005      |   |      |      |
| Tapio Malmiharju<br>Dairy farmer, Artjärvi                             | 1996       | 2003      |   |      |      |
| Martti Mustonen<br>Dairy farmer, Iломantsi                             | 2000       | 2003      |   |      |      |
| Riku Ollikainen<br>Dairy farmer, Lapinlahti                            | 1981       | 2003      |   |      |      |

## Board of Directors

|   |      |      |
|---|------|------|
| Kari Inkinen<br>Dairy farmer, Ruokolahti<br>Chairman  | 1997 | 2005 |
| Tauno Uitto<br>Dairy farmer, Tyrnävä<br>Vice Chairman | 1996 | 2004 |
| Juhani Hörkkö<br>Dairy farmer, Koski TL               | 1998 | 2003 |
| Esa Juntunen<br>Dairy farmer, Vieremä                 | 1998 | 2003 |
| Olavi Kuusela<br>President and CEO, Helsinki          | 2000 | 2005 |

## Auditor

|  |
|--|
| PricewaterhouseCoopers Oy<br>Authorized Public Accountants, Helsinki |
| Tauno Haataja, MBA, Authorized Public Accountant                     |

# Board of Directors' Report 1 January – 31 December, 2002

## General

Valio Group financial performance before extraordinary items stood at € 4.2 million, which was € 10 million less than the previous year. The price paid for raw milk was € 8.6 million higher than for the year 2001.

The operational result continued to develop favourably. It was weakened by the significant rise in pension costs and by write-downs due to rationalization in production and the sale of business operations.

In Finland, Valio took in 1 902 million liters of milk or 2 per cent more than in the previous year. The average procurement share by owner cooperatives delivering to Valio increased by one percentage point from the previous year and totalled 80 per cent of the Finnish dairy milk

volume. Valio Group took in total deliveries of 2 088 million liters of milk, which includes procurement for Valio dairies in the United States and Estonia.

Domestic net turnover grew by 6 per cent. Net turnover increased in all product groups except for baby foods. The market shares of cheese and ice cream rose, while that of liquid milk remained at the level of the previous year, and of yellow fats declined.

Net turnover from international operations grew by 5 per cent, and exports from Finland increased by 2 per cent. Growth was greatest in exports of cheese and butter. Net turnover for foreign subsidiaries rose by 31 per cent. The most significant growth came from the Belgian, Swedish and Russian subsidiaries.

## Shareholders and share capital

The number of shareholders fell by three due to merger activities to stand at 28 at the end of the financial year.

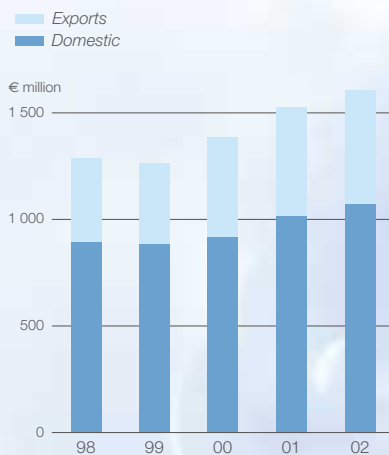
The total paid-up capital of Valio Ltd is € 99 677 800.

## Changes in group structure

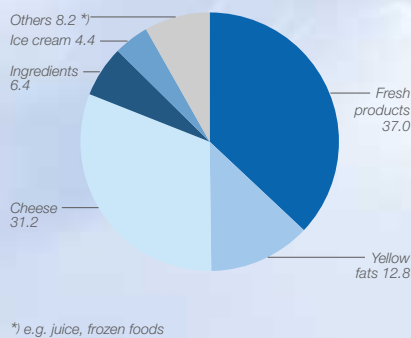
Valio and the Latvian dairy company Rigas Piena Kombinats formed a joint venture called SIA RPK-Valio in Latvia in October. It focuses on marketing functional foods in Latvia.

After the close of the financial year, Valio sold the US business operations of McCadam Cheese Co., Inc. The effect of the sale has been taken into account in the financial statements.

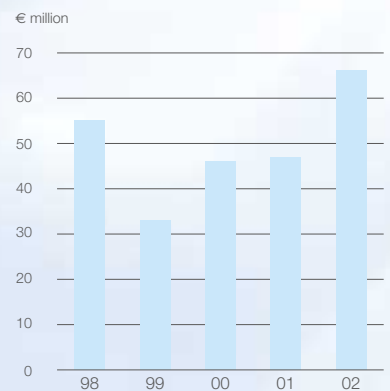
GROUP NET TURNOVER



GROUP NET TURNOVER BY PRODUCT (%) 2002



GROUP CAPITAL EXPENDITURE





## Research and development

Personnel numbers in R & D stood at 120. Around one-third of these staff focused on long-term strategic development projects that aim to differentiate the product mix. Key areas of emphasis include new applications of lactic acid bacteria and separation technologies that have helped to create functional foods and technological innovations. An example of these is the technology for manufacturing lactose-free products and improving the taste of low-fat cheeses. In-house product development has been strengthened in some areas by making agreements on cooperation in product development with three European dairy companies.

Valio R & D investment for 2002 totalled € 9.7 million (2001: € 10 million)

or 0.6 per cent of net turnover (2001: 0.7 per cent).

## Consolidated net turnover

Consolidated net turnover totalled € 1 600 million (2001: € 1 519 million). Domestic net turnover stood at € 1 070 million (2001: € 1 013 million). Net turnover from international operations (exports from Finland and foreign subsidiaries) totalled € 530 million (2001: € 506 million).

## Parent company net turnover

Valio Ltd net turnover totalled € 1 423 million (2001: € 1 358 million). Domestic net turnover stood at € 1 070 million (2001: € 1 012 million) and net turnover from exports at € 353 million (2001: € 346 million).

## Investments

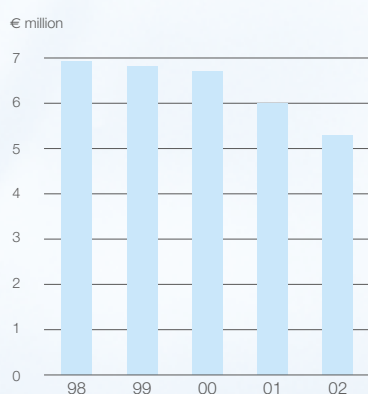
Consolidated gross investments totalled € 66 million (2001: € 47 million) or 4.1 per cent (2001: 3.1 per cent) of net turnover. Investments of € 16 million were made in land and buildings and € 38 million in machinery and equipment.

Investments in intangible assets and advance payments totalled € 12 million. Consolidated net investments stood at € 64 million (2001: € 46 million).

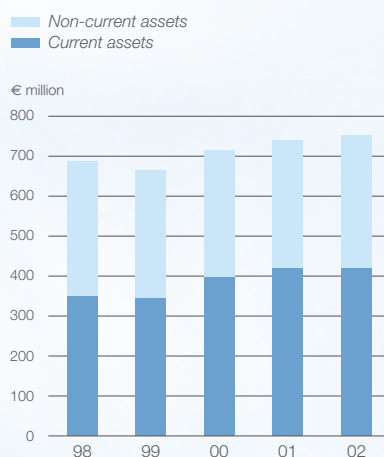
## Finance

Both group and parent company liquidity remained satisfactory throughout the financial year. Cash plus bank and short-term deposits totalled € 130 million at the year-end, compared to € 91 million at the start. Stocks stood at € 137 million

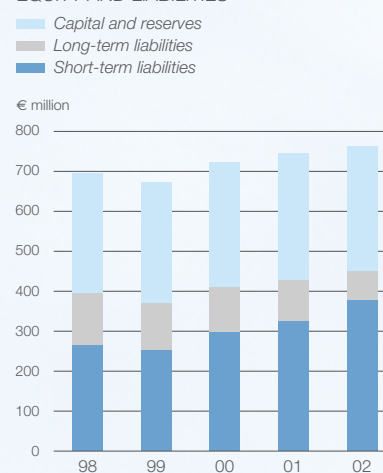
GROUP NET INTEREST EXPENSES



GROUP BALANCE SHEET, ASSETS



GROUP BALANCE SHEET, EQUITY AND LIABILITIES



at the end of the financial year and € 162 million at the beginning. Interest-bearing liabilities totalled € 190 million at the end of the financial year and € 178 at the beginning. Net financing expenses amounted to € 3.5 million (2001: € 6 million) or 0.2 per cent (2001: 0.4 per cent) of consolidated net turnover. Net interest expenses stood at € 5.3 million (2001: € 6 million).

### Financial performance

Consolidated profit before extraordinary items was € 4.2 million (2001: € 14.2 million). Net taxes for the financial year totalled € 1.9 million (2001: € -1.5 million). Profit for the financial year stood at € 2 million (2001: € 13 million).

Parent company profit before extraordinary items stood at € -1 million (2001: € 14 million). The difference between planned depreciation and book depreciation amounted to € +5 million (2001: € +10 million). Book depreciation was within the maximum permitted under Finland's Business Taxation Act. Income taxes for the financial year totalled € 0.4 million (2001: € -6.2 million). Profit for the financial year stood at € 5 million (2001: € 17 million).

### Year 2003

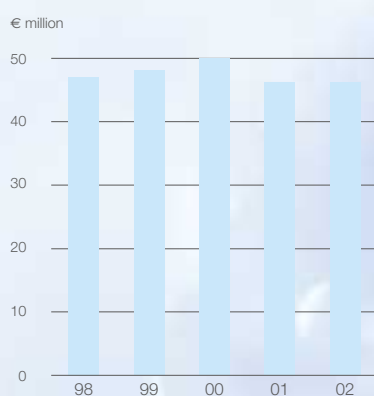
The outlook for profits and dividends in the current year is similar to that of the year under review.

The fresh products development program running to 2008 decided on by the

Valio Board of Directors comprises both the lively development of three fresh product dairies and the closure of four in the years 2003 – 2004. Of these, negotiations were completed with the Sotkamo plant in 2002, in accordance with the Act on Cooperation within Undertakings, and the decision has been made to close the plant in May 2003. The estimated cost of shut-down is € 2 million and that has been entered as an expense in the financial statements for 2002.

After the close of the financial year, cooperation negotiations have been completed on closing the Rovaniemi and Turku plants in 2003 and the Kouvola plant in 2004. The decision will cause value adjustments estimated at around € 13 million in the financial statements for 2003.

PLANNED DEPRECIATION GROUP



GROUP EXPENSES



## Consolidated Income Statement

|   | 2002       | 2001       |
|---|------------|------------|
| NET TURNOVER  | 1 600 129  | 1 519 253  |
| Increase (+) / decrease (-) in stocks of finished goods and in work in progress | -17 330    | 22 076     |
| Other operating income  | 35 128     | 29 791     |
| Raw materials and services  |            |            |
| Raw materials and consumables   |            |            |
| Purchases during the financial year   | 1 099 601  | 1 067 750  |
| Increase (-) / decrease (+) in stocks   | -999       | -605       |
| External services   | 26 758     | 22 350     |
|   | -1 125 360 | -1 089 495 |
| Staff expenses  |            |            |
| Wages and salaries  | 132 015    | 127 161    |
| Social security expenses  |            |            |
| Pension expenses  | 31 260     | 22 169     |
| Other social security expenses  | 14 659     | 14 313     |
|   | -177 934   | -163 643   |
| Depreciation and reduction in value   |            |            |
| Depreciation according to plan  | 45 626     | 45 744     |
| Reduction in value of goods held as non-current assets                          | 2 000      | 5          |
| Depreciation of goodwill  | -          | 7          |
| Reduction of consolidation difference   | -          | -97        |
|   | -47 626    | -45 659    |
| Other operating costs   | -259 277   | -252 112   |
| OPERATING PROFIT  | 7 730      | 20 211     |
| Financial income and expenses   |            |            |
| Income from other investments held as non-current assets                        | 651        | 834        |
| Other interest and financial income   | 5 489      | 5 297      |
| Net income from associated companies  | 840        | -73        |
| Reduction in value of investments held as non-current assets                    | -118       | -          |
| Interest expenses and other financial expenses                                  | -10 374    | -12 039    |
|   | -3 512     | -5 981     |
| PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS  | 4 218      | 14 230     |
| Extraordinary items   |            |            |
| Income  | -          | 2          |
| Expenses  | -4 090     | -12        |
|   | -4 090     | -10        |
| PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES                                   | 128        | 14 220     |
| Income taxes  | -849       | -4 318     |
| Deferred taxes  | 2 757      | 2 837      |
| PROFIT FOR THE FINANCIAL YEAR   | 2 036      | 12 739     |

All figures in € '000s

## Consolidated Balance Sheet

| ASSETS  | Dec. 31st, 2002 | Dec. 31st, 2001 |
|---|-----------------|-----------------|
| <b>NON-CURRENT ASSETS</b>                     |                 |                 |
| Intangible assets                             |                 |                 |
| Immaterial rights                             | 3 723           | 2 958           |
| Other capitalized long-term expenses          | 12 194          | 12 157          |
|   | 15 917          | 15 115          |
| Tangible assets                               |                 |                 |
| Land and water                                | 13 753          | 12 786          |
| Buildings and constructions                   | 121 126         | 119 279         |
| Machinery and equipment                       | 145 530         | 129 945         |
| Other tangible assets                         | 1 951           | 2 462           |
| Advance payments and construction in progress | 20 861          | 20 568          |
|   | 303 221         | 285 040         |
| Investments                                   |                 |                 |
| Shares in group companies                     | 2 928           | 3 047           |
| Shares in associated companies                | 2 020           | 1 142           |
| Other shares and similar rights of ownership  | 10 949          | 11 813          |
|   | 15 897          | 16 002          |
| <b>CURRENT ASSETS</b>                         |                 |                 |
| Stocks  |                 |                 |
| Raw materials and consumables                 | 27 529          | 26 640          |
| Unfinished products                           | 12 943          | 11 981          |
| Finished product / goods                      | 95 974          | 122 676         |
| Other stocks                                  | 701             | 681             |
|   | 137 147         | 161 978         |
| Debtors                                       |                 |                 |
| Non-current                                   |                 |                 |
| Loan receivables                              | 174             | –               |
| Other receivables                             | 41              | 774             |
| Deferred tax receivables                      | 4 217           | –               |
|   | 4 432           | 774             |
| Current                                       |                 |                 |
| Trade debtors                                 | 118 254         | 137 745         |
| Receivables from participating interests      | 962             | 746             |
| Other receivables                             | 13 673          | 16 575          |
| Deferred tax receivables                      | 1 808           | 3 300           |
| Prepayments and accrued income                | 12 173          | 10 675          |
|   | 146 870         | 169 041         |
| Investments                                   |                 |                 |
| Other investments                             | 113 593         | 75 048          |
| Cash in hand and at banks                     | 16 605          | 16 196          |
| <b>TOTAL ASSETS</b>                           | <b>753 682</b>  | <b>739 194</b>  |

All figures in € '000s

SHAREHOLDERS' EQUITY AND LIANBILITIES

Dec. 31st, 2002

Dec. 31st, 2001

CAPITAL AND RESERVES

|                               |         |         |
|-------------------------------|---------|---------|
| Subscribed capital            | 99 678  | 99 678  |
| Other reserves                | 8 539   | 12 313  |
| Retained earnings             | 190 030 | 185 265 |
| Profit for the financial year | 2 036   | 12 739  |

PROVISIONS

|  |       |       |
|--|-------|-------|
|  | 8 659 | 4 863 |
|--|-------|-------|

CREDITORS

Non-current

|                                |        |         |
|--------------------------------|--------|---------|
| Loans from credit institutions | 1      | 33 472  |
| Deferred tax liability         | 27 222 | 28 804  |
| Other creditors                | 43 160 | 38 943  |
|                                | 70 383 | 101 219 |

Current

|   |         |         |
|---|---------|---------|
| Loans from credit institutions          | 36 037  | 26 555  |
| Advances received                       | 282     | 204     |
| Trade creditors                         | 181 120 | 165 532 |
| Amounts owed to participating interests | 2 734   | 2 085   |
| Other creditors                         | 117 214 | 84 101  |
| Accrued expenses and prepaid income     | 36 970  | 44 640  |
|   | 374 357 | 323 117 |

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

|  |         |         |
|--|---------|---------|
|  | 753 682 | 739 194 |
|--|---------|---------|

All figures in € '000s

## Consolidated Statement of Changes in Financial Position

|  | 2002           | 2001           |
|--|----------------|----------------|
| <b>CASH FLOW FROM OPERATIONS</b>                       |                |                |
| Operating profit                                       | 7 730          | 20 211         |
| Adjustments to operating profit                        | 45 635         | 44 389         |
| Change in working capital                              | 64 355         | -28 047        |
| Interest and other financial expenses paid             | -9 451         | -11 441        |
| Dividends received                                     | 651            | 834            |
| Interest and other financial income received           | 5 495          | 5 682          |
| Income taxes paid and refunded                         | -8 535         | -2 593         |
| Cash flow from operations                              | 105 880        | 29 035         |
| <b>CASH FLOW FROM INVESTMENTS</b>                      |                |                |
| Capital expenditure in investments                     | -93            | -476           |
| Capital expenditure in tangible and intangible assets  | -65 592        | -46 813        |
| Gains from sale of investments                         | 450            | 498            |
| Gains from sale of tangible and intangible assets      | 1 094          | 1 602          |
| Cash flow from investments                             | -64 141        | -45 189        |
| <b>CASH FLOW BEFORE FINANCING ACTIVITIES</b>           | <b>41 739</b>  | <b>-16 154</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>             |                |                |
| Proceeds from non-current liabilities                  | 22 261         | 20 585         |
| Payment of non-current liabilities                     | -28 173        | -24 228        |
| Increase (-) / decrease (+) in non-current receivables | -3 658         | 185            |
| Increase (+) / decrease (-) in current creditors       | 18 533         | -19 302        |
| Dividends paid   | -7 974         | -7 753         |
| Other  | -3 774         | 1 103          |
| Cash flow from financing activities                    | -2 785         | -29 410        |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>         | <b>38 954</b>  | <b>-45 564</b> |
| Cash and cash equivalents at Jan. 1st                  | 91 244         | 136 808        |
| <b>CASH AND CASH EQUIVALENTS AT DEC. 31ST</b>          | <b>130 198</b> | <b>91 244</b>  |

All figures in € '000s

## Parent Company Income Statement

|   | 2002      | 2001      |
|---|-----------|-----------|
| NET TURNOVER  | 1 423 177 | 1 357 955 |
| Increase (+) / decrease (-) in stocks of finished goods and in work in progress | -7 860    | 11 291    |
| Other operating income  | 27 394    | 25 847    |
| Raw materials and services  |           |           |
| Raw materials and consumables   |           |           |
| Purchases during the financial year   | 974 458   | 945 120   |
| Increase (-) / decrease (+) in stocks   | 432       | -495      |
| External services   | 24 417    | 20 493    |
|   | -999 307  | -965 118  |
| Staff expenses  |           |           |
| Wages and salaries  | 118 366   | 111 937   |
| Social security expenses  |           |           |
| Pension costs   | 30 741    | 21 507    |
| Other social security expenses  | 12 190    | 12 424    |
|   | -161 297  | -145 868  |
| Depreciation and reduction in value   |           |           |
| Depreciation according to plan  | 42 572    | 42 261    |
| Reduction in value of non-current assets  | 2 000     | -         |
|   | -44 572   | -42 261   |
| Other operating costs   | -230 384  | -223 210  |
| OPERATING PROFIT  | 7 151     | 18 636    |
| Financial income and expenses   |           |           |
| Income from participating interest  | 55        | -         |
| Income from other investments held as non-current assets                        |           |           |
| From others   | 651       | 833       |
| Other interest and financial income   |           |           |
| From Group companies  | 51        | 55        |
| From others   | 5 463     | 4 945     |
| Reduction in value of investments   | -10 349   | -85       |
| Reversals of value adjustments in value of investments                          | 4 877     | -         |
| Interest expenses and other financial expenses                                  |           |           |
| To Group companies  | -         | -25       |
| To others   | -8 987    | -10 628   |
|   | -8 239    | -4 904    |
| PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS  | -1 088    | 13 731    |
| PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES                                   | -1 088    | 13 731    |
| Appropriations  |           |           |
| Increase (-) / decrease (+) in depreciation difference                          | 5 372     | 9 701     |
| Income taxes  | -379      | -7 144    |
| Deferred taxes  | 815       | 993       |
| PROFIT FOR THE FINANCIAL YEAR   | 4 720     | 17 281    |

All figures in € '000s

## Parent Company Balance Sheet

| ASSETS  | Dec. 31st, 2002 | Dec. 31st, 2001 |
|---|-----------------|-----------------|
| <b>NON-CURRENT ASSETS</b>                     |                 |                 |
| Intangible assets                             |                 |                 |
| Immaterial rights                             | 3 708           | 2 926           |
| Other capitalized long-term expenses          | 11 025          | 10 847          |
|   | 14 733          | 13 773          |
| Tangible assets                               |                 |                 |
| Land and water                                | 12 424          | 12 425          |
| Connection fees                               | 972             | –               |
| Buildings                                     | 116 249         | 114 960         |
| Machinery and equipment                       | 136 048         | 121 217         |
| Other tangible assets                         | 66              | 56              |
| Advance payments and construction in progress | 20 546          | 18 208          |
|   | 286 305         | 266 866         |
| Investments                                   |                 |                 |
| Shares in Group companies                     | 22 569          | 24 025          |
| Shares in associated companies                | 1 176           | 1 083           |
| Other shares and similar rights of ownership  | 10 539          | 11 812          |
|   | 34 284          | 36 920          |
| <b>CURRENT ASSETS</b>                         |                 |                 |
| Stocks  |                 |                 |
| Raw materials and consumables                 | 23 184          | 23 447          |
| Unfinished products                           | 12 938          | 11 962          |
| Finished product / goods                      | 72 821          | 81 847          |
| Other stocks                                  | 699             | 677             |
|   | 109 642         | 117 933         |
| Debtors                                       |                 |                 |
| Non-current                                   |                 |                 |
| Amounts owed by Group companies               | 5 509           | 6 418           |
| Other receivables                             | 495             | 616             |
|   | 6 004           | 7 034           |
| Current                                       |                 |                 |
| Trade debtors                                 | 91 887          | 110 858         |
| Amounts owed by participating interests       | 15 707          | 17 084          |
| Loan receivables                              | 591             | 523             |
| Other debtors                                 | 11 713          | 15 551          |
| Deferred tax receivables                      | 1 808           | 993             |
| Prepayments and accrued income                | 11 428          | 9 577           |
|   | 133 134         | 154 586         |
| Investments                                   |                 |                 |
| Other investments                             | 113 229         | 74 056          |
| Cash in hand and at banks                     | 8 519           | 5 748           |
| <b>TOTAL ASSETS</b>                           | <b>705 850</b>  | <b>676 916</b>  |

All figures in € '000s



SHAREHOLDERS' EQUITY AND LIANBILITIES

Dec. 31st, 2002

Dec. 31st, 2001

CAPITAL AND RESERVES

|                               |         |         |
|-------------------------------|---------|---------|
| Subscribed capital            | 99 678  | 99 678  |
| Other reserves                |         |         |
| Legal reserve                 | 5 984   | 5 984   |
| Retained earnings             | 119 443 | 110 136 |
| Profit for the financial year | 4 720   | 17 281  |

APPROPRIATIONS

|                                     |        |        |
|-------------------------------------|--------|--------|
| Accumulated depreciation difference | 93 608 | 98 981 |
|-------------------------------------|--------|--------|

PROVISIONS

|  |       |       |
|--|-------|-------|
|  | 6 235 | 4 717 |
|--|-------|-------|

CREDITORS

Non-current

|                                |        |        |
|--------------------------------|--------|--------|
| Loans from credit institutions | –      | 16 436 |
| Other creditors                | 42 804 | 38 514 |

---

|  |        |        |
|--|--------|--------|
|  | 42 804 | 54 950 |
|--|--------|--------|

Current

|   |         |         |
|---|---------|---------|
| Loans from credit institutions          | 18 335  | 9 739   |
| Trade creditors                         | 165 256 | 150 877 |
| Amounts owed to Group companies         | 246     | 731     |
| Amounts owed to participating interests | 1 406   | 1 030   |
| Other creditors                         | 116 877 | 83 713  |
| Accrued expenses and prepaid income     | 31 258  | 39 099  |

---

|  |         |         |
|--|---------|---------|
|  | 333 378 | 285 189 |
|--|---------|---------|

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

---

|  |         |         |
|--|---------|---------|
|  | 705 850 | 676 916 |
|--|---------|---------|

All figures in € '000s

## Parent Company Statement of Changes in Financial Position

|  | 2002           | 2001           |
|--|----------------|----------------|
| <b>CASH FLOW FROM OPERATIONS</b>                       |                |                |
| Operating profit                                       | 7 151          | 18 636         |
| Adjustments to operating profit                        | 43 553         | 41 559         |
| Change in working capital                              | 48 990         | -26 415        |
| Interest and other financial expenses paid             | -8 063         | -10 055        |
| Dividends received                                     | 706            | 834            |
| Interest and other financial income received           | 5 520          | 5 385          |
| Income taxes paid and refunded                         | -8 425         | -4 426         |
| Cash flow from operations                              | 89 432         | 25 518         |
| <b>CASH FLOW FROM INVESTMENTS</b>                      |                |                |
| Capital expenditure in investments                     | -93            | -4 758         |
| Capital expenditure in tangible and intangible assets  | -62 522        | -41 959        |
| Gains from sale of investments                         | 450            | 498            |
| Gains from sale of tangible and intangible assets      | 1 029          | 1 494          |
| Cash flow from investments                             | -61 136        | -44 725        |
| <b>CASH FLOW BEFORE FINANCING ACTIVITIES</b>           | <b>28 296</b>  | <b>-19 207</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>             |                |                |
| Proceeds from non-current liabilities                  | 18 194         | 7 053          |
| Payment of non-current liabilities                     | -11 356        | -19 086        |
| Increase (-) / decrease (+) in non-current receivables | -2 987         | -32            |
| Increase (+) / decrease (-) in current liabilities     | 124            | -70            |
| Increase (+) / decrease (-) in current creditors       | 17 647         | -11 470        |
| Dividends paid   | -7 974         | -7 889         |
| Cash flow from financing activities                    | 13 648         | -31 494        |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>         | <b>41 944</b>  | <b>-50 701</b> |
| Cash and cash equivalents at Jan. 1st                  | 79 804         | 130 505        |
| <b>CASH AND CASH EQUIVALENTS AT DEC. 31ST</b>          | <b>121 748</b> | <b>79 804</b>  |

All figures in € '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.

In addition, the consolidated financial statements include participating interests, the most significant of which have been consolidated using the equity method.

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

## Notes to the Income Statements

|   | CONSOLIDATED |           | PARENT COMPANY |           |
|---|--------------|-----------|----------------|-----------|
|   | 2002         | 2001      | 2002           | 2001      |
| 1. NET TURNOVER BY DIVISION   |              |           |                |           |
| Fresh products  | 591 745      | 555 839   | 573 412        | 537 616   |
| Yellow fats   | 204 433      | 196 617   | 198 729        | 196 137   |
| Cheese  | 498 859      | 476 930   | 388 149        | 372 607   |
| Ingredients   | 101 997      | 98 020    | 101 058        | 97 694    |
| Ice cream   | 71 126       | 66 214    | 70 495         | 65 444    |
| Others  | 131 969      | 125 633   | 91 334         | 88 457    |
|   | 1 600 129    | 1 519 253 | 1 423 177      | 1 357 955 |
| 2. EXTRAORDINARY INCOME AND EXPENSES  |              |           |                |           |
| Extraordinary income and expenses comprise the following items:   |              |           |                |           |
| Compensation for damages  | –            | 2         | –              | –         |
| McCadam Cheese Company, Inc.  | -5 640       | –         | –              | –         |
| Deferred tax receivables allocated to an extraordinary item   | 1 550        | –         | –              | –         |
| Other extraordinary items   | –            | -12       | –              | –         |
|   | -4 090       | -10       | –              | –         |
| 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   |                |           |
| Buildings and constructions   |              | 15 or 25  |                |           |
| Machinery and equipment   |              | 10        |                |           |
| ADP equipment and software  |              | 5         |                |           |
| Transportation and equipment  |              | 5         |                |           |

## Notes to the Income Statements

|   | CONSOLIDATED |         | PARENT COMPANY |         |
|---|--------------|---------|----------------|---------|
|   | 2002         | 2001    | 2002           | 2001    |
| 4. CHANGE IN PROVISIONS<br>INCREASE (-) / DECREASE (+)  |              |         |                |         |
| Provision for contingent pension liabilities  | 364          | -257    | 364            | -257    |
| Provision for reconstruction  | -4 065       | –       | -1 612         | –       |
| Other provisions  | -95          | 389     | -270           | -85     |
|   | -3 796       | 132     | -1 518         | -342    |
| 5. OTHER OPERATING EXPENSES   |              |         |                |         |
| Energy expenses   | 28 075       | 27 667  | 26 733         | 25 846  |
| Water expenses  | 8 076        | 7 904   | 7 981          | 7 735   |
| Transportation expenses   | 73 782       | 70 329  | 68 737         | 66 386  |
| Rental expenses   | 14 701       | 14 277  | 13 343         | 12 976  |
| Expenses for maintenance of real estate and machinery   | 25 403       | 23 276  | 24 164         | 21 747  |
| Marketing expenses  | 47 204       | 47 748  | 39 373         | 39 554  |
| Travel expenses   | 6 803        | 6 693   | 6 026          | 5 760   |
| IT expenses   | 10 900       | 12 121  | 10 730         | 11 741  |
| Administrative expenses   | 15 840       | 15 209  | 14 556         | 13 869  |
| Voluntary staff expenses  | 5 356        | 6 786   | 3 589          | 3 221   |
| Credit loss   | 231          | 344     | 124            | 84      |
| Other expenses  | 22 906       | 19 758  | 15 028         | 14 291  |
|   | 259 277      | 252 112 | 230 384        | 223 210 |
| 6. REDUCTION AND REVERSALS IN VALUE OF INVESTMENTS<br>HELD AS NON-CURRENT ASSETS                        |              |         |                |         |
| Group Company N.V. Vache-Bleue S.A., Belgium,<br>reduction in value of shares and loans receivable      |              |         | -10 231        |         |
| Group Company Valio International U.S.A. Inc., USA,<br>reversal of value adjustments in value of shares |              |         | 4 877          |         |
| Other   | -118         | –       | -118           | -85     |
|   | -118         | –       | -5 472         | -85     |
| 7. NUMBER OF PERSONNEL, AVERAGE   |              |         |                |         |
| Manual workers  | 2 462        | 2 422   | 2 177          | 2 155   |
| Technical dairy employees   | 816          | 816     | 780            | 798     |
| Management staff  | 532          | 508     | 496            | 469     |
| Clerical staff  | 590          | 601     | 449            | 453     |
|   | 4 400        | 4 347   | 3 902          | 3 875   |
| 8. SALARIES AND BONUSES OF DIRECTORS  |              |         |                |         |
| Supervisory Board, Board, CEO   | 1 741        | 1 141   | 373            | 341     |

## Notes to the Balance Sheet

|   | CONSOLIDATED |         | PARENT COMPANY |         |
|---|--------------|---------|----------------|---------|
|   | 2002         | 2001    | 2002           | 2001    |
| <b>9. PREPAYMENTS AND ACCRUED INCOME</b>      |              |         |                |         |
| Royalties                                     | 872          | 704     | 872            | 704     |
| Healthcare repayments                         | 615          | 658     | 615            | 658     |
| Tax receivables                               | 6 625        | 252     | 6 307          | –       |
| Annual credits                                | 42           | 78      | –              | –       |
| Pension costs                                 | –            | 4 868   | –              | 4 868   |
| Industrial butter subsidy                     | 617          | 919     | 617            | 919     |
| Other prepayments and accrued income          | 3 402        | 3 196   | 3 017          | 2 428   |
|   | 12 173       | 10 675  | 11 428         | 9 577   |
| <b>10. INTANGIBLE ASSETS</b>                  |              |         |                |         |
| Immaterial rights                             |              |         |                |         |
| Acquisition cost at beginning of year         | 6 575        | 4 898   | 6 430          | 4 769   |
| Increases                                     | 1 329        | 1 719   | 1 327          | 1 695   |
| Decreases                                     | -9           | -41     | –              | -34     |
| Acquisition cost at year-end                  | 7 895        | 6 576   | 7 757          | 6 430   |
| Accumulated depreciation at beginning of year | -3 617       | -3 335  | -3 504         | -3 238  |
| Depreciation for the year                     | -555         | -283    | -545           | -266    |
| Accumulated depreciation at year-end          | -4 172       | -3 618  | -4 049         | -3 504  |
| Book value at year-end                        | 3 723        | 2 958   | 3 708          | 2 926   |
| Other capitalized expenditure                 |              |         |                |         |
| Acquisition cost at beginning of year         | 58 137       | 55 210  | 38 557         | 35 578  |
| Increases                                     | 4 281        | 4 118   | 4 017          | 3 904   |
| Decreases                                     | -232         | -925    | -228           | -925    |
| Acquisition cost at year-end                  | 62 186       | 58 403  | 42 346         | 38 557  |
| Accumulated depreciation at beginning of year | -45 977      | -42 087 | -27 710        | -23 903 |
| Depreciation for the year                     | -4 015       | -4 159  | -3 611         | -3 807  |
| Accumulated depreciation at year-end          | -49 992      | -46 246 | -31 321        | -27 710 |
| Book value at year-end                        | 12 194       | 12 157  | 11 025         | 10 847  |
| Total intangible assets                       | 15 917       | 15 115  | 14 733         | 13 773  |

## Notes to the Balance Sheet

|  | CONSOLIDATED |          | PARENT COMPANY |          |
|--|--------------|----------|----------------|----------|
|  | 2002         | 2001     | 2002           | 2001     |
| 11. TANGIBLE ASSETS  |              |          |                |          |
| Land and water   |              |          |                |          |
| Acquisition cost at beginning of year                        | 12 775       | 12 651   | 12 425         | 12 290   |
| Increases  | 1 020        | 145      | 1 012          | 145      |
| Decreases  | -42          | -10      | -41            | -10      |
| Acquisition cost at year-end                                 | 13 753       | 12 786   | 13 396         | 12 425   |
| Book value at year-end                                       | 13 753       | 12 786   | 13 396         | 12 425   |
| Buildings and constructions                                  |              |          |                |          |
| Acquisition cost at beginning of year                        | 313 251      | 306 214  | 302 180        | 294 686  |
| Increases  | 15 751       | 7 608    | 14 589         | 7 494    |
| Decreases  | -213         | -        | -213           | -        |
| Acquisition cost at year-end                                 | 328 789      | 313 822  | 316 556        | 302 180  |
| Accumulated depreciation at beginning of year                | -194 073     | -182 614 | -187 220       | -175 884 |
| Depreciation for the year                                    | -13 590      | -11 929  | -13 087        | -11 336  |
| Accumulated depreciation at year-end                         | -207 663     | -194 543 | -200 307       | -187 220 |
| Book value at year-end                                       | 121 126      | 119 279  | 116 249        | 114 960  |
| Machinery and equipment and other tangible assets            |              |          |                |          |
| Acquisition cost at beginning of year                        | 529 100      | 513 881  | 495 649        | 478 609  |
| Increases  | 43 804       | 19 247   | 40 408         | 17 551   |
| Decreases  | -1 207       | -831     | -238           | -511     |
| Acquisition cost at year-end                                 | 571 697      | 532 297  | 535 819        | 495 649  |
| Accumulated depreciation at beginning of year                | -396 750     | -370 559 | -374 376       | -347 573 |
| Depreciation for the year                                    | -27 466      | -29 331  | -25 329        | -26 803  |
| Accumulated depreciation at year-end                         | -424 216     | -399 890 | -399 705       | -374 376 |
| Book value at year-end                                       | 147 481      | 132 407  | 136 114        | 121 273  |
| Advance payments and unfinished acquisitions                 |              |          |                |          |
| Acquisition cost at beginning of year                        | 20 563       | 7 162    | 18 208         | 6 113    |
| Increases  | 19 989       | 21 379   | 19 627         | 18 079   |
| Transfer to finished acquisitions                            | -19 691      | -7 973   | -17 289        | -5 984   |
| Acquisition cost at year-end                                 | 20 861       | 20 568   | 20 546         | 18 208   |
| Book value at year-end                                       | 20 861       | 20 568   | 20 546         | 18 208   |
| Total tangible assets  | 303 221      | 285 040  | 286 305        | 266 866  |
| Depreciation of entrance fees for the financial year 2002    | -            | -49      | -              | -49      |
| Planned depreciation for the year, total                     | -45 626      | -45 751  | -42 572        | -42 261  |
| Book value of production machinery and equipment at year-end | 126 740      | 108 745  | 118 278        | 101 619  |

## 12. CONSOLIDATED AND PARENT COMPANY HOLDINGS

### GROUP COMPANIES

|   | Consolidated<br>Ownership<br>and voting<br>rights % | Parent<br>Company<br>Ownership<br>and voting<br>rights % |
|---|---|--|
| Jäätelöyhtymä Oy, Helsinki                | 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 |
| SIA RPK-Valio, Latvia           | 50.0 | 50.0 |

### REAL ESTATE COMPANIES

|   |       |       | Equity | Net income/<br>loss in latest<br>year-end<br>accounts |
|---|-------|-------|--------|---|
| Asunto Oy Nastolan Maitotie, Nastola      | 100.0 | 100.0 | 907    | -1  |
| Asunto Oy Vuorikummuntie 9, Helsinki      | 100.0 | 100.0 | 460    | -   |
| Kiinteistö Oy Hiiirakkotie 6, Vantaa      | 100.0 | 100.0 | 139    | 5   |
| Kiinteistö Oy Pähkinämetsä, Vantaa        | 100.0 | 100.0 | 458    | -   |
| Kiinteistö Oy Pähkinäpolku, Vantaa        | 100.0 | 100.0 | 134    | -   |
| Kiinteistö Oy Tehontie 31, Kouvola        | 100.0 | 100.0 | 390    | -   |
| Turengin Meijerikiinteistöt Oy, Janakkala | 100.0 | 100.0 | 50     | -112  |
| Kiinteistö Oy Pupuhuhta, Jyväskylä        | 49.2  | 49.2  | 4      | -   |
| Kiinteistö Oy Teollisuusneliö, Haapavesi  | 39.0  | 39.0  | 129    | -   |

## Notes to the Balance Sheet

### 13. PARENT COMPANY INVESTMENTS

|   | Shares in<br>group<br>companies | Shares in<br>participating<br>interests | Other<br>shares |
|---|---------------------------------|---|-----------------|
| Acquisition cost at beginning of year             | 53 554                          | 1 083                                   | 14 951          |
| Increase  | –                               | 93                                      | –               |
| Decrease  | –                               | –                                       | -1 394          |
| Acquisition cost at year-end                      | 53 554                          | 1 176                                   | 13 557          |
| Accumulated depreciation and write-offs Jan. 1st  | -29 530                         | –                                       | -3 139          |
| Write-offs for the year                           | -6 333                          | –                                       | –               |
| Accumulated depreciation and write-offs Dec. 31st | -35 863                         | –                                       | 10 418          |
| Reversal of write-offs                            | 4 878                           | –                                       | 121             |
| Book value at year-end                            | 22 569                          | 1 176                                   | 10 539          |

### 14. GROUP INVESTMENTS

|   | Shares in<br>group<br>companies | Shares in<br>participating<br>interests | Other<br>shares |
|---|---------------------------------|---|-----------------|
| Acquisition cost at beginning of year             | 3 046                           | 1 177                                   | 14 952          |
| Increase  | –                               | 933                                     | 531             |
| Decrease  | -118                            | -55                                     | -1 395          |
| Acquisition cost at year-end                      | 2 928                           | 2 055                                   | 14 088          |
| Accumulated depreciation and write-offs Jan. 1st  | –                               | -35                                     | -3 139          |
| Write-offs for the year                           | –                               | –                                       | –               |
| Accumulated depreciation and write-offs Dec. 31st | –                               | -35                                     | -3 139          |
| Reversal of write-offs                            | –                               | –                                       | –               |
| Book value at year-end                            | 2 928                           | 2 020                                   | 10 949          |

|                                      | CONSOLIDATED |      | PARENT COMPANY |        |
|--------------------------------------|--------------|------|----------------|--------|
|                                      | 2002         | 2001 | 2002           | 2001   |
| 15. RECEIVABLES FROM GROUP COMPANIES |              |      |                |        |
| Trade debtors                        | –            | –    | 15 431         | 16 947 |
| Other receivables                    | –            | –    | 211            | 72     |
| Loan receivables                     | –            | –    | 5 574          | 6 417  |
|                                      | –            | –    | 21 216         | 23 436 |

### 16. RECEIVABLES FROM GROUP COMPANIES

|               |     |     |     |     |
|---------------|-----|-----|-----|-----|
| Trade debtors | 962 | 746 | 591 | 523 |
|---------------|-----|-----|-----|-----|



|   | CONSOLIDATED |         | PARENT COMPANY |         |
|---|--------------|---------|----------------|---------|
|   | 2002         | 2001    | 2002           | 2001    |
| <b>17. CHANGES IN SHAREHOLDERS' EQUITY</b>                                      |              |         |                |         |
| Share capital, Jan. 1st, 2002 / Jan. 1st, 2001                                  | 99 678       | 98 615  | 99 678         | 98 615  |
| Addition 24th April 2001, decision on bonus issue by the Annual General Meeting | –            | 1 063   | –              | 1 063   |
| Share capital, Dec. 31st  | 99 678       | 99 678  | 99 678         | 99 678  |
| Legal reserves  |              |         |                |         |
| Jan. 1st, 2002 / Jan. 1st, 2001   | 12 313       | 11 210  | 5 984          | 5 984   |
| Translation adjustments   | -3 774       | 1 103   | –              | –       |
| Legal reserves Dec. 31st  | 8 539        | 12 313  | 5 984          | 5 984   |
| Retained earnings from previous year, Jan. 1st                                  | 198 004      | 194 217 | 127 417        | 119 088 |
| Dividends   | -7 974       | -7 889  | -7 974         | -7 889  |
| Addition 24th April 2001, the Annual General Meeting                            | –            | -1 063  | –              | -1 063  |
| Retained earnings   | 190 030      | 185 265 | 119 443        | 110 136 |
| Profit for the financial year   | 2 036        | 12 739  | 4 720          | 17 281  |
| Shareholders equity Dec. 31st   | 300 283      | 309 995 | 229 825        | 233 079 |
| <b>18. DISTRIBUTABLE EARNINGS</b>   |              |         |                |         |
| Retained earnings Dec. 31st   | 190 030      | 185 265 |                |         |
| Appropriations included in retained earnings                                    | -66 646      | -70 519 |                |         |
| Profit for the financial year   | 2 036        | 12 739  |                |         |
|   | 125 420      | 127 485 |                |         |
| <b>19. PROVISIONS</b>   |              |         |                |         |
| Provision for contingent pension liabilities                                    | 1 699        | 2 063   | 1 699          | 2 063   |
| Provision for renovation  | 6 564        | 2 499   | 4 111          | 1 288   |
| Other provisions  | 396          | 301     | 425            | 1 366   |
|   | 8 659        | 4 863   | 6 235          | 4 717   |
| <b>20. DEFERRED TAX LIABILITIES AND RECEIVABLES</b>                             |              |         |                |         |
| Deferred tax receivables  |              |         |                |         |
| From matching differences   | 6 025        | 3 300   | 1 808          | 993     |
| Deferred tax liabilities  |              |         |                |         |
| From appropriations   | 27 146       | 28 704  | –              | –       |
| From matching differences   | 76           | 100     | –              | –       |
|   | 27 222       | 28 804  | –              | –       |
| <b>21. LIABILITIES DUE AFTER FIVE YEARS OR LATER</b>                            |              |         |                |         |
| Loans from credit institutions  | –            | 25      | –              | 25      |

## Notes to the Balance Sheet

|  | CONSOLIDATED   |                | PARENT COMPANY |                |
|--|----------------|----------------|----------------|----------------|
|  | 2002           | 2001           | 2002           | 2001           |
| <b>22. ACCRUED EXPENSES AND PREPAID INCOME</b>     |                |                |                |                |
| Interest   | 3 296          | 2 405          | 3 324          | 2 401          |
| Holiday accrual including social security          | 17 677         | 16 910         | 17 614         | 16 861         |
| Rebates granted                                    | 401            | 1 037          | 258            | 520            |
| Wages and salaries including social security       | 9 294          | 4 347          | 6 149          | 2 734          |
| Royalties  | 898            | 821            | 898            | 821            |
| Social security                                    | 310            | 6 379          | 310            | 6 379          |
| Other accrued expenses and prepaid income          | 5 094          | 12 741         | 2 705          | 9 383          |
|  | <b>36 970</b>  | <b>44 640</b>  | <b>31 258</b>  | <b>39 099</b>  |
| <b>23. AMOUNTS OWED TO GROUP COMPANIES</b>         |                |                |                |                |
| Trade creditors                                    | –              | –              | –              | 18             |
| Other creditors                                    | –              | –              | 246            | 713            |
|  | –              | –              | 246            | 731            |
| <b>24. AMOUNTS OWED TO PARTICIPATING INTERESTS</b> |                |                |                |                |
| Trade creditors                                    | 2 734          | 2 085          | 1 406          | 1 030          |
| <b>25. CONTINGENT LIABILITIES</b>                  |                |                |                |                |
| For own commitments                                |                |                |                |                |
| Mortgages  | 131 627        | 131 659        | 131 627        | 131 659        |
| Pledges  | 14 799         | 14 752         | 14 799         | 14 752         |
| Guarantees   | 34 121         | 33 969         | 33 991         | 33 969         |
| Leasing commitments                                | 9 132          | 8 057          | 8 769          | 5 780          |
| For commitments of Group companies                 | –              | –              | 39 231         | 57 243         |
| For commitments of participating interests         | –              | –              | –              | –              |
| For commitments of others                          | 2 909          | 2 153          | 2 909          | 2 153          |
| For own operations                                 | 189 679        | 188 437        | 189 186        | 186 160        |
| For Group companies                                | –              | –              | 39 231         | 57 243         |
| For participating interests                        | –              | –              | –              | –              |
| For others   | 2 909          | 2 153          | 2 909          | 2 153          |
|  | <b>192 588</b> | <b>190 590</b> | <b>231 326</b> | <b>245 556</b> |

Estimated plant shutdown costs in accordance with the development program for fresh products in the year 2003 will be € 13 million.

## Proposal by the Board of Directors to the Annual General Meeting

The consolidated distributable earnings at Dec. 31st, 2002 are € 125 420 000.  
The parent company distributable earnings at Dec. 31st are:

|                               |                  |
|-------------------------------|------------------|
| Retained earnings             | € 119 443 392.64 |
| Profit for the financial year | € 4 719 508.60   |
| <hr/>                         |                  |
| Total                         | € 124 162 901.24 |

The Board of Directors proposes to the Annual General Meeting  
that a dividend of 6% on the nominal value of the shares of € 204 be declared

|  |                |
|--|----------------|
|  | € 5 980 668.00 |
|--|----------------|

|  |                |
|--|----------------|
| Dividends from net profit for the financial year | € 4 719 508.60 |
| From retained earnings                           | € 1 261 159.40 |
| <hr/>  |                |

|       |                |
|-------|----------------|
| Total | € 5 980 668.00 |
|-------|----------------|

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

|                            |                  |
|----------------------------|------------------|
| Share capital              | € 99 677 800.00  |
| Legal reserves             | € 5 984 101.53   |
| Retained earnings          | € 118 182 233.24 |
| <hr/>                      |                  |
| Total shareholders' equity | € 223 844 134.77 |

Helsinki March 5th, 2003

Kari Inkinen

Tauno Uitto

Olavi Kuusela  
President, CEO

Juhani Hörkkö

Esa Juntunen

## Auditor's 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. – 31.12.2002. 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 President and CEO. Based on our audit we express an opinion on these financial statements and on 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 and the Board of Directors and the President and CEO have legally complied with the rules of the Companies' Act.

In our opinion the financial statements 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 and the Board of Directors and the President and CEO 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 assets is in compliance with the Companies' Act.

Helsinki, 6 March 2003

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Tauno Haataja  
Authorised Public Accountant

## Statement by the Supervisory Board

We have examined the financial statements for 1 January to 31 December 2002, 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: Toivo Heikkilä, Maija-Leena Heiniö, Miika Kiiskinen, Tapio Malmiharju, Martti Mustonen, Riku Ollikainen, Antti Rauhamaa and Pentti Santala. In addition, new members need to be elected to the Supervisory Board for the remaining terms of Pentti Hynninen and Juhani Väänänen who resigned.

Helsinki, 7 March 2003

On behalf of the Supervisory Board

Seppo Hakola  
Chairman

## Valio Ltd owners 31 December 2002

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<br>(€ 3 400) |
|-----------------------------|-------------|----------------------------|
| Alueosuuskunta Promilk      | Lapinlahti  | 3 125                      |
| 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                          |
| Liperin osuusmeijeri        | Liperi      | 162                        |
| Nurmeksen Osuusmeijeri      | Nurmes      | 626                        |
| Osuuskunta Idän Maito       | Joensuu     | 2 877                      |
| Osuuskunta Lapin Maito      | Rovaniemi   | 696                        |
| Osuuskunta Maito-Aura       | Turku       | 1 964                      |
| Osuuskunta Maitojaloste     | Seinäjoki   | 2 762                      |
| Osuuskunta Maitokolmio      | Toholampi   | 244                        |
| Osuuskunta Maitomaa         | Suonenjoki  | 290                        |
| Osuuskunta Maito-Pirkka     | Tampere     | 1 729                      |
| 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 28      |             | 29 317                     |
| Total share capital         |             | € 99 677 800               |

## 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.

### Production

| Production                   | Term expires |
|------------------------------|--------------|
| Esa Juntunen, Chairman       | 2003         |
| Juhani Hörkkö, Vice-Chairman | 2003         |
| Ari Auvinen <sup>1)</sup>    | 2002         |
| Tapio Hytönen                | 2003         |
| Hannu Kainu                  | 2004         |
| Timo Kässi                   | 2004         |
| Pekka Lestinen               | 2003         |
| Tapio Malmiharju             | 2004         |
| Riku Ollikainen              | 2004         |
| Aarno Puttonen               | 2004         |
| Jaakko Rouhiainen            | 2004         |
| Pentti Santala               | 2003         |
| Onni Törrönen                | 2004         |

### Materials Operations

|                             |      |
|-----------------------------|------|
| Tauno Uitto, Chairman       | 2003 |
| Esa Juntunen, Vice-Chairman | 2003 |
| Pekka Hauru <sup>1)</sup>   | 2002 |
| Toivo Heikkilä              | 2004 |
| Pekka Isohanni              | 2004 |
| Merja Keisala               | 2003 |
| Miika Kiiskinen             | 2003 |
| Harri Laamanen              | 2003 |
| Sauli Lähteenmäki           | 2003 |
| Osmo Oinonen                | 2004 |
| Reino Parkko                | 2003 |
| Antti Rauhamaa              | 2004 |
| Juhani Väänänen             | 2004 |

### Domestic Sales and Marketing

|                              |      |
|------------------------------|------|
| Juhani Hörkkö, Chairman      | 2003 |
| Tauno Uitto, Vice-Chairman   | 2003 |
| Seppo Hakola                 | 2003 |
| Majja-Leena Heiniö           | 2003 |
| Pentti Hynninen              | 2004 |
| Matti Lehtinen               | 2004 |
| Martti Mustonen              | 2004 |
| Mauri Penttilä               | 2003 |
| Kari Piironen                | 2004 |
| Matti Siitonen               | 2003 |
| Juha Tuikkanen <sup>1)</sup> | 2002 |
| Pentti Vartiainen            | 2004 |

<sup>1)</sup> Personnel representative

# Addresses

## **Valio Ltd, Head Office**

Meijeritie 6  
PO Box 10  
FIN-00039 Helsinki  
FINLAND  
Tel. + 358 10 381 121  
Fax + 358 9 562 5068  
Internet <http://www.valio.com>

## **R & D**

Meijeritie 4  
PO Box 30  
FIN-00039 Helsinki  
FINLAND  
Tel. + 358 10 381 121  
Fax + 358 10 381 3019

## **Domestic Sales and Marketing**

Meijeritie 6  
PO Box 10  
FIN-00039 Helsinki  
FINLAND  
Tel. + 358 10 381 121  
Fax + 358 10 381 2209

## **Production**

Meijeritie 6  
PO Box 10  
FIN-00039 Helsinki  
FINLAND  
Tel. + 358 10 381 121  
Fax + 358 10 381 2385

## **Materials Operations**

Meijeritie 3  
PO Box 50  
FIN-00039 Helsinki  
FINLAND  
Tel. + 358 10 381 121  
Fax + 358 10 381 2089

## **Valio International**

Meijeritie 6  
PO Box 10  
FIN-00039 Helsinki  
FINLAND  
Tel. + 358 10 381 121  
Fax + 358 10 381 2512

## **Subsidiaries**

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

## **Valio Eesti AS**

*Office:*  
Sõpruse pst 155,  
EE13417 Tallinn  
ESTONIA  
Tel. + 372 6 285 575  
Fax + 372 6 285 590  
e-mail [valio@valio.ee](mailto:valio@valio.ee)

## *Dairy:*

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



UAB Valio International  
Kumeliu Street 11-2  
LT-3000 Kaunas  
LITHUANIA  
Tel. + 370 37 202 478  
Fax + 370 37 423 775

ZAO Valio St. Petersburg  
Vasiljevski Ostrov 18. linia d. 47  
199178 St. Petersburg  
RUSSIA  
Tel. + 7 812 327 7887  
Fax + 7 812 325 8545

Valio Sverige AB  
PO Box 10094, Arenavägen 27, 5 tr.  
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  
Unit 1401 Office Tower  
Shanghai Times Square  
93 Huaihai Zhong Road  
Shanghai 20021  
CHINA  
Tel. + 86 21 639 10381/10382  
Fax + 86 21 639 10383

Valio Moscow  
Korovy val 7  
Office 13  
117049 Moscow  
RUSSIA  
Tel. + 7 095 230 1388  
Fax + 7 095 230 2810



