



Annual Report 2003



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





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ANNUAL REVIEW BY THE CEO



Valio has undertaken the most substantial phase of investment in its history, placing a significant burden on our financial and human resources. The fresh products development program is being implemented as planned, with production plants in Rovaniemi, Sotkamo and Turku closed down last year. Valio's information systems upgrade continued on schedule.

Despite fiercer price competition and the latter part of the year not meeting expectations, we were able to pay our dairy farmers almost the same price for milk as we did in 2002. Valio took in around two per cent less milk compared with the previous year and net turnover was down by as much. Excluding the effect of the McCadam cheese company that was sold in January, comparable net turnover nevertheless grew by two per cent. Although Valio did not fully reach all the goals set, we can be satisfied with the result.

Retail trade was characterized by fierce price competition, as well as increasing consumer price consciousness that grows as new actors enter the market. There was heated debate about private label products. Valio plays an important part in the retail trade and it is of the utmost importance that our clients rate us a progressive, flexible, innovative and fast-moving partner. Retailers and consumers want products that meet their needs and at the right time.

Valio invested substantially in research and development, the main goal being to increase its share of value-added and low-fat products. In the current year, we shall pay special attention to strengthening the Valio brand, innovative R&D, cost-efficiency and the ability to react swiftly to market changes.

In accordance with its strategy Valio will further increase its presence in Sweden, Northwest Russia and the Baltic States. Valio acquired 58 per cent of Estonian cheese maker Võru Juust in October. Thanks to its dairy and cheese production, Valio has become the leading raw milk processor in Estonia.

We have set ambitious goals for the current year. Despite greater competition, EU expansion, the reduction of export subsidies and lower intervention prices, our goal is to keep the milk price paid to dairy farmers at the previous year's level – a further sign that we intend to be among the best European dairy companies. I'm glad to say that Valio has enthusiastic, dedicated personnel capable of change; job satisfaction was again rated very high by the annual Healthy Organization survey.

One of Valio's great strengths is its owners, who are committed to developing the company in the long term. As the structure of agriculture changes, Finnish dairy farmers are forced to adapt their operations to an extent that is unparalleled in our society. This process of change ensures that we have owners who understand the need for change in Valio's operating environment.

I wish to extend my thanks to our clients, who have supported us and actively guided us to improve and enhance our operations. Open discussion on even the most difficult issues is the basis for all development. We offer many thanks to our dairy farmers, who have proved their trust in the company and its management. The commitment and enthusiasm shown by our staff more than deserve our gratitude and appreciation.

Only change is permanent, and in that respect the current year comes as no exception. I firmly believe that Valio is well prepared to face whatever the future brings and will turn threats into challenges and opportunities.

Harry Salonaho

The most highly regarded food business in Finland

The Valio brand is perhaps the company's most valuable asset. The name Valio guarantees responsible production with its focus on high quality and quality control, from the dairy farm all the way to the shop. People trust Valio products even as the number of imported foods increases. Valio is good all the way.

A brand only has value, if people widely consider it worthy of their trust. Surveys show that the Valio brand occupies a unique position in the minds and everyday life of Finns. It is a relationship of trust built between the products and their users over the years. People value the Valio brand as reliable, Finnish, tasty and held in high regard.

In 2003, the Valio product range comprised on average 1 100 items whose market shares in Finland reached from 45 per cent in ice creams to 67 per cent of milk and nearly 90 per cent of fermented milks. Many innovative items were added to the range during the year.

The great success of 2003 was Polar 5 cheese that contains only 5 per cent fat. Another new sandwich cheese was the cholesterol-lowering Valio Benecol cheese type product. The lactose-free product family expanded as lactose-free cooking cream and, by popular demand, lactose-free Valio yogurts were launched. Fresh creams packed in carton bottles were also introduced, where the screw top helps the product keep longer.

Other new products included a special Valio fruit-milk drink as well as the chocolate milk drink Valio Play.

For the tiny tots came Valio baby foods, Gefilus Tutteli porridge mix and infant formula, all strengthened with the world's most researched functional lactic acid bacterium. Lactobacillus GG has also been added to the new Gefilus berry soup to help balance the stomach.

Gourmets enjoyed Valio Fanny yogurt quarks, as well as the new Valiojäätelö mint-chocolate and caramel-cup ice creams and the Tupla (chocolate) ice-cream bar.

Valio HoReCa sales (hotel, restaurant, catering) gained a slightly larger market share in 2003. A study revealed that Valio's HoReCa customer magazine Ruokavuosi was considered the most interesting and useful magazine by professionals, and Valio was elected number one supplier in a customer satisfaction survey.

A record-breaking number of 724 625 users visited the Valio website in 2003. The most popular pages were Valio's World of Food where the number of registered users exceeded 50 000.



Valio fruit milk drink is a pioneer in Finland, combining the freshness of fruit with the smooth texture of milk. In two flavours, orange-mango and apricot-pineapple.

VALIO LTD PERSONNEL

The number of personnel by site on 31 Dec., 2003 totalled 3 770 (including part-time workers and those on fixed-term employment).

Haapavesi	109
Helsinki	792
Joensuu	170
Jyväskylä	302
Kajaani	2
Kouvola	204
Kuopio	6
Lapinlahti	275
Lappeenranta	14
Mikkeli	3
Nastola	2
Oulu	253
Porkkala	1
Riihimäki	309
Rovaniemi	9
Seinäjoki	354
Sotkamo	10
Suonenjoki	87
Tampere	249
Toholampi	75
Turenki	238
Turku	49
Vantaa (Tikkurila)	12
Vantaa (Vaarala)	181
Äänekoski	64
Total	3 770

- 51 per cent of staff are female, 49 per cent male.
- Average time in employment is 13.6 years.
- Average age is 39.6 years.

Pioneering product development

Valio R & D took on a number of important challenges in 2003.

The most significant were the expansion of the lactose-free product family, improvement in the taste and texture of low-fat cheeses applying new technologies, smoothing the taste and texture of Valio yogurt, and developing functional product families. Valio is a global pioneer in the dairy industry in fields such as the development of completely lactose-free dairy products.

Valio R & D investment totalled € 10 million in 2003, which is 4.2 per cent of value added and 0.7 per cent of net turnover. Research and development employs 120 people and around one third focuses on entirely new product concepts.

Yogurts and cooking cream were added to the lactose-free product family in spring 2003. The launch of other new varieties of milk alongside lactose-free milk was delayed due to a shortfall in production capacity, but the situation is improving as a result of investments.

The popularity of Polar 5 low-fat cheese with only 5 per cent fat exceeded expectations. Elected Star Product of 2003, Polar 5 cheese is the result of Valio's leading expertise in dairy technology and in microbiology. Valio uses its own special starters that add taste and soften texture.

In spring, Valio launched a new kind of product, a smooth tasting fruit-milk drink. Valio R & D succeeded in bringing together milk and fruit juice in such a way that the fresh milk lowers

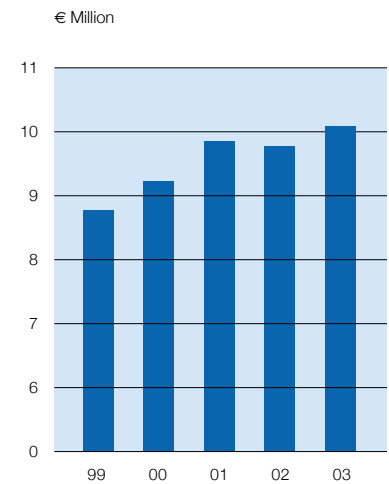
the acidity of the juice without precipitation.

Daily dose drinks containing a daily ration of a functional food product are a growing trend in international markets. Valio will launch Gefilus, Evolus and Valio Benecol daily dose drinks in 100 ml screw-top carton bottles in



Low-fat Polar 5 cheese was selected star product of 2003 in the sandwich toppings category of the Finnish Food Product of the Year competition.

VALIO GROUP R & D EXPENSES



spring 2004. One bottle of daily dose drink contains enough of the effective substance; Gefilus for the well-being of the intestines, Evolus for controlling blood pressure or Valio Benecol for lowering cholesterol.

Valio licenses its technological innovations related to Lactobacillus GG (Gefilus products), Evolus and lactose-free milk. The first Evolus product made under license was launched in Iceland in November 2003. Evolus products will become available in European markets in the first half of 2004. Negotiations continue with a number of partners around the world.

Infant formulas containing Lactobacillus GG were launched in a number of European countries in 2003. Dairy products, pharmaceutical products and baby foods containing Lactobacillus GG are available in 38 countries.

The first lactose-free milk produced under license from Valio was launched in Europe at the beginning of 2004. Worldwide interest in the technology behind Valio lactose-free milks grew significantly during 2003.

A year of investments in production

As laid out in Valio's development program, the concentration of fresh products manufacturing at the Riihimäki, Jyväskylä and Oulu dairies will be completed by 2008. The transfer of production began in 2003 with the Sotkamo dairy closing down in the spring followed by Turku and Rovaniemi in the autumn. Investments of around € 100 million into the development of logistics and production plants were the highest for a single year in the entire history of the company. The figure for 2004 will be of the same scale at approximately € 90 million.

Production processes at the Jyväskylä dairy have been entirely remodelled. A new yogurt line and facilities for handling reusable materials were built in Riihimäki. Valio is a pioneer in reuse systems and is now taking another step by replacing cardboard trays with returnable plastic ones. The plastic units are returned from shops to the production plant and washed ready to be used again. Computer-controlled washing lines and conveyors operate automatically. Riihimäki's reuse systems began trials in late 2003.

The production of cottage cheese and quark was transferred to Seinäjoki where returnable plastic crates were first introduced.

The facilities designated for closure worked with merit until production ceased. The transfer of production to other plants proceeded faultlessly and with no inconvenience to customers.

The Lapinlahti plant introduced new milk reception and processing facilities in spring and milk reception was revamped in Joensuu. It was a busy year at Haapavesi as well: production capacity for Oltermanni cheese was increased, cheese slices got started with a new production line,

and new electro-dialysis equipment made whey salt removal more efficient and reduced the waste water load.

The Seinäjoki plant started to pack industrial butter without cardboard wrappings. Customers prefer board-free packages, because they are environmentally sound and reduce package removal work. A new evaporator increased capacity at the Seinäjoki milk powder plant, simultaneously improving product quality.

In addition to investments in construction and equipment, Valio introduced a common SAP system at Seinäjoki, Lapinlahti and Joensuu in 2003.

The number of occupational accidents, the waste water load and quantity of refuse for disposal all decreased significantly. Supply chain performance was high excluding the walk-outs in the spring. The volume of error costs and consumer complaints fell slightly compared with 2002.

Valio's long-term effort in the unification and development of ways of working was rewarded in December 2003, when Valio's operating system was certified in accordance with the ISO 9001 and ISO 14001 standards. The Valio Group cooperatives had decided

at the beginning of 2003 to unify their present quality systems to match Valio's operating system.

QUALITY WORK CREATES RESULTS AT DAIRY FARMS

Valio farm services support the development of quality standards at dairy farms. Key issues in quality training arranged by the cooperatives are the identification of the critical point in milk production, and deviation management.

Export clients buying dairy products are increasingly interested in Valio's quality assurance in milk production. At the end of 2003, 93 per cent of Valio Group dairy farms had a quality agreement with their cooperatives, and more than 40 per cent of producers had completed at least 5 days' quality training. Quality work was evaluated at 7 per cent of the farms. The development goals set for the quality of raw milk were met.

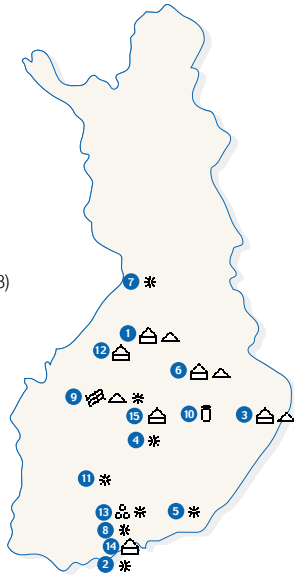


Valio fresh creams stay fresh and tasty in reclosable carton bottles ideal for recycling.

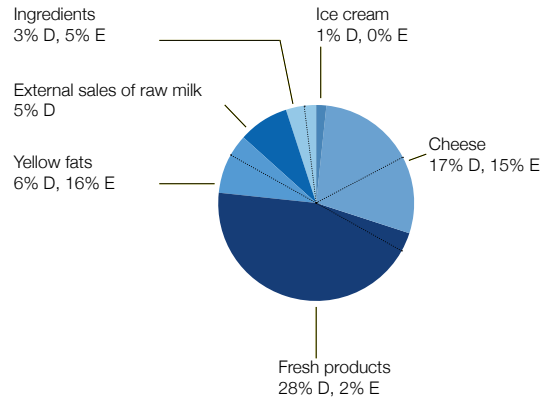
VALIO LTD PRODUCTION PLANTS

1. Haapavesi
2. Helsinki
3. Joensuu
4. Jyväskylä
5. Kouvola (closing Autumn 2004)
6. Lapinlahti
7. Oulu
8. Riihimäki
9. Seinäjoki
10. Suonenjoki
11. Tampere (planned to close 2008)
12. Toholampi
13. Turenki
14. Vantaa
15. Äänekoski

- Cheese
- Yellow fats
- Ingredients
- Fresh products
- Ice cream
- Jams



SHARE OF MILK USED FOR MAIN PRODUCT GROUPS IN DOMESTIC SALES AND EXPORTS 2003



D = products sold in domestic market, total 62%
E = products sold in foreign market, total 38%

Collection robots for two warehouses

Valio's collection warehouses in Rovaniemi, Sotkamo and Turku were closed at the same time the dairy operations ended. Collection and distribution were directed to Oulu, Jyväskylä, Riihimäki, Tampere and Helsinki.

Work to expand warehousing at Riihimäki, Jyväskylä and Oulu began. In Riihimäki and Jyväskylä this will focus on automated collection and in Oulu primarily on one-location loading.

Valio is purchasing a total of 16 collection robots, the first of which are being introduced in Jyväskylä in summer 2004. The plastic crates used in the returnable goods systems make it

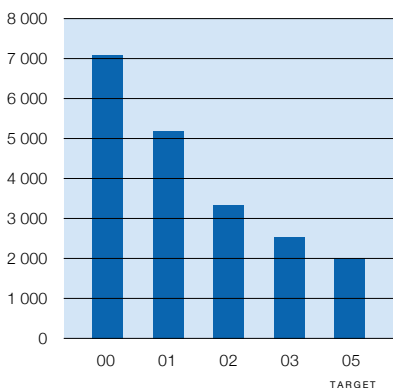
possible to introduce automated collection on a larger scale.

This raft of development measures is expected to produce a saving of more than € 10 million over the next three years.

A new SAP system is being introduced for product storage, collection and distribution, which came on line without fault in Oulu and Jyväskylä in 2003.

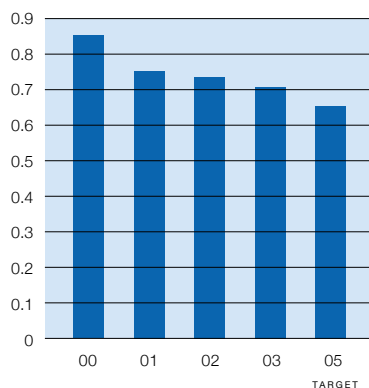
DECREASE IN WASTE FOR DISPOSAL

■ tn



ENERGY CONSUMPTION PER TONNE PRODUCT MANUFACTURED

■ MWh/tn

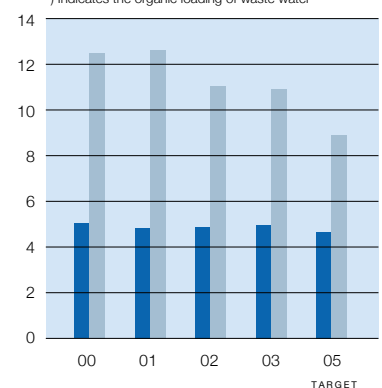


DECREASE IN WASTE-WATER VOLUME AND LOAD

■ m³/tn product manufactured

■ kg/COD/tn* product manufactured

*) Indicates the organic loading of waste water



Valio International advances in consumer products

Valio International focused chiefly on the expanded domestic market that is the Baltic States, Sweden and Northwest Russia, as well as areas selected for the development of the cheese business. Cheese production ended in the US, when McCadam Cheese was sold at the beginning of 2003. International operations concentrated on consumer and value-added products, especially cheeses, butter and fresh products.

BALTIC STATES AND SWEDEN

Valio strengthened its market position in the Baltic States. Alma brand products manufactured locally in Estonia have around a 30 per cent share of the fresh products market there.

Valio Ltd acquired Võru Juust, the leading cheese manufacturer in Estonia, in 2003. Valio will further strengthen its position in the Baltic States by expanding its operations in Latvia and Lithuania, too.

In Sweden, Valio fruit yogurts and lactose-free milk are particularly successful. Valio fruit yogurts command a remarkable 40 per cent market share.

RUSSIA

Valio is one of the largest and most important food companies exporting to Russia.

Valio butter has gained a significant market share in Russia (Moscow 34.6% and St. Petersburg 53.4%, June-July, ACNielsen). In a contest arranged annually in Russia, Valio butter won the Brand of the Year 2003 gold award for the second time in a row.

Viola processed cheese has been on the Russian market for almost 70 years and holds a strong position as market leader (Moscow 43.2% and St. Peters-

burg 52.5%, June-July, ACNielsen).

Oltermanni cheese was the leader in terms of price and quality.

EUROPE

Valio's Belgian subsidiary Valio-Vache Bleue acquired the business operations of IFB-BFD (International Food&Business-Brussels Food Distribution), strengthening its position in cheese packing and wholesaling. Another result was that Valio-Vache Bleue entered the freshpack products market where sales periods are shorter. In Belgium, freshpack cheeses are a growing product group.

Belgian consumers know Valio-Vache Bleue through its Valio, Bellelignie and Selection Cuisine brands, all of which are market leaders in their own product groups. The Bellelignie brand succeeds in the low-fat cheese category despite the rapid rise of private label products.

NORTH AMERICA AND CHINA

Valio Emmental cheeses top the export statistics in the US. The company's Finlandia brand is now the second best-known Emmental in its principal distribution area, the Northeast US. Valio has been particularly successful

in the massive US market.

Valio's US subsidiary, Finlandia Cheese, successfully launched the Sandwich Naturals cheese slices family in the self-service products category and at the same time expanded its product range from Emmental to other cheeses, such as Havarti and Gouda.

Valio began exporting consumer products to China with Midnight Sun butter and processed cheese. Valio products are distributed in China through the channels of its partner Shanghai Bright Dairy.

EXPORTING INDUSTRIAL PRODUCTS

Markets for powdered ingredients and butter were fairly stable throughout the year, and Valio strengthened its position in industrial butter markets in Continental Europe.

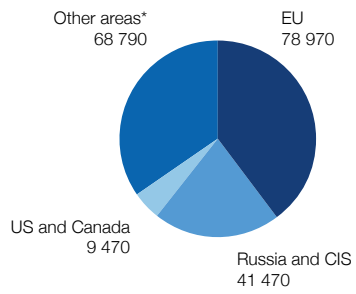
The markets in which Valio DEMI (demineralized whey powder) sells were difficult in 2003 but strengthened towards the end. The falling US dollar dragged the result down.



Valio's uniform package design in the expanded domestic market of Finland, Sweden, the Baltic States and Russia. Product details are printed in the local language, Latvian packages pictured here.

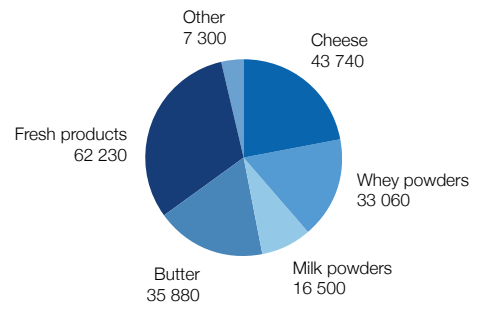
INTERNATIONAL SALES

BY AREA (tn) 2003 (incl. subsidiaries)



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

BY PRODUCT GROUP (tn) 2003 (incl. subsidiaries)



Valio's international sales include the local manufacturing of subsidiaries and external product procurement, totalling 198 700 tns. Sales from Finland amounted to 156 000 tns.



Valio Ltd Organization

1.1.2004



* Member of Valio Management Group

Valio Group

NET TURNOVER AND PERSONNEL 2003

	Net turnover € '000s	Average no. of personnel	Personnel 31 Dec., 2003
Valio Ltd	1 419 477	3 962	3 770
ZAO Valio St. Petersburg, Russia	99 237	39	46
Valio – Vache Bleue S.A., Belgium	96 830	132	150
Valio International U.S.A. Inc., USA	47 623	36	14
· Cheese Co., Inc., USA	6 875	22	0
· Finlandia Cheese, Inc., USA	40 748	14	14
Valio Sverige AB, Sweden	28 406	40	40
Valio Eesti AS, Estonia	15 759	131	135
Võru Juust AS, Estonia	2 072	23	141
UAB Valio International, Lithuania	524	3	4
Valio Nord Ltd, Finland	93	0	2
Valio Group total	1 565 546	4 366	4 302

Five-year Group Statistics

	2003	2002	2001	2000	1999
Net turnover, € million	1 566	1 600	1 519	1 382	1 254
Change %	-2.2	5.3	10.0	10.2	-2.2
– Domestic, € million	1 079	1 070	1 013	918	882
Change %	0.8	5.7	10.4	4.0	-0.9
– International operations, € million	487	530	506	464	372
Change %	-8.2	4.6	9.1	24.9	-5.1
Balance sheet total, € million	733	754	739	716	667
Liabilities % of the balance sheet total	57	59	57	57	55
Shareholders' equity + provisions per cent of the balance sheet total	43	41	43	43	45
Personnel expenditure, € million	164	178	164	135	142
Average no. of personnel	4 366	4 400	4 347	4 083	4 215
Inventories, € million	132	137	162	139	141
Investments, € million	104	66	47	46	33
Depreciation according to plan, € million	46	46	46	50	48
Price paid for milk to the cooperatives by Valio, per liter total cents ¹⁾	37.8	37.9	37.1	36.5	35.7

¹⁾ Includes base price, and extra payments according to composition and quality; milk price adjustments.

Supervisory Board

	Term began	Term ends			
Seppo Hakola Dairy farmer, Kuortane Chairman	1994	2005	Juha Pansu ¹⁾ Shift supervisor, Jyväskylä	2002	2004
Jaakko Rouhiainen Dairy farmer, Juva Vice Chairman	2001	2005	Reino Parkko Dairy farmer, Elimäki	1999	2004
Toivo Heikkilä Dairy farmer, Haapajärvi	1996	2006	Mauri Penttilä Dairy farmer, Vesilahti	2001	2004
Majja-Leena Heiniö Dairy farmer, Kisko	1999	2006	Antti Rauhamaa Dairy farmer, Kärkölä	1998	2006
Pentti Hynninen Dairy farmer, Vaala member to 7 April 2003	2001	2004	Matti Romppanen Dairy farmer, Juankoski member as of 7 April 2003	2003	2004
Tapio Hytönen Dairy farmer, Konnevesi	2001	2004	Pentti Santala Dairy farmer, Kauhajoki	1997	2006
Hannu Kainu Dairy farmer, Kyyjärvi	1997	2005	Matti Siitonen Dairy farmer, Parikkala	1998	2004
Merja Keisala Dairy farmer, Töysä	2002	2005	Kari Toikkanen ¹⁾ Development Manager, Helsinki	2002	2004
Kimmo Kempainen Dairy farmer, Paltamo member as of 7 April 2003	2003	2006	Onni Törrönen Dairy farmer, Juuka	2001	2005
Miika Kiiskinen Dairy farmer, Kestilä member to 7 April 2003	2001	2003	Juhani Väänänen Dairy farmer, Maaninka member to 7 April 2003	1995	2004
Jouko Kärki ¹⁾ Mechanic, Tampere	2002	2004	1) Personnel representative		
Harri Laamanen Dairy farmer, Ylitornio	2001	2004	<h3>Board of Directors</h3>		
Matti Lehtinen Dairy farmer, Tammela	1999	2005	Kari Inkinen Dairy farmer, Ruokolahti Chairman	1997	2005
Pekka Lestinen Dairy farmer, Sysmä	1998	2004	Tauno Uitto Dairy farmer, Tyrnävä Vice Chairman	1996	2004
Pirjo Louhevirta ¹⁾ Telephone sales employee, Turku	2002	2004	Juhani Hörkkö Dairy farmer, Koski TL	1998	2006
Sauli Lähteenmäki Dairy farmer, Rusko	2002	2005	Esa Juntunen Dairy farmer, Vieremä	1998	2006
Tapio Malmiharju Dairy farmer, Artjärvi	1996	2006	Olavi Kuusela President and CEO, Helsinki to 17 July 2003	2000	2005
Martti Mustonen Dairy farmer, Ilomantsi	2000	2006	Heikki Halkilahti President and CEO, Helsinki 2 July to 31 December 2003		2003
Jaakko Männistö Dairy farmer, Merijärvi member as of 7 April 2003	2003	2004	<h3>Auditor</h3>		
Riku Ollikainen Dairy farmer, Lapinlahti	1981	2006	PricewaterhouseCoopers Oy Authorized Public Accountants, Helsinki		
			Markku Marjomaa, M.Sc. (Econ.), Authorized Public Accountant		

Financial Statement

Board of Directors' Report 1 January – 31 December 2003

GENERAL

Valio Group financial performance before extraordinary items stood at € 12 million, up € 8 million on the previous year. Calculated by adjusted volume, the price paid for raw milk was € 2.6 million less than for the year 2002.

The operational result continued to develop favourably. It was strengthened by a significant fall in pension costs and weakened by write-downs due to rationalization in production.

In Finland, Valio took in 1 863 million liters of milk, or 2 per cent less than the previous year. The average procurement share by owner cooperatives delivering to Valio remained unchanged at 80 per cent of the Finnish dairy milk volume. Valio Group took in total deliveries of 1 928 million liters of milk, which includes procurement for Valio dairies in Estonia.

Domestic net turnover grew by one per cent. Net turnover increased in raw milk and liquid milk, remained at the level of the previous year in cheeses and yellow fats, and decreased in other product groups. The market share of yellow fats rose, while that of liquid milk, cheese and ice cream declined.

Net turnover from international operations fell by 8 per cent. Exports from Finland decreased by 4 per cent, most substantially in cheeses and ingredients. Net turnover for foreign subsidiaries declined by 10 per cent due to the sale of McCadam Cheese Co., Inc. in January 2003. Net turnover from other subsidiaries increased by 12 per cent, most especially in the Swedish, Estonian and Russian operations.

Valio Ltd President and CEO Olavi Kuusela resigned on 17 June 2003. Dep-

uty to the CEO Heikki Halkilahti fulfilled his responsibilities from that date until the end of the financial year. In October, the Supervisory Board elected Harry Salonaho the President and CEO, as of the beginning of 2004.

SHAREHOLDERS AND SHARE CAPITAL

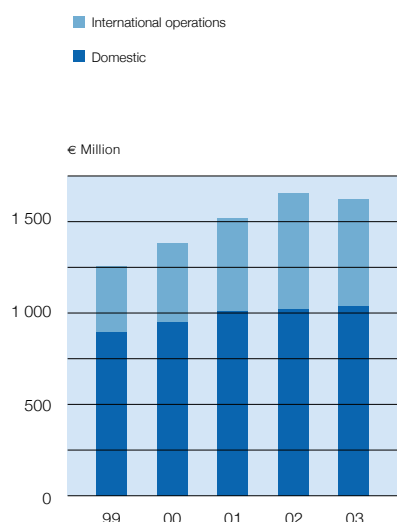
The number of shareholders did not change and stood at 28 at the end of the financial year.

The share capital of Valio Ltd is € 99 677 800.

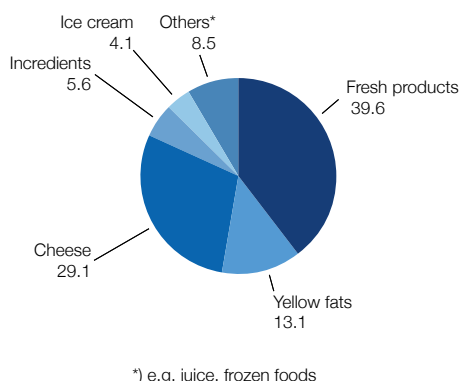
CHANGES IN GROUP STRUCTURE

Valio acquired a majority holding in AS Võru Juust, an Estonian cheese producer, in October. In December, Valio

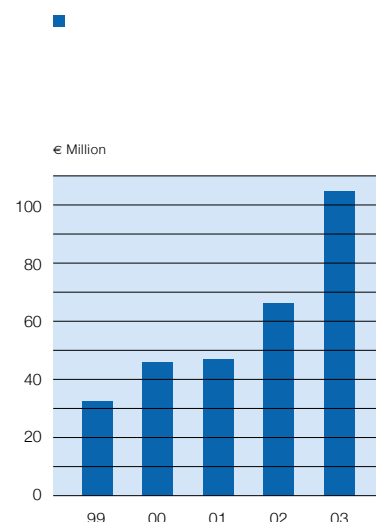
GROUP NET TURNOVER



GROUP NET TURNOVER BY PRODUCT (%) 2003



GROUP CAPITAL EXPENDITURE



secured the entire share capital of Yoplait Valio Nord Oy. Since the close of the financial year, Valio has taken up 100% of the shares of SIA RPK-Valio. During the financial year, Valiotekniikka Oy and Turengin Meijerikiinteistöt Oy were dissolved.

RESEARCH AND DEVELOPMENT

Personnel numbers in R&D stood at 120. Around one-third of these staff focused on development projects that aim to differentiate the product mix. Resources were allocated to the greatest extent to R&D in the basic range, focusing on high quality and production processes. A good example of this is the revamping of Valiojogurtti products.

Focal areas of strategic research include new applications of lactic acid

bacteria and separation technologies. These have promoted innovation in the creation of functional foods and in technology; recent examples are lactose-free milk products and improving the taste and texture of low-fat cheeses. New lactose-free products (yogurts and cooking cream) and a low-fat cheese with 5 per cent fat were launched in 2003.

Valio R&D investment for 2003 totalled € 10.2 million (2002: € 9.7 million), or 0.7 per cent of net turnover (2002: 0.6 per cent).

CONSOLIDATED NET TURNOVER

Consolidated net turnover totalled € 1 566 million (2002: € 1 600 million). Domestic net turnover stood at € 1 079 million (2002: € 1 070 million). Net turnover from international operations

(exports from Finland and foreign subsidiaries) totalled € 487 million (2002: € 530 million).

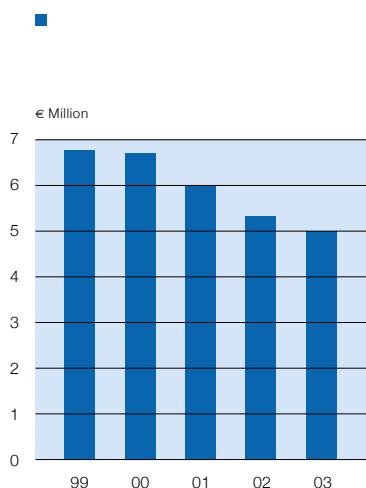
PARENT COMPANY NET TURNOVER

Valio Ltd net turnover totalled € 1 419 million (2002: € 1 423 million). Domestic net turnover stood at € 1 079 million (2002: € 1 070 million) and net turnover from exports at € 340 million (2002: € 353 million).

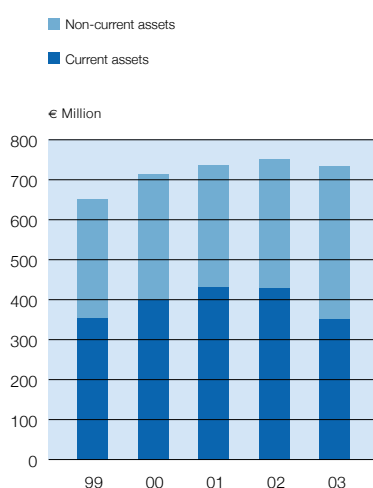
INVESTMENTS

Consolidated gross investments totalled € 104 million (2002: € 66 million), or 6.6 per cent (2002: 4.1 per cent) of net turnover. Investments of € 26 million were made in land and buildings and € 60 million in machinery and equipment.

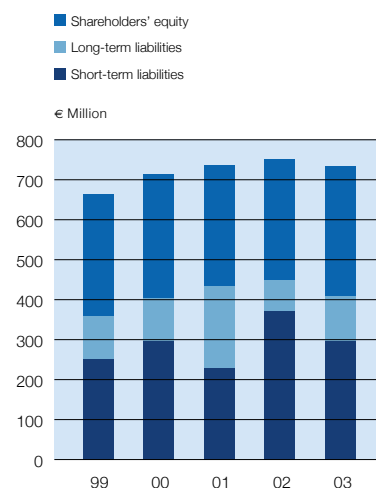
GROUP NET INTEREST EXPENSES



GROUP BALANCE SHEET, ASSETS



GROUP BALANCE SHEET, EQUITY AND LIABILITIES



Investments in intangible assets stood at € 11 million. Advance payments, mainly on machinery and equipment, totalled € 7 million. Consolidated net investments stood at € 97 million (€ 64 million).

FINANCE

Both group and parent company liquidity remained satisfactory throughout the financial year. Cash in hand and at banks and short-term investments totalled € 65 million at the year-end, compared to € 130 million at the start. Stocks stood at € 132 million at the end of

the financial year and € 137 million at the beginning. Interest-bearing liabilities totalled € 189 million at the end of the financial year and € 190 million at the beginning. Net financing expenses amounted to € 4.2 million (2002: € 3.5 million), or 0.3 per cent (2002: 0.2 per cent) of consolidated net turnover. Net interest expenses stood at € 5.0 million (2002: € 5.3 million).

FINANCIAL PERFORMANCE

Consolidated profit before extraordinary items was € 12.5 million (€ 4.2 million). Net taxes for the financial year totalled

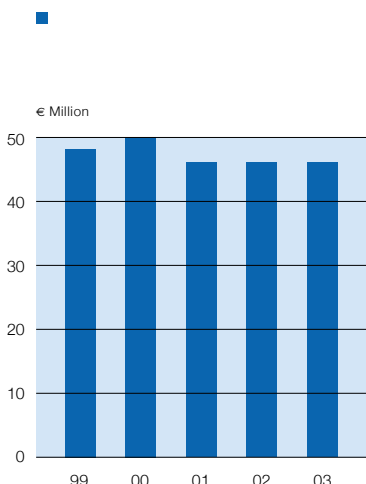
€ -4 million (2002: € +2 million). Profit for the financial year stood at € 8 million (2002: € 2 million).

Parent company profit before extraordinary items stood at € 12 million (2002: € -1 million). The change in the difference between depreciation according to plan and booked depreciation amounted to € -2 million (2002: € +5 million). Booked depreciation was within the maximum permitted under Finland's Business Taxation Act. Income taxes for the financial year totalled € -2.9 million (€ +0.4 million). Profit for the financial year stood at € 7 million (2002: € 5 million).

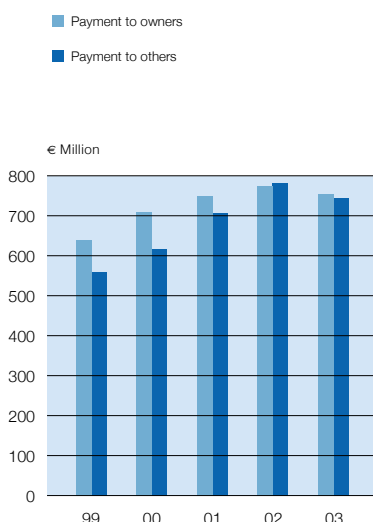
YEAR 2004

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

GROUP DEPRECIATION
ACCORDING TO PLAN



GROUP EXPENSES



Consolidated Income Statement

	2003	2002
NET TURNOVER	1 565 546	1 600 129
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	11 460	-17 330
Other operating income	32 574	35 128
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	1 070 483	1 099 601
Increase (-) / decrease (+) in stocks	2 908	-999
External services	33 217	26 758
	-1 106 608	-1 125 360
Staff expenses		
Wages and salaries	132 589	132 015
Social security expenses		
Pension expenses	17 427	31 260
Other social security expenses	14 045	14 659
	-164 061	-177 934
Depreciation and reduction in value		
Depreciation according to plan	46 120	45 626
Reduction in value of non-current assets	—	2 000
Depreciation of goodwill	247	—
Reduction of consolidation difference	-82	—
	-46 285	-47 626
Other operating expenses	-275 893	-259 277
OPERATING PROFIT	16 733	7 730
Financial income and expenses		
Income from other investments held as non-current assets	421	651
Other interest and financial income	4 207	5 489
Net income from associated companies	238	840
Reduction in value of investments held as non-current assets	—	-118
Interest and other financial expenses	-9 089	-10 374
	-4 223	-3 512
PROFIT BEFORE EXTRAORDINARY ITEMS	12 510	4 218
Extraordinary items		
Expenses	-341	-4 090
	-341	-4 090
PROFIT BEFORE APPROPRIATIONS, TAXES AND MINORITY INTEREST	12 169	128
Income taxes	-6 266	-849
Deferred taxes	1 787	2 757
Profit before minority interest	7 690	2 036
Minority interest	-166	—
NET PROFIT FOR THE FINANCIAL YEAR	7 856	2 036

All figures in € '000s

Consolidated Balance Sheet

ASSETS

31 Dec., 2003

31 Dec., 2002

NON-CURRENT ASSETS

Intangible assets		
Intangible rights	4 068	3 723
Goodwill	2 636	—
Other capitalized long-term expenditure	15 321	12 194
	<hr/>	<hr/>
	22 025	15 917
Consolidation goodwill	2 418	—
Tangible assets		
Land and waters	14 379	13 753
Buildings and constructions	126 544	121 126
Machinery and equipment	168 577	145 530
Other tangible assets	546	1 951
Advance payments and construction in progress	39 695	20 861
	<hr/>	<hr/>
	349 741	303 221
Investments		
Shares in Group companies	2 831	2 928
Shares in associated companies	2 055	2 020
Other shares and interests	10 358	10 949
	<hr/>	<hr/>
	15 244	15 897

CURRENT ASSETS

Stocks		
Raw materials and supplies	25 194	27 529
Unfinished products	18 158	12 943
Finished goods	88 061	95 974
Other stocks	617	701
	<hr/>	<hr/>
	132 030	137 147
Receivables		
Non-current receivables		
Loan receivables	170	174
Other receivables	178	41
Deferred tax receivable	2 665	4 217
	<hr/>	<hr/>
	3 013	4 432
Current receivables		
Trade receivables	114 538	118 254
Current receivables from participating interests	598	962
Other current receivables	12 429	13 673
Deferred tax receivable	5 198	1 808
Accrued income and prepaid expenses	10 949	12 173
	<hr/>	<hr/>
	143 712	146 870
Investments		
Other current investments	39 751	113 593
Cash in hand and at banks	24 785	16 605
	<hr/>	<hr/>
TOTAL ASSETS	732 719	753 682

All figures in € '000s

SHAREHOLDERS' EQUITY AND LIABILITIES

31 Dec., 2003

31 Dec., 2002

SHAREHOLDERS' EQUITY

Share capital	99 678	99 678
Other reserves	6 145	8 539
Retained earnings	186 085	190 030
Net profit for the financial year	7 856	2 036

MINORITY INTEREST

716 —

PROVISIONS

17 386 8 659

LIABILITIES

Other liabilities

Loans from credit institutions	28 015	1
Deferred tax liability	27 773	27 222
Other non-current liabilities	63 318	43 160

119 106 70 383

Current liabilities

Loans from credit institutions	7 413	36 037
Advances received	120	282
Trade payable	151 555	181 120
Current liabilities to participating interests	1 418	2 734
Other liabilities	98 089	117 214
Accrued expenses and deferred income	37 152	36 970

295 747 374 357

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

732 719 753 682

All figures in € '000s

Consolidated Statement of Changes in Financial Position

	2003	2002
CASH FLOW FROM OPERATIONS		
Operating profit	16 733	7 730
Adjustments to operating profit	54 350	45 635
Change in working capital	-55 403	64 355
Interest and other financial expenses paid	-8 986	-9 451
Dividends received	421	651
Interest and other financial income received	4 361	5 495
Income taxes paid and refunded	2 240	-8 535
Cash flow from operations	13 716	105 880
CASH FLOW FROM INVESTMENTS		
Capital expenditure in investments	-215	-93
Capital expenditure in tangible and intangible assets	-103 313	-65 592
Gains from sale of investments	466	450
Gains from sale of tangible and intangible assets	6 737	1 094
Cash flow from investments	-96 325	-64 141
CASH FLOW BEFORE FINANCING ACTIVITIES	-82 609	41 739
CASH FLOW FROM FINANCING ACTIVITIES		
New loans	59 861	22 261
Repayment of loans	-40 473	-28 173
Increase (-) / decrease (+) in non-current receivables	1 419	-3 658
Increase (-) / decrease (+) in current financing	4 515	18 533
Dividends paid	-5 981	-7 974
Other	-2 394	-3 774
Cash flow from financing activities	16 947	-2 785
CHANGE IN LIQUID ASSETS	-65 662	38 954
Liquid assets at 1 Jan.	130 198	91 244
LIQUID ASSETS AT 31 DEC.	64 536	130 198

All figures in € '000s

Parent Company Income Statement

	2003	2002
NET TURNOVER	1 419 477	1 423 177
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	10 147	-7 860
Other operating income	26 444	27 394
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	963 221	974 458
Increase (-) / decrease (+) in stocks	154	432
External services	28 694	24 417
	-992 069	-999 307
Staff expenses		
Wages and salaries	123 765	118 366
Social security expenses		
Pension expenses	16 700	30 741
Other social security expenses	11 500	12 190
	-151 965	-161 297
Depreciation and reduction in value		
Depreciation according to plan	43 890	42 572
Reduction in value of non-current assets	—	2 000
	-43 890	-44 572
Other operating expenses	-251 063	-230 384
OPERATING PROFIT	17 081	7 151
Financial income and expenses		
Income from participating interest	113	55
Income from other investments held as non-current assets		
From others	421	651
Other interest and financial income		
From Group companies	39	51
From others	3 765	5 463
Reduction in value of investments	-487	-10 349
Reversals of value adjustments in value of investments	—	4 877
Interest expenses and other financial expenses		
To others	-8 883	-8 987
	-5 032	-8 239
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	12 049	-1 088
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	12 049	-1 088
Appropriations		
Increase (-) / decrease (+) in depreciation difference	-1 984	5 372
Income taxes	-6 157	-379
Deferred taxes	3 234	815
NET PROFIT FOR THE FINANCIAL YEAR	7 142	4 720

All figures in € '000s

Parent Company Balance Sheet

ASSETS

31 Dec., 2003

31 Dec., 2002

NON-CURRENT ASSETS

Intangible assets

Intangible rights	4 040	3 708
Other capitalized long-term expenditure	14 309	11 025
	18 349	14 733

Tangible assets

Land areas	13 064	12 424
Connection fees	977	972
Buildings and constructions	120 130	116 249
Machinery and equipment	161 542	136 048
Other tangible assets	84	66
Advance payments and construction in progress	39 112	20 546
	334 909	286 305

Investments

Shares in Group companies	30 208	22 569
Shares in associated companies	1 177	1 176
Other shares and interests	10 340	10 539
	41 725	34 284

CURRENT ASSETS

Stocks

Raw materials and supplies	22 395	23 184
Unfinished products	17 080	12 938
Finished goods	79 552	72 821
Other stocks	608	699
	119 635	109 642

Receivables

Non-current receivables

Receivables from Group companies	1 437	5 509
Other receivables	178	495
	1 615	6 004

Current receivables

Trade receivables	87 869	91 887
Current receivables from Group companies	21 021	15 707
Current receivables from participating interests	419	591
Other current receivables	9 201	11 713
Deferred tax receivable	5 042	1 808
Accrued income and prepaid expenses	9 668	11 428
	133 220	133 134

Investments

Other current investments	38 681	113 229
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Cash in hand and at banks

	13 836	8 519
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TOTAL ASSETS

	701 970	705 850
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All figures in € '000s

SHAREHOLDERS' EQUITY AND LIABILITIES

31 Dec., 2003

31 Dec., 2002

SHAREHOLDERS' EQUITY

Share capital	99 678	99 678
Other reserves		
Legal reserve	5 984	5 984
Retained earnings	118 182	119 443
Net profit for the financial year	7 142	4 720

APPROPRIATIONS

Accumulated depreciation difference	95 592	93 608
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PROVISIONS	17 386	6 235
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LIABILITIES

Non-current liabilities

Loans from credit institutions	27 126	–
Other liabilities	59 963	42 804

	87 089	42 804
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Current liabilities

Loans from credit institutions	6 288	18 335
Trade payable	133 730	165 256
Current liabilities to Group companies	695	246
Current liabilities to participating interests	399	1 406
Other current liabilities	97 335	116 877
Accrued expenses and deferred income	32 470	31 258

	270 917	333 378
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TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	701 970	705 850
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All figures in € '000s

Parent Company Statement of Changes in Financial Position

	2003	2002
CASH FLOW FROM OPERATIONS		
Operating profit	16 107	7 151
Adjustments to operating profit	54 120	43 553
Change in working capital	-63 761	48 990
Interest and other financial expenses paid	-8 781	-8 063
Dividends received	535	706
Interest and other financial income received	3 958	5 520
Income taxes paid and refunded	2 348	-8 425
Cash flow from operations	4 526	89 432
CASH FLOW FROM INVESTMENTS		
Capital expenditure in investments	-4 000	-93
Capital expenditure in tangible and intangible assets	-96 997	-62 522
Gains from sale of investments	382	450
Gains from sale of tangible and intangible assets	1 626	1 029
Cash flow from investments	-98 989	-61 136
CASH FLOW BEFORE FINANCING ACTIVITIES	-94 463	28 296
CASH FLOW FROM FINANCING ACTIVITIES		
New loans	55 005	18 194
Repayments of loans	-27 579	-11 356
Increase (-) / decrease (+) in non-current receivables	83	-2 987
Increase (+) / decrease (-) in current receivables	-96	124
Increase (+) / decrease (-) in current financing	3 799	17 647
Dividends paid	-5 981	-7 974
Cash flow from financing activities	25 231	13 648
CHANGE IN LIQUID ASSETS	-69 232	41 944
Liquid assets at 1 Jan.	121 748	79 804
LIQUID ASSETS AT 31 DEC.	52 516	121 748

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 intercompany accounts and transactions have been eliminated.

Inventories are valued 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 life. R&D costs have been charged to the profit and loss account as incurred.

External minority interests of consolidated net profit as well as shareholders' equity have been separated and presented separately.

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	
	2003	2002	2003	2002
1. NET TURNOVER BY DIVISION				
Fresh products	619 926	591 745	597 880	573 412
Yellow fats	205 259	204 433	197 304	198 729
Cheese	455 419	498 859	380 461	388 149
Ingredients	87 014	101 997	85 902	101 058
Ice cream	64 056	71 126	63 990	70 495
Others	133 872	131 969	93 940	91 334
	1 565 546	1 600 129	1 419 477	1 423 177

2. EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses comprise the following items:				
Cheese Company, Inc.	-341	-5 640	—	—
Deferred tax receivables allocated to an extraordinary item	—	1 550	—	—
	-341	-4 090	—	—

3. DEPRECIATION ACCORDING TO PLAN

Depreciation according to plan is calculated at the original acquisition cost of depreciable assets on a straight-line basis over their economic life as follows. According to local legislation, the goodwill depreciation period for Valio-Vache Bleue is 10 years.

	Years
Immaterial rights and other capitalized long-term expenditure	5 or 10
Goodwill	10
Consolidation goodwill	5
Buildings and constructions	15 or 25
Machinery and equipment	10
ADP equipment and software	5
Transportation and equipment	5

Notes to the Income Statements

4. CHANGE IN PROVISIONS INCREASE (-) / DECREASE (+)	CONSOLIDATED		PARENT COMPANY	
	2003	2002	2003	2002
Provision for contingent pension liabilities	570	364	570	364
Provision for reconstruction	-9 774	-2 857	-12 227	-1 615
Other provisions	477	-1 303	506	-267
	-8 727	-3 796	-11 151	-1 518

5. OTHER OPERATING EXPENSES

Energy expenses	26 784	28 075	26 522	26 733
Water expenses	8 518	8 076	8 513	7 981
Transportation expenses	76 167	73 782	71 220	68 737
Rental expenses	14 564	14 701	13 397	13 343
Expenses for maintenance of real estate and machinery	33 418	25 403	32 621	24 164
Marketing expenses	48 725	47 204	40 754	39 373
Travel expenses	7 359	6 803	6 639	6 026
IT expenses	10 547	10 900	10 218	10 730
Administrative expenses	15 588	15 840	14 691	14 556
Voluntary staff expenses	6 500	5 356	4 327	3 589
Credit loss	403	231	9	124
Write-offs for the year	11 796	—	11 796	—
Other expenses	15 524	22 906	10 356	15 028
	275 893	259 277	251 063	230 384

6. REDUCTION AND REVERSALS IN VALUE OF INVESTMENTS HELD AS NON-CURRENT ASSETS

Group Company N.V. Vache-Bleue S.A., Belgium, reduction in value of shares and loans receivable				-10 231
Group Company Valio International U.S.A. Inc., USA, reversal of value adjustments in value of shares				4 877
Other	—	-118	-487	-118
	—	-118	-487	-5 472

7. NUMBER OF PERSONNEL, AVERAGE

Manual workers	2 422	2 462	2 222	2 177
Technical dairy employees	819	816	785	780
Management staff	534	532	503	496
Clerical staff	591	590	452	449
	4 366	4 400	3 962	3 902

8. SALARIES AND BONUSES OF DIRECTORS

Supervisory Board, Board, CEO	1 997	1 569	884	596
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Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2003	2002	2003	2002
9. ACCRUED INCOME AND PREPAID EXPENSES				
Royalties	1 011	872	1 011	872
Healthcare repayments	487	615	487	615
Tax receivables	506	6 625	—	6 307
Annual credits	—	42	—	—
Pension costs	3 358	—	3 358	—
Industrial butter subsidy	755	617	755	617
Other prepayments and accrued income	4 832	3 402	4 057	3 017
	10 949	12 173	9 668	11 428

10. INTANGIBLE ASSETS

Intangible rights				
Acquisition cost at beginning of year	7 894	6 575	7 757	6 430
Increases	1 139	1 329	1 120	1 327
Decreases	-60	-9	—	—
Acquisition cost at year-end	8 973	7 895	8 877	7 757
Accumulated depreciation at beginning of year	-4 112	-3 617	-4 049	-3 504
Depreciation for the year	-793	-555	-788	-545
Accumulated depreciation at year-end	-4 905	-4 172	-4 837	-4 049
Book value at year-end	4 068	3 723	4 040	3 708
Other capitalized long-term expenditure				
Acquisition cost at beginning of year	61 949	58 137	42 346	38 557
Increases	12 527	4 281	6 914	4 017
Decreases	-7	-232	-7	-228
Acquisition cost at year-end	74 469	62 186	49 253	42 346
Accumulated depreciation at beginning of year	-49 755	-45 977	-31 321	-27 710
Depreciation for the year	-4 339	-4 015	-3 623	-3 611
Accumulated depreciation at year-end	-54 094	-49 992	-34 944	-31 321
Book value at year-end	20 375	12 194	14 309	11 025
Total intangible assets	24 443	15 917	18 349	14 733

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2003	2002	2003	2002
11. TANGIBLE ASSETS				
Land and waters				
Acquisition cost at beginning of year	13 743	12 775	13 396	12 425
Increases	1 008	1 020	954	1 012
Decreases	-372	-42	-309	-41
Acquisition cost at year-end	14 379	13 753	14 041	13 396
Book value at year-end	14 379	13 753	14 041	13 396
Buildings and constructions				
Acquisition cost at beginning of year	328 277	313 251	316 556	302 180
Increases	19 598	15 751	16 966	14 589
Decreases	-3 093	-213	-452	-213
Acquisition cost at year-end	344 782	328 789	333 070	316 556
Accumulated depreciation at beginning of year	-205 129	-194 073	-200 307	-187 220
Depreciation for the year	-13 109	-13 590	-12 633	-13 087
Accumulated depreciation at year-end	-218 238	-207 663	-212 940	-200 307
Book value at year-end	126 544	121 126	120 130	116 249
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	568 834	529 100	535 819	495 649
Increases	55 671	43 804	52 477	40 408
Decreases	-14 581	-1 207	-119	-238
Acquisition cost at year-end	609 924	571 697	588 177	535 819
Accumulated depreciation at beginning of year	-412 675	-396 750	-399 705	-374 376
Depreciation for the year	-28 126	-27 466	-26 846	-25 329
Accumulated depreciation at year-end	-440 801	-424 216	-426 551	-399 705
Book value at year-end	169 123	147 481	161 626	136 114
Advanced payments and construction in progress				
Acquisition cost at beginning of year	20 857	20 563	20 546	18 208
Increases	37 108	19 989	36 554	19 627
Transfer to finished acquisitions	-18 270	-19 691	-17 988	-17 289
Acquisition cost at year-end	39 695	20 861	39 112	20 546
Book value at year-end	39 695	20 861	39 112	20 546
Total tangible assets	349 741	303 221	334 909	286 305
Depreciation according to plan for the year, total	-46 367	-45 626	-43 890	-42 572
Book value of production machinery and equipment at year-end	149 750	126 740	143 465	118 278

12. CONSOLIDATED AND PARENT COMPANY HOLDINGS

GROUP COMPANIES

	Consolidated Ownership and voting rights %	Parent Company Ownership and voting 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
Võru Dairy Holding AS, Estonia	100.0	100.0
Võru Juust AS, Estonia	57.8	0.0
Valio International (Poland) Ltd, Poland	100.0	100.0
Valio International U.S.A. Inc., USA	100.0	100.0
Cheese Company Inc., USA	100.0	0.0
Finlandia Cheese Inc., USA	100.0	0.0
Valio Nord Oy, Finland	100.0	100.0
Valio Sverige AB, Sweden	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
SIA RPK-VALIO, Latvia	50.0	50.0

REAL ESTATE COMPANIES

	Consolidated Ownership and voting rights %	Parent Company Ownership and voting rights %	Equity	Net Income/ loss in latest year-end accounts
Asunto Oy Nastolan Maitotie, Nastola	100.0	100.0	914	8
Asunto Oy Vuorikummuntie 9, Helsinki	100.0	100.0	460	—
Kiinteistö Oy Hiirakkotie 6, Vantaa	100.0	100.0	139	5
Kiinteistö Oy Pähkinämetsä, Vantaa	100.0	100.0	401	—
Kiinteistö Oy Pähkinäpolku, Vantaa	100.0	100.0	247	—
Kiinteistö Oy Tehontie 31, Kouvola	100.0	100.0	390	—
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 Group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	53 554	1 176	13 557
Increase	7 736	84	—
Transfer from participating interests	83	—	—
Decrease	-180	-83	-314
Acquisition cost at beginning of year	61 193	1 177	13 243
Accumulated depreciation and write-offs at year-end	-35 863	—	-3 139
Reversal of write-offs at year-end	4 878	—	236
Book value at year-end	30 208	1 177	10 340

14. GROUP INVESTMENTS

	Shares in Group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	2 928	2 055	14 088
Increase	—	190	133
Decrease	-97	-155	-724
Acquisition cost at year-end	2 831	2 090	13 497
Accumulated depreciation and write-offs at beginning of year	—	-35	-3 139
Accumulated depreciation and write-offs at year-end	—	-35	-3 139
Book value at year-end	2 831	2 055	10 358

15. RECEIVABLES FROM PARTICIPATING INTERESTS

	CONSOLIDATED		PARENT COMPANY	
	2003	2002	2003	2002
Trade receivables	—	—	20 935	15 431
Other receivables	—	—	21	211
Loan receivables	—	—	1 502	5 574
	—	—	22 458	21 216

16. RECEIVABLES FROM PARTICIPATING INTERESTS

Trade receivables	598	962	419	591
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	CONSOLIDATED		PARENT COMPANY	
	2003	2002	2003	2002
17. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital, 1 Jan., 2003 / 1 Jan., 2002	99 678	99 678	99 678	99 678
Share capital, 31 Dec.	99 678	99 678	99 678	99 678
Legal reserves 1 Jan., 2003 / 1 Jan., 2002	8 539	12 313	5 984	5 984
Translation differences	-2 394	-3 774	—	—
Legal reserves 31 Dec.	6 145	8 539	5 984	5 984
Retained earnings from previous year, 1 Jan.	192 066	198 004	124 163	127 417
Dividends	-5 981	-7 974	-5 981	-7 974
Retained earnings 31 Dec.	186 085	190 030	118 182	119 443
Net profit for the financial year	7 856	2 036	7 142	4 720
Shareholders' equity 31 Dec.	299 764	300 283	230 986	229 825
18. DISTRIBUTABLE EARNINGS				
Retained earnings 31 Dec.	186 085	190 030	118 182	119 443
Appropriations included in retained earnings	-67 997	-66 646	—	—
Net profit for the financial year	7 856	2 036	7 142	4 720
	125 944	125 420	125 324	124 163
19. PROVISIONS				
Provision for contingent pension liabilities	1 129	1 699	1 129	1 699
Provision for renovation	15 130	5 356	15 130	2 903
Other provisions	1 127	1 604	1 127	1 633
	17 386	8 659	17 386	6 235
20. DEFERRED TAX LIABILITIES AND RECEIVABLES				
Deferred tax receivables				
From matching differences	7 863	6 025	5 042	1 808
Deferred tax liabilities				
From appropriations	27 721	27 146	—	—
From matching differences	52	76	—	—
	27 773	27 222	5 042	1 808
21. LIABILITIES DUE AFTER FIVE YEARS OR LATER				
Loans from credit institutions	700	—	—	—

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2003	2002	2003	2002
22. ACCRUED EXPENSES AND DEFERRED INCOME				
Interest	3 596	3 296	3 596	3 324
Holiday accrual including social security	18 985	17 677	18 893	17 614
Rebates granted	1 671	401	338	258
Wages and salaries including social security	4 915	9 294	3 619	6 149
Royalties	879	898	873	898
Social security	84	310	84	310
Other accrued expenses and deferred income	7 022	5 094	5 067	2 705
	37 152	36 970	32 470	31 258
23. CURRENT LIABILITIES TO GROUP COMPANIES				
Trade payable	—	—	125	—
Other liabilities	—	—	570	246
	—	—	695	246
24. CURRENT LIABILITIES TO PARTICIPATING INTERESTS				
Trade payable	1 418	2 734	399	1 406
25. CONTINGENT LIABILITIES				
For own commitments				
Mortgages	130 433	131 627	129 155	131 627
Pledges	16 201	14 799	14 923	14 799
Guarantees	33 937	34 121	33 908	33 991
Leasing commitments	11 820	9 132	10 093	8 769
For commitments of Group companies				
For others	—	—	5 718	39 231
For others	2 522	2 909	2 458	2 909
For own operations				
For Group companies	192 391	189 679	188 079	189 186
For others	—	—	5 718	39 231
For others	2 522	2 909	2 458	2 909
	194 913	192 588	196 255	231 326

Proposal by the Board of Directors to the Annual General Meeting

The consolidated distributable earnings at 31 Dec., 2003 are € 125 944 000.
The parent company distributable earnings at 31 Dec., 2003 are:

Retained earnings	118 182 233.24 €
Profit for the financial year	7 141 546.30 €
<hr/>	
Total	125 323 779.54 €

The Board of Directors proposes to the Annual General Meeting that a dividend of 5% on the nominal value of the shares of € 170 be declared	4 983 890.00 €
Dividends from net profit for the financial year	4 983 890.00 €
To be retained and carried forward	2 157 656.30 €
<hr/>	
Total	7 141 546.30 €

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	120 339 889.54 €
<hr/>	
Total shareholders' equity	226 001 791.07 €

Helsinki, 3 March 2004

Kari Inkinen

Tauno Uitto

Harry Salonaho
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.–31.12.2003. 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 Presidents and CEOs 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 Presidents and CEOs 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, 3 March 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Marjomaa
Authorised Public Accountant

Statement by the Supervisory Board

We have examined the financial statements for 1 January to 31 December 2003, and the auditor's 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: Tapio Hytönen, Harri Laamanen, Pekka Lestinen, Jaakko Männistö, Reino Parkko, Mauri Penttilä, Matti Romppanen and Matti Siitonen. In addition, new members need to be elected to the Supervisory Board for the remaining terms of Toivo Heikkilä and Riku Ollikainen who resigned.

Helsinki, 4 March 2004

On behalf of the Supervisory Board

Seppo Hakola
Chairman

Valio Ltd owners 31 December 2003

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 (€ 3 400)
Alueosuuskunta Promilk	Lapinlahti	3 125
Evijärven Osuusmeijeri	Evijärvi	42
* Hirvijärven Osuusmeijeri	Jalasjärvi	46
* Hämeenlinnan Osuusmeijeri	Hämeenlinna	1
Hämälän 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

*) No business relationship with Valio

Division Boards 1 January 2004

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	TERM EXPIRES
Juhani Hörkkö, Chairman	2005
Tauno Uitto, Vice Chairman	2005
Seppo Hakola	2005
Maija-Leena Heiniö	2005
Hannu Kainu	2004
Jouko Kärki ¹⁾	2005
Timo Kässi	2004
Tapio Malmiharju	2004
Riku Ollikainen	2004
Mauri Penttilä	2005
Aarno Puttonen	2004
Jaakko Rouhiainen	2004
Matti Siitonen	2005
Onni Törrönen	2004
DOMESTIC SALES AND MARKETING	
Tauno Uitto, Chairman	2005
Esa Juntunen, Vice Chairman	2005
Merja Keisala	2005
Kimmo Kempainen	2005
Harri Laamanen	2005
Matti Lehtinen	2004
Sauli Lähteenmäki	2005
Martti Mustonen	2004
Jaakko Männistö	2004
Reino Parkko	2005
Kari Piironen	2004
Juha Tuikkanen ¹⁾	2005
Pentti Vartiainen	2004
LOGISTICS	
Esa Juntunen, Chairman	2005
Juhani Hörkkö, Vice Chairman	2005
Toivo Heikkilä	2004
Tapio Hytönen	2005
Jukka Kalliokoski ¹⁾	2005
Esa Leskelä	2004
Pekka Lestinen	2005
Osmo Oinonen	2004
Antti Rauhamaa	2004
Matti Romppanen	2004
Pentti Santala	2005

¹⁾ Personnel representative



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