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VALIO

# Valio's Responsibility for Well-being

CORPORATE RESPONSIBILITY REPORT AND ANNUAL REPORT 2004







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# The Leading Dairy Company in Finland

Valio Ltd is the biggest food business in Finland by net turnover, a dairy company that processes more than 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 nearly 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.

## VALIO GROUP VISION 2010

Valio will be market leader and a strong consumer brand in its expanded home market. Valio will be a significant performer in other selected markets and product groups with its partners. Functional and other added value products will be the solid support for international co-operation.



#### ANNUAL REVIEW BY THE CEO

Valio's extensive investments in the Riihimäki, Jyväskylä and Oulu fresh dairy product plants continued in 2004. The Kouvola plant was closed as planned at the end of January 2005 and the task of reforming the company's information systems is almost finished. Once these major investment projects have been completed, Valio will focus on securing returns from them and there will be a significant curtailment in the rate of investment in the coming years.

The year was characterised by fiercer competition, a considerable rise in cheese imports resulting from the EU's eastward expansion, lower export subsidies in accordance with EU agricultural policy, and the weak dollar. These factors necessitated a reduction of two cents per litre in the price paid for raw milk from the beginning of October. However, Valio's price paid remains among the best in Europe. We need to remember that the unfavourable conditions for dairy farming in Finland make costs the highest in Europe.

Valio took in one per cent more milk and net turnover rose by the same figure. Sales in the domestic market made steady progress, developed well in Estonia and the US, and fell back in Russia.

The company sold its ice cream business to Nestlé and baby food business to Royal Numico during 2004. At the same time, Valio has taken almost full control of Võru

Juust in Estonia and acquired a cheese plant in Vöyri, Finland from Milka.

Valio restructured to support its expanded home market strategy, reducing organisational layers while extending the Marketing division's profit responsibility to all market areas. The new organisation structure is better able to respond to both domestic and international challenges. The goal is to clarify responsibilities, enhance operations and increase reaction speed.

The company has continued investing strongly in research and development. Valio launched a large number of new and innovative products during the year, many of which gained immediate popularity with consumers.

The European dairy industry and milk production business are in a period of great change. One of Valio's great strengths lies in its owners, who have committed themselves to long-term development, making bold decisions for change when necessary during Valio's 100 year history, and maintaining their preparedness to advance the company's structures and operations.

There is a crucial connection between the Finnish food industry and primary production in agriculture – one cannot survive without the other. We can only hope that Finland's decision-makers, consumers and retail chains take this fact into account and continue to appreciate pure, Finnish, high-quality food.

The outlook for the current year is extremely challenging. The influx of imported dairy products is expected to continue. Fierce retail price competition means any increase in costs cannot be passed on in product prices. So we are looking to joint initiatives with the retail trade in the supply chain to ensure the lowest possible costs for on-time distribution to shops at optimal volumes.

In thanking our dairy farmers for their hard work to secure high-quality raw milk, my message is to persevere; and keep on producing the cleanest milk in the European Union! I warmly thank our committed personnel who are an important resource to the company. They have met the challenges for change with enthusiasm. Last but by no means least, Valio extends its gratitude to our customers for their continuing trust and the will to deepen co-operation with us.

Valio will be 100 years old this year. By working more courageously, innovatively, flexibly and swiftly than our competitors we believe we can hold our market position. The message is exemplified in "A Century of Well-being".

Harry Salonaho

# I Responsible Operations for 100 Years

## FRAMEWORK FOR REPORTING

This report describes the operations of both Valio Ltd and to some degree of Valio Group, in terms of its responsibility for well-being and corporate responsibility, with the financial statements for the year 2004. Economic, social and environmental perspectives are adopted in accordance with the United Nations Global Reporting Initiative (GRI) guidelines. The comparability of this report in terms of the GRI guidelines is presented in Annex I.

The economic perspective is represented by the financial statements section and the review of the economic operating environment. Social and environmental aspects are presented organised according to Valio's values.

Valio's headline value "Responsibility for well-being" comprises responsibility for the well-being of its personnel, for safe and high-quality products, the development of co-operation between Valio and its customers, the well-being of animals and the environment, and for securing the continuity of dairy farmers' work. The content of the report has been organised under these sub-headings.

Valio has published environmental reports in 1998 and 1999, a corporate responsibility report for 2003, and its annual report every year. Reports can be found in Finnish and English on Valio's websites at [www.valio.fi](http://www.valio.fi) and [www.valio.com](http://www.valio.com).

The annual report and corporate responsibility report have been combined into one for 2004, entitled Valio's Responsibility for Well-being. It is available in print and in PDF format on the company's websites.

The financial statements have been audited by PricewaterhouseCoopers Oy.

The report is illustrated with materials from Valio advertising campaigns starting in the first decade of the twentieth century and depicting the key events of each decade in words and pictures, celebrating one hundred years of history in this, Valio's centenary year of 2005.

## A SOCIAL ACTOR

Valio was founded on 4 July 1905 as an export co-operative for high-quality butter that was first shipped daily from the port of Hanko, mainly to Great Britain. Butter became an important export product for Finland.

This year, Valio will be one hundred years old and to this day high quality remains a cornerstone of our operations, which have

expanded both in Finland and abroad. Valio processes and markets more than 80% of all the milk produced in Finland. It exports around 40% of the milk it takes in, mainly in the form of cheese, butter and powdered ingredients. Valio is in practice Finland's sole exporter of dairy products.

Another cornerstone is the research and development conducted throughout the company's existence. The Valio Laboratory was founded in 1916 as the company's management adopted a long-term view: "Only a country whose economy is based on science can reach and maintain first place in the economic battle between nations."

The Valio Laboratory was managed from 1921–1970 by Nobel laureate Artturi Ilmari Virtanen. He won the prize in Chemistry in 1945, cited especially for his innovative AIV silage production method and the development of AIV butter salt for improving the preservation and taste of butter. Valio R&D has continued that tradition by developing, for example, functional foods, lactose-free dairy products and specialised production technology.

Valio and the co-operatives had an immense effect on the well-being, professional development and income of Finnish dairy farmers in the 20th century. Dairy farming has been and still is extremely important to Finnish rural development and demographics.

It is the central element of national agriculture and especially so in Ostrobothnia and Central and Eastern Finland. In Lapland it is the only significant agricultural source of livelihood other than reindeer husbandry. Without dairy farmers the Finnish countryside would be essentially poorer and the population more scattered.

Now in our jubilee year in particular it is good to remember the corporate responsibility that Valio has borne for the development of milk production, the dairy industry and research throughout its history, and the extensive and positive repercussions this has had on Finnish society. Cherishing this tradition, Valio bears its responsibility today, too.

Valio's one hundred years are described in a pictorial panorama and concise text in Finnish and English on separate web pages that can be accessed through the [valio.fi](http://valio.fi) and [valio.com](http://valio.com) sites.

## KEY FACTS TODAY

Measured by net turnover, Valio is the biggest food business and milk processor in Finland. Net turnover for 2004 stood at around € 1.6 billion, about one third of which was derived from international operations. Valio is a limited liability company owned by 27 dairy farmer co-operatives and employed on average 4 394 persons in Finland and abroad in 2004.

Valio had 15 production plants in Finland at the end of 2004. The company bought the Kaitsor cheese plant from Milka at the beginning of 2005, while the Kouvola dairy was closed at the end of January. During 2004, Valio sold its ice cream business and plant to Nestlé and baby food business to Royal Numico, while continuing to make baby foods as Numico's contract supplier.

Valio has two production plants in Estonia and a cheese packing plant in Belgium. Subsidiaries operate in Russia, Sweden, Belgium, Estonia, Latvia, Lithuania and the US, in addition to which there is a representative office in China. Valio has determined its expanded home market to include Finland, Sweden, Western Russia and the Baltic States.

Valio's average market share in dairy products in Finland was 56% in 2004.

The Finnish Competition Authority considers Valio a dominant market force in

Finland. The company complies with competition and other legislation, the authorities' requirements and international treaties. Valio takes the expectations of different interest groups into account in its operations.

## CORPORATE RESPONSIBILITY GUIDED BY VALIO'S VALUES AND PRINCIPLES

Valio's corporate responsibility is embodied in its core value "Responsibility for well-being". It guides the company's work and requires responsible operations in production, customer relationships, personnel policy, the development of the working community, environmental policy and the care of animals. Valio bears a responsibility through profit-making operations to secure the prerequisites for its owners, Finnish dairy farmers, to continue their work.

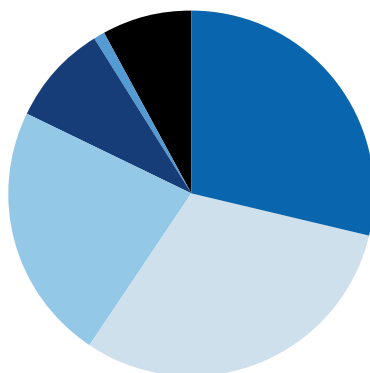
In addition to values, responsible operations are guided and defined by the operating principles that are part of Valio's management system. The principles that guide the company's corporate responsibility and operating policy have been added to strategy and grouped according to Valio values. Those include principles concerning, for example, the environment, personnel, product safety, customer relationships, marketing communications, and milk production chain quality standards. Valio has also determined more detailed operating principles for these and other areas, such as personnel policy, operational safety, good production practices, purchasing, information management, communications and initiatives. These operating principles have been recorded in Valio's certified quality management system.

Valio has committed itself to follow the equality principle, which means that it pays the same price for raw milk to all owner co-operatives that have a business relationship with Valio, regardless of where the milk is collected from. The owner co-operatives in turn pay their farmer members for the milk, which is collected from all Valio dairy farms every other day irrespective of the distances involved.

## CERTIFIED OPERATIONS

A certified quality management system is just one ingredient of Valio's way of working. Valio's ISO 14001 environmental certificate covers all the company's operations in Finland. The company's ISO 9001 certified quality

SHARE OF MILK USED FOR MAIN PRODUCT GROUPS IN DOMESTIC SALES AND EXPORTS 2004



Products sold in domestic market, total 63%  
Products sold in foreign markets, total 37%

\* Sales of raw milk to external customers

management system covers all the operations of Valio Ltd, its different functions, product quality, and the general development and management of operations. The continuing validity of the certificates requires e.g. that the functioning of the systems is evaluated through both internal and external audits.

### VALIO'S GOVERNANCE, MANAGEMENT SYSTEM AND STRATEGY

The representatives of Valio's 27 owner co-operatives convene once a year in the Annual General Meeting that elects the 23 members of the Supervisory Board which exercises the final power of decision. Valio personnel elect four employee representatives to the Supervisory Board. The Supervisory board elects a Chairman and Deputy Chairman among themselves and appoints the dairy farmer members of the Board of Directors. The Supervisory Board also appoints the members of the Division Boards.

Valio Board of Directors comprises four dairy farmers and the CEO. In addition to the President & CEO, Valio's Management Group comprises the Senior Vice Presidents of Marketing, Group Administration, Production, Domestic Sales, International Sales, and Logistics. The extended

Management Group includes, in addition to the aforementioned, the Senior Vice Presidents of Research and Development, Corporate Planning, and Corporate Communications.

Valio values and mission guide strategy. The strategy, along with the goal-setting process for the entire company which is based on the strategy, is a part of the management system. That system describes the company's organisation structure, division of responsibilities, goal-setting, planning processes and operating principles. The management system is in itself described in Valio's certified quality management system, which can be found on Valio's intranet. The company's vision, the basic principles of its strategy, and the strategic objectives, are all laid out on its intranet and website.

### STRATEGIC OBJECTIVES

The strategy determined the objectives and the means for reaching them.

Valio's objective is to pay producers as good a price for raw milk as possible and in that respect to stay on a par with the best European dairy companies. The objective is supported by success in the expanded home market, deepening co-operation with retailers and other parties, strengthening personnel know-how and the ability to work together successfully, and through cost-efficient processes that produce high quality. Valio's objectives have been determined for different areas: finances, customers and markets, personnel, and processes.

### FINANCES

*The price paid for raw milk on a par with the best European dairy companies*

Valio's objective is to pay a price for raw milk at least on a par with European co-operative companies, ensuring the financing position and solvency of the Group. Cost-efficiency and the quality of operations are improved by enhancing the efficiency of production plants and distribution, and shortening market response times.

### CUSTOMERS AND MARKETS

*Strengthening market position in the expanded home market*

Valio's objective is to strengthen market position in its domestic market and most especially in the Group's expanded home market defined as Sweden, the Baltic States, Western Russia, and Finland itself. The objective is to be a profit-making organisation

VALIO ANNUAL CYCLE

JAN	Adjustment of owner strategy, vision and mission		
FEB			
MAR	Group strategy and goal-setting		
APR	Plans and budget frames by function		
MAY	Product group plans		
JUNE	Strategy approval		
JULY			
AUG			
SEPT	Communicate strategy and objectives		
OCT	Budgeting, plans by unit location		
NOV		Budgeting	
DEC	Background analyses		Self-evaluation



## VALIO'S OWNER AND ADMINISTRATION ORGANISATION

VALIO LTD Valio is owned by 27 dairy cooperatives

### ANNUAL GENERAL MEETING

### SUPERVISORY BOARD

27 members

23 dairy farmers from cooperatives  
4 personnel representatives

### BOARD OF DIRECTORS

4 dairy farmers and the CEO,  
a dairy farmer as Chairman

### DIVISION BOARDS

13 members

12 dairy farmers who represent owner cooperatives  
or Valio Supervisory Board  
1 personnel representative

and attain a significant position in selected segments. Valio aims to increase the share of consumer products in sales both in the domestic and export markets. This objective is also supported by the Valio brand whose consistency will be increased in the expanded home market.

### *Deepening partnership with central retail groups and other co-operation parties*

Valio aims to be the leading supplier and number one partner to its customers. By developing the business relationship and ways of working, Valio wishes to deepen co-operation into mutually beneficial partnership. Valio supports its business through networking i.e. increasing co-operation with other parties as well.

## PERSONNEL

### *Strengthening know-how and co-operation*

Valio's primary competitive advantage is its skilled personnel; and competitive advantages support the development of a healthy and profitable business. Valio has determined its core competence in different functions, and what kinds of competence generate advantage over competitors and maintain Valio's position as a pioneer. This expertise is strengthened with training and personal learning plans.

The objective is competent, multi-skilled and co-operative personnel. The personnel strategy outlines five areas of development: leadership, expertise, resources, encouragement and well-being.

## PROCESSES

### *Improving performance and the capacity to produce high quality items*

In order to improve performance and the capacity to produce high-quality items, Valio Group's ways of working are simplified, processes enhanced, and operational flexibility and response sensitivity developed, so as to anticipate and satisfy the needs of consumers and customers.

## 1.1 Valio co-operation with stakeholders

Valio co-operates broadly with various actors in society. Interest and stakeholder groups of importance include Valio's own personnel, customers, consumers, dairy farmers (Valio's owners), co-operation partners, authorities, as well as business, agriculture and food industry organisations, suppliers and the media.

Valio works extensively with the retail trade e.g. to develop supply chain management and enhance distribution, and also forms partnerships with suppliers.

Personnel well-being and job satisfaction are promoted e.g. by supporting exercise and other hobby and leisure activities, offering training, and developing supervisory skills. An annual survey measures personnel satisfaction. Preventive steps in safety and occupational health protect employees from accidents and occupational diseases.

Valio stays in touch with its customers, not just through marketing, but also by means of advice offered by its consumer services and the associated feedback system.

The company provides guidance for dairy farmers concerning the care of their farm, animals and the environment, both independently and in co-operation with Pro Agria's advisory organisation.

Valio participates in a number of international dairy industry and related organisations. The company is actively involved in EU science and research projects and often sits in working groups appointed by the Finnish Ministry of Agriculture and Forestry.

Valio co-operates with educational establishments, universities, research institutions and authorities both nationally and locally to develop dairy industry training and research, as well as the quality of milk and well-being of dairy cattle. The Valio Maitokirja (milk book) is designed for the use of e.g. educational

establishments, and describes milk processing at a dairy and Valio operations.

In 2004, Valio promoted a better understanding of the dairy industry professions and what they involve by funding the MilkWorks project. The different professions are introduced and information about milk production can be found on the Internet at [www.milkworks.fi](http://www.milkworks.fi). The website also contains an award-winning game where you can test your skills in transporting milk to a dairy. Each Valio plant also works with a class at the local primary school.

Valio participates in the operations of the agriculture and food sections of the National Board of Economic Defence. The food section exists to secure the operation of the food industry under exceptional circumstances.

Valio's representative to the Association for Animal Disease Prevention is the Chairman of the Board of that association; its purpose is to promote the health of Finnish animals and the safety of foods of animal origin by e.g. instructing on the importation and use of feeds. Finnish livestock is the healthiest in Europe.

Valio is actively involved in the Finnish Association for Milk Hygiene that promotes the production, processing, transportation and sale of safe, high-quality milk. It is a neutral party that commissions studies and offers its opinion in legislative work.

Valio's representative to Maito ja Terveys ry (Dairy Nutrition Council) is also a member of the Board of that council. Its members comprise around 20 consumer counselling, temperance and dairy industry organisations; and dairy companies including Valio as passive members. The council bases its statements on the recommendations of the National Nutrition Council, and its operations are financed by dairies and public health education organisations.

Valio stays in touch with its stakeholders through personal contacts, by arranging events for which Valio provides the background information and by producing reports, publications, brochures and press releases mainly in Finnish and English. Other important channels are Valio's intranet and websites at [www.valio.fi](http://www.valio.fi) and [www.valio.com](http://www.valio.com), as well as a variety of feedback systems.

## VALIO'S COMMUNICATION PRINCIPLES

Valio Group communications apply the principle of truth with integrity. Valio



### Co-operation between Valio and the Mannerheim League for Child Welfare

The Mannerheim League for Child Welfare (MLL) is a non-governmental organisation that promotes the rights of children to a good and happy childhood. Arranged every autumn, the MLL "good start for school" (Hyvä alku koulu-tielle) campaign supports the families of children starting school. Valio has been involved in the project since 2002. Our task is to educate children in their first year at school (age 7) about what kinds of snack are healthy and safe.

considers it particularly important that consumers and customers are informed about any product faults or production problems. In 2004, Valio finalised its crisis communication instructions with regard to all aspects of its operations.

## 1.2 Sponsorship

Valio's sponsorship principles can be viewed at the [www.valio.fi](http://www.valio.fi) website and on the company's intranet. Children and young people come first in Valio's sponsorship activities.

A particular event or project that Valio sponsors must:

- Fit the target image of the Valio brand or a sub-brand,
- Not be in conflict with Valio values,
- Support the values of the target group, and
- Support the realisation of marketing goals.

### VALIO SKI RELAY

The focus of Valio's sponsorship of the sports lies on youth and school sports. The most important event is the annual Valio ski relay, a national winter event co-arranged with the Finnish Ski Federation and Finnish School Sport Federation. The idea is to encourage young people to have fun together enjoying nature in winter and to inject enthusiasm into schools cross-country skiing. Valio ski relay is open only to 11–12 year olds but the whole school can get involved in the tournament itself.

More information and pictures of the event are available at [www.valio.fi/valioviesti](http://www.valio.fi/valioviesti)

## 1.3 Economic responsibility and operating environment

Valio bears an economic responsibility to make an operating profit in order to pay a price for raw milk to its owners that makes the continued production of milk in Finland feasible. Financial success also enables the steady development of the company, which is the best guarantee for preserving jobs and the required raw milk price. It also enables Valio to offer a variety of personnel benefits, play its part in caring for the environment, and co-operate with stakeholders.

The financial performance of Valio Ltd is vested in three highly competitive markets: consumer products, the food service sector, and industrial products. Two thirds of net turnover is derived from Finland and around

one third from international operations. The profitability of exports varies a great deal according to world market prices for industrial products, EU intervention prices, the US dollar rate, and the share of consumer products of Valio's total exports.

The distribution of profit in Valio differs from most limited liability companies: the majority of the result is realized as the price paid for raw milk to the owners who have a business relationship with Valio. In addition, dividend is paid to all owners. Valio's financial performance is presented in the financial statements section of this report.

### OPERATING ENVIRONMENT

Economic growth in Finland, Sweden and the Baltic States was strong in 2004, and the situation in Russia was stable due to high oil prices. Fiercer competition in the retail trade and growing co-operation in wholesale purchasing brought downward pressure to bear on prices throughout the food industry in Europe. The competitive position of the Finnish dairies was also hit by the Baltic States and Poland, all countries that produce inexpensive raw milk, joining the EU and increasing price competition in dairy products.

The weakening of the US dollar against the euro has reduced the value of sales to

the United States, as rising prices have only partially offset exchange rate losses. The weaker dollar has also albeit indirectly led to a growth in the supply of cheese on Russian and EU markets together with a fall in prices.

The European Union's CAP reform aims to phase out export subsidies gradually and the first cuts in 2004 reduced e.g. the price of butter exported to Russia.

#### VALIO LTD (PARENT COMPANY) KEY FIGURES 2002-2004

Financial responsibility indicators	2002	2003	2004
Net turnover (€ mill.)	1 423	1 419	1 428
Operating profit (€ mill.)	7	17	69
Profit (loss) before appropriations and taxes (€ mill.)	-1	12	59
Balance sheet total (€ mill.)	706	702	813
Solvency ratio (%)	42	43	44
Liquidity (current ratio)	1.11	1.13	1.26
Net turnover by product group			
Fresh dairy products	573	598	608
Butter and spreads	199	197	193
Cheese	388	380	374
Powdered ingredients	101	86	99
Ice cream	71	64	47
Other	91	94	107
	<b>1 423</b>	<b>1 419</b>	<b>1 428</b>
Investments (€ mill.)	63	97	98
Interest paid on debts (€ mill.)	9	9	10
Dividends paid (€ mill.)	6	5	5
Wages and salaries (€ mill.)	118	124	125
Taxes paid (€ mill.)	+5	6	17
Purchases from suppliers (€ mill.)	974	963	948
Number of personnel (average)	3 902	3 962	3 870
Number of production plants	18	15	15
Number of staff working in production	2 327	2 330	2 284

# 1905, 1910–1930

Valio was established on 4 July 1905 as an export co-operative for high-quality butter. The name Valio means excellent in Finnish – and just like the organisation’s founding principles has not changed in 100 years. Valio was set up by 17 co-operative dairies, but success feeds on success and by the 1920s there were more than 500 member dairies and the value of domestic sales exceeded exports. Valio’s first milk and cheese advertisements in colour appeared in the carefree Twenties.

Valio celebrated Finnish independence in 1917 with a product range that included Edam, Emmental and fresh cheese, along with butter and bulk milk. In the 1930s came Koskenlaskija, Viola, Turunmaa and AURA blue cheese, which celebrates its 70th birthday in 2005. Ice cream production also began in the 1930s. Valio’s milk and ice cream bars and cafés were very popular!



## 2 Safe High-Quality Products

### 2.1 Milk quality control from farm to shop

The journey taken by our milk from the dairy farm to the table is a complex one. Securing high quality all the way along this extensive chain means that everyone must abide by a common set of rules. Quality management and the continuous development of operations require constantly maintained instructions, target-oriented operations, measurement, and corrective and preventive procedures.

Valio Group's common practices are laid out in the certified quality management system. The Valio Ltd certified quality management system was combined with the quality management systems of the milk procurement co-operatives in 2004, forming a joint system where procedures and instructions proscribe the key issues for the management of quality, the environment and safety. Valio's quality management system has itself been certified according to the ISO 9001 (quality) and ISO 14001 (environment) standards. The introduction of the new, combined quality

management system for the co-operatives began in 2004 and the process is ongoing.

Milk quality begins at the farm. Valio's experts support the work of the farms in all key milk production operations. Valio dairy farmers have to meet the quality requirements, conform to good production practices and follow the instructions for exceptional situations as set out and maintained in Valio's Milk Quality Manual.

Long-term co-operation ensured by a quality agreement between the farm and the procurement co-operative forms the basis of the commitment of a dairy farm to follow the Milk Quality Manual procedures. One requirement of the quality agreement is the farm's obligation to provide documentation. This improves traceability and transparency in the milk chain. Quality monitoring at the farm is based on milk analyses. A further degree of regulation is performed by the procurement co-operative, to assure the quality of work, through regular advisory farm evaluations. In 2004, evaluation visits were made to 1 100, almost 9%, of Valio's dairy farms.

#### QUALITY STEPS ON A DAIRY FARM

■ Valio Farm requirements

Statutory level	Quality agreement level	Valio Farm Status – endorsement level Quality system level 1	Quality system level 2	Certified quality system/ quality award level
<ul style="list-style-type: none"> <li>• General legislation and statutes</li> <li>–milk hygiene</li> <li>–livestock protection</li> <li>–livestock medication</li> <li>• Inspection of milk production facilities and cattle health at 3-year intervals</li> <li>• Own supervision</li> </ul>	<ul style="list-style-type: none"> <li>• Quality training 1–5 days</li> <li>• Quality agreement with the cooperative</li> <li>• Milk quality manual distributed by the cooperative</li> <li>• Documentation:               <ul style="list-style-type: none"> <li>–livestock medication</li> <li>–antibiotic testing</li> <li>–silage purchases</li> <li>–livestock purchases</li> <li>–milking machine serving/testing</li> </ul> </li> <li>• Salmonella insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Quality training 5–10 days</li> <li>• Flowcharts/work instr.               <ul style="list-style-type: none"> <li>–milking and milk handling</li> <li>–making silage, feeding</li> </ul> </li> <li>• Deviations under control</li> <li>• Systematic livestock health care</li> <li>• Allowing livestock on pasture/outdoors</li> <li>• Functioning environmental programme and a well tended farm environment</li> <li>• Building a quality system that works on the farm               <ul style="list-style-type: none"> <li>–business plan</li> <li>–farm quality policy, customers, purchases, other work described</li> <li>–Processing plan</li> <li>–Feeding plan</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Further quality training</li> <li>• Quality training applied on the farm</li> <li>• Internalising quality work in certain areas:               <ul style="list-style-type: none"> <li>–occupational safety/mental well-being</li> <li>–measurement and development of environmental issues</li> <li>–development of risk management and of livestock health care in accordance with a production phase</li> <li>–proactive operations development</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Quality system that is in use/audited</li> <li>• Continuous development of profitable operations</li> <li>• Quality tools in use</li> </ul>
Obligatory inspections	Quality agreement evaluation	Valio Farm endorsement audit Audit by an independent party	Independent audit	Independent audit/certification

Quality development work is described in a series of steps the dairy farm must take.

### ANALYSING MILK AND UTILISING THE RESULTS

The strict quality requirements that must be satisfied for the raw milk that is to be turned into safe products are measured and tracked through milk analyses. Valio Group instructions describe standard working practices and exceptional responses to meet each quality requirement. They also determine what kind of milk or product is no longer suitable for food and must be rejected.

The quality of raw milk is monitored at different production phases, starting at the farm. All the results from farms of raw milk and milk batch analysis are stored in common information systems. The data must be speedily accessible so that corrective measures can be instigated at once should quality problems arise. Valio Group has invested specifically in information flow structures in recent years.

The quality of Valio raw milk has been characterised by outstanding development since the beginning of the 1990s. In recent years, the company has invested in decreasing the amount of milk in the lowest quality class in particular. The share of second-class milk has fallen to 0.19% since 1994; the target for 2005 is a further reduction to 0.16%. By international comparison Finnish milk is among the best together with Norwegian milk.

### CATTLE FEED AND MILK QUALITY

First-class milk only comes from cows that have been fed correctly and with high-quality feed. Poor-quality silage increases in particular the risk of faults in the aroma and taste of milk, and the amount of harmful bacterial spores of butyric acid in cheese-making.

Valio has long traditions in silage development, in its manufacture, analysis and associated feeding processes. Valio developed Artturi silage analysis for quality assessment, which helps the milk producer gauge silage quality and design feed programmes. The "Artturipassi" training programme launched for advisors by Valio in 2004 increases their knowledge of analysis interpretation, enabling them to guide Valio dairy farmers more effectively in matters of silage and feeding. Some 300 advisors from different parts of the country have already participated in the training programme.



#### Valio dairy farm endorsement

A dairy farm may be granted Valio Farm status (*Valio Maittila -opaste*), if its production operations meet the following requirements:

- Excellent milk quality
- Instructions & actions set by the producer for key operations in exceptional situations
- Regular and systematic livestock health care practice
- Livestock pasturing
- Cowshed inspection approved by the authorities
- Care of the farm environs
- Farm visit and quality audit by an advisor
- Will to develop the farm continuously

#### An online quality tool for our farms – valma.valio.fi

Valma is a password-protected Internet service through which the dairy farmers can access milk price data and laboratory test results for their own farm. The service sends information about quality deviations to the farmer's mobile phone or by e-mail. The service was introduced in 2002, and by the end of 2004 had almost 5 700 registered users covering more than 40% of all Valio farms.

## 2.2 Assuring product safety

Valio has determined the following product safety principles:

- Comply with good production practices and continuously develop operations according to them.
- Use high-quality milk obtained from healthy cows, together with other high-quality ingredients.
- Make safe products for consumers, clean and faultlessly in a hygienic production environment.
- Take pre-emptive action against hygiene risks and secure the uninterrupted operation of the production plants.

In all its operations, Valio complies with the law regarding the safety of consumer goods and services and other legislation regulating consumer protection. According to the law, the business must ensure that the goods present no danger to the health or property of the consumer, and in its marketing provide consumers with the necessary information, in a comprehensible form, for them to be able to assess any dangers related to the products. The supervising authority must be informed immediately of any dangers.

Valio's certified quality management system lays out detailed instructions about how to act in a situation where there is reason to suspect that a product made by Valio is other than faultless. The instructions help to identify a so-called product crisis, where a product is suspected of or has been verified to cause a health risk to consumers. According to those instructions, the supervising authority must always be informed of such a risk. Detailed actions in any such situation are evaluated together with the authorities.

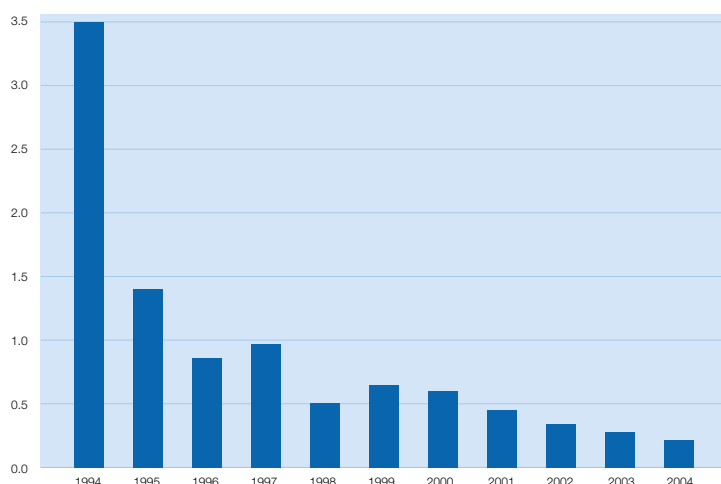
## 2.3 Research and development

Valio R&D has a staff of 125 who conduct internationally significant research in e.g. functional foods, lactose-free products, and technology. Valio R&D is responsible for developing the taste, texture and value added properties of the product range. Valio invests around 0.7% of its net turnover on research and development. Valio R&D publishes a magazine called Nutrifocus for health care professionals, which addresses socially significant nutritional themes.

DEVELOPMENT OF RAW MILK QUALITY 1994–2004  
VALIO DAIRIES

■ The share of second-class milk has fallen to 0.19% since 1994

The quality of Valio raw milk has been characterised by outstanding development since the beginning of the 1990s. In recent years, the company has invested in decreasing the amount of milk in the lowest quality class in particular. The share of second-class milk has fallen to 0.19% since 1994; the target for 2005 is a further reduction to 0.16%. By international comparison Finnish milk is among the best together with Norwegian milk.



During 2004, Valio R&D divided research and development operations into two units: Nutritional Innovations and Technological Innovations. R&D also started to network on a more international basis in its research operations. In Finland, a scientific consultative committee was appointed to increase co-operation between Finnish and foreign universities, research institutions and researchers. Licensing and Technology Commercialisation was integrated into International Sales.

Valio's functional foods include GEFILUS products that improve resistance, EVOLUS products whose peptides help to control blood pressure, and Valio BENECOL products made under license for controlling cholesterol.

VALIO GROUP  
INVESTMENTS  
IN R&D  
€ mill.

2000	9.3
2001	9.8
2002	9.7
2003	10.2
2004	10.5

**EVOLUS**

The fourth clinical study of the beneficial effect of tripeptides contained in Evolus products on elevated blood pressure was published in 2004. Research into influencing mechanisms continues and the beneficial effects of peptides on bone structure were patented.

Evolus technology was licensed in Iceland in 2004, and Spain and Portugal in early 2005. Negotiations on licensing with some other dairy companies are well advanced.

**GEFILUS**

Research into the immunological effects of Valio's probiotics continued. Research objects included e.g. beneficial effects on allergies and infections in children, as well as on the risk of diabetes in children.

The probiotic Lactobacillus GG that is added to Valio GEFILUS products is the most researched probiotic in the world. The effects of LGG have been the subject of around 20 doctoral dissertations and more than 200 studies. Products containing LGG are marketed in 40 different countries.

LGG has been shown to maintain human immune systems, reduce the risk of gastric ailments, and that of respiratory tract infections and caries in children, as well as having a positive effect on the skin symptoms of children with milk allergy. In 2004, LGG was added as a component of MultiTabs multi-vitamin capsules.

Valio R&D began the development of the next generation of probiotics and LGG Plus in 2004.

**LACTOSE-FREE PRODUCTS**

The success of lactose-free products continued and e.g. fat-free milk drink and fermented milk were added to the product family. Tetra Pak and Valio made an agreement on marketing co-operation for the global

MILK QUALITY CONTROL

	Dairy farmer	Raw milk from the farm	Milk batches	Quality requirement
<b>Aroma and taste</b>	Daily	Every batch	Every batch	Faultless
<b>Temperature</b>	Daily	Every batch	Every batch	< 6 °C
<b>Microbial drug residues</b>	As necessary	twice / year	Every batch	Negative
<b>Bacteria</b>	—	twice / month	twice / week	< 100 000 / ml (geometric mean value)
<b>Cells</b>	Daily/weekly	twice / month	twice / week	< 400 000 / ml (geometric mean value)
<b>Freezing point</b> (added water)	—	twice / month	twice / week	< -0.512 °C

VALIO LTD  
PERSONNEL

The number of personnel by site on 31 Dec. 2004 totalled 3 497 (including part-time workers and those on fixed-term employment).

Haapavesi	109
Helsinki	787
Joensuu	171
Jyväskylä	309
Kajaani	2
Kouvola	42
Kuopio	4
Lapinlahti	255
Lappeenranta	14
Mikkeli	2
Nastola	2
Oulu	288
Porkkala	1
Riihimäki	395
Rovaniemi	7
Seinäjoki	336
Sotkamo	3
Suonenjoki	84
Tampere	241
Toholampi	70
Turenki	87
Turku	38
Vantaa (Tikkurila)	10
Vantaa (Vaarala)	182
Äänekoski	59
Total	3 497

- 50 per cent of staff are female, 50 per cent male.
- Average time in employment is 12 years.
- Average age is 39 years.

**Criteria for functional foods**

Clinical research and that related to studying the influencing mechanisms of product components is extremely important, as both Finland and the EU are setting increasingly demanding criteria for allowing health claims. Valio has set tight scientific criteria for its functional foods:

- Clinical studies are:
  - Placebo-controlled double-blind studies.
  - The effect has been shown in at least two independent studies.
  - The study has been made on the final product using a recommended daily dose.

**2.4 Production investing in quality**

The most important investments authorised by Valio's Production division in 2004 were in the development of fresh dairy products manufacturing, increasing overall manufacturing capacity, and ensuring production hygiene. Basic fresh dairy products production was concentrated to four dairies: Riihimäki, Jyväskylä, Oulu and Tampere. Allocation was improved so that the Riihimäki plant makes yoghurts and flavoured quark products, Jyväskylä special milks, and viili fermented milk, crème fraîche and sour creams are produced in Oulu. The Seinäjoki plant concentrates on cottage cheese and quark.

The production of new, consumer-friendly products was developed e.g. by revamping cheese-packing lines. The added value of other products and the ability to manage sufficiently high-quality production were also improved by replacing machines and equipment. New technology means less production wastage and more effective commodity utilisation.

Production hygiene was improved in all plants through the implementation of Valio's good production practices programme based on the Finnish statute governing milk hygiene.

commercialisation of lactose-free milk drink production technology.

Valio's lactose-free product family now includes milk drinks, fermented milk, yoghurt, cooking creams, whipping cream and Feta cheese.

The low-fat theme continued, for cream products in particular. The range of low-fat cheeses made using production technology developed by Valio expanded further, and weight control was the key thread for research and development in the latter half of the year.

Production technology for lactose-free items was successfully developed to make products tastier and reduce quality variance.

VALIO LTD PRODUCTION PLANTS 1 FEB. 2005

1. Haapavesi
2. Helsinki
3. Joensuu
4. Jyväskylä
5. Kaitsor
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
- ◆ Butter and spreads
- ▲ Powdered ingredients
- \* Fresh dairy products
- Jams





## 2.5 Moving marketing closer to consumers

### VALIO BRAND STRENGTHENED

The importance of the Valio brand strengthened further in 2004, when the Marketing division assumed responsibility for product groups in the entire expanded home market. The goal was set at growing the strength of the Valio brand not only in Finland, but also in Sweden, the Baltic States and Russia. The Valio brand guarantees responsible production and product traceability, as well as investments in quality control from dairy farms to shops. Valio takes responsibility for its products and any faults in them.

A brand only has value if it creates widespread trust in the products. Studies indicate that the Valio brand occupies a unique position in the minds and daily life of the Finnish people.

The fundamental promise of the Valio brand is “Responsibility for well-being” and that has been augmented for the company’s centenary year to become “A Century of Well-being”.

### LISTENING TO CONSUMERS

The opinions of consumers and customers affect the development of products and services. Valio Product and Nutrition Services answer all questions concerning Valio products, services and issues related to food or nutrition.

Valio consumer services can be contacted using a form at [www.valio.fi](http://www.valio.fi) or in Finland by phoning the toll-free number 0800-0825 on weekdays from 9.00 a.m. to 3.00 p.m. Contact details can be found on most consumer packages, in brochures and on the Internet.

In 2004, Product and Nutrition Services answered 23 094 consumer calls and 10 627 messages were submitted via the Internet. The number of comments totalled 38 399, including those made directly to production plants.

The system routes feedback information directly to the person responsible for the product and to the production plants. The quantity of feedback is one of the follow-up indicators used by the plants.

Nowadays, more and more consumers find the answer to their questions through Valio’s versatile online services. In 2004, more than 900 000 different users visited [www.valio.fi](http://www.valio.fi) and the most popular section that focuses

### Ethical guidelines in marketing communications

Responsibility for well-being is Valio’s core value that also guides marketing communications. The company follows the international rules and guidelines published by the Association of Finnish Advertisers. In addition, Valio has set down four ethical guidelines to be applied in advertising in particular:

- 1) Principle of truth
- 2) Principle of equality
- 3) Principle of proper behaviour
- 4) Principle of safety

on food, products and nutrition has almost 100 000 registered users.

### LIGHT AND INNOVATIVE PRODUCT THEME

Valio’s product range contained 1 100 items on average in 2004 with many innovative products being added.

The low-fat theme continued and especially in cooking products. The new product family – Ruoka 5%, Fraiche 5%, and Vanilja 9% – clearly exceeded the sales targets set. In cheeses, Oltermanni 17% slices sold particularly well.

The packages and texture of Valio yoghurts were revamped, drinking yoghurts were launched, a spreadable version of Koskenlaskija processed cheese was developed, and a recyclable daily-dose carton bottle was added to the functional Gefilus, Evolus and Benecol product families.

Other successful products included lactose-free whipping cream and Gefilus Kidius snack products for children.

## 1940–1950

As Finland's biggest dairy company, Valio has always played an important part in the country's nourishment and never more so than during the Winter War and Continuation War. From 1940–1944, as part of its national duty to secure the production and distribution of dairy products, Valio made no other cheese than Koskenlaskija, which keeps well and kept the Finnish army marching. The State made certain there was a daily ration of milk for everyone – 6 dl for children and 3 dl for adults.

After the war, Valio's nature as an innovator was highlighted when Research Director A.I. Virtanen was awarded the Nobel Prize in Chemistry, in part for inventing AIV silage. For nearly 50 years from 1921, Professor Virtanen worked as the head of the company's research unit, the Valio Laboratory.

In the 1950s, Valio began to sell milk in glass bottles and many new products were launched. One was milk powder and the Valio Test Kitchen was set up to advise in its use. Today the Test Kitchen samples the properties of Valio products and has devised some 2,000 tried and tested recipes for its online cookbook.



## 3 Developing Co-operation between the Customer and Valio

Valio systematically follows the operating environment of the food industry and retail trade, along with consumption trends. This information and category expertise are applied in co-operation with customers to promote successful business for all concerned.

### 3.1 Focusing with partners on consumers

Valio Domestic Sales aims to help committed partners succeed. Valio strives to be its customers' leading supplier and a reliable co-operation partner; to develop the business relationship and ways of working, actively and in the long term, to mutual benefit. Operations are based on frequent customer contact at a number of organisational levels. The goal is to increase the sales of products within categories in co-operation with customers on the basis of their business ideas.

The objective of customer co-operation is to seek new operating models and methods for providing the consumer with even better services along different sales channels. Co-operation involves improving shelf availability by developing the supply chain, and through a greater knowledge of consumer purchasing habits.

### 3.2 Investing in collection and distribution

Valio made record investments in logistics in 2004, the largest in the company's history. Distribution centres were expanded in Riihimäki, Jyväskylä and Oulu, and collection operations were automated in Riihimäki and Jyväskylä. Automated collection makes the process more customer specific.

Some 85% of Valio's production volume in Finland is delivered to customers in reusable package units. Milk boxes and reusable wholesale packages, so-called honeycomb trays, are dispatched from production plants to retail outlets, where they can be easily placed on the shelf and later returned to the plant for refilling.

The reusable pallet system has received positive customer feedback and was elected the packaging innovation of the year in Finland. Valio is currently studying the possibility of

employing reusable wholesale packages for cheeses and spreads as well.

The Kouvola distribution warehouse was closed in 2004, its operations gradually transferred to Riihimäki during the autumn. The operations of the Sotkamo and Rovaniemi terminals were shifted to Oulu, and distribution for Southern Ostrobothnia was transferred to the Jyväskylä plant.

Valio distributed a total of 795 million kilos of its own products and 70 million kilos of its partners' products in 2004.

Supply chain management and ECR customer co-operation are the cornerstones of future success. Valio seeks mutually satisfactory solutions for improved cost-efficiency together with the customers on the basis of the company's result and financial objectives.

### 3.3 Consumer products increasing in international sales

Valio International Sales focuses on selling consumer products through its subsidiaries, particularly in the Baltic States, Sweden and Western Russia. Cheese sales are developed in selected markets in Europe and the US. The highest-volume export products are cheeses, butter and fresh dairy products.

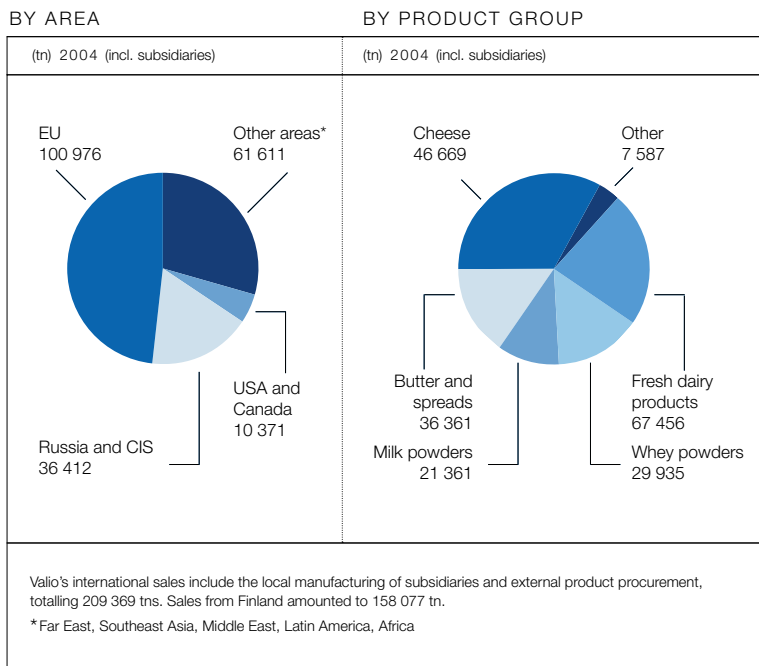
In order to improve industrial products operations, industrial products in Domestic Sales were brought under International Sales in 2004. Domestic industrial sales rose after falling for many years.

The main categories under industrial products are milk powders, demineralised whey powders (DEMI) and industrial butter in Finland, the EU and other selected markets, such as China.

#### VIGOROUS GROWTH IN ESTONIA, CHALLENGING IN SWEDEN

Valio sales in Estonia grew by nearly 30% in 2004. Valio Eesti's Alma brand holds around a 30% share of the country's fresh dairy products markets and Alma products are made exclusively in Valio's Laeva dairy there. Valio acquired almost the entire share capital of Estonia's biggest cheese plant Võru Juust during the year, whose Atleet cheese is familiar in Estonia and Russia.

INTERNATIONAL SALES



In Sweden, Valio achieved a 4% growth in sales, mainly as a result of the higher contribution from lactose-free products and the launch of a low-sugar fruit yoghurt. The overall consumption of fruit yoghurts decreased in Sweden due to a critical public debate on sugar.

**BIG IN RUSSIA AND STRONG IN BELGIUM**

Valio is one of the largest and most significant food businesses exporting to Russia, although sales decreased slightly in 2004.

Valio butter has a significant market share in Russia and, in an annual contest, the product won the Brand of the Year (2004) award for the third time in a row.

Viola processed cheese has been on the Russian market for almost 50 years and holds a strong position as market leader. Oltermanni still leads in natural cheeses in terms of price and quality.

Valio's Belgian subsidiary Valio-Vache Bleue is a packer, wholesaler and distributor of cheeses to the retail trade, and an important sales channel for Valio Emmental. Fresh-packed cheeses are a growing product category and Valio-Vache Bleue registered a 3% rise in sales in 2004.

The subsidiary markets Valio brand cheeses as well as Vache Bleue's low-fat Bellelignie and Selection Cuisine; all are market leaders in their own categories.

**Auditing**

Valio audits the suppliers of critical products to ensure sufficiently high quality and direct the supplier's further development to areas of the greatest benefit in enhancing co-operation.

**VALIO EMMENTAL POPULAR IN THE USA**

Valio's Emmental cheeses lead the US import statistics, and Finlandia is the best-known Emmental cheese brand in its principal distribution area in the Northwest of the country. In late 2004, Finlandia Cheese Inc. successfully broadened the Finlandia brand to take in Oltermanni and expanded the subsidiary's market area with new retail chain customers in the American Mid-West; sales increased by 13%.

**3.4 Requirements for suppliers**

Quality is the most important requirement set by Valio for its suppliers. The objective is long-term co-operation in which the partners undertake to develop their own processes for mutual benefit. Valio aims to select two approved suppliers for the most critical products. Candidate companies are asked whether they have a quality standard, and how they take environmental and ethical values into account in their operations.

In the near future, Valio will require HACCP (Hazard Analysis and Critical Control Point) certification from those suppliers whose inputs are used as such in the manufacture of Valio products. HACCP guarantees that the certified company is able to focus control successfully on the critical points in its processes, that it abides by a very high standard of hygiene, trains its personnel, and bears responsibility for handling waste and discharges. Just under 15% of Valio's current suppliers hold an HACCP certificate, but many are undergoing process development to comply with the certificate.

If a product of the same standard has two suppliers in different countries, Valio favours the supplier whose home country is known to comply with ILO statutes or where conditions are otherwise stable.

**AUDITING SUPPLIERS**

The audit queries the supplier about the quality and environmental management systems it employs and whether or not the company reports on its corporate responsibility.

# 1960–1970

Finnish society was developing rapidly in the 1960s, and people were moving from the countryside to the towns. Valio introduced a new product for “promoting long life”, namely yoghurt. Other new items in the 60s included cottage cheese, sour cream and semi-skimmed milk. The era of milk platforms and milk shops was coming to an end in Finland.

The 1970s were a golden age when a consumer culture took off, and the Russian export markets opened up. Low-fat products, such as fat-free fermented milk, were brought to the market. Also launched were Polar cheese and Voimariini – a butter and vegetable oil mix rechristened Oivariini at the beginning of 2005.

Valio reached an historic agreement in the 1970s with another co-operative business, Elanto, regarding Valio focusing on milk processing and Elanto on handling the retail trade.



# 4 Promoting Personnel Well-being

Valio as an organisation was restructured in 2004, the objective being to increase the reaction sensitivity, speed and flexibility of operations and clarify areas of responsibility. Interaction and supervisory training was arranged to revamp ways of working.

## PERSONNEL STRATEGY SUPPORTS KNOW-HOW, CHANGE AND GROWTH

The expertise of our personnel and their ability to change and grow are an important competitive advantage for Valio. The company has drawn up a personnel strategy as part of Group strategy in order to strengthen that advantage further. The personnel strategy describes separate goals for leadership, expertise, resources, encouragement and well-being.

## DEVELOPMENT OF EMPLOYMENT

At the end of 2004, Valio Group employed 4 028 people, 274 less than a year before; 3 497 of the total were working in Finland at the end of the year. The average number of employees in the Group in 2004 was 4 389, of which 3 870 were working in Finland. The average is calculated inclusive of people in permanent and fixed-term employment and excluding those on long-term leave. Part-time employment relationships are converted to full-time jobs according to the part-time percentage.

## EXPERTISE IS MANAGED IN CO-OPERATION

Development discussions were held with nearly all Valio employees during the year. The goal is to draw up an individual learning plan for each person.

Valio production plants have offered learning at work placements and practical training for the dairy industry students of Häme Vocational Institute and Häme Polytechnic. Dairy industry teachers have been given the opportunity to visit Valio production plants and see working life in a dairy. Valio also participated in the work of the examination committee regarding dairy education.

Valio advertises vacancies on the Internet in channels through which job applications can also be submitted. Vacant posts are also announced within the company, which activates job rotation and the acquisition of a broad range of experience in different areas of operation. In this way employees can also effect the realisation of their own career plan.

### EMPLOYEE PROFILE 2004 (PARENT COMPANY)

Full-time	2 782
Part-time	200
Fixed-term	515
Total	3 497

### EMPLOYEE TURNOVER 2004

New employees	1 090
Left the company*	1 295

### DISTRIBUTION BY GENDER

Men/women	50/50 %
-----------	---------

### AVERAGE AGE 39 y

### SERVICE LIFE on average 13 y

### ABSENCE DUE TO ILLNESS 4.9% \*incl seasonal employees

### Valio personnel principles

are equality, fairness, working together, bearing responsibility, trust, and respecting each other's work. The personnel strategy and principles are introduced on Valio's intranet.

## LIFE-LONG LEARNING

In 2004, Valio's direct training costs amounted to € 1 234 000, an average of € 319 per person. Management, personnel and different experts co-operate in programme planning. Training and learning target areas are mapped e.g. using the Healthy Organisation survey, so that the programmes are based on real needs that are closely linked to activities in working capacity maintenance and coping at work

Two courses were arranged in the Learning Leadership programme that was initiated in 2001. Valio also implemented other training programmes related to management and business operations, such as interaction and co-operation training, as well as a specific programme (Sopu) that focuses on conflict reconciliation in the workplace.

## DIRECTIONAL REWARD SYSTEM

Wages for working time in 2004 totalled € 100.9 million. Valio introduced a so-called directional reward system for the whole personnel in 2002, a bonus paid on the basis of Valio's total result and the goals reached in different divisions.

The bonuses paid on the basis of the total result and goals reached amounted to:

2002	€ 4.1 million
2003	€ 1.2 million
2004	€ 0.75 million

## REWARD AND RECREATION

Valio has long traditions in supporting the leisure and recreational activities of its personnel. Workplaces can support leisure-time clubs within an annually determined budget. In 2004, the leisure budget was € 85 per person.

A system to evaluate the demands placed on management staff was introduced in 2003. Training for the use of the evaluation system was provided in 2004.

Valio rewards its staff for their length of service. At ten-year intervals, employees receive a special award, each of greater value than the last; a part of it can be converted into time off. In 2004, 18 employees were given awards for a career spanning 40 years in Valio Group and 103 employees for 30 years with the company.

PERSONNEL STATEMENT VALIO LTD (PARENT COMPANY) 2004

**PERSONNEL, QUANTITATIVE**

	2000	2001	2002	2003	2004
<b>AVERAGE NO. OF PERSONNEL</b>					
	3 647	3 875	3 902	3 962	3 870
<b>PERSONNEL</b> Situation at 31 Dec.					
	3 662	3 657	3 723	3 770	3 497
<b>TOTAL WORKING TIME</b> (hours)					
	6 115 019	6 460 446	6 539 858	6 635 593	6 543 976
<b>OVERTIME</b>					
	123 857	157 699	171 488	168 157	163 859
<b>SICKNESS AND ACCIDENT</b>					
	276 225	308 048	304 366	314 988	322 432
<b>OVERTIME, % OF TOTAL WORKING TIME</b>					
	2.0%	2.4%	2.6%	2.5%	2.5%
<b>ABSENCE DUE TO ILLNESS OR ACCIDENT</b> % OF TOTAL WORKING TIME					
	4.5%	4.8%	4.7%	4.7%	4.9%
<b>WAGES FOR TIME WORKED, € 1 000</b>					
	80 374	89 312	96 862	98 723	100 937
<b>SOCIAL WAGES AND OTHER INDIRECT</b> <b>STATUTORY EMPLOYEE COSTS</b>					
	47.30%	63.26%	66.20%	52.01%	108.02%
<b>PERSONNEL, QUALITATIVE</b>					
<b>AVERAGE AGE</b>					
	40.2	40.3	39.8	39.8	39.0
<b>MEN/WOMEN, %</b>					
	47/53	47/53	47/53	47/53	50/50
<b>SERVICE LIFE, YEARS</b>					
	13.8	14.1	13.6	13.6	13.0
<b>WORKING CAPACITY INDEX</b>					
<b>HELSINKI</b>					
	42.3	42.1	42.2	42.3	42.2
<b>WHOLE VALIO</b>					
	41.6	41.7	41.6	41.8	41.9
<b>PENSION COSTS, € 1 000</b>					
	8 994	21 507	30 701	16 700	71 143
<b>PERSONNEL INVESTMENTS</b>					
<b>OCCUPATIONAL HEALTHCARE, € 1 000 (ESTIMATE)</b>					
	x) 439	x) 516	765	703	683
<b>€/PER PERSON, AVERAGE</b>					
	x) 120	x) 133	196	174	176
<b>DIRECT TRAINING COSTS, € 1 000</b>					
	900	1 312	1 467	1 673	1 234
<b>€/PER PERSON, AVERAGE</b>					
	247	339	376	422	319
<b>VOLUNTARY SOCIAL COSTS, € 1 000</b>					
	1 775	2 070	2 130	2 540	2 383
<b>€/PER PERSON, AVERAGE</b>					
	487	534	546	641	616

x) Not comparable with figures for 2002–2004

**VALIO'S WELL-BEING PROGRAMME**

The goal of Valio's personnel well-being programme (Terveenä huomennakin) is to promote the progressive health and well-being of the company's employees.

Valio's Healthy Organisation survey encourages staff to voice their opinions; the response rate for 2004 stood at 75%. Designed by the Finnish Institute for Occupational Health and tailored to Valio, the survey is an indicator of job satisfaction that canvasses personnel about e.g. workload, leadership, working atmosphere, commitment and well-being. In 2004, four new questions were added: two about workplace harassment and two for measuring the quality of development discussions. Programme development is based on information garnered from the survey.

In 2004, job satisfaction was rated at 3.92 on a scale of 1–5, commitment at 4.07, and the quality of development discussions at 3.64. Work-related stress was considered to have decreased. Other areas of improvement were co-operation, as well as gender and age equality. Six out of sixteen summary indices had improved in 2004 compared with the year before.

The improvement of feedback skills and prevention of workplace harassment were the key development targets. Machine and equipment safety were improved. Focal areas in promoting the working capacity of individuals were the improvement of muscular fitness and early-phase attention to the threat of a decreasing capacity to work.

**EQUALITY IN VALIO**

Valio has issued instructions for the promotion of gender equality in the company. Valio plants were given directions on drawing up an equality plan. By 2004, the plan was in place in all plants.

According to results from the Healthy Organisation personnel survey in 2004, the realisation of gender equality was rated at 3.84 on a scale of 1–5 (2003: 3.78).

**OCCUPATIONAL HEALTH CARE**

Occupational health care is provided for all Valio employees at the company's own occupational health clinic or by agreement with a local public health centre or organisation that sells occupational health care services. Medical care is provided by general practice doctors.

Valio's health care system is based on risk assessment at the workplace. This includes

preventive measures, the promotion of health and working capacity, and the development of the work environment and work communities.

The occupational health care system organises health checks for all Valio employees from the age of 30 upwards and regarding tasks that carry the risk of a specific illness. Services provide general first aid, and e.g. monitor employees with an impairment and guide their rehabilitation. Activities for the maintenance of working capacity in 2004 included fitness testing, a diabetes theme day, and team activities regarding weight control.

The working capacity index survey is the personnel's own estimate of their working capacity and changes thereto. Based on the answers given, the occupational health care system calculates a personal working capacity index for each respondent. In 2004, the mean value of the working capacity index was 41.9 on a scale of 7–49 (2003: 42).

#### ZERO ACCIDENTS PRINCIPLE

Management sets the safety goals and verifies the focal areas of activity on an annual basis. The goal for 2005 is zero accidents and the focal areas are activating the reporting of near accidents, and occupational safety risk assessments; effectiveness is continuously monitored.

Each Valio plant has conducted an assessment of occupational safety risks as required by the Finnish Occupational Safety Act. We also require this from our partners operating in Valio plants.

Safety at the workplace is developed e.g. by recording and investigating all accidents, near accidents and compiling danger reports. Plants report on accidents and safety improvement procedures on a monthly basis.

The annual rate for occupational accidents at Valio plants stood at around 426 from 2000–2003, with the accident frequency ranked at an average of 69 per million working hours. In 2004, a total of 447 accidents occurred at Valio, 259 of which resulted in a period of sick leave of at least four days. Frequency stood at 68 per million working hours. There were no accidents leading to death in 2004.

Training for the introduction of the Finnish occupational safety certificate has commenced, and the goal for 2005 is to introduce the certificate for those working in production and warehouse facilities.

Most plants have a collaborative body for developing occupational protection, safety and co-operation; either a traditional occupa-

#### Safety

Safety is an integral part of day-to-day operations at Valio and with regard to working conditions we adopt a zero accidents principle.

In autumn 2004, Valio management approved new operating principles for safety:

- All accidents can be prevented
- Safety supports the high quality of products and operations
- Safety is health and well-being
- Safety is a common issue

tional health and safety committee or a group comprising plant management representatives, experts and elected officials. All plants have an occupational health and safety manager and delegate.

#### OPEN COLLABORATION

Close co-operation exists between various personnel groups in Valio. Following the organisational restructuring and revamped ways of working implemented in spring 2004, Valio has paid special attention to co-operation and feedback. The HR co-operation team gathered five times in 2004 and has examined e.g. coping at work, personnel support packages for employees who have relocated from one plant to another or have been given notice, study support, treatment referral, and workplace harassment.

Valio's management met with the shop stewards of all the Valio personnel groups twice last year to evaluate the status quo. The personnel is also represented in the division boards and the Supervisory Board has four employee representatives.

ACCIDENTS \*No of accidents/million working hours. Source: Accident statistics from Valios mutual insurance company (VKV); includes accidents while travelling to and from work, and occupational diseases.

Year	All accidents	No. of accidents Min. 4-day absence	Frequency * all accidents	Frequency * min. 4-day absence
2000	411	236	70	40
2001	452	252	73	41
2002	481	234	77	38
2003	360	215	57	34
2004	447	259	68	40



## 1980–1990

In the 1980s and 1990s, Finland transformed itself from a regulated to a market economy, and joined the EU in 1995. Competitiveness and profitability were of growing importance. In 1992, Valio became a limited liability company owned by milk procurement co-operatives, and took over both marketing and milk processing and began to internationalise.

Advertising stressed the importance of dairy foods as healthy products, rich in nutrients. Low-lactose HYLE products were created in the 1980s to meet the needs of lactose intolerants, and the popular Oltermanni cheese was launched to mark Valio's 75<sup>th</sup> anniversary. The success story of functional foods started in the 1990s, and people began to understand the significance of GEFILUS products and lactic acid bacteria in the body's resistance processes.



# 5 Caring for the Environment and Well-being of Animals

## 5.1 Consideration for the environment brings its own results

### ENVIRONMENT IS A CORE VALUE

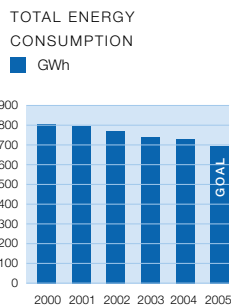
Responsibility for the environment and the well-being of animals is one of Valio's core values. Valio acquires technology that reduces environmental impact, uses raw materials and energy efficiently and favours returnable, re-usable, recyclable and safely disposable packaging. Valio has also committed itself to the Business Charter for Sustainable Development published by the International Chamber of Commerce (ICC).

Valio has had an ISO 14001 environmental certificate covering domestic operations since the year 2000, which was re-approved on 29 September 2003. Environmental information published in this report is derived from the data collection system that is part of the environmental system. The functioning of the environmental system is continuously evaluated via internal and external audits. The figures are reported to the authorities per production plant.

Valio has drawn up environmental goals and targets for the current three-year period 2003–2005:

- Decrease the amount of waste water by 10% and the waste water load by 20% in proportion to production volume.
- Reduce energy consumption by 10%.
- Reduce the amount of waste disposed of as refuse by 40%.
- Increase the utilisation of product packages as material or energy, decreasing the amount of packing materials in proportion to production volume by 4.5%.

Pursuant to the new environmental protection act, 15 Valio plants need an environmental permit. At the end of 2004, all other Valio production plants held permits bar Helsinki, Oulu and Turku, for which the application process was still in progress.

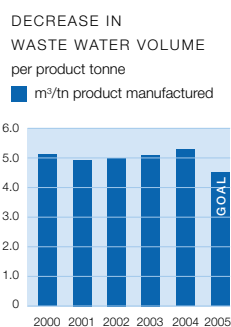
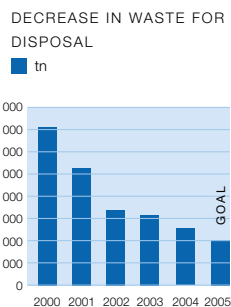


FUELS USED TO PRODUCE HEATING ENERGY

Heavy fuel oil	43.7%
Peat	28.5%
Natural gas	19.9%
Wood chips	5.7%
Light fuel oil	2.2%

AIR EMISSIONS

Particles	27 tn
Nitric oxides	306 tn
Sulphur dioxide	431 tn
Carbon dioxide	156 937 tn



### PRODUCTION VOLUMES AND RAW MILK INTAKE

Valio production plants took in 1 882.2 million litres of raw milk in 2004. A total of 1 003.0 million kilos of dairy products, ice cream, juices and fruit preparations were produced during the year.

### CHEMICALS

Chemicals are used in the cleaning and disinfection of pipes and equipment. Under the supervision of the authorities, Valio complies with Finnish legislative requirements in the handling and storage of chemicals.

Of the most important cleaning chemicals, the use of 50% sodium hydroxide amounted to 4 478.3 tonnes and that of 60% nitric acid to 2 181.3 tonnes. The processes of the ingredients plants consumed 2 364.9 tonnes of 33% hydrochloric acid. Small amounts of detergent mixes, containing hydrogen peroxide and peracetic acid as well as sodium hydroxide and sodium hypochlorite, are used in disinfection.

### ENERGY CONSUMPTION

Dairy processes consume energy in the form of steam and electricity. Total energy consumption in 2004 was 729.8 GWh and in the previous year 733.4 GWh, a reduction of 0.5%.

Electricity is needed in the use and cooling of process equipment, and accounted for 30.0% of energy consumption in 2004. Total electricity consumption increased by 3.0 GWh from the previous year to stand at 218.6 GWh.

Large amounts of thermal energy are needed in the drying of powder products, heat treatment of some products, for cleaning, and in heating buildings. The consumption of thermal energy in 2004 totalled 511.2 GWh, down 6.6 GWh on the previous year. The majority of boiler rooms at Valio plants are maintained by subcontractors.

### WATER CONSUMPTION

Two operations that consume a lot of water in dairies are cooling and cleaning. Valio used 5.9 million cubic meters of water for process flow cooling in 2004, mainly surface water that is returned to natural waterways.

Milk is an easily contaminated raw material and production hygiene is maintained through

cleaning. In 2004, Valio consumed a total of 5.5 million cubic meters of household water: 4.5 million from municipal waterworks and 1.0 million from its own supply. Twelve Valio plants used municipal tap water, two were supplied in full or in part from their own well, and one used its own well and surface water plant. Water consumption increased by 2.9% from the previous year. The growth stems from the introduction of new reusable boxes and trays.

Valio aims to decrease water consumption by favouring Cleaning in Place (CIP) over batch cleaning, so saving on water and chemicals, by optimizing process equipment CIP and recycling usable water. A total of 0.6 million cubic meters of recycled water was used in 2004.

#### AIR EMISSIONS

Energy production causes air emissions. The quality and quantity of emission depends on the fuel used in energy production. Valio's primary source of thermal energy, calculated as thermal power, is heavy fuel oil with a 45% share, while peat accounts for 28% and natural gas 19%. Renewable fuels, such as wood chips and pellets, accounted for 5% of the energy need. Valio's Lapinlahti and Seinäjoki boiler plants are included in the emission trade system under the Kyoto Protocol; they were granted emission rights on application.

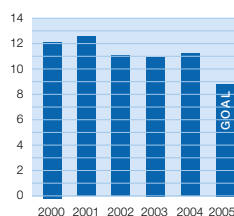
#### WASTE MANAGEMENT

Valio waste management is based on sorting. In 2004, 727 tonnes of waste was forwarded to reuse, mainly corrugated board boxes, wooden platforms and metal barrels. A total of 1 565.7 tonnes of material, mainly corrugated board, was directed for recycling. In addition, a significant amount of scrap metal and beverage cartons are recycled. The amount of organic waste totalled 726 tonnes and that of energy fraction 1 401 tonnes. The total flow of materials through waste management decreased by 10% in 2004.

The amount of waste disposed as refuse resulting from Valio's production has decreased significantly in recent years. Valio has managed this by improving waste sorting, and as a result of the prohibition by law from the beginning

DECREASE IN WASTE WATER LOAD

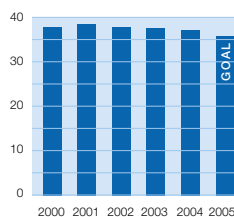
■ kg COD\*/tn product manufactured



\*Indicates the organic loading of waste water

PACKING MATERIALS USAGE

■ g/product kilo



DIVISION OF PACKING MATERIALS FOR DOMESTIC MARKET PRODUCTS

g/kg product	% of material volume
Beverage carton packages	22.1   60.4
Corrugated cardboard	6.8   16.9
Plastic	6.8   16.0
Steel	0.9   3.1
Consumer packages and wrappings	0.8   2.5
Aluminium	0.3   0.8
Industrial wrappings and sacks	0.1   0.3
Total	37.8   100

of 2002 of the delivery of liquid waste to refuse pits.

Valio has installed devices at five plants that make it possible to separate liquid products from packages, for faulty product batches and products returned from shops. The product waste is forwarded for use as animal feed and packing waste is either recycled or disposed of as refuse. A new device was introduced in the Jyväskylä plant in 2004.

The dairy industry produces only a little hazardous waste and Valio was responsible for a total of just 76 tonnes in 2004, the majority being waste oil and solid oily waste from maintenance.

#### WASTE WATER

The substantial use of water and the high load caused by product residues ending up in waste water make dairies' waste water a significant environmental risk. All Valio units are connected to a municipal waste water purification plant, and especially in small towns Valio's load is many times that of the town's. Close co-operation between Valio and the purification plants is a prerequisite of a sound outcome.

The volume and load of waste water depends on the nature of a plant's production. The manufacture of liquid products causes the smallest load, while the processing of whey, a by-product of cheese making, is responsible for the heaviest load. All Valio plants monitor their waste water load on a daily basis.

In 2004, Valio production plants emitted 5.4 million cubic meters of waste water, 2.5% more than in the previous year. The volume of waste water per litre of milk taken in was on average 2.9 litres. The increase in the amount of waste water is explained by the introduction of a new chromatographic separation column in Joensuu, as well as the cleaning of new reusable boxes and trays.

The chemical oxygen demand (COD) describing the amount of organic substances in waste water was 11 296 tonnes, an increase of 0.2% from the previous year. Proportioned to production, the load increased by 3.6%.

Cooling and condensation waters were discharged directly to natural waterways. Three plants have a permit from the water

rights court to discharge waters and one has an environmental permit that includes the option to do so. In obligatory monitoring related to the permits, no harmful impacts from the discharges were observed in 2004.

Problems in commencing new processes accounted for the greatest contribution to the increase in the waste water load in 2004.

Valio participated in the expansion costs of Riihimäki's municipal waste water purification plant in 2004.

#### **SIGNIFICANT CHEMICAL, OIL AND FUEL SPILLS**

In May, a total of 15 000 litres of strong nitrogen acid was gradually spilled into the drainage system through the truck tanks' washing bay. The discharge destroyed the microbial strain in the biofilter intended for the pre-treatment of dairy waste water in the waste water purification plant of the town of Seinäjoki, but it had no effect on the operations of the water purification plant as a whole. The discharge was caused by an equipment breakage and simultaneous failure of several backup systems. An accident report was submitted to the Safety Technology Authority and the Environmental Centre of Western Finland.

In 2004, a drainage leak was detected in the Helsinki juice plant by monitoring the water balance, and the final repairs were made in 2005. A report about the leak was submitted to the Environmental Centre of Uusimaa.

Minor ammonia leaks occurred in the Lapinlahti plant in October and in the Joensuu plant in December. The leaks caused no danger to health or the environment, but they were reported to the Safety Technology Authority.

#### **USE OF PACKING MATERIALS**

Valio products are packed in disposable consumer packages. In 2004, a total of 45 500 tonnes of packing materials was delivered with the products (of which 9 300 tonnes went for export). The use of corrugated board and wood decreased significantly in fresh dairy product packages.

The use of packing materials not containing wood materials amounted to 37.2 grams per

product kilo in 2004, or 0.8% less than in the previous year. The decrease is mainly explained by the reduced usage of beverage carton and corrugated board.

A total of 17 800 tonnes of beverage carton and 5 400 tonnes of corrugated board was delivered to the domestic market with the products.

The plastics used by Valio in packing materials are suited to energy fraction. Of all the packing materials employed by Valio, only aluminium, which is mostly used in yoghurt cup covers, often ends up in the refuse pit. In 2004, a total of 216 tonnes of aluminium was used in products sold in the domestic markets, 11.1% less than in the previous year. Technical surveys and test runs to decrease the use of aluminium continued.

Liquid products are transported in reusable milk boxes, trolleys and dollies. The employment of reusable plastic boxes and trays grew in 2004. Obsolete transport units will be recycled.

#### **PACKAGES RECYCLED**

Valio Ltd is a member of the Environmental Register of Packaging PYR Ltd, a non-profit firm that works in conjunction with packaging industry producer organisations. By making an agreement with PYR, a company transfers its recovery obligation for the packaging it has put into the marketplace to the producer organisations. They in turn ensure those obligations are met.

Valio Ltd owns a 25% share of Suomen NP-kierratys Oy, which organizes the collection and utilization of beverage carton packages used in Finland. Suomen NP-kierratys Oy has made a national agreement with Paperinkeräys Oy on the organization of collection, and the materials are used at the CorensoUnited Ltd Oy plant in Varkaus. The board content of the package is used in the manufacture of coreboard, plastic is utilized for energy, and aluminium is recycled. A total of 6 800 tonnes of beverage carton was recovered in 2004.

Furthermore, Valio Ltd is a member of Suomen Kuluttajakuitu ry, a fibre-recovery organisation that deals with the recycling of pulp and paper in Finland. Valio Ltd is also a shareholder in Suomen Uusiomuovi Oy (Finnish Plastics Recycling).

## 5.2 Logistical care for the environment

Valio has 18 two-tier delivery trucks in use; products can be loaded on two tiers in the cargo space. The advantages of a two-tier truck are emphasised on long-distance routes, as the larger useful load reduces the number of kilometres travelled. Valio saves around 1.9 million kilometres per year thanks to more efficient equipment. The delivery distance totalled 23.3 million kilometres in 2004.

Savings in discharges enabled by two-tier trucks (estimate):

CO<sub>2</sub> (carbon dioxide) 2 274 tonnes/year

CO (carbon monoxide) 15 tonnes/year

NO<sub>x</sub> (nitrogen oxide) 32 tonnes/year

HC (unburned hydrocarbon) 5 tonnes/year

Particles 3 tonnes/year

### DELIVERY TRUCKS REFRIGERATED WITH CARBON DIOXIDE

Valio is running a trial with eight city delivery trucks whose cargo space is refrigerated with carbon dioxide collected from industrial emissions. The new equipment is nearly silent and uses neither HCFC nor HFC greenhouse gases. The exclusion of traditional diesel-operated refrigeration equipment also reduces emissions.

## 5.3 Milk collection transports

The collection of milk from farms has been subcontracted to transport companies. Valio uses an optimisation programme to plan milk collection routes, and trucks are on the move over 20 hours a day around the year. In 2004, milk collection trucks drove 27.7 million kilometres. Proportioned to milk volume, there was no significant change in the number of kilometres driven.

Valio collection logistics operations participated in the national lighter vehicles project. Two lighter vehicle combinations were introduced on a pilot basis, where the lighter vehicle allowed 10% more milk to be transported.

# 2000

The importance of innovation has continued to grow in the new millennium. New items include Evolus products for controlling blood pressure, Valio Benecol for lowering cholesterol and – a world first – entirely lactose-free dairy products. The international licensing of proprietary technology accelerated.

Valio operates in an environment of fierce competition over prices and market share – often the result of increasingly efficient supply chains – as well as a growing influx of dairy products from countries where production costs are lower. At the same time, the EU is cutting its agricultural subsidies.

In its centenary year, Valio looks confidently into the future with a highly valued brand. Valio aims to make tasty, high-quality products, develop co-operation with the retail trade, grow market share in its expanded home market, and secure the continuity of Finnish dairy farmers' work and their rural communities. For A Century of Well-being.

**Haetaan päivittäistä seuraa**

Minä päiväinen, pehmeän persikkainen etsin itselleni päivittäistä kumppania tosiavasta. Voit olla ulkomuodoltaan karstikin, mutta sisäinen herkkyytesi ei jää huomaamatta. Lupaan olla vahva ja kestävä rinnallasi arjen myrskyt. Jos etsit elämäsi jotain erityistä, tässä minä olen. Onohla-sisäinen mörkimöykkyä ja löydä kanssani tasapainoisempi huomen. Yst. väst. kiurp. maitohyl.

nimim.  
"Tahdon olla hella, sua lempeästä hyväellä"

**Gefilus**

Gefilus® leikkokerman maustettu persikkainen Lactobacillus GG keuhkokuumeen vastainen tuote ja tehokas allergeenivastaisuus. 16,6g maustettua keuhkokuumeen vastainen päivänannos sisältää 100 ml annospullo.

**VALIO**

*Tuttu maku. Uusi nimi.*

**Veimariini** **Qvearini**

Veimariini on keuhkokuumeen vastainen Lactobacillus GG keuhkokuumeen vastainen tuote ja tehokas allergeenivastaisuus. Qvearini on keuhkokuumeen vastainen Lactobacillus GG keuhkokuumeen vastainen tuote ja tehokas allergeenivastaisuus.

Kevyempi ote keittiöosi.

**VALIO ruoka 5**

Valio ruoka 5 on keuhkokuumeen vastainen Lactobacillus GG keuhkokuumeen vastainen tuote ja tehokas allergeenivastaisuus. Valio ruoka 5 on keuhkokuumeen vastainen Lactobacillus GG keuhkokuumeen vastainen tuote ja tehokas allergeenivastaisuus.

**VALIO**

*Hyväliä alusta alkaen*

# 6 Securing the Continuity of Dairy Farmers' Work

The core task of Valio Ltd is to secure the continuity of work for its dairy farmers. It is an absolute necessity for Valio that dairy farming continues in Finland and Valio gets the raw milk it needs in this country.

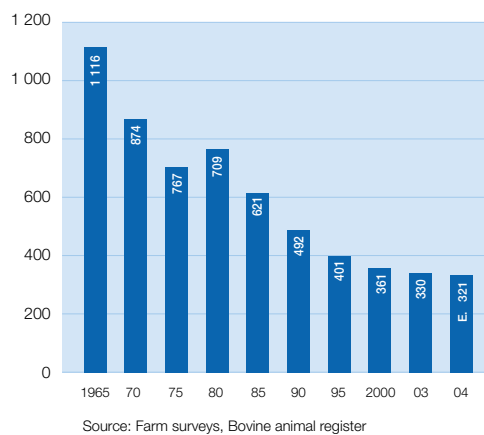
At the end of 2004, there were 16 426 dairy farms producing a total of 2 304 million litres of milk, while Valio Group comprised 13 536 dairy farms. During Finland's membership of the EU, the number of dairy farms has decreased annually by around 6–7 per cent.

Although the number of dairy cows has decreased by around 100 000 since 1995, the total milk volume has remained close to the country quota as a result of increased average yield. The total peaked for the quota period 2002–2003, exceeding the figure set by 32 million litres. Higher than average rainfall for summer 2004 hampered silage harvesting and led to below average quality. The effects of low-quality silage on both milk volumes and the composition of milk were already visible in the autumn. Milk volumes for the current quota period are forecast to be the lowest during Finland's EU membership and 40 million litres below the country quota.

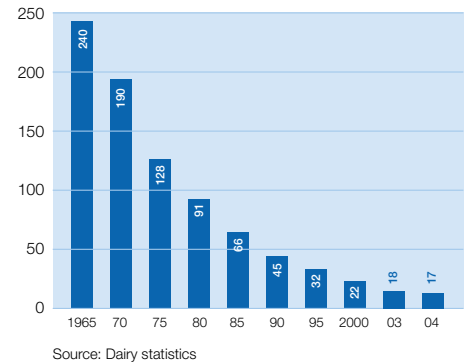
## 6.1 A Finnish dairy farm in 2004

A survey of satisfaction amongst dairy farmers conducted in November 2004 on farms with more than five cows revealed the farmers' average age to be 46.2 years, with an average

NUMBER OF COWS IN FINLAND  
1 000 on average



NUMBER OF DAIRY FARMERS  
IN FINLAND, 1 000, on average



of 23 cows per farm. The popularity of tie stall barns as the most common type has fallen from a proportion of 90% in the year 2000 to 85%, making way for a higher proportion of sheds where cows can walk freely – free stall barns. Milk volume output per farm has grown by 36 000 litres over four years to stand at an average of 161 000 litres per farm per year in autumn 2004.

Some 53% of the respondents said they would definitely continue to work their farm for more than another five years. Around 40% are planning to acquire additional quotas, demand for which is running at an average of 70 000 litres per farm. Most of the respondents planning to give up farming are located in Southern Finland. Every fifth farm is planning to increase its population of cows and more than 60% of respondents will try to improve milk yields in the near future.

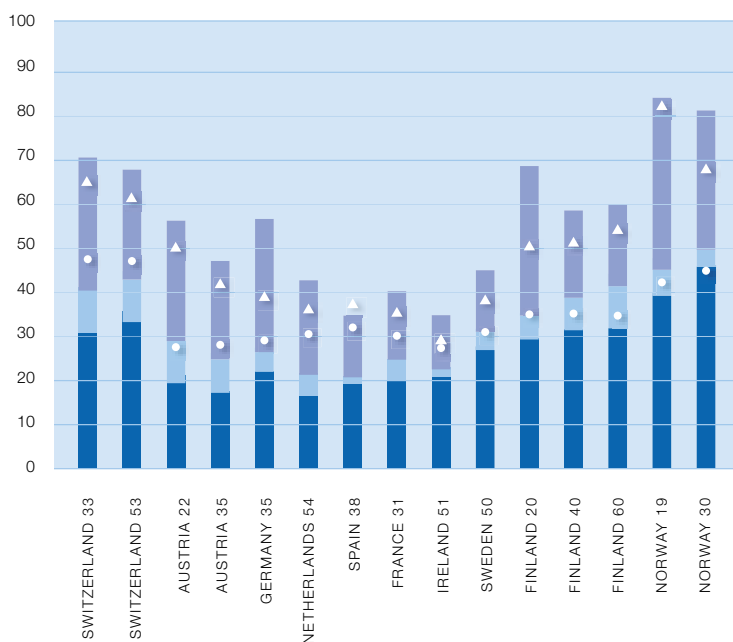
## 6.2 The importance and competitiveness of dairy farming

Dairy farming is the most significant form of agricultural production in Finland; 45% of the sales income from all forms of agriculture comes from milk.

The profitability factor in dairy farming has stood below 0.6 in recent years, which means that the wage and capital requirement has been realised at under 60%. Profitability is crucially affected by producer price policies and subsidy policies. Around 60% of a dairy farmer's income comes from sales of livestock products and around 40% from livestock and other farming subsidies.

MILK PRODUCTION COST, INCOME AND COST STRUCTURE OF DAIRY FARMING IN TYPICAL FARMS IN SOME EUROPEAN COUNTRIES year 2003

■ Annual costs (milk) ■ Depreciation ■ Cost of own work and capital  
 • Income from milk (excl. subsidies)  
 ▲ Income from milk + selling and slaughtering animals + subsidies



The number after the country indicates the number of cows on the farm. Source: IFCN Report 2004

\* ECM = energy-corrected milk: milk content converted to correspond with milk that contains 4% fat and 3.3% protein, using the formula  $ECM = yield \cdot ((0.383 \cdot \% fat + 0.242 \cdot \% protein + 0.7832) / 3.1138)$

According to the International Farm Comparison Network (IFCN), the costs of running a Finnish dairy farm are the highest in the EU.

### 6.3 Dairy farming subsidy policy changes

The milk production subsidy for 2004 fell in area AB by 0.2 cents/litre, due to the decreasing appropriation of the 141 subsidy, and increased in area C by 1.2 cents/litre due to grass subsidy compensation. As a result of the limitations to subsidy authorisations in Southern Finland, 0.2 cents/litre of production subsidies are paid only once the final production volumes are known.

The national grain subsidy was abolished in area C, which reduced grass subsidies by € 95/ha. The environmental subsidy supplement introduced in Southern Finland made it possible to receive both the

supplement and CAP subsidy in the Southern Finland silage area. In 2004, applications were submitted for a total of 270 000 hectares of CAP silage subsidies, while payments can be made on only 200 000 hectares. Per-hectare silage subsidies were cut by 26% due to the fact that the agreed grass subsidy area was breached.

In compensation for the reduced butter and skimmed milk powder intervention prices, a quota compensation fee amounting to around € 11.8/tonne for the year will be paid out on the basis of the quotas in place in March 2004.

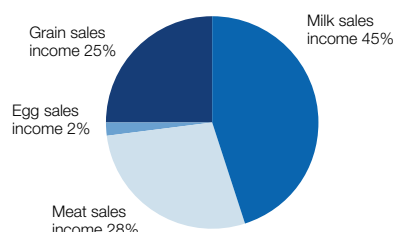
According to an agreement made in May between the producer organisation and the State, Finland will introduce a farm subsidies combination model in 2006, in which the equal subsidies paid on all hectares will be determined according to a model based on three areas. Furthermore, part of the milk quota compensation fee will be paid, over and above the hectare subsidies, on the basis of the March 2006 quota fee paid. The supplement of the quota fee will be transferred to the equal subsidies.

FARM INCOME IN YEAR 2004 (gross, excl. VAT)  
 total € 5.73 bill. (+0.9% from prev.year) (Estimate)



Source: Gallup Food and Farm Facts

DEVIATION OF SALES INCOME FROM AGRICULTURE 2004 (Estimate)



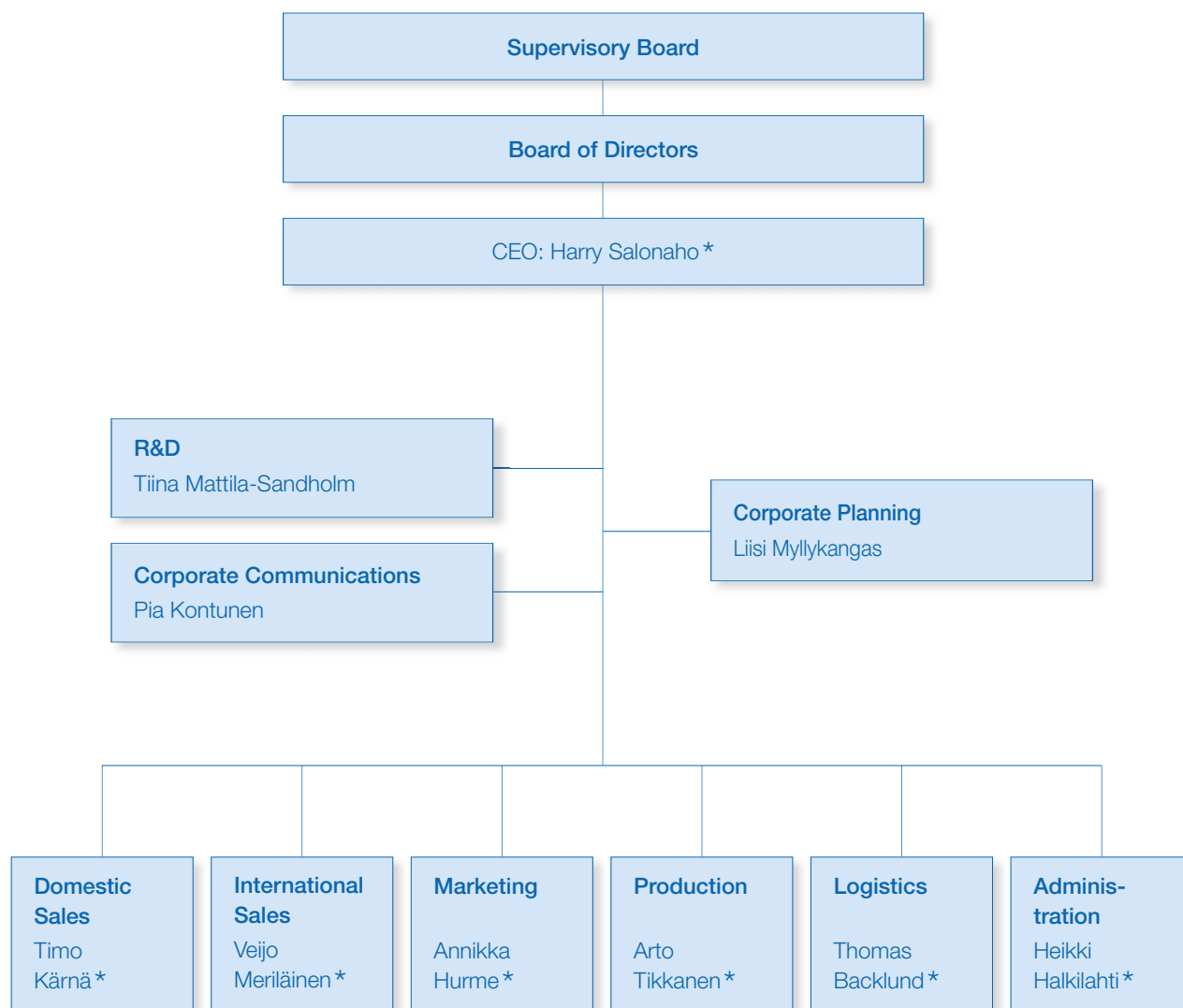
Source: Gallup Food and Farm Facts



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# Valio Ltd Organisation 1.1.2005



\* Member of Valio Ltd management group

# Supervisory Board

	Term began	Term ends
Seppo Hakola Dairy farmer, Kuortane Chairman	1994	2005
Jaakko Rouhiainen Dairy farmer, Juva Vice Chairman	2001	2005
Maija-Leena Heiniö Dairy farmer, Kisko	1999	2006
Tapio Hytönen Dairy farmer, Konnevesi	2001	2007
Hannu Kainu Dairy farmer, Kyyjärvi	1997	2005
Merja Keisala Dairy farmer, Töysä	2002	2005
Kimmo Kemppainen Dairy farmer, Paltamo	2003	2006
Raimo Kielenniva Dairy farmer, Kärämäki	2004	2006
Jouko Kärki <sup>1)</sup> Mechanic, Tampere	2002	2007
Harri Laamanen Dairy farmer, Ylitornio	2001	2007
Hanna Laitinen <sup>1)</sup> Quality Manager, Farm Services, member as of 1 Jan. 2005	2005	2007
Matti Lehtinen Dairy farmer, Tammela	1999	2005
Pekka Lestinen Dairy farmer, Sysmä	1998	2007
Pirjo Louhevirta <sup>1)</sup> Telephone sales employee, Turku, member to 31 Dec. 2004	2002	2004
Sauli Lähtenmäki Dairy farmer, Rusko	2002	2005
Tapio Malmiharju Dairy farmer, Artjärvi	1996	2006
Martti Mustonen Dairy farmer, Ilomantsi	2000	2006
Jaakko Männistö, Dairy farmer, Merijärvi	2003	2007
Juha Pantsu <sup>1)</sup> Shift supervisor, Jyväskylä	2002	2007
Reino Parkko Dairy farmer, Elimäki	1999	2007

	Term began	Term ends
Mauri Penttilä Dairy farmer, Vesilahti	2001	2007
Katariina Pouta <sup>1)</sup> Bookkeeper, Jyväskylä, member as of 1 Jan. 2005	2005	2007
Antti Rauhamaa Dairy farmer, Kärkölä	1998	2006
Matti Romppanen, Dairy farmer, Juankoski	2003	2007
Pentti Santala Dairy farmer, Kauhajoki	1997	2006
Matti Siitonen Dairy farmer, Parikkala	1998	2007
Kari Toikkanen <sup>1)</sup> Development Manager, Helsinki, member to 31 Dec. 2004	2002	2004
Onni Törrönen Dairy farmer, Juuka	2001	2005
Pentti Vartiainen Dairy farmer, Kiuruvesi	2004	2007

<sup>1)</sup> Personnel representative

## Board of Directors

Kari Inkinen Dairy farmer, Ruokolahti Chairman	1997	2005
Tauno Uitto Dairy farmer, Tyrnävä Vice Chairman	1996	2007
Juhani Hörkkö Dairy farmer, Koski TL	1998	2006
Esa Juntunen Dairy farmer, Vieremä	1998	2006
Harry Salonaho President and CEO, Helsinki	2004	2005

## Auditor

PricewaterhouseCoopers Oy  
Authorized Public Accountants, Helsinki

Markku Marjomaa, M.Sc. (Econ.)  
Authorized Public Accountant

## Five-year Group Statistics

	2004	2003	2002	2001	2000
Net turnover, € million	1 582	1 566	1 600	1 519	1 382
Change %	1.0	-2.2	5.3	10.0	10.2
– Domestic, € million	1 092	1 079	1 070	1 013	918
Change %	1.2	0.8	5.7	10.4	4.0
– International operations, € million	490	487	530	506	464
Change %	0.7	-8.2	4.6	9.1	24.9
Balance sheet total, € million	841	733	754	739	716
Liabilities % of the balance sheet total	58	57	59	57	57
Shareholders' equity + provisions per cent of the balance sheet total	42	43	41	43	43
Personnel expenditure, € million	224	164	178	164	135
Average no. of personnel	4 389	4 366	4 400	4 347	4 083
Inventories, € million	120	132	137	162	139
Investments, € million	95	104	66	47	46
Depreciation according to plan, € million	53	46	46	46	50
Price paid for milk to the co-operatives by Valio, per liter total cents <sup>1)</sup>	36.8	37.8	37.9	37.1	36.5

<sup>1)</sup> Includes basic price, and extra payments according to composition and quality; after payment.

## Valio Group

### NET TURNOVER AND PERSONNEL 2004

	Net turnover 1 000 €	Average no. personnel	Personnel 31 Dec. 2004
Valio Ltd	1 427 561	3 870	3 497
Valio – Vache Bleue S.A., Belgium	99 675	149	148
ZAO Valio St. Petersburg, Russia	89 670	47	49
Finlandia Cheese Inc., USA	46 015	16	17
Valio Sverige AB, Sweden	29 216	40	40
Valio Eesti AS, Estonia	20 193	135	148
Võru Juust AS, Estonia	16 186	127	124
UAB Valio International, Lithuania	600	4	4
SIA Valio International, Latvia	0	1	1
Valio Group total	1 581 880	4 389	4 028

# Board of Directors' Report 1 Jan. – 31 Dec. 2004

## GENERAL

Valio Group financial performance before extraordinary items stood at € 60 million, up € 48 million on the previous year. Calculated by adjusted volume, the price paid for raw milk was € 9.4 million less than for the year 2003.

In Finland, Valio took in 1 882 million litres of milk, or 1% more than in the previous year. The average procurement share by owner co-operatives delivering to Valio grew by 2% to 82% of the Finnish dairy milk volume. Valio Group took in total deliveries of 1 989 million litres of milk, which includes procurement for Valio dairies in Estonia.

Domestic net turnover grew by 1%. Net turnover from raw milk, cheeses, powdered ingredients and juice products increased, from fresh dairy products remained at the level of the previous year, and for other products decreased. The market share of butter and spreads, and cheeses, stood unchanged and that of fresh dairy products decreased.

Net turnover from international operations grew by 1%. Exports from Finland decreased by 1%, although sales of powdered ingredients were up while those of cheeses, and butter and spreads, fell. Foreign subsidiaries showed a 4% increase in net turnover compared with 2003. Growth was strongest in Estonia, where Võru Juust operated as a Group company for the whole year (as opposed to two months in 2003). Net turnover was also up for Finlandia Cheese, Inc. operating in the US, while that of ZAO Valio St. Petersburg in Russia fell.

The ice cream and baby food businesses were sold in September. In December, Valio acquired a cheese plant located in Vöyri from the dairy co-operative Milka. As of the beginning of 2005, Milka will send all the milk it receives to Valio for processing.

Other operating income includes profit amounting to € 102 million generated in connection with the surrender of the ice cream and baby food businesses.

Pension expenditure was exceptionally high, which was due to transfers made in full to the supplementary insurance provision for statutory pensions and the index increase provision for voluntary pensions, on behalf of the Valio Pension Fund. The transfers were made to accrue the solvency margin of the Pension Fund and thus improve solvency.

The operational result was lower than that of the previous year.

## SHAREHOLDERS AND SHARE CAPITAL

The number of shareholders decreased by one during the financial year due to a merger, to stand at 27 at the close.

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

## CHANGES IN GROUP STRUCTURE

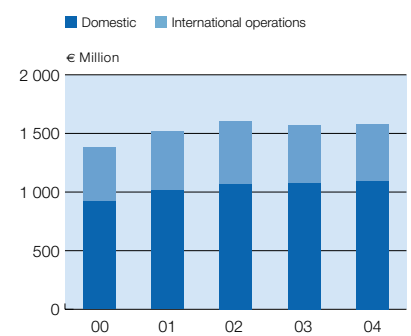
Valio Group acquired Synnöve Finden's 42% share of Estonian company AS Võru Juust and now owns 99% of the share capital. At the beginning of the financial year, Valio purchased 100% of the share capital of SIA RPK-Valio in Latvia. At the end of the financial year, Cheese Company, Inc. and Valio Int. USA, Inc. were merged into Finlandia Cheese, Inc. During the year, Valio sold its shares in As. Oy Nastolan Maitotie and acquired associated company Haapaveden Ympäristöpalvelut Oy.

## RESEARCH AND DEVELOPMENT

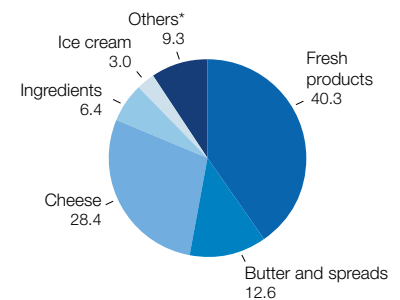
Valio R&D with a staff of 125 conducted research in e.g. functional foods, lactose-free products, and technology. Valio R&D is responsible for developing the taste, texture and value added properties of the company's product range. A total of 75 new products was launched in Finland during the financial year.

International networking in research operations commenced during the year, and a scientific consultative committee was appointed in Finland. Clinical

GROUP NET TURNOVER

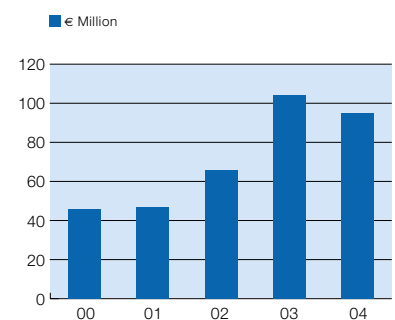


GROUP NET TURNOVER BY PRODUCT (%) 2004

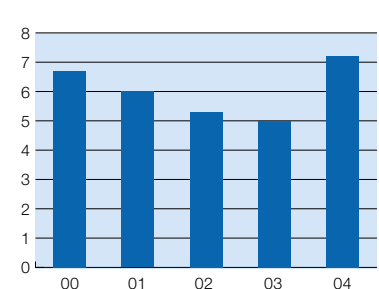


\* e.g. juice, frozen foods

GROUP INVESTMENTS



GROUP NET INTEREST EXPENSES



research and that related to studying the influencing mechanisms of product components were emphasised. Valio sets tight scientific criteria for its functional foods. The success of lactose-free products continued and e.g. fat-free milk drink and fermented milk were added to the product family.

Valio R & D investment for 2004 totalled € 10.5 million (2003: € 10.2 million), or 0.7% of net turnover (0.7%).

### CONSOLIDATED NET TURNOVER

Consolidated net turnover totalled € 1 582 million (€ 1 566 million). Domestic net turnover stood at € 1 092 million (€ 1 079 million). Net turnover from international operations (exports from Finland and foreign subsidiaries) totalled € 490 million (€ 487 million).

### PARENT COMPANY NET TURNOVER

Valio Ltd net turnover totalled € 1 428 million (€ 1 419 million). Domestic net turnover stood at € 1 092 million (€ 1 079 million) and net turnover from exports at € 336 million (€ 340 million).

### INVESTMENTS

Consolidated gross investments totalled € 95 million (€ 104 million), or 6.0% (6.6%) of net turnover. Investments of € 28 million were made in land and buildings and € 60 million in machinery and equipment.

Investments in intangible assets stood at € 6 million. Advance payments, mainly on machinery and equipment, totalled € 1 million. As a result of selling business operations, consolidated net investments yielded € 6 million (€ 97 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 € 163 million at the year-end, compared

to € 58 million at the start. Stocks stood at € 120 million at the end of the financial year and € 132 million at the beginning. Interest-bearing liabilities totalled € 224 million at the end of the financial year and € 182 million at the beginning. Net financing expenses amounted to € 7.3 million (€ 4.2 million), or 0.5% (0.3%) of consolidated net turnover. Net interest expenses stood at € 7.2 million (€ 5.0 million).

### FINANCIAL PERFORMANCE

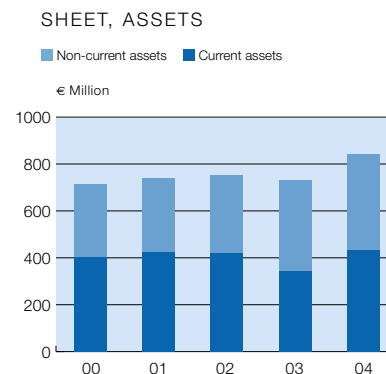
Consolidated profit before extraordinary items was € 60.4 million (€ 12.5 million). Net taxes for the financial year totalled € 15 million (€ 4 million). Profit for the financial year stood at € 45 million (€ 8 million).

Parent company profit before extraordinary items stood at € 59 million (€ 12 million). The change in the difference between depreciation according to plan and booked depreciation amounted to € +0.4 million (€ -2 million). Booked depreciation was within the maximum permitted under Finland's Business Taxation Act. Income taxes for the financial year totalled € 19 million (€ 2.9 million). Profit for the financial year stood at € 40 million (€ 7 million).

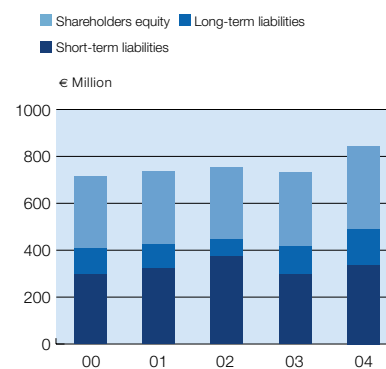
### YEAR 2005

In 2005, investments will be significantly lower than the averaged annual sum of around € 100 million for 2003–2004. A key goal in Finland is to ensure the success of the fresh dairy products development programme. Valio expects markets to remain challenging and the level of profits and return on milk equivalent is expected to fall short of that of last year.

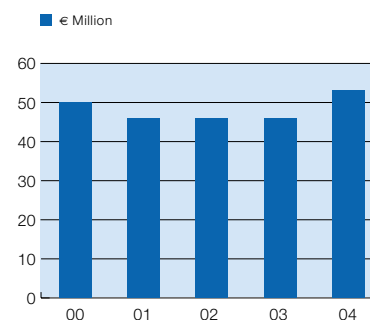
### GROUP BALANCE SHEET, ASSETS



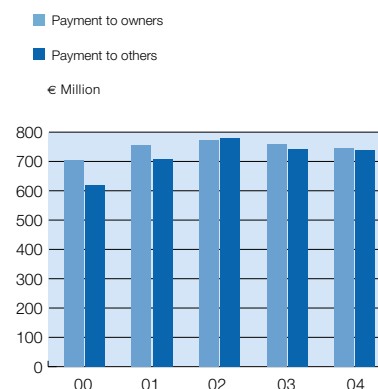
### GROUP BALANCE SHEET, EQUITY AND LIABILITIES



### GROUP DEPRECIATION ACCORDING TO PLAN



### GROUP EXPENSES



# Consolidated Income Statement

	2004	2003
NET TURNOVER	1 581 880	1 565 546
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	-9 804	11 460
Other operating income	140 652	32 574
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	1 066 149	1 070 483
Increase (-) / decrease (+) in stocks	-126	2 908
External services	36 515	33 217
	-1 102 538	-1 106 608
Staff expenses		
Wages and salaries	134 808	132 589
Social security expenses		
Pension expenses	71 418	17 427
Other social security expenses	17 374	14 045
	-223 600	-164 061
Depreciation and reduction in value		
Depreciation according to plan	51 861	46 120
Reduction in value of non-current assets	629	11 796
Depreciation of goodwill	1 111	247
Reduction of consolidation difference	-4	-82
	-53 597	-58 081
Other operating expenses	-265 321	-264 097
OPERATING PROFIT	67 672	16 733
Financial income and expenses		
Income from other investments held as non-current assets		
From others	564	421
Other interest and financial income		
From others	2 690	4 207
Net income from associated companies	-46	238
Interest and other financial expenses		
To others	-10 503	-9 089
	-7 295	-4 223
PROFIT BEFORE EXTRAORDINARY ITEMS	60 377	12 510
Extraordinary items		
Expenses	—	-341
	—	-341
PROFIT BEFORE APPROPRIATIONS, TAXES AND MINORITY INTEREST	60 377	12 169
Income taxes	-18 192	-6 266
Deferred taxes	2 641	1 787
Profit before minority interest	44 826	7 690
Minority interest	-12	-166
NET PROFIT FOR THE FINANCIAL YEAR	44 838	7 856

All figures in € '000s

# Consolidated Balance Sheet

## ASSETS

31 DEC., 2004 31 DEC., 2003

### NON CURRENT ASSETS

Intangible assets		
Intangible rights	3 842	4 068
Goodwill	2 175	2 636
Other capitalised long-term expenditure	15 550	15 321
	<hr/>	<hr/>
	21 567	22 025
Consolidation goodwill	3 364	2 418
Tangible assets		
Land and waters	14 794	14 379
Buildings and constructions	141 521	126 544
Machinery and equipment	200 162	168 577
Other tangible assets	776	546
Advance payments and construction in progress	10 710	39 695
	<hr/>	<hr/>
	367 963	349 741
Investments		
Shares in Group companies	2 523	2 831
Shares in associated companies	1 649	2 055
Other shares and interests	10 336	10 358
	<hr/>	<hr/>
	14 508	15 244

### CURRENT ASSETS

#### Stocks

Raw materials and supplies	23 705	25 194
Unfinished products	15 243	18 158
Finished goods	80 735	88 061
Other stocks	640	617
	<hr/>	<hr/>
	120 323	132 030

#### Receivables

Non-current receivables		
Loan receivables	167	170
Other receivables	26	178
Deferred tax receivable	1 513	2 665
	<hr/>	<hr/>
	1 706	3 013
Current receivables		
Trade receivables	118 934	114 538
Current receivables from participating interests	582	598
Other current receivables	14 107	12 429
Deferred tax receivable	5 527	5 198
Accrued income and prepaid expenses	8 732	10 949
	<hr/>	<hr/>
	147 882	143 712

#### Investments

Other current investments	140 270	39 751
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Cash in hand and at banks	22 951	18 497
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<b>TOTAL ASSETS</b>	<hr/>	<hr/>
	840 534	726 431

All figures in € '000s



SHAREHOLDERS' EQUITY AND LIABILITIES

31 DEC., 2004 31 DEC., 2003

SHAREHOLDERS EQUITY

Share capital	99 678	99 678
Other reserves	5 257	6 145
Retained earnings	188 957	186 085
Net profit for the financial year	44 838	7 856

MINORITY INTEREST

— 716

PROVISIONS

12 449 17 386

LIABILITIES

Other liabilities

Loans from credit institutions	57 054	28 015
Deferred tax liability	24 769	27 773
Other non-current liabilities	70 402	63 318

152 225 119 106

Current liabilities

Loans from credit institutions	22 760	1 125
Advances received	193	120
Trade payable	140 054	151 555
Current liabilities to participating interests	1 227	1 418
Other liabilities	81 649	98 089
Accrued expenses and deferred income	91 247	37 152

337 130 289 459

TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

840 534 726 431

All figures in € '000s

# Consolidated Statement of Changes in Financial Position

2004 2003

## CASH FLOW FROM OPERATIONS

Operating profit	67 672	16 733
Adjustments to operating profit	-54 759	54 350
Change in working capital	42 608	-55 403
Interest and other financial expenses paid	-10 154	-8 986
Dividends received	564	421
Interest and other financial income received	2 585	4 361
Income taxes paid and refunded	-10 211	2 240
Cash flow from operations	38 305	13 716

## CASH FLOW FROM INVESTMENTS

Capital expenditure in investments	-5	-215
Capital expenditure in tangible and intangible assets	-95 026	-103 313
Gains from sale of investments	362	466
Gains from sale of tangible and intangible assets	121 355	6 737
Cash flow from investments	26 686	-96 325

CASH FLOW BEFORE FINANCING ACTIVITIES 64 991 -82 609

## CASH FLOW FROM FINANCING ACTIVITIES

New loans	45 044	59 861
Repayment of loans	-11 871	-40 473
Increase (-) / decrease (+) in non-current receivables	1 307	1 419
Increase (-) / decrease (+) in current financing	5 086	4 515
Dividends paid	-4 984	-5 981
Other	-888	-2 394
Cash flow from financing activities	33 694	16 947

CHANGE IN LIQUID ASSETS 98 685 -65 662

Liquid assets at 1 Jan. 64 536 130 198

**LIQUID ASSETS AT 31 DEC. 163 221 64 536**

All figures in € '000s

# Parent Company Income Statement

	2004	2003
NET TURNOVER	1 427 561	1 419 477
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	-14 592	10 147
Other operating income	134 286	26 444
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	947 710	963 221
Increase (-) / decrease (+) in stocks	-1 419	154
External services	30 732	28 694
	-977 023	-992 069
Staff expenses		
Wages and salaries	125 492	123 765
Social security expenses		
Pension expenses	71 143	16 700
Other social security expenses	14 555	11 500
	-211 190	-151 965
Depreciation and reduction in value		
Depreciation according to plan	49 215	43 890
Reduction in value of non-current assets	629	11 796
	-49 844	-55 686
Other operating expenses	-240 044	-239 267
OPERATING PROFIT	69 154	17 081
Financial income and expenses		
Income from Group companies	64	—
Income from participating interest	357	113
Income from other investments held as non-current assets		
From others	560	421
Other interest and financial income		
From Group companies	74	39
From others	2 504	3 765
Reduction in value of investments	-3 857	-487
Interest expenses and other financial expenses		
To Group companies	-6	—
To others	-10 149	-8 883
	-10 453	-5 032
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	58 701	12 049
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	58 701	12 049
Appropriations		
Increase (-) / decrease (+)	447	-1 984
Income taxes	-17 163	-6 157
Deferred taxes	-1 805	3 234
NET PROFIT FOR THE FINANCIAL YEAR	40 180	7 142

All figures in € '000s

# Parent Company Balance Sheet

## ASSETS

31 DEC., 2004 31 DEC., 2003

### NON-CURRENT ASSETS

#### Intangible assets

Intangible rights	3 802	4 040
Goodwill	100	—
Other capitalised long-term expenditure	14 898	14 309
	18 800	18 349

#### Tangible assets

Land and waters	13 465	13 064
Connection fees	990	977
Buildings and constructions	135 093	120 130
Machinery and equipment	193 352	161 542
Other tangible assets	82	84
Advance payments and construction in progress	10 450	39 112
	353 432	334 909

#### Investments

Shares in Group companies	31 287	30 208
Shares in associated companies	1 004	1 177
Other shares and interests	10 316	10 340
	42 607	41 725

### CURRENT ASSETS

#### Stocks

Raw materials and supplies	20 875	22 395
Unfinished products	14 055	17 080
Finished goods	70 906	79 552
Other stocks	627	608
	106 463	119 635

#### Receivables

##### Non-current receivables

Receivables from Group companies	3 206	1 437
Other receivables	—	178
	3 206	1 615

##### Current receivables

Trade receivables	91 320	87 869
Current receivables from Group companies	17 897	21 021
Current receivables from participating interests	371	419
Other current receivables	13 096	9 201
Deferred tax receivable	3 237	5 042
Accrued income and prepaid expenses	6 449	9 668
	132 370	133 220

#### Investments

Other current investments	139 637	38 681
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#### Cash in hand and at banks

	8 395	7 547
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### TOTAL ASSETS

	804 910	695 681
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All figures in € '000s

SHAREHOLDERS' EQUITY AND LIABILITIES

31 DEC., 2004 31 DEC., 2003

SHAREHOLDERS' EQUITY

Share capital	99 678	99 678
Other reserves		
Legal reserve	5 984	5 984
Retained earnings	120 340	118 182
Net profit for the financial year	40 180	7 142

APPROPRIATIONS

Accumulated depreciation difference	95 145	95 592
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PROVISIONS

	12 449	17 386
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LIABILITIES

Non-current liabilities

Loans from credit institutions	56 607	27 126
Other liabilities	67 678	59 963

	124 285	87 089
--	---------	--------

Current liabilities

Loans from credit institutions	20 100	—
Advances received	75	—
Trade payable	119 148	133 730
Current liabilities to Group companies	375	694
Current liabilities to participating interests	512	399
Other current liabilities	80 715	97 335
Accrued expenses and deferred income	85 924	32 470

	306 849	264 628
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TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

	804 910	695 681
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All figures in € '000s

# Parent Company Statement of Changes in Financial Position

	2004	2003
<b>CASH FLOW FROM OPERATIONS</b>		
Operating profit	69 154	16 107
Adjustments to operating profit	-58 470	54 120
Change in working capital	40 266	-63 761
Interest and other financial expenses paid	-9 806	-8 781
Dividends received	980	535
Interest and other financial income received	2 473	3 958
Income taxes paid and refunded	-9 182	2 348
Cash flow from operations	35 415	4 526
<b>CASH FLOW FROM INVESTMENTS</b>		
Capital expenditure in investments	-5	-4 000
Capital expenditure in tangible and intangible assets	-92 983	-96 997
Gains from sale of investments	362	382
Gains from sale of tangible and intangible assets	122 047	1 626
Cash flow from investments	29 421	-98 989
<b>CASH FLOW BEFORE FINANCING ACTIVITIES</b>	<b>64 836</b>	<b>-94 463</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
New loans	45 044	55 005
Repayments of loans	-10 745	-27 579
Increase (-) / decrease (+) in non-current receivables	-1 591	83
Increase (-) / decrease (+) in current receivables	-700	-96
Increase (+) in current financing	50 000	3 799
Decrease (-) in current financing	-46 344	—
Dividends paid	-4 984	-5 981
Cash flow from financing activities	30 680	25 231
<b>CHANGE IN LIQUID ASSETS</b>	<b>95 516</b>	<b>-69 232</b>
Liquid assets at 1 Jan.	52 516	121 748
<b>LIQUID ASSETS AT 31 DEC.</b>	<b>148 032</b>	<b>52 516</b>

All figures in € '000s

# Notes to the Consolidated and Parent Company Financial Statements

## ACCOUNTING PRICIPLES

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 inter-company 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 € '000s

## Notes to the Income Statements

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
<b>1. NET TURNOVER BY DIVISION</b>				
Fresh dairy products	637 299	619 926	608 473	597 880
Butter and spreads	199 785	205 259	193 328	197 304
Cheese	449 983	455 419	373 592	380 461
Powdered ingredients	101 060	87 014	98 661	85 902
Ice cream	46 811	64 056	46 773	63 990
Others	146 942	133 872	106 734	93 940
	<u>1 581 880</u>	<u>1 565 546</u>	<u>1 427 561</u>	<u>1 419 477</u>
<b>2. OTHER OPERATING INCOME</b>				
Logistics income	17 243	14 003	14 876	11 702
Rent income	5 165	4 863	5 107	4 948
Sales income from fixed assets	103 379	901	103 379	807
Other income	14 865	12 807	10 924	8 987
	<u>140 652</u>	<u>32 574</u>	<u>134 286</u>	<u>26 444</u>
<b>3. EXTRAORDINARY INCOME AND EXPENSES</b>				
Extraordinary income and expenses comprise the following item:				
Finlandia Cheese Company Inc.	—	-341	—	—
	<u>—</u>	<u>-341</u>	<u>—</u>	<u>—</u>
<b>4. DEPRECIATION ACCORDING TO PLAN</b>				
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. Depreciation times according to plan are:				
			Years	
Immaterial rights and other capitalised long-term expenditure			5 or 10	
Goodwill			5	
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

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
5. CHANGE IN PROVISIONS				
INCREASE (-) / DECREASE (+)				
Provision for contingent pension liabilities	-3 461	570	-3 461	570
Provision for reconstruction	7 271	-9 774	7 271	-12 227
Other provisions	1 127	477	1 127	506
	4 937	-8 727	4 937	-11 151

## 6. OTHER OPERATING EXPENSES

Energy expenses	28 230	26 784	27 569	26 522
Water expenses	8 511	8 518	8 507	8 513
Transportation expenses	79 283	76 167	75 223	71 220
Rental expenses	13 359	14 564	12 290	13 397
Expenses for maintenance of real estate and machinery	34 312	33 418	33 342	32 621
Marketing expenses	47 473	48 725	36 254	40 754
Travel expenses	6 676	7 359	5 837	6 639
IT expenses	12 082	10 547	11 905	10 218
Administrative expenses	15 791	15 588	14 686	14 691
Voluntary staff expenses	5 629	6 500	3 620	4 327
Credit loss	15	403	—	9
Other expenses	13 960	15 524	10 811	10 356
	265 321	264 097	240 044	239 267

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

Group Company Võru Dairy Holding AS, reduction in value of shares	—	—	-3 791	—
Other	—	—	-66	-487
	—	—	-3 857	-487

## 8. NUMBER OF PERSONNEL, AVERAGE

Manual workers	2 502	2 422	2 252	2 222
Technical dairy employees	829	819	759	785
Management staff	495	534	457	503
Clerical staff	563	591	402	452
	4 389	4 366	3 870	3 962

## 9. PERSONNEL COSTS

Salaries and remunerations	134 808	132 589	125 492	123 765
Indirect employee costs				
Pension costs	27 835	17 427	27 560	16 700
Additional insurance and index increase liability	43 583	—	43 583	—
Other indirect employee costs	17 374	14 045	14 555	11 500
	223 600	164 061	211 190	151 965

## 10. SALARIES AND BONUSES OF DIRECTORS

Supervisory Board, Board, CEO	1 503	1 997	652	884
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# Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
<b>11. ACCRUED INCOME AND PREPAID EXPENSES</b>				
Rent of packing machines	821	—	821	—
Royalties	1 131	1 011	1 131	1 011
Healthcare repayments	815	487	815	487
Tax receivables	626	506	—	—
Pension costs	—	3 358	—	3 358
EU subsidies	458	755	458	755
Other prepayments and accrued income	4 881	4 832	3 224	4 057
	<b>8 732</b>	<b>10 949</b>	<b>6 449</b>	<b>9 668</b>
<b>12. INTANGIBLE ASSETS</b>				
Intangible rights				
Acquisition cost at beginning of year	8 972	7 894	8 877	7 757
Increases	816	1 139	789	1 120
Decreases	-83	-60	-83	—
Acquisition cost at year-end	9 705	8 973	9 583	8 877
Accumulated depreciation at beginning of year	-4 904	-4 112	-4 837	-4 049
Depreciation for the year	-959	-793	-944	-788
Accumulated depreciation at year-end	-5 863	-4 905	-5 781	-4 837
Book value at year-end	3 842	4 068	3 802	4 040
Goodwill				
Acquisition cost at beginning of year	19 039	16 242	—	—
Increases	100	2 800	100	—
Acquisition cost at year-end	19 139	19 042	100	—
Accumulated depreciation at beginning of year	-16 403	-16 242	—	—
Depreciation for the year	-561	-164	—	—
Accumulated depreciation at year-end	-16 964	-16 406	—	—
Book value at year-end	2 175	2 636	100	—
Other capitalised long-term expenditure				
Acquisition cost at beginning of year	55 345	45 707	49 253	42 346
Increases	6 773	9 727	5 090	6 914
Decreases	-253	-7	-253	-7
Acquisition cost at year-end	61 865	55 427	54 090	49 253
Accumulated depreciation at beginning of year	-37 607	-33 513	-34 944	-31 321
Depreciation for the year	-5 344	-4 175	-4 248	-3 623
Accumulated depreciation at year-end	-42 951	-37 688	-39 192	-34 944
Book value at year-end	18 914	17 739	14 898	14 309
<b>Total intangible assets</b>	<b>24 931</b>	<b>24 443</b>	<b>18 800</b>	<b>18 349</b>

# Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
<b>13. TANGIBLE ASSETS</b>				
Land and waters				
Acquisition cost at beginning of year	14 379	13 743	14 041	13 396
Increases	682	1 008	681	954
Decreases	-267	-372	-267	-309
Acquisition cost at year-end	14 794	14 379	14 455	14 041
Book value at year-end	14 794	14 379	14 455	14 041
Buildings and constructions				
Acquisition cost at beginning of year	344 783	328 277	333 070	316 556
Increases	37 866	19 598	37 149	16 966
Decreases	-9 429	-3 093	-9 429	-452
Acquisition cost at year-end	373 220	344 782	360 790	333 070
Accumulated depreciation at beginning of year	-218 238	-205 129	-212 940	-200 307
Depreciation for the year	-13 461	-13 109	-12 757	-12 633
Accumulated depreciation at year-end	-231 699	-218 238	-225 697	-212 940
Book value at year-end	141 521	126 544	135 093	120 130
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	609 916	568 834	588 177	535 819
Increases	79 161	55 671	77 719	52 477
Decreases	-14 924	-14 581	-14 645	-119
Acquisition cost at year-end	674 153	609 924	651 251	588 177
Accumulated depreciation at beginning of year	-440 568	-412 675	-426 551	-399 705
Depreciation for the year	-32 647	-28 126	-31 266	-26 846
Accumulated depreciation at year-end	-473 215	-440 801	-457 817	-426 551
Book value at year-end	200 938	169 123	193 434	161 626
Advanced payments and construction in progress				
Acquisition cost at beginning of year	39 703	20 857	39 112	20 546
Increases	10 631	37 108	10 342	36 554
Transfer to finished acquisitions	-39 535	-18 270	-38 915	-17 988
Transfer to costs	-89	—	-89	—
Acquisition cost at year-end	10 710	39 695	10 450	39 112
Book value at year-end	10 710	39 695	10 450	39 112
<b>Total tangible assets</b>	<b>367 963</b>	<b>349 741</b>	<b>353 432</b>	<b>334 909</b>
Depreciation according to plan for the year, total	-52 972	-46 367	-49 215	-43 890
Book value of production machinery and equipment at year-end	175 011	149 750	169 319	143 465

## 14. CONSOLIDATED AND PARENT COMPANY HOLDINGS

### GROUP COMPANIES

	Consolidated Ownership and voting rights %	Parent Company Ownership and voting rights %
Jäätelöyhtymä Oy, Finland	100.0	100.0
N.V. Valio - Vache Bleue S.A., Belgium *	100.0	100.0
Frigo-Way S.P.R.L., Belgium	100.0	0.0
Vache Bleue S.A.R.L., France	100.0	0.0
Pakkasukko Oy, Helsinki	100.0	100.0
Smeds & Co Oy, Helsinki	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	99.3	0.0
Valio International (Poland) Ltd, Poland	100.0	100.0
Finlandia Cheese Inc.	100.0	0.0
Valio Nord Oy, Helsinki	100.0	100.0
Valio Sverige AB, Sweden	100.0	100.0
ZAO Valio St. Petersburg, Russia	100.0	100.0
SIA Valio International, Latvia	100.0	100.0

\* Group company Smeds & Co Oy owns one share.

### PARTICIPATING INTERESTS ASSOCIATED COMPANIES

Haapaveden Ympäristöpalvelut Oy	40.5	40.5
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

### REAL ESTATE COMPANIES

			Equity	Net Income/ loss in latest year-end accounts
Asunto Oy Vuorikummuntie 9, Helsinki	100.0	100.0	459	4
Kiinteistö Oy Hiirakkotie 6, Vantaa	100.0	100.0	139	—
Kiinteistö Oy Pähkinämetsä, Vantaa	100.0	100.0	462	—
Kiinteistö Oy Pähkinäpolku, Vantaa	100.0	100.0	269	—
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

## 15. PARENT COMPANY INVESTMENTS

	Shares in Group companies	Shares in participating interest	Other shares
Acquisition cost at beginning of year	61 193	1 177	13 243
Increase	5 002	4	—
Transfer from participating interests	177	—	—
Decrease	-309	-177	-71
Acquisition cost at year end	66 063	1 004	13 172
Accumulated depreciation and write-offs at year-end	-39 654	—	-3 139
Reversal of write-offs at year-end	4 878	—	283
Book value at year-end	31 287	1 004	10 316

## 16. GROUP INVESTMENTS

	Shares in Group companies	Shares in participating interest	Other shares
Acquisition cost at beginning of year	2 831	2 090	13 497
Increase	—	65	49
Decrease	-308	-471	-71
Acquisition cost at year-end	2 523	1 684	13 475
Accumulated depreciation and write-offs at year-end	—	-35	-3 139
Book value at year-end	2 523	1 649	10 336

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
17. RECEIVABLES FROM PARTICIPATING INTERESTS				
Trade receivables	—	—	17 132	20 935
Other receivables	—	—	—	21
Loan receivables	—	—	3 971	1 502
	—	—	21 103	22 458

## 18. RECEIVABLES FROM PARTICIPATING INTERESTS

Trade receivables	582	598	371	419
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## 19. CHANGES IN SHAREHOLDERS' EQUITY

Share capital, 1 Jan., 2004 / 1 Jan., 2003	99 678	99 678	99 678	99 678
Share capital, 31 Dec.	99 678	99 678	99 678	99 678
Legal reserves 1 Jan., 2004 / 1 Jan., 2003	6 145	8 539	5 984	5 984
Translation differences	-888	-2 394	—	—
Legal reserves 31 Dec.	5 257	6 145	5 984	5 984
Retained earnings from previous year, 1 Jan.	193 941	192 066	125 324	124 163
Dividends	-4 984	-5 981	-4 984	-5 981
Retained earnings 31 Dec.	188 957	186 085	120 340	118 182
Net profit for the financial year	44 838	7 856	40 180	7 142
Shareholders' equity 31 Dec.	338 730	299 764	266 182	230 986

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
<b>20. DISTRIBUTABLE EARNINGS</b>				
Retained earnings 31 Dec.	188 957	186 085	120 340	118 182
Appropriations included in retained earnings	-70 491	-67 997	—	—
Net profit for the financial year	44 838	7 856	40 180	7 142
	<u>163 304</u>	<u>125 944</u>	<u>160 520</u>	<u>125 324</u>
<b>21. PROVISIONS</b>				
Provision for contingent pension liabilities	4 590	1 129	4 590	1 129
Provision for renovation	7 859	15 130	7 859	15 130
Other provisions	—	1 127	—	1 127
	<u>12 449</u>	<u>17 386</u>	<u>12 449</u>	<u>17 386</u>
<b>22. DEFERRED TAX LIABILITIES AND RECEIVABLES</b>				
Deferred tax receivables				
From matching differences	7 040	7 863	3 237	5 042
Deferred tax liabilities				
From appropriations	24 738	27 721	—	—
From matching differences	31	52	—	—
	<u>24 769</u>	<u>27 773</u>	<u>—</u>	<u>—</u>
<b>23. LIABILITIES DUE AFTER FIVE YEARS OR LATER</b>				
Loans from credit institutions	—	700	—	—
<b>24. ACCRUED EXPENSES AND DEFERRED INCOME</b>				
Pensions	43 583	—	43 583	—
Interest	3 822	3 596	3 773	3 596
Holiday accrual including social security	20 070	18 985	19 936	18 893
Rebates granted	1 572	1 671	502	338
Wages and salaries including social security	4 682	4 915	3 446	3 619
Royalties	868	879	868	873
Social security	687	84	687	84
Other accrued expenses and deferred income	15 963	7 022	13 129	5 067
	<u>91 247</u>	<u>37 152</u>	<u>85 924</u>	<u>32 470</u>
<b>25. CURRENT LIABILITIES TO GROUP COMPANIES</b>				
Trade payable	—	—	101	125
Other liabilities	—	—	274	570
	<u>—</u>	<u>—</u>	<u>375</u>	<u>695</u>

## Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2004	2003	2004	2003
26. CURRENT LIABILITIES TO PARTICIPATING INTERESTS				
Trade payable	1 227	1 418	512	399
27. CONTINGENT LIABILITIES				
For own commitments				
Mortgages	129 566	130 433	127 649	129 155
Pledges	16 024	16 201	14 746	14 923
Guarantees	34 058	33 937	34 036	33 908
Leasing commitments	10 528	11 820	9 566	10 093
For commitments of Group companies	—	—	5 015	5 718
For others	4 456	2 522	4 392	2 458
For own operations	190 176	192 391	185 997	188 079
For Group companies	—	—	5 015	5 718
For others	4 456	2 522	4 392	2 458
	<u>194 632</u>	<u>194 913</u>	<u>195 404</u>	<u>196 255</u>

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

The consolidated distributable earnings at 31 Dec., 2004 are € 163 304 000

The parent company distributable earnings at 31 Dec., 2004 are:

Retained earnings	120 339 889.54 €
Profit for the financial year	40 179 545.17 €
<hr/>	
Total	160 519 434.71 €

The Board of Directors proposes to the Annual General Meeting  
that a dividend of 4% on the nominal value of the shares of € 136 be declared

3 987 112.00 €

Dividends from net profit for the financial year

3 987 112.00 €

To be retained and carried forward

36 192 433.17 €

Total

40 179 545.17 €

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	160 519 434.71 €
<hr/>	
Total shareholders' equity	266 181 336.24 €

Helsinki, 9 March 2005

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. – 31.12.2004. 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, 9 March 2005

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 2004, 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: Seppo Hakola, Hannu Kainu, Merja Keisala, Matti Lehtinen, Sauli Lähteenmäki, Jaakko Rouhiainen and Onni Törrönen.

Helsinki, 10 March 2005

On behalf of the Supervisory Board

Seppo Hakola  
Chairman



## Valio Ltd owners 31 Dec. 2004

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/share
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
* Kaustisen Osuusmeijeri	Kaustinen	1
Keski-Pohjan Juustokunta	Toholampi	1 271
Keski-Suomen Maitokunta	Jyväskylä	1 458
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 27		29 317

Total share capital € 99 677 800

\* No business relationship with Valio

## Division Boards 1 Jan. 2005

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
Jouko Kärki <sup>1)</sup>	2005
Matti Lehtinen	2006
Martti Mustonen	2006
Jaakko Männistö	2006
Jukka Paananen	2006
Mauri Penttilä	2005
Kari Piironen	2006
Matti Siitonen	2005

### LOGISTICS

Esa Juntunen, Chairman	2005
Juhani Hörkkö, Vice Chairman	2005
Hannu Kainu	2006
Juha Kantoniemi	2006
Tapio Hytönen	2005
Jukka Kalliokoski <sup>1)</sup>	2005
Pekka Lestinen	2005
Tapio Malmiharju	2006
Markku Pajunen	2006
Jaakko Rouhiainen	2006
Pentti Santala	2005
Onni Törrönen	2006
Pentti Vartiainen	2006

### DOMESTIC SALES

Tauno Uitto, Chairman	2005
Esa Juntunen, Vice Chairman	2005
Merja Keisala	2005
Kimmo Kempainen	2005
Raimo Kielessä	2006
Harri Laamanen	2005
Esa Leskelä	2006
Sauli Lähteenmäki	2005
Osmo Oinonen	2006
Reino Parkko	2005
Antti Rauhamaa	2006
Matti Romppanen	2006
Juha Tuikkanen <sup>1)</sup>	2005

<sup>1)</sup> Personnel representative

# Annex 1

## Comparability with GRI guidelines

GRI ELEMENTS		CONTENT INDEX
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2.22	● Additional information	Annex 2
<b>3</b>	<b>Governance structure and management systems</b>	
3.1–3.8	● Governance structure, values and mission	4, 7–8
3.9–3.12	● Stakeholder groups	9–10
	<b>Policies and governance systems</b>	
3.13	● Applying the principle of prudence <i>Comment: Certified quality management system, product safety principles, criteria for functional products, environmental principles, Valio milk production principles, personnel safety operating principles are reported</i>	13–14, 16, 24, 26
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### Comparability with GRI core indicators and additional indicators reported

#### CLARIFICATIONS

- : Reported in accordance with GRI
- : Reported in partial accordance with GRI
- : Not reported for 2004

Core figures are written in plain font.  
Additional indicators are written in italics.

#### Economic responsibility

*Comment: More information in the financial statements published together with the Responsibility for Well-being Report.*

EC1	● Net turnover	11, 36
EC2	● Geographic breakdown of markets	11, 36–38
EC3	● Purchases of goods, materials and services <i>Comment: Only purchases from suppliers have been reported</i>	11
EC4	● Purchases paid according to contractual terms	
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EC7	● Retained earnings	55
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EC10	● Support to non-profit organisations	10
	Comment: Sums not reported	
EC13	● Indirect financial impacts	11, 31–32
<hr/>		
<b>Environmental responsibility</b>		
EN1	● Materials use	26
EN2	● Recycled materials use	27–29
EN3	● Direct energy use	26
EN4	● Indirect energy use	
EN5	● Water use	27
EN6	● Land owned and managed	
EN7	● Impact on biodiversity	
EN8	● Greenhouse gases emissions	26
EN9	● Use and emissions of ozone-depleting substances	26–27
	Comment: Percentages of use are reported	
EN10	● Other air emissions	26–27
EN11	● Waste	26–27
EN12	● Discharges to natural waterways	26–27
EN13	● Chemical, oil and other spills to natural waterways	28
EN14	● Environmental impacts of principle products and services	28–29
	Comment: Reported for logistics and packages	
EN15	● Recyclability of products	28–29
	Comment: Reported for packing materials	
EN16	● Compliance with stipulations	26
EN17	● Use of renewable energy sources and energy efficiency	26
EN22	● Recycling of water	27
EN33	● Environmental impacts of suppliers	28–29
EN34	● Environmental impacts of transportation	29
<hr/>		
<b>Social responsibility</b>		
LA1	● Workforce	22
LA2	● New business and employee turnover	22
LA3	● Labour unions	
LA4	● Organisational restructuring	
LA5	● Practice for recording occupational injuries and illnesses	23–24
LA6	● Occupational protection committees	24
LA7	● Accidents, absences and deaths	23–24
LA8	● HIV/AIDS	
LA9	● Average hours of training	22–23
	Comment: Total cost of training and costs per employee reported	
LA10	● Equality policy and programme	23
LA11	● Top management	34
LA12	● Additional employee benefits	22–23
	Comment: Reward and recreation activities described	
LA17	● Special programs for occupational development	22
	Comment: Learning Leadership training reported	
HR1–HR7 and		
SO1–SO3	● Principles concerning human rights, impacts on local communities, bribery and political lobbying	
PR1–PR3	● Product liability	13–16
PR8	● Consumer satisfaction and services	17
PR9	● Principles related to marketing communication (and other communications)	10, 17

## Annex 2

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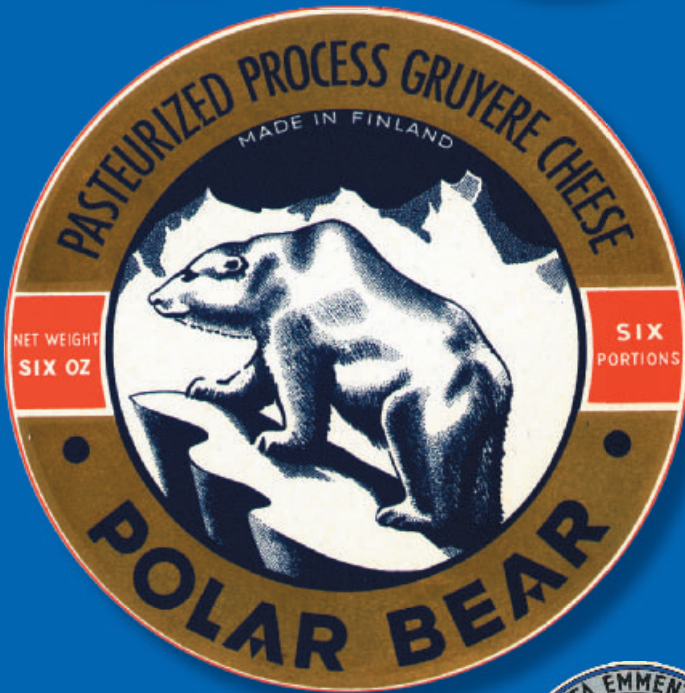
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