

Vaasan & Vaasan

A Baking Company of the Future

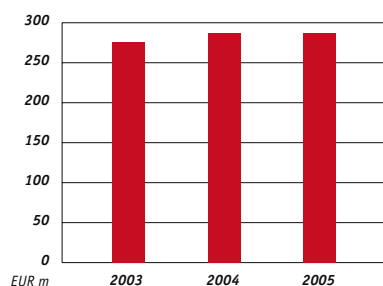


Annual Report 2005

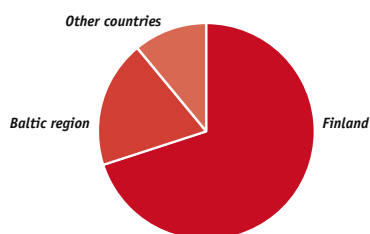
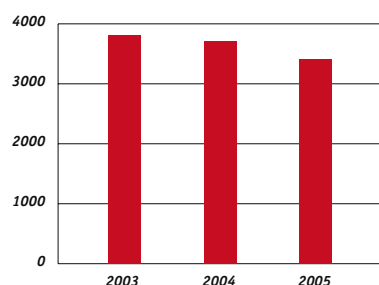
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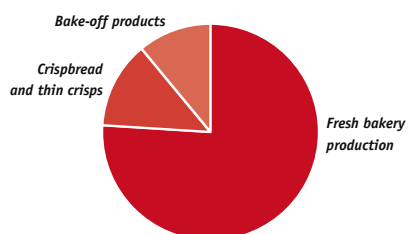
Growth of consolidated turnover:



Number of group employees:



Geographic distribution of consolidated turnover, 2005



Distribution of consolidated turnover by business area, 2005

The Vaasan & Vaasan Group Today

- Largest bakery business in Finland and the Baltic region
- Largest producer of thin crisps and second-largest producer of crispbreads in the world
- Second largest Nordic producer of bake-off products
- Pioneer in the development of rye products and technology
- Creator of strong brands nationally and globally

Group companies

- Vaasan & Vaasan Oy, Finland
- AS Leibur, Estonia
- A/S Hanzas Maiznicas, Latvia
- UAB Vilniaus Duona, Lithuania
- Nordic Bake Off AB, Sweden (50% holding in Gotlandsbrödet AB)
- Delice Scandinavica AB, Sweden

Group production units

- 12 fresh bakery production units in Finland, plus industrial baking operations in Kotka and Joutseno
- 10 production units in the Baltic region
- One production unit in Sweden

Vision

To be the leading baking company in the Baltic Sea region.

Business Idea

Vaasan & Vaasan sells and markets delicious, branded bakery products which satisfy the needs of its customers and consumers.

Values

The Vaasan & Vaasan Group's corporate values are founded on solid baking competence, a focus on people, integrity, customer success and sustainable profitability.

Corporate Governance

Members of the Board of Directors in 2005:

Seamus Fitzpatrick Chairman
 Kate Briant
 Christopher Campbell
 Matti Lappalainen
 Vesa Moisio
 Harri Roos
 Randl Shure

Group Management in 2005:

Matti Lappalainen Managing Director
 Magnus Johanson Director, International Operations
 Vesa Moisio Director, Group IT, Production and Services (Finland)
 Kari Oksanen Director, Sales and Marketing (Finland)
 Ants Promann Director, Baltic Operations
 Harri Roos Director, Group Support
 Kalevi Saikkonen Director, R&D, Purchasing and Investments



Photo: Eija Hiltunen

Stability and Balance in 2005

For the Vaasan & Vaasan Group, 2005 was a stable and balanced year. However, our operating environment underwent a dramatic transformation, due to the internationalisation, centralisation and catenation of retail business, and to the growth of the market shares of the major retailers' own brands. These developments were reflected in our operations particularly in the form of increased price competition. The group had a turnover of EUR 287 million and employed some 3,400 people.

Finnish operations were characterised by slow growth, especially in retail sales. In Finland, Vaasan & Vaasan Oy's turnover remained at the previous year's level. We maintained our market-leading position in all central business areas, however. The main growth area was sales to the hotel, restaurant and catering sector.

Our major expectations for growth were focused on international operations and the Baltic region. Even though exports to Russia and Eastern Europe increased strongly, total crispbread exports remained at the previous year's level. We expanded our customer base with new export countries, so we are looking for growth there in the future.

In the Baltic region, our operations were affected by a poor grain harvest and subsequent high raw material costs, as well as the cross-border catenation of retail stores.

We made investments in our Baltic operations in accordance with our strategy, opening a new bread production line in Estonia in autumn.

Negotiations regarding the acquisition of the Swedish company Nordic Bake Off AB, which specialises in bake-off products, were finalised in February 2006. Bake-off products form one of our main growth areas for the future.

Recognition of the VAASAN brand has improved every year, and its sales value is now among the top ten food and drink brands in Finland. This would not have been possible without our competent and committed staff. The know-how of our employees plays an important part in the supply chain, all the way from bakery to consumer.

I wish to extend warm thanks to our customers, partners and employees for the success of 2005!

A handwritten signature in black ink, appearing to read 'Matti Lappalainen'.

Matti Lappalainen
Managing Director



2005 in Brief

The Vaasan & Vaasan Group's consolidated turnover was EUR 287 million in 2005. The distribution of consolidated turnover by business area was as follows: fresh bakery production accounted for 76 per cent of turnover, crispbread and thin crisp production accounted for 13 per cent, and bake-off production for 11 per cent. Seventy per cent of turnover came from sales in Finland, 19 per cent from the Baltic region, and 11 per cent from exports.

Finnish operations

The Finnish bread market did not grow in 2005, so Vaasan & Vaasan Oy focused on developing and increasing the efficiency of its operations. Despite the tougher competition, the company maintained its market-leading position in all main product groups.

The market position of the VAASAN brand continued to strengthen in line with the targets set in the brand strategy. This was reflected for instance in a consumer survey conducted by Reader's Digest, in which VAASAN was selected Finland's most trusted bread brand for the second year running. Decision-makers in grocery retail chose Vaasan & Vaasan as their best supplier in an annual survey conducted by Taloustutkimus Oy.

In May 2005, Vaasan & Vaasan Oy set up a project entitled VAASAN Kuntokiri (Fitness Spurt) in cooperation with the Finnish Diabetes Association and Finnish Athletics, with the aim of encouraging Finns to adopt healthier lifestyles.

Baltic operations

The Baltic region was characterised by strong pricing pressure caused by increased raw material prices and the catenation of retail stores. The group's largest bread production line was built at AS Leibur in Estonia in autumn 2005, and a new rye bread line was brought onstream in August at A/S Hanzas Maiznicas in Latvia. In Lithuania, the challenging market situation faced by UAB Vilniaus Duona took a turn for the better in the second half of the year, thanks among other things to successful product launches.

International operations

The greatest growth in international operations came from Russia and Eastern Europe. 2005 saw the start of an effort to renew the packaging of Vaasan & Vaasan export products, in accordance with the global communications strategy formulated for the FINN CRISP brand.

In the last quarter, the group initiated negotiations regarding the acquisition of the Swedish company Nordic Bake Off AB. The transaction was completed in February 2006, making Vaasan & Vaasan the second-largest supplier of bake-off products in the Nordic market.





Milestones for the Vaasan & Vaasan Group

1849 A young chemist named August Alexander Levón receives permission from the City of Vaasa to establish Finland's first steam-powered mill. Initially, the Vaasa steam mill focused on milling rye for bakers. Levón wanted to start a bakery in conjunction with the mill, but according to the legislation of the time, baking was the work of artisans so industrial rights could not be obtained for it.

1904 Levón's vision of a bakery is fulfilled with the establishment of Vaasan Höyrleipomo. In its early years, the new bakery produced various bakery products, ranging from crispbread to soft rye and wheat breads. Later, the company would focus solely on crispbread.

1926 A consistent advertising campaign for VAASAN bread begins. Vaasan's "bread poems" become familiar to most Finns over the decades.

1952 The FINN CRISP brand is established. FINN CRISP was transferred to Vaasan Höyrymylly in 1967, with the acquisition of Huhtamäki's bread and biscuit production.

1959 VAASAN Maitonäkki crispbread is launched.

1963 VAASAN KOULUNÄKKI crispbread is launched.

1981 Vaasan Höyrymylly Oy is renamed Vaasamills.

1982 Suomen Sokeri (later Cultor Oyj) acquires Vaasamills.

1984 VAASAN Small Round crispbreads are launched.

1988 Production is diversified with the acquisition of a unit specialised in bake-off production in Joutseno.

1990 Fresh bread production is re-launched with the establishment of Vaasan Bakeries, a nationwide chain of local bakeries.

1991 VAASAN RUISPALAT rye bites are launched.

1993 Acquisition of AS Leibur, Estonia's largest baking company.

1995 Operations expand into Latvia with the acquisition of A/S Hanzas Maiznicas, the largest baking company in Latvia.

1998 Nordic equity fund EQT Scandinavia II acquires Cultor's baking division and sets off to establish a new independent baking group – Vaasan & Vaasan.

1999 The Vaasan & Vaasan Group starts operating in its current form, also celebrating its 150th anniversary.

2002 The Vaasan & Vaasan Group acquires Lithuania's largest bakery, UAB Vilniaus Duona.

2003 Vaasan & Vaasan acquires a majority holding in the Swedish marketer and distributor of bake-off products Delice Scandinavica AB.

2004 CapVest Equity Partners Fund becomes the new owner of Vaasan & Vaasan.

2004 VAASAN crispbread celebrates its 100th anniversary.

2005 The Vaasan & Vaasan Group opens its biggest-ever bread production line in Estonia, in order to produce bread for the whole Baltic region.



Photo: Eija Hittunen

Research to benefit the whole sector

The Vaasan & Vaasan Group conducts active research and development, both internally and in extensive partnerships with the Technical Research Centre of Finland (VTT) as well as Finnish and Nordic universities. Maintaining our pioneering position implies carrying out research to benefit the sector as a whole. For example, research into the health benefits of grains and grain products has been ongoing for more than ten years.

In 2005, the Vaasan & Vaasan Group invested EUR 1.7 million in research and development, which is equivalent to 0.6 per cent of the consolidated turnover. The group's research and development organisation employed 28 people.

During the year, the group focused especially on sensory research and evaluation, with the aim of improving product quality. When purchasing bakery products, consumers pay particular attention to the sensory qualities – such as the taste, smell, appearance and structure – of the goods.

Rye technology was developed heavily in the group's Baltic bakeries to achieve a consistent and easily controllable industrial process. The development work has advanced furthest in Estonia.

Fibre knowledge for Finns

Consumption habits are becoming healthier, and this is reflected in Vaasan & Vaasan Group's research and development efforts. The legislation and requirements of different countries place demands and restrictions on how producers can inform consumers of the health benefits of their products.

Vaasan & Vaasan has long worked to increase awareness among Finns of the health benefits of fibre, particularly whole grains. The company set up the VAASAN Kuntokiri (Fitness Spurt) in 2005, in cooperation with the Finnish Diabetes Association and Finnish Athletics, with the aim of encouraging Finns to pay attention to their lifestyles and look after their health.

Vaasan & Vaasan is also one of the main sponsors of the Dehko project coordinated by the Finnish Diabetes Association. This nationwide development project for the prevention and care of diabetes has attracted national and international attention.

A five-year research project entitled Healthgrain, funded by the EU, kicked off in summer 2005 with participation from Vaasan & Vaasan. The aim of the project is to increase health and wellbeing while reducing the risk of illnesses related to metabolic syndromes by encouraging the use of whole-grain products in Europe.



Product	EUR m	Change %
Fresh bakery products <i>(incl. EAN-coded and store-coded products)</i>	804,0	-0,6
Crispbreads	31,8	-0,8
Bake-off products	46,8	10,4

Distribution of the Finnish bakery market, 2005
(Source: AC Nielsen ScanTrack, 2005)

Finland is undergoing a transition period

Vaasan & Vaasan Oy is the market leader in its sector in Finland, with sales based on fresh bakery products, crispbread and bake-off goods. Most of the company's turnover is generated by fresh products, but the proportion of bake-off products is growing. In 2005, the company maintained its market-leading position in all main product groups.

In 2005, the Finnish daily goods sector was characterised by tighter price competition, brought about by the centralisation, catenation and internationalisation of retail business, and by the strengthening positions of the major retailers' own brands. Gross sales remained at the previous year's level. In future, the bakery business will be defined increasingly by holistic supply chain management and close cooperation with customers.

Vaasan & Vaasan Oy's most popular retail brands continued to be VAASAN RUISPALAT rye bites, VAASAN MUHKU rolls and VAASAN crispbreads. The most popular crispbreads were VAASAN KOULUNÄKKI and the VAASAN Small Round product family. Among bake-off products, the best-selling retail brand was VAASAN KOTIUUNIN, with cinnamon buns, meat pastries and apple Danishes coming up as favourites.

Vaasan & Vaasan has developed products to meet the needs of industrial kitchens for decades. Our bake-off products are used especially in cafés, restaurants, hotels and service stations. The major users of crispbreads are schools and the army. The internal heterogeneity of industrial kitchens is a challenge to product development, as the needs of different customer groups vary greatly.

Recognition born from hard work and real competence

Although in many ways 2005 was a transition period for the food and drink industry, Vaasan & Vaasan received recognition for a job well done, from customers as well as consumers. Decision-makers in grocery retail chose Vaasan & Vaasan as the best supplier of 2005 in a survey conducted by Taloustutkimus Oy. Specific strengths that were mentioned were delivery performance, knowledge of consumers and an equitable treatment of customers. The company was also praised for its ability to support retailers in selling Vaasan & Vaasan products, and for its understanding of the operating methods used by retail chains.

The VAASAN brand was again found to be the most trustworthy bread brand in a consumer survey carried out by Reader's Digest. The quality of VAASAN products was mentioned especially. Brand recognition also developed positively.

Vaasan & Vaasan Oy predicts growth in all its product groups for 2006. The growth strategy is built on the foundations of the strong VAASAN brand and a carefully formulated product selection. The company seeks growth by focusing on its core products and on increasing efficiency, as well as by cooperating more closely than ever with its customers and partners.



Jussi Tolvanen



Ari Akseli



Antti Sippola

Closer Cooperation with Customers

Vaasan & Vaasan Oy's customer relations with different retail clusters are based on in-depth, persistent cooperation, where constant change is taken for granted. Good customer relations demand open interaction and an understanding of the counterpart's business and operating methods.

Vaasan & Vaasan Oy's cooperation with retail corporations such as Kesko, the S Group and Tradeka goes back many years. The aim of the cooperation is to increase the efficiency of shared processes and to mould product selections so that they meet customers' demands.

Know-how is reflected in professional operations

Tradeka Oy's Commercial Director **Jussi Tolvanen** considers Vaasan & Vaasan Oy's particular strengths to be solid know-how and high-quality operations.

– The company is a significant player in all areas of the bakery market, which facilitates in-depth and varied cooperation.

Tolvanen thanks Vaasan & Vaasan for its commitment to improving partnerships, without compromising on resources. For him, this has been the key to effective cooperation. On the other hand, Tolvanen points out that excessively efficient and fine-tuned processes risk becoming too inflexible and he hopes that Vaasan & Vaasan will continue being able to adapt to changing circumstances and needs.

Kesko's Vice President **Ari Akseli** trusts Vaasan & Vaasan Oy's solid product development to create well-known brands that are highly valued by consumers. He sees the company as a reliable long-term partner. Akseli also wishes for continued flexibility and innovation in commercial cooperation in order to encourage market growth.

Increasing significance of supply chain management

Senior Vice President, Retail **Antti Sippola** of the SOK Corporation praises Vaasan & Vaasan for its sensitivity towards the needs of consumers.

– Vaasan & Vaasan Oy's long experience, low profile and professional operations have brought the company to its strong position in the bakery sector. In addition it has been able to launch a number of novelties along the way, Sippola says.

According to Sippola, the efficient and profitable management of the bakery sector requires solid know-how. He considers Vaasan & Vaasan to be well aware of market trends, which enables the company to develop its operations in the right direction.

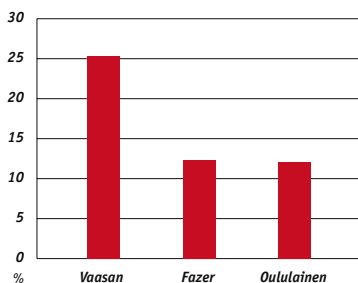
Sippola would like to see future development in supply chain management, which requires a systematic approach from both parties involved, as well as the creation of compatible systems.

Vaasan & Vaasan Oy's future relations with its partners are built on a good team spirit, which receives added value from mutual openness and trust. The company's efficient and customer-focused operating model gives it a good foothold in the bakery sector, both in Finland and abroad.



Market shares of the biggest fresh bread brands in Finland, 2005

(incl. rye and wheat breads, coffee breads; source: AC Nielsen ScanTrack 2005)



Market Leadership in All Major Product Groups

In 2005, Vaasan & Vaasan maintained its market-leading position in fresh bakery products, crispbread and bake-off products. The Finnish fresh bakery market demonstrated no growth in 2005, and Vaasan & Vaasan Oy's sales reflected this trend, remaining at the previous year's level. The company's share of the fresh bakery market was approximately 30 per cent.

The crispbread market was fairly stable in Finland, with a decrease of 0.8 per cent according to AC Nielsen. VAASAN crispbreads and thin crisps had a share of approximately 50 per cent.

According to AC Nielsen, the Finnish bake-off retail market has experienced significant growth in recent years. In 2005 it grew by some 10 per cent, and bake-off products rose to an unforeseen second place in the list of most popular frozen products, behind ice cream. Vaasan & Vaasan Oy's sales in the frozen products sector grew more slowly than the market as a whole, but the company maintained its leading position and market share in the segments where it operates.

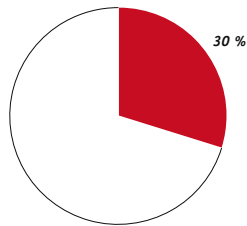
Traditional flavours and fibre-rich novelties in fresh products

Vaasan & Vaasan continued to be the most popular producer of fresh baked goods in Finland, according to AC Nielsen. VAASAN RUISPALAT rye bites continued their successful run, being the most popular bread in Finland by far.

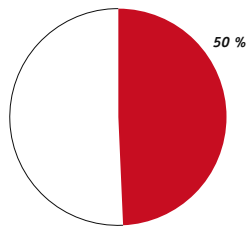
2005 saw several successful Vaasan & Vaasan launches in fresh breads. VAASAN Seed and Grain slices were launched early in the year. VAASAN Leipänen Oat and VAASAN Leipänen Multigrain appeared in autumn and swiftly took over as the leading products in their segment. Other novelties included VAASAN Carrot Bread and the VAASAN Country-Style Loaf, which complemented the selection of mixed-flour loaves. VAASAN Kranssi, launched in May, became the second most popular coffee bread after the well-beloved VAASAN Isoäidinpitko.

Vaasan & Vaasan market shares in Finland, 2005, by product group

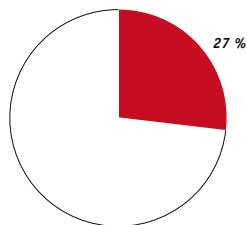
(EAN-coded products;
source: AC Nielsen ScanTrack 2005)



Fresh bakery products



Crispbreads and thin crisps



Bake-off products

Consumers show interest in healthy crispbreads

VAASAN crispbreads are still the most popular in Finland, with VAASAN KOULUNÄKKI, VAASAN Small Rounds and VAASAN Maukas accounting for 35 per cent of Finnish crispbread sales.

There is potential for growth in healthy and flavourful crispbreads in Finland, as Finns still consume about 50 per cent less crispbread than Swedes, for example.

Increasing demand for bake-off products

Bake-off products form one of the fastest-growing product groups in the grocery business. As a whole, AC Nielsen estimates that the retail bake-off product market grew more than 10 per cent in 2005. Vaasan & Vaasan was still a clear market leader in the product group, although some retailers' own brands are increasing their market shares.

Vaasan & Vaasan Oy's novelty, the VAASAN rye Karelian pie was well received among consumers. The best-selling products continued to be VAASAN KOTIUUNIN cinnamon buns and meat pastries. The lighter versions of VAASAN KOTIUUNIN meat and ham pastries, launched at the end of the year, reflect a trend towards healthier eating habits.

Sales to industrial kitchens still growing

The popularity of eating out and the growth in the number of service stations have created new markets for the industrial kitchen sector. This was reflected as a growth in Vaasan & Vaasan Oy's sales of bake-off products to industrial kitchens in 2005, which exceeded the rate of the sector as a whole. This trend is expected to continue in 2006.

The increasing health awareness in consumer eating habits is also evident in the industrial kitchen sector, with a growth in demand for rye and fibre-rich products. For instance the VAASAN rye Karelian pie experienced strong growth in sales. The sale of crispbread remained at the previous year's level.





Photo: Kalev Lilleorg

Estonian Minister of Agriculture Ester Tuiksoo, AS Leibur's Managing Director Ants Promann and Managing Director Matti Lappalainen from Vaasan & Vaasan Group opening the group's biggest-ever bread production line in Estonia.

Premier Market Leader in the Baltic

The Vaasan & Vaasan Group includes AS Leibur in Estonia, A/S Hanzas Maiznicas in Latvia and UAB Vilniaus Duona in Lithuania. Each of the three Baltic companies is a clear market leader and owns the most popular bread brands in its country. In recent years the group has focused on its ability to serve retail chains that span the whole of the Baltic region.

The Baltic region, with its 7.5 million inhabitants, is today an important market with excellent prospects for growth and business. Since their independence, the Baltic nations have quickly been closing the gap in living standards between themselves and Western Europe. In the last 15 years or so, the food retail trade has moved from the marketplace into the supermarket. In the same period, the average price per kilogram of bread has increased nearly fourfold, and is now approximately 50 per cent of the European average.

Although the consumers' purchasing power and the general price level in the Baltic region are still clearly below the rest of Europe, they are quickly catching up on their western neighbours. EU membership has contributed to swift changes in legislation, business culture and consumer habits towards a more European scenario.

Catenated Trade Requires Comprehensive, Effective Services

In recent years, the Baltic food and drink industry has been characterised by the powerful catenation of retail business and by increasing competition. Retail structures have changed at a radical speed in the Baltic states. The networks formed by large store chains now stretch across the whole area, and purchasing is more centralised. Success in this swiftly transforming operating environment demands that suppliers be able to respond to the needs of a centralising market and prepared to operate in the Baltic region as a whole.

One of the competitive advantages of the Vaasan & Vaasan Group is that it holds a strong national position in each of the three Baltic countries, and has an efficient, geographically extensive distribution network. Lately the group has invested heavily in the development of the three Baltic subsidiaries.

Investments in new Estonian bread line

In 2005, Vaasan & Vaasan strengthened its position in the Baltic region by investing in a new bread production line in Estonia, which produces bread for all three markets. Latvia also received a new production line for rye bread, while in Lithuania the group initiated an extensive structural change process in production, which will continue for the next few years.

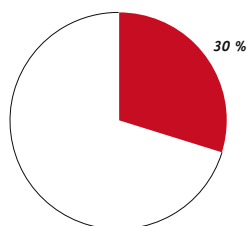
The total turnover of the Baltic subsidiaries in 2005 was EUR 56 million, which is equivalent to 19 per cent of the consolidated turnover. Tough competition and high grain prices caused by a bad harvest made operating in the Baltic region a challenge. At year-end, the Baltic subsidiaries employed approximately 1,800 people in total.

Close cooperation

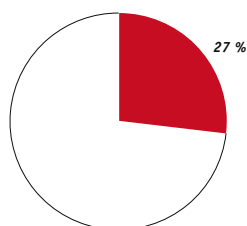
The Vaasan & Vaasan Group has spent years preparing to serve the growing retail chains of the region across national borders. The group's Baltic subsidiaries began systematically expanding their operations to outside the capital city areas as early as the mid-1990s. The aim was to create sales networks with national coverage in each country.

At the end of 2003, the group adopted a pan-Baltic strategy, whose aim is to develop shared operating models for the Baltic subsidiaries in product development, procurement, sales, marketing and logistics.

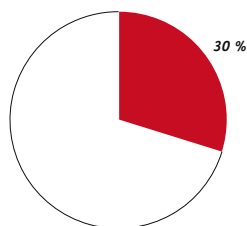
Group market shares in Baltic region, 2005



Estonia



Latvia



Lithuania



Photo: Kalev Lilleorg

Novelties Taking Over the Market

Traditional products still hold a strong position in the Baltic bread market: classic, freely baked rye loaves and French-style wheat bread account for a large portion of sales. However, demand for new kinds of products is growing rapidly. As market leaders, Vaasan & Vaasan Group's subsidiaries participate in remodelling the bread market.

Traditionally, the Baltic region has been the home of freely baked bread. Developments in recent years have shown, however, that there is room in the market for high-quality novelties that would diversify the product selection. A good example is the rise in demand for sliced breads, influenced in part by companies in the Vaasan & Vaasan Group.

The success story of the hugely popular Finnish VAASAN RUISPALAT rye bites continues in Estonia, where, marketed as RUKKIPALA, they became the third most popular rye bread product in just three years.

In wheat breads, sliced toasting bread is seizing market share from traditional loaves. In 2005, Vaasan & Vaasan strengthened its position in the Baltic wheat bread segment by launching a range of high-quality toasting breads developed through careful research. The launch was carried out with a common marketing concept for Estonia in October 2005, and Latvia and Lithuania in January 2006.

Strong brands increasingly important

Bread is a particularly nationalistic product, so Vaasan & Vaasan Group's strategy is to operate in each Baltic country using local bakery brands. Its subsidiaries control the strongest brands in each market, in addition to a number of other leading brands. In 2005, the companies focused on reinforcing local brands.

Vaasan & Vaasan products enjoy a solid position in Estonia, where Leibur is the strongest bakery brand by far, as well as the third most recognised brand in the country. The TALLINNA PEENLEIB rye loaf produced by Leibur is the most popular bread in the country. Similarly, Estonia's favourite wheat bread – KIRDE SAI – is made by Leibur. The popularity of the RUKKIPALA rye bites and the KULDNE toasting breads, re-launched in 2005, has shown that the rapidly changing Estonian market also has room for new products.

In Latvia, Hanzas Maiznicas is by far the best-known bread brand, and some brand reforms carried out in 2004 strengthened its position further. Some of the most popular Hanzas Maiznicas products are the KLASISKA family of rye breads, PLAVAS wheat loaves with seeds, and TOSTE toasting breads.

In Lithuania, a focused investment plan for the Vilniaus Duona bread brand began in 2004, in accordance with the market strategy. It has led to a significant improvement in brand recognition. The major products sold by Vilniaus Duona are the VILNIAUS DUONA and PALANGOS DUONA loaves, and the sliced MOČIUTES DUONA rye tin loaves. Many novelties were launched by Vilniaus Duona in 2005; particular success was enjoyed by IMK rolls, GOJA wheat breads and AGOTOS rye loaves.





Knowledge of the Operating Environment Is a Global Advantage

International operations form a significant part of the Vaasan & Vaasan Group. The group exports crispbreads, bake-off products and other baked goods to some forty countries around the world. The group's major export markets are the Nordic countries, Germany, Russia, North America and the United Kingdom.

The Vaasan & Vaasan Group is the world's largest producer of thin crisps, and the second-largest producer of crispbreads. The group has ample experience of exports, as crispbreads belonging to the FINN CRISP family have been sold abroad for more than fifty years. Bake-off exports began in 1997, and two years later the group started exporting other long-life goods.

International Arena Requires Diversity and Adaptability

The arena for international operations changes constantly. Currently, the major challenges faced by baking companies are the increasing competition between retail chains and the growth of the retailers' own brands. Vaasan & Vaasan intends to cope amid the tightening competition by seeking growth in carefully selected markets and, especially, in new product groups.

Another challenge is the localised nature of consumption habits. While in the other Nordic countries consumers buy similar products as in Finland, the rapidly developing eastern European market looks for luxury and brands. In central Europe, crispbread is seen as a health food. Vaasan & Vaasan strives to localise its operations to each country's customs. Globally, Finland is generally seen as the source of good quality, purity, healthiness and safe foodstuffs.

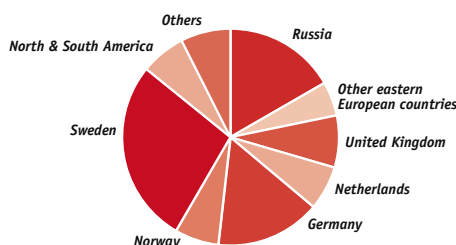
In 2005, the Vaasan & Vaasan Group invested in its international operations by renewing the packaging of FINN CRISP products on the basis of a prior global communications strategy. The packaging became more dynamic, energetic, youthful and uniform, while always respecting the good reputation of the FINN CRISP brand and the long baking traditions in the Vaasan & Vaasan Group.

Exports of Crispbreads, Bake-Off Products and Other Bakery Products

Approximately 70 million consumer packages of FINN CRISP products were sold in 2005. The products can be found in an estimated 50,000 retail stores around the world. The group has also attained a solid position in bake-off products in the Scandinavian market. After a period of strong growth, the group's turnover from international operations evened out in 2005, with a total increase of 0.4 per cent.

The export of FINN CRISP products achieved a growth rate of three per cent, but other product groups failed to meet their targets due to tight competition in the central European key market and in North America.

The Vaasan & Vaasan Group predicts stronger growth for 2006. The group strives for efficient and profitable operations by offering high-quality branded products to the international markets. The group will seek growth also in Eastern Europe, Asia and the Middle East, and in actively developing current operations in Russia.



Distribution of the Vaasan & Vaasan Group's international operations, 2005



FINN CRISP Sales Grow

FINN CRISP is a product for today's health-conscious consumer who appreciates superior flavour. In the last five years, exports of crispbreads belonging to the product family have doubled, and demand for thin crisps is also growing. The newest arrivals in the product group are rice cakes, crackers and crisp rolls.

In 2005, the FINN CRISP product group sought growth in new markets. In addition to its traditional export areas, sales expanded to countries such as China, Taiwan, South Korea, Thailand, India, Bulgaria, Hungary, Croatia, Belarus and Kenya.

The crispbread segment continued to grow in the Nordic countries and in some new markets, with a total growth of three per cent year on year.

In future, crispbread exports are expected to grow particularly in Russia, Ukraine, eastern Europe and the Nordic region. In terms of central Europe, the group is looking for growth in France, Italy, Belgium and Spain, among others. In addition, there will be investments in North American sales, and active development of exports to Asia and the Middle East in 2006. Finally, exports will extend to South America, which is a previously unconquered market for Vaasan & Vaasan.

Forward-looking bake-off segment

In bake-off sales, the Vaasan & Vaasan Group will look for increased market share and growth through reorganisation. Towards the end of 2005 the group initiated talks to acquire Sweden's second-largest bake-off company, Nordic Bake Off AB, and to buy the rest of the shares in Delice Scandinavica AB. The transaction was completed in early 2006, making Vaasan & Vaasan the second-largest player in the Nordic bake-off sector.



Vaasan & Vaasan

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