



Board of Directors' Report and Financial Statements

1 Jan. – 31 Dec. 2017

Board of Directors' Report 1 Jan. – 31 Dec. 2017

General

Milk production in Europe began to rise in 2017 and growth is expected to continue to accelerate. The global market price of butter increased significantly in the first half of the year, which had a positive effect also on the price paid for raw milk in the EU. Towards the end of the year, the butter price and price paid for raw milk began to fall. The price of milk powders was very low throughout 2017, due in part to the EU's large intervention stocks of skim milk powder.

Valio continued to grow especially in Sweden, the Baltic States, Russia and China. The market in Finland was stable.

During the past financial year, Valio developed many new innovations and was able to maintain its positive growth trend in value added products.

Valio Ltd took in 1 837 million litres of raw milk in Finland, 24 million litres less than the previous year. Milk production decreased in the first half of the year due to programmes instigated to cut production volumes, returning to the previous year's level in the second half.

Three major trends have been affecting consumer behaviour in Finland for a few years now.

There has been a significant fall in the consumption of liquid milk. The annual consumption of Finnish liquid milks had by 2017 fallen some 100 million litres from its 2009 level. Consumption has shifted to cheeses and yoghurts, for instance, but cheese consumption also began to decline around two years ago. Nearly half of the cheese consumed in Finland in 2017 was imported.

The significance of a company's actions on sustainability is growing in the eyes of both customers and consumers. From the consumer perspective, the key themes of Valio's sustainable operations are its impacts on Finland's economy, i.e. employment and continuation of milk production in Finland, product safety, transparent purchasing, national emergency supply, and animal well-being.

Progressively more people associate sustainable eating with a reduction in the consumption of meat and products of animal origin, often related to climate change or health. Vegan products are increasingly consumed by omnivores, and for instance as alternatives to dairy. Valio is responding to consumer demand with its oat-based Oddlygood® product innovations, launched in February 2018.

In August 2017, Valio inaugurated the Riihimäki snacks plant. It is the biggest innovation in the company's history and enables a more diverse product range and flexible production.

Valio Group net sales stood at EUR 1 708 million (2016: EUR 1 638 million), up 4.3% on 2016. Domestic net sales were unchanged while international net sales increased by 12.4%. The milk margin amounted to EUR 797 million (EUR 772 million) and the milk return stood at 37.9 cents per litre.

The average price paid for raw milk was 39.0 cents per litre (38.1). After payments for 2017 amounted to 0.5 cents per litre. The total price paid for raw milk was EUR 9 million higher compared with the previous year. A total of EUR 725 million (EUR 716 million) was paid to owners, comprising the raw milk price, after payments, dividends and interest.

Valio Group net profit totalled EUR 5 million (2016: EUR 18 million).

Shareholders and share capital

Valio Ltd has 17 shareholders, the same number as the previous financial year. The fully paid-up share capital of Valio Ltd stands at EUR 166 127 400. Valio Ltd shares number 48 861. They are all of the same type and confer identical rights to dividends and the company's assets. The shares carry a redemption clause.

Risk management

Risks are identified and managed in the business operations. Valio Group's key risks relate to the development of market prices in the domestic and export markets, the position of key product groups in different markets, exchange rates, and various property damage risks and their ramifications for business operations.

Valio insures against risks that would significantly influence the Group's operating capacity. Valio's most significant non-life insurances have been organised into insurance programs covering the whole Group.

Cash flow and balance sheet items denominated in foreign currencies are generally not hedged.

The goal for occupational safety is zero accidents.

Legal proceedings

Based on the decision of Finland's Market Court issued in 2014, which was affirmed by the Supreme Administrative Court of Finland in 2016, Arla Oy, Osuuskunta Satamaito, Osuuskunta Maitomaa, Osuuskunta Maitokolmio, Juustoportti ILO Oy, and Ilmajoen Osuusmeijeri, filed in late 2014 in the District Court of Helsinki a claim for damages against Valio Ltd under Finnish competition law. Valio and Juustoportti reached an amicable settlement in summer 2017. Arla Oy demands damages from Valio Ltd amounting to EUR 57.9 million, and the other claimants demand damages totalling EUR 43.7 million, plus in both instances interest and expenses. The case is currently in written procedure and, thus, the process has not been completed.

Although Valio Ltd sees no grounds for the claims presented, Valio has, following the cautiousness principle of good accounting practice, estimated and made a provision amounting to EUR 23.5 million for the possible financial consequences.

Research and development

Valio launched a total of 109 new products in 2017 (2016: 126) in Finland, as well as new products in other markets. Four new patent applications were filed in 2017 (2016: 7).

R&D and quality control costs totalled EUR 28.5 million (EUR 26.5 million), or 1.7% of net sales (1.6%).

Personnel

The average number of employees in Valio Group in 2017 was 4 196 (2016: 4 096), and at the end of the financial year the number stood at 4 118 (2016: 4 039). On average, 3 2238 employees (2016: 3 202) worked in Finland and 958 (2016: 894) in foreign subsidiaries.

Of the foreign subsidiaries, the highest number of staff was found in Estonia, on average 465 employees (2016: 438), and Russia, on average 394 employees (2016: 367). At the end of the financial year, the number of employees in Estonia stood at 459 (2016: 459), and in Russia at 399 (2016: 390).

Personnel distribution by gender in 2017 was 54% male and 46% female (2016: 54% and 46%). The average age of employees in 2017 was 42 years (2016: 42 years).

The salaries and other remunerations paid by Valio Group in 2017 amounted to EUR 181.0 million (EUR 167 million). Pension costs for the year stood at EUR 17 million (EUR 24 million).

Environmental protection

Valio's environmental system is certified in accordance with the ISO 14001 standard and covers the company's operations in Finland. No significant deviations from environmental legislation or the requirements of the authorities have been detected in the internal audits that are part of Valio's environmental system, or in inspections conducted by an external auditor.

Significant environmental impacts of operations are caused by the waste water load resulting from production wastage, water and energy consumption as a downside of maintaining a high level of hygiene, and waste management of spent packages.

Capital expenditure during the financial year targeted at the reduction of environmental impacts amounted to EUR 3.7 million in Finland, and environmental costs recorded as expense totalled EUR 13.0 million. The most significant single investment related to the environment in 2017 was a proportion of the costs of renovating the town of Äänekoski's waste water purification plant.

Valio Group's total energy consumption in 2017 stood at 769 GWh, waste water volume was 5.8 million cubic metres, waste water load directed at water purification plants was 10 000 tonnes calculated in terms of chemical oxygen demand (COD), and Valio's production operations generated 1 424 tonnes of waste that was not recycled or reused. Compared with the previous year, energy consumption and water consumption decreased slightly, and waste water load showed a slight increase. The volume of waste that was not recycled or reused increased primarily due to an adjustment in the preparation of the statistics.

More detailed environmental information regarding operations in Finland is published separately on Valio Ltd's website in the Corporate Sustainability Report.

Net sales

Consolidated net sales totalled EUR 1 708 million (EUR 1 638 million) and domestic net sales stood at EUR 1 059 million (EUR 1 060 million). Net sales from international operations totalled EUR 649 million (EUR 577 million). Valio Ltd net sales totalled EUR 1 437 million (EUR 1 413 million).

Capital expenditure

Consolidated investments totalled EUR 98 million (EUR 127 million), or 5.7% (7.8%) of net sales.

The most significant investments were the new snacks plant in Riihimäki, the packaging unit for consumer powder products in Lapinlahti, the packaging line for cheese blocks in Joensuu, and the packaging line for cheese slices in Vantaa.

Finance

Both Group and parent company liquidity remained good throughout the financial year. Cash in hand and at banks, and short-term investments, totalled EUR 142 million (EUR 227 million) at the year-end. Inventories stood at EUR 164 million at the end of the financial year and EUR 144 million at the beginning. Interest-bearing liabilities totalled EUR 394 million at the end of the financial year and EUR 372 million at the beginning. Loans from financial institutions increased by EUR 22 million. Net financing expenses amounted to EUR 11 million (EUR 8.2 million), or 0.6% (0.5%) of consolidated net sales.

Financial performance

Consolidated profit before taxes was EUR 6 million (EUR 21 million). Net taxes for the financial year totalled EUR 1 million (EUR 3 million). Net profit for the financial year stood at EUR 5 million (EUR 18 million).

Parent company profit before taxes and appropriations stood at EUR 4 million (EUR 18 million). Booked depreciation was the maximum permitted under Finland's tax laws. Income taxes for the financial year totalled EUR -0.2 million (EUR 2 million). Parent company net profit for the financial year stood at EUR -0.9 million (EUR 6 million).

The Valio Group milk margin stood at EUR 797 million and the milk return at 37.9 cents per litre.

Year 2018

In Finland, tight market conditions will persist in the current financial year. The prices of ingredients have fallen on the global markets in the first months of the year, and the price paid for raw milk to dairy farmers has decreased. Valio is seeking growth through new product groups and value added products both in Finland and internationally.

The Board of Directors' proposal on the distribution of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of 3.1% on the nominal value of the shares be declared, or EUR 105.40 per share, totalling EUR 5 419 949.40.

Valio Group five-year statistics

	2017	2016	2015	2014	2013
Milk volume taken in from owners, mill. L	1 837	1 861	1 899	1 929	1 888
Sum paid to owners, MEUR ¹⁾	725	716	739	885	907
Price paid for milk to the co-operatives by Valio, per litre total cents ²⁾	39,0	38,1	38,5	45,4	47,5
Net sales, MEUR	1 708	1 638	1 718	1 950	2 029
Change %	4,3	-4,7	-11,9	-3,9	1,5
- Domestic, MEUR	1 059	1 060	1 116	1 264	1 275
Change %	-0,1	-5,0	-11,7	-0,8	0,1
- International operations, MEUR	649	577	602	686	755
Change %	12,4	-4,0	-12,3	-9,0	3,9
Net sales/milk litre taken in from owners, €/l	0,93	0,88	0,90	1,01	1,07
Average no. of personnel	4 196	4 096	4 272	4 662	4 613
Wages and salaries, MEUR	181	167	181	198	195
R&D expenditure, MEUR	17	16	16	20	18
Book profit, MEUR	5	18	13	-36	65
Balance sheet total, MEUR	1 193	1 252	1 240	1 241	1 228
Stocks, MEUR	164	144	146	180	174
Investments, MEUR	98	127	119	152	118
Depreciation according to plan, MEUR	88	90	80	80	73
Equity assets ratio, %	45	43	42	42	47
Milk margin, MEUR ³⁾	797	772	806	974	1 026
Milk return, c/l ⁴⁾	37,9	36,1	36,5	43,7	48,0

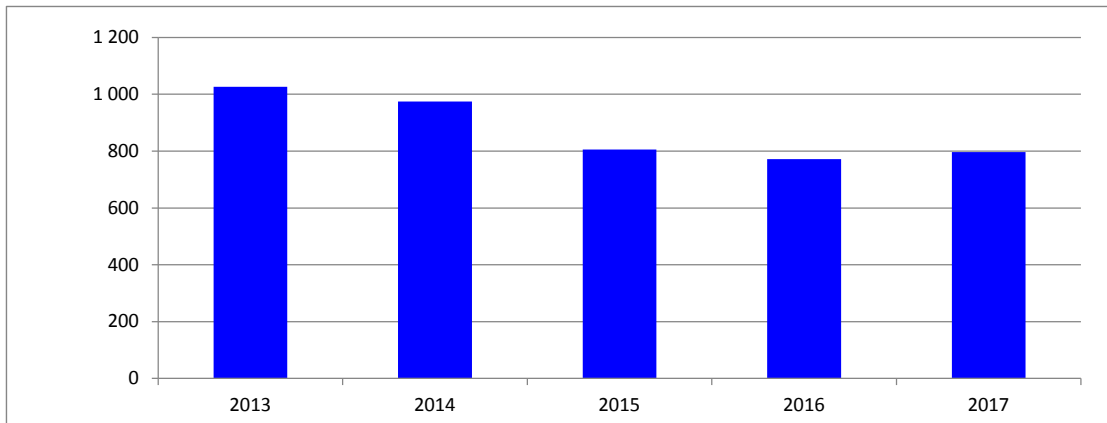
¹⁾ Comprising the raw milk price, after payment, dividend and interest.

²⁾ Includes the basic price, and extra payments according to composition and quality; extra payments for organic milk; after payment.

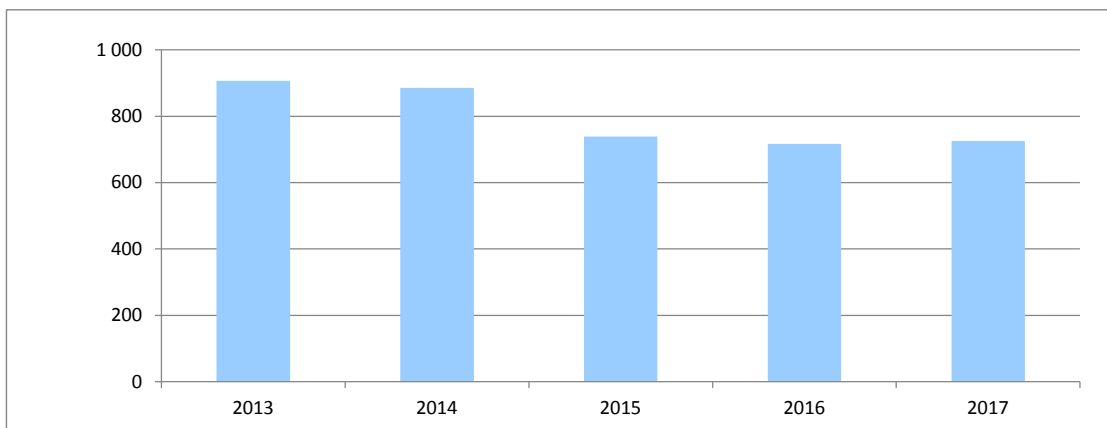
³⁾ Net sales less all other costs excluding the price paid to the owners for raw milk, interest on shareholder loans, depreciation according to plan, supplementary payments to the pension fund, pension contribution refunds, and items not included in actual business operations, such as sales gains from sales of business operations, and provisions. The milk margin includes taxes for appropriations, and the tax effect of Valio Ltd profit less the tax share of the net profit corresponding to the amount of the average dividend percentage from the share capital.

⁴⁾ Milk margin less estimated required financing for investments, and the figure is divided by the milk volume taken in from the owners of Valio Ltd.

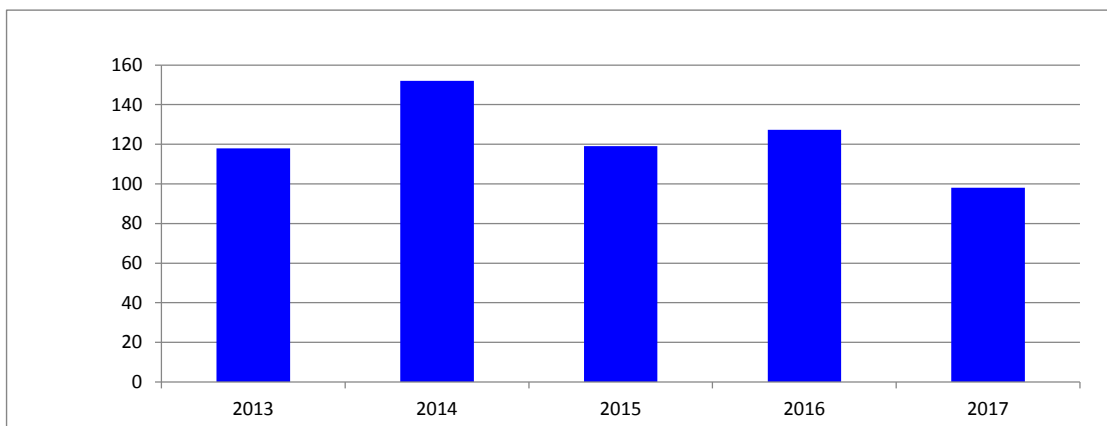
Valio Group milk margin, MEUR



Payments to owners, MEUR



Valio Group investments, MEUR



Consolidated Income Statement

	2017	2016
Net sales	1 708 431	1 637 713
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	11 491	-7 103
Production for own use	693	666
Other operating income	34 161	100 241
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	1 099 881	1 044 719
Increase (-) / decrease (+) in stocks	-13 677	-4 176
External services	22 844	20 101
	-1 109 048	-1 060 644
Staff expenses		
Wages and salaries	180 852	167 022
Social security expenses		
Pension expenses	17 032	24 041
Other social security expenses	13 397	13 511
	-211 281	-204 574
Depreciation and amortisation		
Depreciation according to plan	86 780	82 639
Amortisation from assets held as non-current assets	1 007	7 417
	-87 787	-90 056
Other operating expenses	-329 898	-346 751
Operating profit (loss)	16 762	29 492
Financial income and expenses		
Income from other investments held as non-current assets		
From others	1	1
Other interest and financial income		
From others	458	1 521
Share of profit of associated companies	54	-143
Interest and other financial expenses		
To others	-11 101	-9 574
	-10 588	-8 195
Profit (loss) before appropriations and taxes	6 174	21 297
Income taxes		
Income taxes	-1 284	-1 388
Deferred taxes	-26	-1 953
	-1 310	-3 341
Net profit (loss) for the financial year	4 864	17 956

All figures in EUR '000s.

Consolidated Cash Flow Statement

	2017	2016
Cash flow from operations		
Operating profit	16 762	29 492
Adjustments		
Depreciation and amortisation	87 787	82 639
Changes in provisions	319	30 415
Other adjustments	450	-67 888
Cash flow before change in working capital	105 318	74 658
Change in working capital		
Increase (-) / decrease (+) in current non-interest-bearing receivables	-7 891	5 141
Increase (-) / decrease (+) in stocks	-19 459	1 795
Increase (+) / decrease (-) in current non-interest-bearing debts	-73 601	4 921
Cash flow from operations before financial items and taxes	4 367	86 515
Interests and expenses paid for other financing costs of operations	-11 222	-9 722
Dividends received	1	1
Interest and other financial income received	401	1 454
Direct taxes paid	-1 323	-2 652
Cash flow from operations	-7 776	75 596
Cash flow from investments		
Capital expenditure in tangible and intangible assets	-97 365	-125 936
Investment subsidies received	76	86
Proceeds from sale of tangible and intangible assets	671	6 490
Sale of business operations	-	73 000
Capital expenditure in investments	-1 442	-1 370
Proceeds from sale of investments	151	103
Repayment of loan receivables	-1 784	-1 173
Other	-4 886	7 407
Cash flow from investments	-104 579	-41 393
Cash flow from financing activities		
Increase (+) / decrease (-) in current financing	1 395	-3 149
Proceeds from non-current financing	100 360	16 806
Repayment of non-current financing	-80 084	-58 780
Dividends paid	-5 316	-5 482
Cash flow from investments	16 355	-50 605
Change in liquid assets	-96 000	-16 402
Liquid assets at beginning of financial year	237 485	253 887
Liquid assets at end of financial year	141 485	237 485

All figures in EUR '000s.

Consolidated Balance Sheet

ASSETS	31 Dec. 2017	31 Dec. 2016
Non-current assets		
Intangible assets		
Intangible rights	5 282	5 951
Other intangible assets	14 649	15 498
	19 931	21 449
Property, plant and equipment		
Land	27 978	27 729
Buildings and constructions	333 168	341 508
Machinery and equipment	283 387	230 899
Other tangible assets	351	880
Advance payments and construction in progress	32 609	67 884
	677 493	668 900
Investments		
Shares in Group companies	-	2
Shares in associated companies	8 907	7 412
Other shares and interests	2 195	2 352
	11 102	9 766
Current assets		
Stocks		
Raw materials and supplies	41 067	36 627
Work in progress	6 676	4 802
Finished goods	113 951	100 478
Other stocks	2 216	2 399
Advance payments	-	145
	163 910	144 451
Receivables		
Non-current receivables		
Loan receivables	1 401	25
Other receivables	140	165
Deferred tax receivable	1 791	1 358
	3 332	1 548
Current receivables		
Trade receivables	142 874	128 805
Deferred tax receivable	15 551	18 802
Other current receivables	5 859	5 559
Accrued income and prepaid expenses	11 693	14 902
	175 977	168 068
Investments		
Other current investments	22 995	27 991
Cash in hand and at banks	118 490	209 494
Total assets	1 193 230	1 251 667

All figures in EUR '000s.

Consolidated Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec. 2017	31.12.2016
Shareholders' equity		
Share capital	166 128	166 128
Other reserves		
Other reserves	5 984	5 984
Translation differences	-26 624	-21 738
Retained earnings (losses)	387 913	375 273
Net profit (loss) for the financial year	4 864	17 956
	538 265	543 603
Provisions		
Other provisions	24 505	25 191
Liabilities		
Non-current liabilities		
Loans from financial institutions	232 699	205 799
Deferred tax liability	36 500	35 412
Other liabilities	69 106	74 167
	338 305	315 378
Current liabilities		
Loans from financial institutions	60 099	65 099
Advances received	141	1 277
Trade payable	142 417	145 282
Current liabilities to participating interests	372	114
Deferred tax assets	118	211
Other liabilities	44 899	41 849
Accrued expenses and deferred income	44 109	113 663
	292 155	367 495
Total shareholders' equity and liabilities	1 193 230	1 251 667

All figures in EUR '000s.

Parent Company Income Statement

	2017	2016
Net sales	1 436 933 223,52	1 413 280 563,82
Increase (+) / decrease (-) in stocks of finished goods and work in progress	11 444 409,88	-7 248 888,69
Production for own use	692 548,36	665 995,48
Other operating income	33 898 921,74	99 688 182,72
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	908 597 097,17	895 175 413,16
Increase (-) / decrease (+) in stocks	-1 735 360,18	3 546 519,68
External services	16 578 141,60	16 995 478,28
	-923 439 878,59	-915 717 411,12
Staff expenses		
Wages and salaries	157 875 897,24	148 541 708,58
Social security expenses		
Pension expenses	15 088 413,47	22 265 578,35
Other social security expenses	8 846 460,63	9 268 081,54
	-181 810 771,34	-180 075 368,47
Depreciation and amortisation		
Depreciation according to plan	-79 614 311,34	-75 764 344,16
Amortisation from assets held as non-current assets	-1 006 946,52	-7 417 213,96
	-80 621 257,86	-83 181 558,12
Other operating expenses	-282 026 596,44	-300 788 000,13
Operating profit (loss)	15 070 599,27	26 623 515,49
Financial income and expenses		
Income from other investments held as non-current assets		
From others	561,22	1 137,22
Other interest and financial income		
From Group companies	38 429,08	11 340,71
From others	294 058,34	1 161 265,87
Interest expenses and other financial expenses		
To others	-10 991 650,57	-9 514 888,26
	-10 658 601,93	-8 341 144,46
Profit (loss) before appropriations and taxes	4 411 997,34	18 282 371,03
Appropriations		
Increase (-) / decrease (+) in depreciation difference	-5 438 701,68	-10 602 318,29
	-5 438 701,68	-10 602 318,29
Income taxes		
Income taxes for the financial year	-32 967,10	-908 539,55
Deferred taxes	204 719,33	-648 909,12
Income taxes from previous financial years	40,53	-
	171 792,76	-1 557 448,67
Net profit (loss) for the financial year	-854 911,58	6 122 604,07

Parent Company Cash Flow Statement

	2017	2016
Cash flow from operations		
Operating profit	15 071	26 624
Adjustments		
Depreciation and amortisation	79 614	75 764
Changes in provisions	713	30 386
Other adjustments	146	-67 382
Cash flow before change in working capital	95 544	65 392
Change in working capital		
Increase (-) / decrease (+) in current non-interest-bearing receivables	-17 750	19 863
Increase (-) / decrease (+) in stocks	-13 179	10 922
Increase (+) / decrease (-) in current non-interest-bearing debts	-71 546	-2 087
Cash flow from operations before financial items and taxes	-6 931	94 090
Interests and expenses paid for other financing costs of operations	-11 112	-9 662
Dividends received	1	1
Interest and other financial income received	236	1 105
Direct taxes paid	6	-2 172
Cash flow from operations	-17 800	83 362
Cash flow from investments		
Capital expenditure in tangible and intangible assets	-91 283	-120 115
Investment subsidies received	76	86
Proceeds from sale of tangible and intangible assets	621	5 598
Sale of business operations	-	73 000
Capital expenditure in investments	-1 441	-1 370
Loans granted	-4 000	-4 202
Repayment of loan receivables	2 000	2 000
Cash flow from investments	-94 027	-45 003
Cash flow from financing activities		
Proceeds from current financing	4 436	-
Repayment of current financing	-	-2 686
Proceeds from non-current financing	100 360	16 806
Repayment of non-current financing	-80 084	-58 780
Dividends paid	-5 316	-5 482
Cash flow from financing activities	19 396	-50 142
Change in liquid assets	-92 431	-11 783
Liquid assets at beginning of financial year	224 120	235 903
Liquid assets at end of financial year	131 689	224 120

All figures in EUR '000s.

Parent Company Balance Sheet

ASSETS	31 Dec. 2017	31 Dec. 2016
Non-current assets		
Intangible assets		
Intangible rights	4 906 127,70	5 497 633,05
Other intangible assets	14 212 944,47	15 031 491,00
Advance payments	290 251,20	290 251,20
	19 409 323,37	20 819 375,25
Property, plant and equipment		
Land	21 345 320,83	20 793 335,14
Connection fees	2 766 235,52	2 770 309,45
Buildings and constructions	312 285 634,89	318 286 369,30
Machinery and equipment	264 113 014,19	209 764 961,90
Other tangible assets	156 760,36	156 760,36
Advance payments and construction in progress	29 072 397,23	67 049 395,51
	629 739 363,02	618 821 131,66
Investments		
Shares in Group companies	114 929 217,95	114 931 083,07
Shares in associated companies	6 681 650,80	5 240 450,80
Other shares and interests	2 168 357,38	2 169 991,90
	123 779 226,13	122 341 525,77
Current assets		
Stocks		
Raw materials and supplies	30 133 541,34	28 368 691,21
Work in progress	5 954 608,02	4 487 262,13
Finished goods	76 507 158,05	66 530 094,06
Other stocks	907 384,97	936 874,92
Advance payments	0,00	1 334,00
	113 502 692,38	100 324 256,32
Receivables		
Non-current receivables		
Non-current receivables from Group companies	4 633 580,21	633 564,77
Loan receivables	25 000,00	25 000,00
Other non-current receivables	16 616,19	90 450,00
	4 675 196,40	749 014,77
Current receivables		
Trade receivables	100 492 719,08	86 859 705,10
Current receivables from Group companies	31 490 221,95	24 429 374,38
Deferred tax assets	5 202 495,12	4 997 775,79
Other current receivables	13 486 097,33	15 545 983,77
Accrued income and prepaid expenses	9 085 885,31	12 252 453,45
	159 757 418,79	144 085 292,49
Investments		
Other current investments	22 995 024,93	27 991 079,07
Cash in hand and at banks	108 693 835,51	196 129 269,73
Total assets	1 182 552 080,53	1 231 260 945,06

Parent Company Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec. 2017	31.12.2016
Shareholders' equity		
Share capital	166 127 400,00	166 127 400,00
Other reserves		
Legal reserve	5 984 101,53	5 984 101,53
Retained earnings (losses)	204 901 120,96	204 094 593,69
Net profit (loss) for the financial year	-854 911,58	6 122 604,07
	376 157 710,91	382 328 699,29
Appropriations		
Accumulated depreciation difference	182 497 072,57	177 058 370,89
Provisions	24 344 797,46	24 988 878,92
Liabilities		
Non-current liabilities		
Loans from financial institutions	232 699 425,00	205 798 850,00
Other liabilities	70 135 850,27	75 232 279,47
	302 835 275,27	281 031 129,47
Current liabilities		
Loans from financial institutions	60 099 425,00	65 099 425,00
Trade payable	126 339 536,24	130 893 265,45
Current liabilities to Group companies	28 695 251,70	25 665 194,51
Current liabilities to participating interests	371 786,35	113 590,41
Other liabilities	43 602 663,95	39 798 358,93
Accrued expenses and deferred income	37 608 561,08	104 284 032,19
	296 717 224,32	365 853 866,49
Total shareholders' equity and liabilities	1 182 552 080,53	1 231 260 945,06

Notes to the Consolidated and Parent Company Financial Statements

ACCOUNTING PRINCIPLES

The consolidated financial statements include the parent company and the subsidiaries in which the parent company holds more than 50% of the voting rights, either directly or indirectly.

Associated companies have been consolidated using the equity method.

The consolidated financial statements have been prepared using the acquisition method. All intercompany accounts and transactions have been eliminated.

The income statements of foreign Group companies have been translated into Finnish currency at the average exchange rate of the financial year, and balance sheets at the exchange rate on the closing day of the financial year. The exchange rate differences generated in the translation and the translation adjustments created in the translation of shareholders' equity of foreign subsidiaries are included in other reserves.

Exchange rate differences resulting from a long-term loan granted to a foreign subsidiary which is comparable to an investment of shareholders' equity are recorded for the Group as translation difference of shareholders' equity.

Intangible assets and property, plant and equipment of non-current assets are recorded in the balance sheet at the acquisition cost less depreciation according to plan and reduction in value. Depreciation according to plan is calculated as straight-line depreciation on the basis of the useful life of the item. The depreciation plan is the same as in the previous year.

Depreciation and amortisation periods are:

Intangible rights and other capitalised long-term expenditure	5–10 years
Buildings and constructions	10–25 years
Machinery and equipment	5–10 years
Computer hardware and software	3–5 years
Transport equipment and some refrigeration equipment	3–5 years

Investments and non-current financial assets have been recorded in the balance sheet at the lower of acquisition price or fair value.

Liquid assets include cash in hand, cash at bank, and short-term investments in securities. The company's liquid assets also include an escrow account of 5.75 million euros, the use of which is limited.

Products manufactured in-house have been valued at the lower of immediate acquisition cost or sales price. Purchased products, raw materials, and packing materials are valued at weighted average price or using the FIFO method.

Deferred tax liabilities or assets have been calculated on the temporary differences between taxation and the financial statements, and on taxable loss using the prevailing tax base at balance sheet date.

The presented format of the Income Statements and Balance Sheet has been modified in accordance with the amendment to the Accounting Act (1620/2015). The group contribution previously recorded under extraordinary items is hence shown as a separate entry in appropriations.

The accounting of emission rights is performed in accordance with statement 1767/2005 of the Accounting Board. If the realised emission tonnage exceeds the rights granted, the cost of the excess tonnage is booked at the fair value of the day of closing the accounts and provisions are booked as counter-account. If the realised tonnage is below the rights granted, these assets are specified in the notes to the accounts. Trading of emission rights is booked as transactions on an accrual basis.

Based on the decision of Finland's Market Court issued in 2014, which was affirmed by the Supreme Administrative Court of Finland in 2016, Arla Oy, Osuuskunta Satamaito, Osuuskunta Maitomaa, Osuuskunta Maitokolmio, Juustoportti ILO Oy, and Ilmajoen Osuusmeijeri, filed in late 2014 in the District Court of Helsinki a claim for damages against Valio Ltd under Finnish competition law. Valio and Juustoportti reached an amicable settlement in summer 2017. Arla Oy demands damages from Valio Ltd amounting to EUR 57.9 million, and the other claimants demand damages totalling EUR 43 million, plus in both instances interest and expenses. The case is currently in written procedure and, thus, the process has not been completed.

Although Valio Ltd sees no grounds for the claims presented, Valio has, following the cautiousness principle of good accounting practice, estimated and made a provision amounting to EUR 23.5 million for the possible financial consequences.

All figures in EUR '000s.

Notes to the Income Statement

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
1. DISTRIBUTION OF NET SALES				
1.1. NET SALES BY DIVISION				
Fresh dairy products	732 825	733 637	620 785	644 226
Butter and spreads	259 880	228 511	246 677	217 008
Cheese	462 378	429 700	320 681	309 044
Powdered ingredients	171 609	155 505	166 036	152 661
Others	81 739	90 360	82 754	90 342
	1 708 431	1 637 713	1 436 933	1 413 281
1.2. NET SALES BY GEOGRAPHICAL AREA				
Domestic	1 059 350	1 060 344	1 059 350	1 060 344
Foreign	649 081	577 369	377 583	352 937
	1 708 431	1 637 713	1 436 933	1 413 281
2. OTHER OPERATING INCOME				
Logistics income	19 512	21 826	19 457	21 769
Rent income	3 778	4 244	3 780	4 230
Gain on disposal of non-current assets	598	1 187	549	1 174
Sales income from laboratory services	2 864	2 774	2 864	2 774
Subsidies and grants received	225	190	225	190
Income from staff canteen	1 648	1 660	1 648	1 660
Income from energy sales	845	668	845	668
Insurance compensation	158	583	158	583
Sale of business operations	623	62 953	623	62 953
Other income	3 910	4 156	3 750	3 687
	34 161	100 241	33 899	99 688
3. PURCHASES DURING THE FINANCIAL YEAR				
Purchases of raw milk from procurement co-operative:	716 995	708 140	716 996	708 140
Other purchases	382 886	336 579	191 601	187 035
	1 099 881	1 044 719	908 597	895 175
4. CHANGE IN PROVISIONS				
INCREASE (-) / DECREASE (+)				
Provision for contingent pension liabilities	731	266	538	202
Other provisions	-45	51 075	106	51 167
	686	51 341	644	51 369

Notes to the Income Statement

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
5. OTHER OPERATING EXPENSES				
Energy expenses	40 397	39 615	37 400	37 300
Water expenses	15 094	14 904	14 969	14 754
Transportation expenses	102 497	104 660	93 710	97 042
Voluntary staff expenses	5 076	4 335	4 282	3 694
Rental expenses	17 207	17 233	14 877	14 918
Travel expenses	5 900	5 503	4 537	4 246
Expenses for maintenance of real estate and machinery	43 445	38 569	41 057	37 891
Marketing expenses	52 913	52 523	32 028	30 950
Administrative expenses	19 271	17 122	16 467	14 352
IT expenses	17 452	17 267	15 893	16 080
Credit losses	19	106	400	1
Compensation and provisions for damages	-	23721	-	23721
Other expenses	10 627	11 193	6 407	5 839
	329 898	346 751	282 027	300 788
6. NUMBER OF PERSONNEL, AVERAGE				
	4 196	4 096	3 238	3 202
7. STAFF EXPENSES				
Wages and salaries	180 852	167 022	157 876	148 542
Social security expenses				
Pension expenses	17 032	24 041	15 088	22 266
Other social security expenses	13 397	13 511	8 847	9 268
	211 281	204 574	181 811	180 076
8. SALARIES AND BONUSES OF DIRECTORS				
Supervisory Board	257	162	257	162
Board of Directors	243	206	243	206
Valio Executive Board, CEO, Managing Directors	3 998	3 939	2 393	2 694
	4 498	4 307	2 893	3 062
9. AUDITOR'S FEES				
To PricewaterhouseCoopers companies				
Audit	340	362	163	189
Auditor's statements	2	2	2	2
Tax services	30	22	26	22
Other services	170	745	161	742
	542	1 131	352	955

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
10. ACCRUED INCOME AND PREPAID EXPENSES				
Rent of packing machines	129	139	129	139
Accrued income from exports	927	2 694	927	2 694
Royalties	140	431	140	431
Healthcare reimbursement	795	1 598	795	1 598
Income tax assets	4 978	6 068	3 865	4 584
Social security costs	180	1 366	130	1 324
ELY and energy subsidies	157	81	157	81
IT maintenance agreements	540	625	537	390
Gifts	142	145	142	145
Interest	249	191	249	191
Other prepayments and accrued income	3 456	1 564	2 015	675
	11 693	14 902	9 086	12 252
11. INTANGIBLE ASSETS				
Intangible rights				
Acquisition cost at beginning of year	20 424	20 033	18 533	17 914
Additions 1.1–31.12	861	1 262	741	1 283
Disposals 1.1–31.12	-1 060	-664	-1 034	-664
Acquisition cost at year-end	20 225	20 631	18 240	18 533
Accumulated amortisation at beginning of year	-14 473	-13 449	-13 035	-11 965
Accumulated amortisation on disposals	1 060	317	1 034	317
Amortisation for the year	-1 530	-1 548	-1 333	-1 387
Accumulated amortisation at year-end	-14 943	-14 680	-13 334	-13 035
Book value at year-end	5 282	5 951	4 906	5 498
Other intangible assets				
Acquisition cost at beginning of year	71 161	66 985	70 735	66 870
Additions 1.1–31.12	4 195	5 035	5 057	4 770
Disposals 1.1–31.12	-8 721	-1 032	-9 666	-905
Acquisition cost at year-end	66 635	70 988	66 126	70 735
Accumulated amortisation at beginning of year	-55 672	-50 495	-55 414	-50 393
Accumulated amortisation on disposals	8 717	675	8 717	547
Amortisation for the year	-5 031	-5 670	-4 926	-5 568
Accumulated amortisation at year-end	-51 986	-55 490	-51 623	-55 414
Book value at year-end	14 649	15 498	14 503	15 321
Total intangible assets	19 931	21 449	19 409	20 819

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
12. PROPERTY, PLANT AND EQUIPMENT				
Land				
Acquisition cost at beginning of year	27 430	25 634	23 564	21 671
Additions 1.1–31.12	579	2 361	579	2 159
Disposals 1.1–31.12	-31	-266	-31	-266
Acquisition cost at year-end	27 978	27 729	24 112	23 564
Book value at year-end	27 978	27 729	24 112	23 564
Buildings and constructions				
Acquisition cost at beginning of year	742 201	644 553	706 148	608 115
Additions 1.1–31.12	26 196	107 547	25 998	106 532
Disposals 1.1–31.12	-12 419	-3 899	-12 388	-3 899
Write-offs	-	-4 600	-	-4 600
Acquisition cost at year-end	755 978	743 601	719 758	706 148
Accumulated depreciation at beginning of year	-401 572	-379 001	-387 862	-366 321
Accumulated depreciation on disposals	11 874	3 217	11 845	3 217
Depreciation for the year	-33 112	-26 309	-31 455	-24 758
Accumulated depreciation at year-end	-422 810	-402 093	-407 472	-387 862
Book value at year-end	333 168	341 508	312 286	318 286
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	790 886	775 304	734 178	725 896
Additions 1.1–31.12	100 185	37 695	97 006	28 463
Disposals 1.1–31.12	-59 966	-15 673	-59 525	-14 911
Write-offs	-	-5 270	-	-5 270
Acquisition cost at year-end	831 105	792 056	771 659	734 178
Accumulated depreciation and write-offs at beginning	-559 427	-521 705	-524 256	-490 067
Accumulated depreciation on disposals	59 166	10 541	58 767	9 862
Depreciation for the year	-47 106	-49 112	-41 900	-44 051
Accumulated depreciation at year-end	-547 367	-560 276	-507 389	-524 256
Book value at year-end	283 738	231 779	264 270	209 922
Prepayments and construction in progress				
Acquisition cost at beginning of year	67 861	95 243	67 049	90 228
Additions 1.1–31.12	65 361	49 800	61 379	46 678
Disposals 1.1–31.12	-1	-	-	-
Transfer between items	-100 015	-77 159	-98 759	-69 857
Recorded as expense	-597	-	-597	-
Acquisition cost at year-end	32 609	67 884	29 072	67 049
Accumulated depreciation and write-offs at beginning	-	-	-	-
Accumulated depreciation and write-offs at year-end	-	-	-	-
Book value at year-end	32 609	67 884	29 072	67 049
Total property, plant and equipment	677 493	668 900	629 739	618 821
Depreciation according to plan for the year, total	-86 780	-82 639	-79 614	-75 764
Book value of production machinery and equipment at year-end	255 055	215 613	238 262	196 464

Notes to the Balance Sheet

13. CONSOLIDATED AND PARENT COMPANY HOLDINGS

GROUP COMPANIES

	Consolidated Ownership and voting rights %	Parent Company Ownership and voting rights %
Finlandia Cheese Inc., USA	100	100
Dairy USA LLC	100	0
Import USA LLC	100	0
Butter USA LLC	100	0
SIA Valio International, Latvia	100	100
UAB Valio International, Lithuania	100	100
Nordic Dairy Holding Oy, Finland	100	100
Rushold M Oy, Finland*	100	0
OOO Valio Center Odintsovo, Russia	100	0
OOO Valio, Russia	100	0
Valio Eesti AS, Estonia	100	0
Võru Juust OÜ, Estonia	100	0
Valio Shanghai Ltd, China	100	100
Valio Sverige AB, Sweden	100	100
Valio Danmark ApS, Denmark	100	100
Jäätelöyhtymä Oy, Finland**	100	100
Pakkasukko Oy, Finland**	100	100
Smeds & Co Oy, Finland**	100	100

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

***) No business operations

PARTICIPATING INTERESTS

ASSOCIATED COMPANIES

Haapaveden Ympäristöpalvelut Oy, Finland	40,5	40,5
Pakastamo Oy, Finland	50,0	50,0
Majakka Voima Oy	43,8	43,8

Notes to the Balance Sheet

14. PARENT COMPANY INVESTMENTS

	Shares in Group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	120 037	5 241	2 170
Transfers between items	-	-	-
Additions	-	1 441	-
Disposals	-2	-	-2
Acquisition cost at year-end	120 035	6 682	2 168
Accumulated depreciation and write-offs at beginning of year	-9 983	-	-
Accumulated depreciation and write-offs at year-end	-9 983	-	-
Reversal of write-offs at beginning of year	4 878	-	-
Reversal of write-offs at year-end	4 878	-	-
Book value at year-end	114 929	6 682	2 168

15. GROUP INVESTMENTS

	Shares in Group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	2	7 447	2 352
Additions	-	1 495	-
Disposals	-2	-	-157
Acquisition cost at year-end	0	8 942	2 195
Accumulated depreciation and write-offs at beginning of year	-	-35	-
Accumulated depreciation and write-offs at year-end	-	-35	-
Book value at year-end	0	8 907	2 195

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
16. SECURITIES				
Other securities	22 995	27 991	22 995	27 991
17. RECEIVABLES FROM GROUP COMPANIES				
Trade receivables	-	-	31 490	22 429
Other receivables	-	-	432	432
Loan receivables	-	-	4 202	2 202
	-	-	36 124	25 063

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
18. CHANGES IN SHAREHOLDERS' EQUITY				
Share capital, 1 Jan.	166 128	166 128	166 128	166 128
Share capital, 31 Dec.	166 128	166 128	166 128	166 128
Legal reserves, 1 Jan.	5 984	5 984	5 984	5 984
Legal reserves, 31 Dec.	5 984	5 984	5 984	5 984
Translation difference for equity of foreign subsidiaries 1 Jan.	-21 738	-29 145	-	-
Translation difference for equity of foreign subsidiaries 31 Dec.	-26 624	-21 738	-	-
Retained earnings (losses), 1 Jan.	393 229	380 755	210 217	209 577
Dividends	-5 316	-5 482	-5 316	-5 482
Retained earnings (losses), 31 Dec.	387 913	375 273	204 901	204 095
Net profit (loss) for the financial year	4 864	17 956	-855	6 122
Shareholders' equity 31 Dec.	538 265	543 603	376 158	382 329
19. PROVISIONS				
Provision for contingent pension liabilities	720	1 451	711	1 249
Other provisions	23 785	23 740	23 634	23 740
	24 505	25 191	24 345	24 989
20. DEFERRED TAX LIABILITIES AND ASSETS				
Deferred tax assets				
From provisions	5 068	4 998	4 869	4 998
From other temporary differences in accounting and tax	878	1 704		-
Taxable loss	1 704	215	333	-
	7 650	6 917	5 202	4 998
Deferred tax liabilities				
From appropriations	36 618	35 623	-	-
	36 618	35 623	-	-

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
21. ACCRUED EXPENSES AND DEFERRED INCOME				
Interest	2 851	2 825	2 851	2 825
Holiday accrual including social security	27 691	24 305	26 427	23 591
Rebates granted	2 307	4 420	67	53
Wages and salaries including social security	6 775	3 929	5 953	3 188
Royalties and commissions	151	246	151	246
Tax liabilities	1 056	1 082	-	-
Accrual of sales	-	824	-	824
Water and waste water	610	186	610	186
Energy	121	1 367	121	1 367
Sanction imposed by the Supreme Administrative Cour	-	70 000	-	70 000
Other accrued expenses and deferred income	2 547	4 479	1 429	2 004
	44 109	113 663	37 609	104 284
22. LIABILITIES THAT FALL DUE OVER FIVE YEARS FROM NOW				
Other loans	23 333	16 400	23 333	16 400
	23 333	16 400	23 333	16 400
23. CURRENT LIABILITIES TO GROUP COMPANIES				
Trade payable	-	-	12	23
Other liabilities	-	-	28 683	25 642
	-	-	28 695	25 665
24. CURRENT LIABILITIES TO PARTICIPATING INTERESTS				
Trade payable	372	114	372	114
	372	114	372	114

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2017	2016	2017	2016
25. CONTINGENT LIABILITIES				
For own commitments				
Mortgages given	217 139	217 139	217 139	217 139
Mortgages	46 120	46 120	46 120	46 120
Guarantees	3 222	3 276	3 222	3 276
Leasing commitments	29 947	34 842	26 929	31 433
Total for own commitments	296 428	301 377	293 410	297 968
For Group companies	-	-	-	-
For others	7 635	8 575	7 635	8 575
	304 063	309 952	301 045	306 543
Liabilities for which mortgages and pledges have been given as collateral				
Loans from financial institutions	60 000	60 000	60 000	60 000
26. EMISSION RIGHTS				
Gratuitously acquired emission rights, tCO ₂	40 729	50 246	40 729	50 246
Other increases (CER), tCO ₂	20 000	-	20 000	-
Annual emission volumes, tCO ₂	72 959	74 059	72 959	74 059
Emission rights in possession, tCO ₂	92 614	105 945	92 614	105 945
The company has emission rights assets off balance sheet	161	209	161	209

27. OTHER FINANCIAL LIABILITIES

Real estate investments

The company has made value added tax deductions on real estate investments which involve a possible obligation to re-evaluate the amount of tax deducted if the premises are taken into use where value added taxation is not applicable. Such a change is not, however, in sight.

Majakka Voima Oy

Valio Ltd has an overall financial commitment of 24.5 million euros valid to the end of 2024 concerning shares in Majakka Voima Oy, of which 6.1 million euros were entered as subscribed and paid in the financial statements on 31 December 2017. The shareholding will in due course enable electricity produced by Fennovoima Oy to be purchased at cost price.

Proposal by the Board of Directors to the Annual General Meeting

Distributable earnings in the financial statements amount to EUR 204 046 209.38. There have been no material changes in the company's financial position after the balance sheet date, and neither does the liquidity test referred to in section 13:2 of the Companies Act affect the amount of distributable earnings. The Board of Directors propose to the Annual General Meeting that the distributable assets be used as follows:

Retained earnings	204 901 120,96 €
Net loss for the financial year	-854 911,58 €
Total	204 046 209,38 €

The Board of Directors proposes to the Annual General Meeting that a dividend of 3.1% on the nominal value of the shares i.e. EUR 105.40 per share be declared.

5 149 949,40 €

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

Share capital	166 127 400,00 €
Legal reserves	5 984 101,53 €
Retained earnings	198 896 259,98 €
Total shareholders' equity	371 007 761,51 €

SIGNATURES TO THE BOARD OF DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

12 March 2018

Vesa Kaunisto
Chairman of the Board

Pentti Suokannas

Annikka Hurme
CEO

Sauli Lähteenmäki

Jarno Kämäräinen

THE AUDITOR'S NOTE

Our auditor's report has been issued today.

12 March 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

Auditor's report

To the Annual General Meeting of Valio Ltd

Report on the Audit of the Financial Statements

Statement

It is our opinion that the financial statements give a true and fair view of the Group and parent company's financial performance and financial position, in accordance with the laws and regulations governing the preparation of financial statements in Finland, and fulfil the statutory requirements.

Object of audit

We have audited the financial statements of Valio Ltd (Business ID 0116297-6) for the financial year 1 January to 31 December 2017. The financial statements comprise the consolidated and parent company balance sheet, income statement, cash flow statement, and the notes to the accounts.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and group companies in accordance with the ethical requirements applicable in Finland and relevant to our audit, and have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Board of Directors and the CEO for the Financial Statements

The Board of Directors and the CEO are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland, and comply with the statutory requirements. The Board of Directors and the CEO are also responsible for internal control such as they deem necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and the Group's ability to continue operating as a going concern; disclosing, as applicable, matters relating to the going concern principle and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements in full are free of material misstatement, whether due to fraud or error, and to issue an auditor's report including our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise

from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the financial decisions of users made on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the Group's internal control.
- Evaluate the appropriacy of the accounting policies employed, as well as the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriacy of the Board of Directors' and the CEO's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events, so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information on the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the CEO are responsible for other information comprising the Board of Directors' report.

Our opinion on the financial statements does not extend to the other information.

In connection with our audit of the financial statements, it is our responsibility to read the other information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the Board of Directors' report, our responsibility also includes considering whether it has been prepared in accordance with the applicable laws and regulations.

It is our opinion that the information in the Board of Directors' report is consistent with the information in the financial statements, and the Board of Directors' report has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have effected on the Board of Directors' report, we conclude there is a material misstatement in the financial statements, we are required to report that fact. We have nothing to report in this regard.

Other statements

We recommend that the financial statements be adopted. The proposal by the Board of Directors on the distribution of profit is in accordance with the Limited Liability Companies Act. We recommend that the members of the Board of Directors of the parent company and the CEO be discharged from liability for the financial year audited by us.

Helsinki, 12 March 2018

PricewaterhouseCoopers Oy

Authorised Public Accountants

Jouko Malinen

Authorised Public Accountant

Statement by the Supervisory Board

We have examined the financial statements of Valio Ltd, the consolidated financial statements and the Board of Directors' report for 1 January to 31 December 2017, and the auditor's report.

We recommend approval of the financial statements and consolidated financial statements, and concur with the Board of Directors' proposal for profit distribution.

Helsinki, 13 March 2018

On behalf of the Supervisory Board

Pentti Santala
Chairman

Valio Ltd owners 31 Dec. 2017

Valio Ltd 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, and Board of Directors.

Name	Domicile	No. of shares
		EUR 3 400/share
Evijärven Osuusmeijeri	Evijärvi	72
* Hirvijärven Osuusmeijeri	Jalasjärvi	78
* Hämeenlinnan Osuusmeijeri	Hämeenlinna	1
Härmän Seudun Osuusmeijeri	Alahärmä	140
* Kaustisen Osuusmeijeri	Kaustinen	1
* Kuusamon Osuusmeijeri	Kuusamo	1
* Laaksojen Maitokunta	Ylivieska	1
Osuuskunta ItäMaito	Lapinlahti	13 188
Osuuskunta Länsi-Maito	Tampere	6 336
* Osuuskunta Maitokolmio	Toholampi	245
* Osuuskunta Maitomaa	Suonenjoki	290
Osuuskunta Maitosuomi	Jyväskylä	7 521
Osuuskunta Normilk	Jyväskylä	7
Osuuskunta Pohjolan Maito	Haapavesi	8 489
* Osuuskunta Satamaito	Pori	1
Osuuskunta Tuottajain Maito	Riihimäki	12 437
* Paavolan Osuusmeijeri	Ruukki	53
Total		48 861
Total no. of shareholders 31 Dec. 2017		17

Total share capital 166 127 400 €

* No business relationship with Valio

Supervisory Board

	Term began	Term ends
Pentti Santala Dairy farmer, Kauhajoki Chairman	1997	2018
Jaakko Rouhiainen Dairy farmer, Juva Vice Chairman	2001	2020
Kyösti Anttila Dairy farmer, Jalasjärvi	2005	2020
Tuomo Haikonen Dairy farmer, Heinola	2015	2018
Ville Hakala Dairy farmer, Hartola	2016	2019
Jukka Hakkarainen Dairy farmer, Valtimo	2013	2020
Arto Heikkinen Dairy farmer, Pyhäntä	2013	2018
Mikko Heikkinen Dairy farmer, Lapinlahti	2017	2018
Jari Hekkala Dairy farmer, Kalajoki	2012	2019
Mikko Huuskonen ¹⁾ Process expert, Suonenjoki	2017	2019
Esa Karjalainen Dairy farmer, Puumala	2016	2020
Raimo Kielenniva Dairy farmer, Kärämäki	2004	2018
Esa Kotala Dairy farmer, Lapua	2010	2019
Katariina Lampela Dairy farmer, Tervola	2012	2019
Marketta Laukkanen Dairy farmer, Tohmajärvi	2012	2018
Tapio Lehto ¹⁾ Product packer, Seinäjoki	2013	2019
Matti Leikkanen Dairy farmer, Sastamala	2016	2019
Janna Luotola ¹⁾ Development Manager, Helsinki	2016	2019
Lassi Mäkinen Dairy farmer, Lieto	2015	2018

Vesa Parvinen Dairy farmer, Parikkala	2015	2019
Mauri Penttilä Dairy farmer, Vesilahti	2001	2019
Jarkko Pirinen Dairy farmer, litti	2014	2019
Ari Pirttiniemi Dairy farmer, Saarijärvi	2017	2020
Risto Sonninen Dairy farmer, Maaninka	2010	2019
Juha Törmä Dairy farmer, Tyrnävä	2017	2020
Juhani Ylikauma ¹⁾ Coaching expert, Haapavesi	2014	2019
Päivi Ylä-Outinen Dairy farmer, Lappeenranta	2008	2018

¹⁾ Personnel representative

Board of Directors

Vesa Kaunisto Dairy farmer, Veteli Chairman	2013	2019
Pentti Suokannas Dairy farmer, Askola Vice Chairman	2015	2020
Jarno Kämäräinen Dairy farmer, Kiuruvesi	2017	2020
Sauli Lähteenmäki Dairy farmer, Rusko	2007	2018

Auditor

PricewaterhouseCoopers Oy
Authorised Public Accountants, Helsinki

Jouko Malinen, Authorised Public Accountant

Executive Board 1 Jan. – 31 Dec. 2017

	Member of the Executive Board from	Employed by Valio Ltd since
Annikka Hurme CEO	2004	1989
Jyri-Pekka Kinnunen Deputy CEO Finance and IT	2008	2008
Ross Crittenden Executive Vice President New Markets	2016	2011
Rauno Hiltunen Executive Vice President Strategy and HR	2011	1984
Mika Koskinen Executive Vice President Operations	2012	2005
Teresa Laimio Executive Vice President Corporate Legal Affairs	2017	2002
Tuomas Salusjärvi Executive Vice President Product Groups and Marketing	2014	2007
Elli Siltala Executive Vice President Sales and Marketing, Finland	2016	2001



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