



Board of Directors' Report and Financial Statements

1 Jan. – 31 Dec. 2018

Board of Directors' Report 1 Jan. – 31 Dec. 2018

General

2018 was a satisfactory year for Valio. Supply exceeded demand in the global milk markets, and this was reflected in both our domestic and export prices. The price of skim milk powder in particular was very low throughout the year. From the perspective of Valio's owner entrepreneurs, the year was challenging. The fall in the price paid for raw milk, a record dry and hot summer, and the subsequent poor supply of animal feed all placed further strain on dairy farm finances.

Business operations developed favourably in Sweden and the Baltic States. Net sales for 2018 rose 10 percent in Sweden due to value added products. Net sales also developed strongly in the Chinese market. In Russia and the US, Valio focused on enhancing profitability.

Successful development of the product range allied with our strong domestic supply chain supported Valio's continuing growth in Finland. Net sales were up by around half a percent compared with the previous year, a sound achievement in fiercely competitive conditions.

2018 was a strong year for renewal and innovation. In February, Valio launched its plant-based Valio Oddlygood® products in Finland and Sweden. After an absence of 14 years, the company celebrated its return to the ice cream market with Valio Jäätelöfabriikki™ gourmet ice creams. For the summer period, Valio ProFeel® protein products were revamped and several new protein snack products in different forms were launched. The range of Valio ValSa® milk salt products with less salt was extended. In September, we launched the Valio MiFu® jauhis milk protein product that can be used in the same way as mincemeat. In the traditional product categories, sales of basic milks continued to fall in line with the market trend.

In late 2018, the Intergovernmental Panel on Climate Change (IPCC) published a report that made global warming a major topic of discussion. In October, Valio announced its goal to produce carbon neutral milk.

Valio Ltd took in 1 821 million litres of raw milk in Finland, 16 million litres less than the previous year. At the beginning of 2018, Valio began to pay a sustainability extra of one cent per litre to those dairy farmer entrepreneurs who commit themselves e.g. to the systematic health care of animals. At present, 96% of the raw milk comes from farms that use systematic animal health care services.

Valio Group net sales stood at EUR 1 734 million (2017: EUR 1 708 million), up 1.5% on 2017. Domestic net sales rose by around half a percent and international net sales by 3 percent. The milk margin amounted to EUR 800 million (EUR 797 million) and the milk return stood at 38.4 cents per litre (37.9 c/l).

The average price paid for raw milk was 39.2 cents per litre (39.0 c/l). After payments for 2018 amounted to 0.5 cents per litre. A total of EUR 722 million (EUR 725 million) was paid to owners, comprising the raw milk price, after payments, dividends and interest.

Valio Group net profit totalled EUR -25 million (2018: EUR +5 million).

Shareholders and share capital

Valio Ltd has 15 shareholders, two fewer than the previous 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. In 2018, we focused on business risks, especially in production and logistics operations, and cyber threats.

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

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. The claims were based on the decision handed down by the Market Court in 2014, and later confirmed by the Finnish Supreme Administrative Court in 2016. Valio reached an amicable settlement with Juustoportti in summer 2017, and with Arla in autumn 2018. In addition, Valio, Osuuskunta Satamaito, and Ilmajoen Osuusmeijeri reached an amicable settlement in early 2019. The remaining claimants whose cases are pending in the District Court are demanding compensations totalling 28.7 million euros plus interest and expenses.

Although Valio Ltd sees no grounds for the remaining claims, Valio has, following the cautiousness principle of good accounting practice, estimated and made a provision amounting to EUR 6 million for the claims.

Research and development

Valio launched a total of 122 new products in 2018 (2017: 109) in Finland, as well as new products in other markets. One new patent application was filed in 2018 (2017: 4).

R&D and quality control costs totalled EUR 29.4 million (EUR 28.5 million), or 1.7% of net sales (1.7%).

Personnel

The average number of employees in Valio Group in 2018 was 4 259 (2017: 4 196), and at the end of the financial year the number stood at 4 200 (2017: 4 118). On average, 3 271 employees (2017: 3 238) worked in Finland and 988 (2017: 958) in foreign subsidiaries.

Of the foreign subsidiaries, the highest number of staff was found in Estonia, on average 470 (2017: 465), and Russia, averaging 406 (2017: 394). At the end of

the financial year, the number of employees in Estonia stood at 469 (2017: 459), and in Russia at 416 (2017: 399).

Personnel distribution by gender in 2018 was 53% male and 47% female (2017: 54% and 46%). The average age of employees in 2018 was 42 years (2017: 42 years).

The salaries and other remunerations paid by Valio Group in 2018 amounted to EUR 181 million (EUR 181 million). Pension costs for the year stood at EUR 24 million (EUR 17 million).

Environmental protection

Valio's environmental system is certified in accordance with the ISO 14001 standard, and covers the company's operations in Finland and Estonia. 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 Valio 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 2.1 million in Finland, and environmental costs recorded as expense totalled EUR 13.2 million. The most significant single investments related to the environment in 2018 were a proportion of the costs of renovating the town of Äänekoski's waste water purification plant, and the use of cold outdoor air in the Seinäjoki plant cooling system.

Valio Group's total energy consumption in 2018 stood at 790 GWh, waste water volume was 6.0 million cubic metres, waste water load directed at water purification plants was 10 408 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, waste water volume and load showed a slight decrease. The volume of waste that was not recycled or reused also fell slightly. In 2018, Valio had to commission an exceptionally large number of cleaning operations of contaminated soil related to real estate transactions in Finland.

Valio considers that milk production must be part of the climate solution. In October, Valio arranged a climate seminar together with the Baltic Sea Action Group, where the company announced it has commenced an extensive set of projects aimed at neutralising the carbon footprint of milk. Valio is in particular working to enhance the carbon sequestration of grass, use of manure in energy production, and recycling of the nutrients in manure. During the year, Valio continued to plan a bio-fuel plant and the related ProLanta co-operation network. The goal is to return the nitrogen and phosphorus in manure to nutrient circulation and use the energy in manure as biogas.

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 amounted to EUR 1 734 million (EUR 1 708 million) and domestic net sales stood at EUR 1 065 million (EUR 1 059 million). Net sales from international operations totalled EUR 669 million (EUR 649 million). Valio Ltd net sales totalled EUR 1 449 million (EUR 1 437 million).

Capital expenditure

Consolidated investments totalled EUR 62 million (EUR 98 million), or 3.6% (5.7%) of net sales.

The most significant investments were the start-up of the new snacks plant in Riihimäki, increasing baby food capacity and building new milk silos in the reception area in Lapinlahti, a new cottage cheese production line at the Laeva plant in Estonia, and the cheese slice cutter 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 128 million (EUR 141 million) at the year-end. The value of inventories stood at EUR 171 million at the end of the financial year and EUR 164 million at the beginning. Interest-bearing liabilities totalled EUR 402 million at the end of the financial year and EUR 394 million at the beginning. Loans from financial institutions increased by EUR 12 million. Net financing expenses amounted to EUR 7 million (EUR 11 million), or 0.4% (0.6%) of consolidated net sales.

Financial performance

Consolidated profit before taxes was EUR -33 million (EUR +6 million). Net taxes for the financial year totalled EUR +8 million (EUR -1 million). Net profit for the financial year stood at EUR -25 million (EUR +5 million).

Parent company profit before taxes and appropriations stood at EUR -33 million (EUR +4 million). Booked depreciation was the maximum permitted under Finland's tax laws. Income taxes for the financial year totalled EUR +7 million (EUR -0.2 million). Parent company net profit for the financial year stood at EUR -27 million (EUR -1 million).

The Valio Group milk margin stood at EUR 800 million and the milk return at 38.4 cents per litre.

Year 2019

The challenging market environment will persist in Finland in 2019. Population growth is slowing in the country, which means there is little potential for sales to grow organically. Exports of fresh dairy products to other markets are limited by distance. Supply continues to exceed demand in global milk markets, although the EU intervention stocks of milk powder have been almost completely sold. Uncertainty is rising due to the matter of Brexit, the UK's exit from the EU. Valio will continue to enhance its own operations, and seek profitable growth through new product groups and the growth of value added products both in Finland and international markets. Measures to improve financial performance will be implemented according to a three-year programme.

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% on the nominal value of the shares be declared, or EUR 102 per share, totalling EUR 4 983 822.

Valio Group five-year statistics

	2018	2017	2016	2015	2014
Milk volume taken in from owners, mill. L	1 821	1 837	1 861	1 899	1 929
Sum paid to owners, MEUR ¹⁾	722	725	716	739	885
Price paid for milk to the co-operatives by Valio, per litre total cents ²⁾	39,2	39,0	38,1	38,5	45,4
Net sales, MEUR	1 734	1 708	1 638	1 718	1 950
Change %	1,5	4,3	-4,7	-11,9	-3,9
- Domestic, MEUR	1 065	1 059	1 060	1 116	1 264
Change %	0,5	-0,1	-5,0	-11,7	-0,8
- International operations, MEUR	669	649	577	602	686
Change %	3,0	12,4	-4,0	-12,3	-9,0
Net sales/milk litre taken in from owners, €/l	0,95	0,93	0,88	0,90	1,01
Average no. of personnel	4 259	4 196	4 096	4 272	4 662
Wages and salaries, MEUR	181	181	167	181	198
R&D expenditure, MEUR	17	17	16	16	20
Book profit, MEUR	-25	5	18	13	-36
Balance sheet total, MEUR	1 150	1 193	1 252	1 240	1 241
Stocks, MEUR	171	164	144	146	180
Investments, MEUR	62	98	127	119	152
Depreciation according to plan, MEUR	92	88	90	80	80
Equity assets ratio, %	44	45	43	42	42
Milk margin, MEUR ³⁾	800	797	772	806	974
Milk return, c/l ⁴⁾	38,4	37,9	36,1	36,5	43,7

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.

Consolidated Income Statement

	2018	2017
Net sales	1 733 949	1 708 431
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	8 022	11 491
Production for own use	821	693
Other operating income	39 110	34 161
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	1 101 247	1 099 881
Increase (-) / decrease (+) in stocks	-254	-13 677
External services	24 011	22 844
	-1 125 004	-1 109 048
Staff expenses		
Wages and salaries	181 419	180 852
Social security expenses		
Pension expenses	23 944	17 032
Other social security expenses	11 339	13 397
	-216 702	-211 281
Depreciation and amortisation		
Depreciation according to plan	92 306	86 780
Amortisation from assets held as non-current assets	185	1 007
	-92 491	-87 787
Other operating expenses	-373 290	-329 898
Operating profit/loss	-25 585	16 762
Financial income and expenses		
Income from other investments held as non-current assets		
From others	1	1
Other interest and financial income		
From others	987	458
Share of profit of associated companies	928	54
Interest and other financial expenses		
To others	-9 424	-11 101
	-7 508	-10 588
Profit/loss before appropriations and taxes	-33 093	6 174
Income taxes		
Income taxes	-148	-1 284
Deferred taxes	8 143	-26
	7 995	-1 310
Net profit/loss for the financial year	-25 098	4 864

All figures in EUR '000s.

Consolidated Cash Flow Statement

	2018	2017
Cash flow from operations		
Operating profit	-25 585	16 762
Adjustments		
Depreciation and amortisation	92 491	87 787
Changes in provisions	-17 207	319
Other adjustments	-1 895	450
Cash flow before change in working capital	47 804	105 318
Change in working capital		
Increase (-) / decrease (+) in current non-interest-bearing receivables	2 793	-7 891
Increase (-) / decrease (+) in stocks	-7 461	-19 459
Increase (+) / decrease (-) in current non-interest-bearing debts	12 098	-73 601
Cash flow from operations before financial items and taxes	55 234	4 367
Interests and expenses paid for other financing costs of operations	-9 381	-11 222
Dividends received	1	1
Interest and other financial income received	931	401
Direct taxes paid	1 076	-1 323
Cash flow from operations	47 861	-7 776
Cash flow from investments		
Capital expenditure in tangible and intangible assets	-59 365	-97 365
Investment subsidies received	103	76
Proceeds from sale of tangible and intangible assets	296	671
Capital expenditure in investments	-1 955	-1 442
Proceeds from sale of investments	10	151
Repayment of loan receivables	448	-1 784
Other	-4 649	-4 886
Cash flow from investments	-65 112	-104 579
Cash flow from financing activities		
Increase (+) / decrease (-) in current financing	-3 632	1 395
Proceeds from non-current financing	96 600	100 360
Repayment of non-current financing	-83 999	-80 084
Dividends paid	-5 150	-5 316
Cash flow from investments	3 819	16 355
Change in liquid assets	-13 432	-96 000
Liquid assets at beginning of financial year	141 485	237 485
Liquid assets at end of financial year	128 053	141 485

All figures in EUR '000s.

Consolidated Balance Sheet

ASSETS	31.12.2018	31.12.2017
Non-current assets		
Intangible assets		
Intangible rights	4 561	5 282
Other intangible assets	14 874	14 649
	19 435	19 931
Property, plant and equipment		
Land	27 845	27 978
Buildings and constructions	317 878	333 168
Machinery and equipment	273 598	283 387
Other tangible assets	794	351
Advance payments and construction in progress	22 509	32 609
	642 624	677 493
Investments		
Shares in associated companies	9 140	8 907
Other shares and interests	2 583	2 195
	11 723	11 102
Current assets		
Stocks		
Raw materials and supplies	41 879	41 067
Work in progress	6 861	6 676
Finished goods	120 148	113 951
Other stocks	2 469	2 216
Advance payments	14	-
	171 371	163 910
Receivables		
Non-current receivables		
Loan receivables	1 441	1 401
Other receivables	154	140
Deferred tax receivable	1 289	1 791
	2 884	3 332
Current receivables		
Trade receivables	131 746	142 874
Deferred tax receivable	13 903	5 859
Other current receivables	18 326	15 551
Accrued income and prepaid expenses	10 336	11 693
	174 311	175 977
Investments		
Other current investments	22 995	22 995
Cash in hand and at banks	105 058	118 490
Total assets	1 150 401	1 193 230

All figures in EUR '000s.

Consolidated Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.2018	31.12.2017
Shareholders' equity		
Share capital	166 128	166 128
Other reserves		
Other reserves	5 984	5 984
Translation differences	-31 273	-26 624
Retained earnings/losses	387 627	387 913
Net profit/loss for the financial year	-25 098	4 864
	503 368	538 265
Provisions		
Other provisions	7 113	24 505
Liabilities		
Non-current liabilities		
Loans from financial institutions	235 600	232 699
Deferred tax liability	35 709	36 500
Other liabilities	45 575	69 106
	316 884	338 305
Current liabilities		
Loans from financial institutions	69 146	60 099
Advances received	211	141
Trade payable	138 814	142 417
Current liabilities to participating interests	151	372
Deferred tax assets	153	118
Other liabilities	60 156	44 899
Accrued expenses and deferred income	54 405	44 109
	323 036	292 155
Total shareholders' equity and liabilities	1 150 401	1 193 230

All figures in EUR '000s.

Parent Company Income Statement

	2018	2017
Net sales	1 448 542 148,10	1 436 933 223,52
Increase (+) / decrease (-) in stocks of finished goods and work in progress	8 156 839,95	11 444 409,88
Production for own use	820 619,64	692 548,36
Other operating income	38 650 155,41	33 898 921,74
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	918 134 561,55	908 597 097,17
Increase (-) / decrease (+) in stocks	-643 501,32	-1 735 360,18
External services	17 767 324,86	16 578 141,60
	-935 258 385,09	-923 439 878,59
Staff expenses		
Wages and salaries	156 794 752,54	157 875 897,24
Social security expenses		
Pension expenses	22 073 757,18	15 088 413,47
Other social security expenses	6 224 283,03	8 846 460,63
	-185 092 792,75	-181 810 771,34
Depreciation and amortisation		
Depreciation according to plan	-85 404 651,24	-79 614 311,34
Amortisation from assets held as non-current assets	-184 536,10	-1 006 946,52
	-85 589 187,34	-80 621 257,86
Other operating expenses	-322 398 539,67	-282 026 596,44
Operating profit/loss	-32 169 141,75	15 070 599,27
Financial income and expenses		
Income from other investments held as non-current assets		
From others	2 250 516,11	561,22
Other interest and financial income		
From Group companies	28 701,84	38 429,08
From others	864 457,65	294 058,34
Reduction in value of investments held as non-current assets	-147 000,00	-
Interest expenses and other financial expenses		
To others	-9 166 934,70	-10 991 650,57
	-6 170 259,10	-10 658 601,93
Profit/loss before appropriations and taxes	-38 339 400,85	4 411 997,34
Appropriations		
Increase (-) / decrease (+) in depreciation difference	3 951 845,35	-5 438 701,68
Group contribution received (+) and made (-)	260 000,00	-
	4 211 845,35	-5 438 701,68
Income taxes		
Income taxes for the financial year	-	-32 967,10
Deferred taxes	7 234 578,93	204 719,33
Income taxes from previous financial years	-6 458,16	40,53
	7 228 120,77	171 792,76
Net profit/loss for the financial year	-26 899 434,73	-854 911,58

Parent Company Cash Flow Statement

	2018	2017
Cash flow from operations		
Operating profit	-32 169	15 071
Adjustments		
Depreciation and amortisation	85 405	79 614
Changes in provisions	-17 184	713
Other adjustments	-2 836	146
Cash flow before change in working capital	33 216	95 544
Change in working capital		
Increase (-) / decrease (+) in current non-interest-bearing receiv	8 759	-17 750
Increase (-) / decrease (+) in stocks	-8 800	-13 179
Increase (+) / decrease (-) in current non-interest-bearing debts	5 276	-71 546
Cash flow from operations before financial items and taxes	38 451	-6 931
Interests and expenses paid for other financing costs of operations	-9 271	-11 112
Dividends received	2 251	1
Interest and other financial income received	836	236
Direct taxes paid	1 217	6
Cash flow from operations	33 484	-17 800
Cash flow from investments		
Capital expenditure in tangible and intangible assets	-52 470	-91 283
Investment subsidies received	103	76
Proceeds from sale of tangible and intangible assets	319	621
Capital expenditure in investments	-1 955	-1 441
Loans granted	-	-4 000
Repayment of loan receivables	4 024	2 000
Cash flow from investments	-49 979	-94 027
Cash flow from financing activities		
Proceeds from current financing	-	4 436
Repayment of current financing	-7 031	-
Proceeds from non-current financing	96 600	100 360
Repayment of non-current financing	-83 999	-80 084
Dividends paid	-5 150	-5 316
Cash flow from financing activities	420	19 396
Change in liquid assets	-16 075	-92 431
Liquid assets at beginning of financial year	131 689	224 120
Liquid assets at end of financial year	115 614	131 689

All figures in EUR '000s.

Parent Company Balance Sheet

ASSETS	31.12.2018	31.12.2017
Non-current assets		
Intangible assets		
Intangible rights	4 334 446,03	4 906 127,70
Other intangible assets	14 594 407,81	14 212 944,47
Advance payments	-	290 251,20
	18 928 853,84	19 409 323,37
Property, plant and equipment		
Land	21 832 196,75	21 345 320,83
Connection fees	2 634 799,58	2 766 235,52
Buildings and constructions	297 441 016,83	312 285 634,89
Machinery and equipment	256 593 946,48	264 113 014,19
Other tangible assets	156 760,36	156 760,36
Advance payments and construction in progress	18 289 943,93	29 072 397,23
	596 948 663,93	629 739 363,02
Investments		
Shares in Group companies	114 929 217,95	114 929 217,95
Shares in associated companies	8 236 930,80	6 681 650,80
Other shares and interests	2 566 800,50	2 168 357,38
	125 732 949,25	123 779 226,13
Current assets		
Stocks		
Raw materials and supplies	30 760 224,48	30 133 541,34
Work in progress	6 061 703,90	5 954 608,02
Finished goods	84 556 902,12	76 507 158,05
Other stocks	924 203,15	907 384,97
	122 303 033,65	113 502 692,38
Receivables		
Non-current receivables		
Non-current receivables from Group companies	692 400,00	4 633 580,21
Loan receivables	-	25 000,00
Other non-current receivables	16 616,19	16 616,19
	709 016,19	4 675 196,40
Current receivables		
Trade receivables	88 351 280,90	100 492 719,08
Current receivables from Group companies	28 627 428,85	31 490 221,95
Deferred tax assets	13 210 474,05	5 202 495,12
Other current receivables	15 707 505,47	13 486 097,33
Accrued income and prepaid expenses	7 682 607,42	9 085 885,31
	153 579 296,69	159 757 418,79
Investments		
Other current investments	22 995 078,92	22 995 024,93
Cash in hand and at banks	92 618 411,70	108 693 835,51
Total assets	1 133 815 304,17	1 182 552 080,53

Parent Company Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.2018	31.12.2017
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	195 802 659,98	204 901 120,96
Net profit/loss for the financial year	-26 899 434,73	-854 911,58
	341 014 726,78	376 157 710,91
Appropriations		
Accumulated depreciation difference	178 545 227,22	182 497 072,57
Provisions	6 975 875,37	24 344 797,46
Liabilities		
Non-current liabilities		
Loans from financial institutions	235 600 000,00	232 699 425,00
Other liabilities	46 628 680,41	70 135 850,27
	282 228 680,41	302 835 275,27
Current liabilities		
Loans from financial institutions	69 146 309,90	60 099 425,00
Trade payable	123 662 863,88	126 339 536,24
Current liabilities to Group companies	27 974 535,16	28 695 251,70
Current liabilities to participating interests	151 377,35	371 786,35
Other liabilities	58 788 327,56	43 602 663,95
Accrued expenses and deferred income	45 327 380,54	37 608 561,08
	325 050 794,39	296 717 224,32
Total shareholders' equity and liabilities	1 133 815 304,17	1 182 552 080,53

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 5.5 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 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.

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. The claims were based on the decision handed down by the Market Court in 2014, and later confirmed by the Finnish Supreme Administrative Court in 2016. Valio reached an amicable settlement with Juustoportti in summer 2017, and with Arla in autumn 2018. In addition, Valio, Osuuskunta Satamaito, and Ilmajoen Osuusmeijeri reached an amicable settlement in early 2019. The remaining claimants whose cases are pending in the District Court are demanding compensations totalling 28.7 million euros plus interest and expenses.

Although Valio Ltd sees no grounds for the remaining claims, Valio has, following the cautiousness principle of good accounting practice, estimated and made a provision amounting to EUR 6 million for the claims.

All figures in EUR '000s.

Notes to the Income Statement

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
1. DISTRIBUTION OF NET SALES				
1.1. NET SALES BY DIVISION				
Fresh dairy products	719 734	732 825	608 115	620 785
Butter and spreads	287 033	259 880	269 548	246 677
Cheese	473 300	462 378	324 555	320 681
Powdered ingredients	166 689	171 609	156 981	166 036
Others	87 193	81 739	89 343	82 754
	1 733 949	1 708 431	1 448 542	1 436 933
1.2. NET SALES BY GEOGRAPHICAL AREA				
Domestic	1 065 092	1 059 350	1 065 092	1 059 350
Foreign	668 857	649 081	383 450	377 583
	1 733 949	1 708 431	1 448 542	1 436 933
2. OTHER OPERATING INCOME				
Logistics income	20 534	19 513	20 472	19 458
Rent income	3 709	3 778	3 722	3 780
Gain on disposal of non-current assets	471	598	364	549
Sales income from laboratory services	3 206	2 864	3 206	2 864
Sale of business operations	3 807	623	3 807	623
Other income	7 383	6 785	7 079	6 625
	39 110	34 161	38 650	33 899
3. PURCHASES DURING THE FINANCIAL YEAR				
Purchases of raw milk from procurement co-operatives	714 405	716 995	714 405	716 996
Other purchases	386 842	382 886	203 730	191 601
	1 101 247	1 099 881	918 135	908 597
4. CHANGE IN PROVISIONS				
INCREASE (-) / DECREASE (+)				
Provision for contingent pension liabilities	348	731	339	538
Other provisions	17 044	-45	17 030	106
	17 392	686	17 369	644

Notes to the Income Statement

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
5. OTHER OPERATING EXPENSES				
Production	105 961	98 935	99 681	93 426
Transportation	103 784	102 498	93 600	93 710
Rents	16 028	17 207	13 438	14 877
Marketing	50 067	52 913	29 168	32 028
Administration	48 710	47 699	41 643	41 179
Other expenses	48 740	10 646	44 869	6 807
	373 290	329 898	322 399	282 027
6. NUMBER OF PERSONNEL, AVERAGE				
	4 259	4 196	3 271	3 238
7. STAFF EXPENSES				
Wages and salaries	181 419	180 852	156 795	157 876
Social security expenses				
Pension expenses	23 944	17 032	22 074	15 088
Other social security expenses	11 339	13 397	6 224	8 847
	216 702	211 281	185 093	181 811
8. SALARIES AND BONUSES OF DIRECTORS				
Supervisory Board	166	257	166	257
Board of Directors	248	243	248	243
Valio Executive Board, CEO, Managing Directors	4 649	3 998	2 878	2 393
	5 063	4 498	3 292	2 893
9. AUDITOR'S FEES				
To PricewaterhouseCoopers companies				
Audit	340	340	165	163
Auditor's statements	7	2	4	2
Tax services	46	30	46	26
Other services	204	170	190	161
	597	542	405	352

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
10. ACCRUED INCOME AND PREPAID EXPENSES				
Personnel items	97	180	-	130
Excise taxes	3 888	4 978	2 420	3 865
Interest	305	249	305	249
Miscellaneous accrued income	789	927	789	927
Other prepayments and accrued income	5 257	5 359	4 169	3 915
	10 336	11 693	7 683	9 086
11. INTANGIBLE ASSETS				
Intangible rights				
Acquisition cost at beginning of year	20 225	20 424	18 240	18 533
Additions 1.1–31.12	771	861	726	741
Disposals 1.1–31.12	-17	-1 060	-17	-1 034
Acquisition cost at year-end	20 979	20 225	18 949	18 240
Accumulated amortisation at beginning of year	-14 943	-14 473	-13 334	-13 035
Accumulated amortisation on disposals	17	1 060	17	1 034
Amortisation for the year	-1 492	-1 530	-1 298	-1 333
Accumulated amortisation at year-end	-16 418	-14 943	-14 615	-13 334
Book value at year-end	4 561	5 282	4 334	4 906
Other intangible assets				
Acquisition cost at beginning of year	66 576	71 161	66 126	70 735
Additions 1.1–31.12	5 523	4 195	5 242	5 057
Disposals 1.1–31.12	-375	-8 721	-51	-9 666
Acquisition cost at year-end	71 724	66 635	71 317	66 126
Accumulated amortisation at beginning of year	-51 933	-55 672	-51 623	-55 414
Accumulated amortisation on disposals	375	8 717	51	8 717
Amortisation for the year	-5 292	-5 031	-5 151	-4 926
Accumulated amortisation at year-end	-56 850	-51 986	-56 723	-51 623
Book value at year-end	14 874	14 649	14 594	14 503
Total intangible assets	19 435	19 931	18 928	19 409

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
12. PROPERTY, PLANT AND EQUIPMENT				
Land				
Acquisition cost at beginning of year	27 490	27 430	24 112	23 564
Additions 1.1–31.12	517	579	517	579
Disposals 1.1–31.12	-162	-31	-162	-31
Acquisition cost at year-end	27 845	27 978	24 467	24 112
Book value at year-end	27 845	27 978	24 467	24 112
Buildings and constructions				
Acquisition cost at beginning of year	753 689	742 201	719 758	706 148
Additions 1.1–31.12	19 034	26 196	16 648	25 998
Disposals 1.1–31.12	-4 787	-12 419	-4 770	-12 388
Acquisition cost at year-end	767 936	755 978	731 636	719 758
Accumulated depreciation at beginning of year	-421 861	-401 572	-407 472	-387 862
Accumulated depreciation on disposals	4 501	11 874	4 405	11 845
Depreciation for the year	-32 698	-33 112	-31 128	-31 455
Accumulated depreciation at year-end	-450 058	-422 810	-434 195	-407 472
Book value at year-end	317 878	333 168	297 441	312 286
Machinery and equipment and other tangible assets				
Acquisition cost at beginning of year	829 760	790 886	771 659	734 178
Additions 1.1–31.12	44 133	100 185	40 566	97 006
Disposals 1.1–31.12	-10 312	-59 966	-9 828	-59 525
Write-offs	-158	-	-158	-
Acquisition cost at year-end	863 423	831 105	802 239	771 659
Accumulated depreciation and write-offs at beginning of year	-546 365	-559 427	-507 389	-524 256
Accumulated depreciation on disposals	10 158	59 166	9 729	58 767
Depreciation for the year	-52 824	-47 106	-47 828	-41 900
Accumulated depreciation at year-end	-589 031	-547 367	-545 488	-507 389
Book value at year-end	274 392	283 738	256 751	264 270
Prepayments and construction in progress				
Acquisition cost at beginning of year	32 602	67 861	29 072	67 049
Additions 1.1–31.12	21 735	65 361	16 759	61 379
Disposals 1.1–31.12	-	-1	-	-
Transfer between items	-31 282	-100 015	-26 995	-98 759
Recorded as expense	-546	-597	-546	-597
Acquisition cost at year-end	22 509	32 609	18 290	29 072
Accumulated depreciation and write-offs at beginning of year	-	-	-	-
Accumulated depreciation and write-offs at year-end	-	-	-	-
Book value at year-end	22 509	32 609	18 290	29 072
Total property, plant and equipment	642 624	677 493	596 948	629 739
Depreciation according to plan for the year, total	-92 306	-86 780	-85 405	-79 614
Book value of production machinery and equipment at year-end	246 636	255 055	231 824	238 262

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
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	46,3	46,3

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	120 035	6 682	2 168
Transfers between items	-	-	-
Additions	-	1 555	400
Disposals	-	-	-1
Acquisition cost at year-end	120 035	8 237	2 567
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	8 237	2 567

15. GROUP INVESTMENTS

	Shares in Group companies	Shares in participating interests	Other shares
Acquisition cost at beginning of year	0	8 942	2 195
Additions	-	1 555	400
Disposals	-	-1 322	-12
Acquisition cost at year-end	0	9 175	2 583
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	9 140	2 583

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
16. SECURITIES				
Other securities	22 995	22 995	22 995	22 995
17. RECEIVABLES FROM GROUP COMPANIES				
Trade receivables	-	-	28 574	31 490
Other receivables	-	-	692	432
Loan receivables	-	-	-	4 202
	-	-	29 266	36 124

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
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.	-26 624	-21 738	-	-
Translation difference for equity of foreign subsidiaries 31 Dec.	-31 273	-26 624	-	-
Retained earnings (losses), 1 Jan.	392 777	393 229	204 046	210 217
Correction of error in prior financial year, 1 Jan.	-	-	-3 094	-
Dividends	-5 150	-5 316	-5 150	-5 316
Retained earnings (losses), 31 Dec.	387 627	387 913	195 802	204 901
Net profit (loss) for the financial year	-25 098	4 864	-26 899	-855
Shareholders' equity 31 Dec.	503 368	538 265	341 015	376 158
19. PROVISIONS				
Provision for contingent pension liabilities	372	720	372	711
Other provisions	6 741	23 785	6 604	23 634
	7 113	24 505	6 976	24 345
20. DEFERRED TAX LIABILITIES AND ASSETS				
Deferred tax assets				
From matching differences	3 573	5 068	3 386	4 869
From other temporary differences in accounting and taxation	704	878	-	-
Taxable loss	10 915	1 704	9 824	333
	15 192	7 650	13 210	5 202
Deferred tax liabilities				
From appropriations	35 862	36 618	-	-
	35 862	36 618	-	-

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
21. ACCRUED EXPENSES AND DEFERRED INCOME				
Interest	2 766	2 851	2 766	2 851
Staff costs	32 312	34 467	29 585	32 381
Discounts granted	3 678	2 307	34	67
Taxes	1 291	1 056	-	-
Other accrued expenses and deferred income	14 358	3 428	12 942	2 310
	54 405	44 109	45 327	37 609
22. LIABILITIES THAT FALL DUE OVER FIVE YEARS FROM NOW				
Other loans	10 444	23 333	10 444	23 333
	10 444	23 333	10 444	23 333
23. CURRENT LIABILITIES TO GROUP COMPANIES				
Trade payable	-	-	38	12
Other liabilities	-	-	27 937	28 683
	-	-	27 975	28 695
24. CURRENT LIABILITIES TO PARTICIPATING INTERESTS				
Trade payable	151	372	151	372
	151	372	151	372

Notes to the Balance Sheet

	CONSOLIDATED		PARENT COMPANY	
	2018	2017	2018	2017
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	3 222	3 222	3 222
Leasing commitments	24 052	29 947	22 470	26 929
Total for own commitments	290 533	296 428	288 951	293 410
For others	6 695	7 635	6 695	7 635
	297 228	304 063	295 646	301 045
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, tCO2	38 909	40 729	38 909	40 729
Other increases (CER), tCO2	15 000	20 000	15 000	20 000
Annual emission volumes, tCO2	73 010	72 959	73 010	72 959
Emission rights in possession, tCO2	73 513	92 614	73 513	92 614
The company has emission rights assets off balance sheet	187	161	187	161

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 7.6 million euros were entered as subscribed and paid in the financial statements on 31 December 2018. The shareholding will in due course enable electricity produced by Fennovoima Oy to be purchased at cost price.

Redemption obligations in energy contracts

Valio Ltd has made several contracts, some long-term, for energy supply to its production plants.

The contracts include redemption obligations to power plants, if Valio withdraws from a contract during the contract period. The maximum amount of redemption obligations stood at 22.5 million euros on 31 December 2018.

Proposal by the Board of Directors to the Annual General Meeting

Distributable earnings in the financial statements amount to EUR 168 903 225.25. 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 proposes to the Annual General Meeting that the distributable assets be used as follows:

Retained earnings	195 802 659,98 €
Net loss for the financial year	-26 899 434,73 €
Total	168 903 225,25 €

The Board of Directors proposes to the Annual General Meeting that a dividend of 3.0% on the nominal value of the shares
i.e. EUR 102 per share be declared.

4 983 822,00 €

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	163 919 403,25 €
Total shareholders' equity	336 030 904,78 €

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

11 March 2019

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.

11 March 2019

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 2018. The financial statements comprise the consolidated and parent company balance sheet, income statement, cash flow statement, and the notes to the accounts.

Basis for our 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, 11 March 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen

Authorised Public Accountant

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 2018, 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, 12 March 2019

On behalf of the Supervisory Board

Esa Kotala
Chairman

Valio Ltd owners 31 Dec. 2018

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
* 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	7 661
Osuuskunta Pohjolan Maito	Haapavesi	8 496
* Osuuskunta Satamaito	Pori	1
Osuuskunta Tuottajain Maito	Riihimäki	12 437
* Paavolan Osuusmeijeri	Ruukki	53
Total		<u>48 861</u>
Total no. of shareholders 31 Dec. 2018		<u>15</u>

Total share capital 166 127 400 €

* No business relationship with Valio

Supervisory Board 31 Dec. 2018

	Term began	Term ends
Esa Kotala, Chairman Dairy farmer, Lapua Osuuskunta Maitosuomi	2010	2019
Jaakko Rouhiainen, Vice Chairman Dairy farmer, Juva Osuuskunta ItäMaito	2001	2020
Kyösti Anttila Dairy farmer, Jalasjärvi Osuuskunta Maitosuomi	2005	2020
Tuomo Haikonen Dairy farmer, Heinola Osuuskunta Tuottajain Maito	2015	2021
Ville Hakala Dairy farmer, Hartola Osuuskunta Tuottajain Maito	2016	2019
Jukka Hakkarainen Dairy farmer, Valtimo Osuuskunta ItäMaito	2013	2020
Arto Heikkinen Dairy farmer, Pyhäntä Osuuskunta ItäMaito	2013	2021
Mikko Heikkinen Dairy farmer, Lapinlahti Osuuskunta ItäMaito	2017	2021
Jari Hekkala Dairy farmer, Kalajoki Osuuskunta Pohjolan Maito	2012	2019
Hannu Hokkanen Dairy farmer, Kangasniemi Osuuskunta Maitosuomi	2018	2021
Mikko Huuskonen ¹⁾ Process expert, Suonenjoki	2017	2019
Esa Karjalainen Dairy farmer, Puumala Osuuskunta Tuottajain Maito	2016	2020
Raimo Kielenniva Dairy farmer, Kärsämäki Osuuskunta Pohjolan Maito	2004	2021
Katariina Lampela Dairy farmer, Tervola Osuuskunta Pohjolan Maito	2012	2019

Tapio Lehto ¹⁾ Product packer, Seinäjoki	2013	2019
Matti Leikkanen Dairy farmer, Sastamala Osuuskunta Länsi-Maito	2016	2019
Janna Luotola ¹⁾ Development Manager, Helsinki	2016	2019
Lassi Mäkinen Dairy farmer, Lieto Osuuskunta Länsi-Maito	2015	2021
Vesa Parvinen Dairy farmer, Parikkala Osuuskunta Tuottajain Maito	2015	2019
Mauri Penttilä Dairy farmer, Vesilahti Osuuskunta Länsi-Maito	2001	2019
Jarkko Pirinen Dairy farmer, Iitti Osuuskunta Tuottajain Maito	2014	2019
Ari Pirttiniemi Dairy farmer, Saarijärvi Osuuskunta Maitosuomi	2017	2020
Jari Puhakka Dairy farmer, Ilovaara Osuuskunta ItäMaito	2018	2021
Satu Pulkka Dairy farmer, Vieremä Osuuskunta ItäMaito	2018	2019
Juha Törmä Dairy farmer, Tyrnävä Osuuskunta Pohjolan Maito	2017	2020
Juhani Ylikauma ¹⁾ Coaching expert, Haapavesi	2014	2019
Päivi Ylä-Outinen Dairy farmer, Lappeenranta Osuuskunta Tuottajain Maito	2008	2021

¹⁾ Personnel representative

Board of Directors 31 Dec. 2018

Vesa Kaunisto, Chairman Dairy farmer, Veteli Osuskunta Pohjolan Maito	2013	2019
Pentti Suokannas, Vice Chairman Dairy farmer, Askola Osuskunta Tuottajain Maito	2015	2020
Jarno Kämäräinen Dairy farmer, Kiuruvesi Osuskunta ItäMaito	2017	2021
Sauli Lähteenmäki Dairy farmer, Rusko Osuskunta Länsi-Maito	2007	2021

Auditor

PricewaterhouseCoopers Oy
Authorised Public Accountants, Helsinki

Jouko Malinen, Authorised Public Accountant

Executive Board

31 Dec. 2018

	Member of the Executive Board from	Employed by Valio Ltd since
Annikka Hurme CEO	2004	1989
Jyri-Pekka Kinnunen Deputy CEO	2008	2008
Ross Crittenden Executive Vice President New Markets	2016	2011
Rauno Hiltunen Executive Vice President Strategy and HR	2011	1984
Teresa Laimio Executive Vice President Corporate Legal Affairs	2017	2002
Juha Penttilä Executive Vice President Operations	2018	1992
Tuomas Salusjärvi Executive Vice President Product Groups and Marketing	2014	2007
Elli Siltala Executive Vice President Sales and Marketing, Finland	2016	2001
Jyri Virrantuomi Executive Vice President Finance and IT	2018	2018



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in the world*