



Fazer Group's Annual Review 2017

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Year in brief



2017 was a year of major developments for us. We created a new vision, mission and strategy to become a modern sustainable food company with a joint direction. We began successfully implementing our new strategy by, for instance, establishing a new business area, engaging in start-up and research co-operation and refreshing our offering.

Fazer Confectionery increased its comparable net sales clearly in 2017, although competition was tough, particularly in chocolate. Fazer Bakery also improved its net sales and implemented value creation actions. Fazer Food Services maintained a strong position in the Nordic countries despite increasing competition, with marginal net sales growth.

Our new business area, Fazer Lifestyle Foods, got off to a good start with the acquisition of renowned product brands, Yosa and Froosh. We also decided to establish the Fazer Retail business unit at the start of 2018 to drive value in our direct-to-consumer business.

We provided meaningful food experiences to millions. We continued to strengthen our brands and to develop new, innovative products to complement our offering. Guided by our strategy, we took a big step forward on our journey to become the Fazer of the future.

Group President's review



Delivering a strong result and transforming into a modern sustainable food company

In 2017, Fazer continued to improve its performance: our net sales and operating profit increased from the previous year. Moving forward, our focus will be on implementing our strategy and transforming into a modern sustainable food company with a joint direction.

We live in a world that is changing at an ever-increasing pace. The continuous transformation challenges the food industry to actively search for new solutions to answer emerging market and consumer needs. Like the world around us, Fazer is also continuously transforming. We want to co-create new products and services together with our partners to provide the latest and most satisfying food experiences for people.

The key word here is collaboration. We want to promote socially significant and sustainable innovations, collaboratively with our partners in an ecosystem. One example of this is that we have joined forces with Nokia and Nightingale Health to study the effect of people's diets on the productivity of their work, their cognitive performance and the quality of their lives. This research project brings together three companies from different fields - biotech, digital health and food - and aims for a greater impact through collaboration.

In June, we presented our strategy for 2018-2022 as well as our new mission and vision. Fazer's new mission is Food with a purpose. Creating food with a purpose means that we add a little extra joy, well-being, inspiration, passion and love to everything we do. Our vision is to spark joy and well-being through meaningful food experiences.

In our strategy for the coming years, we focus on value creation through portfolio choices, growth, continued operational excellence and structural improvements. This has certainly been a good start for our growth path. In March, we established a new business area, Fazer Lifestyle Foods (FLF), with a focus on non-dairy grain products, plant based meals and on-the-go food and drinks, and we acquired Bioferme, a Finnish company specialised in fermented oat products. In November, we acquired the leading Nordic smoothie brand Froosh. We also formed a new Business Unit, Fazer Retail, which will strengthen our direct-to-consumer business.

In 2017 the economies in many of Fazer's key markets took a turn to the better: the Finnish, Norwegian and Russian economies strengthened, and the Swedish economy continued on its growth path. However, competition is fierce and

holding on to and developing our market shares requires hard work. Despite this, sales developed positively for Fazer in 2017.

Finland celebrated its 100th anniversary in 2017, and Fazer's Finland 100 programme was awarded as the most fruitful partnership of the year. In Sweden, Fazer Food Services was ranked as the top restaurant chain of the year. Our bakery operations in Russia continue to show exemplary LTAF figures. In Lithuania, Fazer is growing in a tough market situation, where the overall bread market is continuously declining. We opened a new production facility in Kaunas, Lithuania. Fazer Food Services entered the public sector in Norway as we opened our first public contract in 2017. For the second time in a row, Fazer Food Services Denmark was one of three finalists in the competition "Best canteen of the year", which proves our high level of gastronomy.

Fazer Bakery's health and well-being offering is attracting positive attention, and the demand for artisanal bread continues strong. In November, the launch of the first-of-its-kind Fazer Cricket Bread in Finland gained great interest and huge worldwide publicity.

In Fazer Confectionery, all our commercial units are performing well. At Fazer Food Services, a brand renewal was started, and it will continue in 2018 with the refreshing of the Amica brand and building of the new Fazer Food & Co restaurant brand.

Since it opened in autumn 2016, the Fazer Experience visitor centre has been steadily growing in popularity. The centre drew over 180,000 visitors in 2017. I am delighted that Fazer is a destination that interests people, and that many visitors keep returning. Every interaction promotes continuous development, sparks dialogue and deepens our understanding of customer needs.

Sustainability is an integrated part of Fazer's business and we take pride in supporting the development of a sustainable lifestyle. We are committed to the principles of the UN Global Compact and we take actions to support the Sustainable Development Goals.

None of the above would have happened without the daily work of our great employees, and I greatly value their efforts. Together, we will develop the company and continue its success.

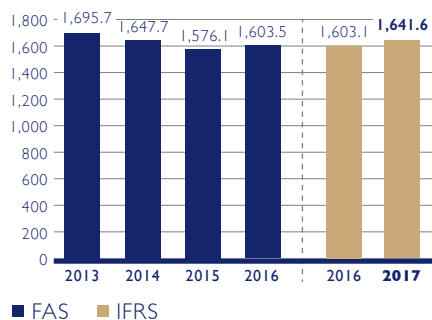
In closing, I'd like to thank all our stakeholders for accompanying us on Fazer's journey in 2017 and for all the hard work and support.

Christoph Vitzthum

President & CEO

Key figures 2017

NET SALES, M€



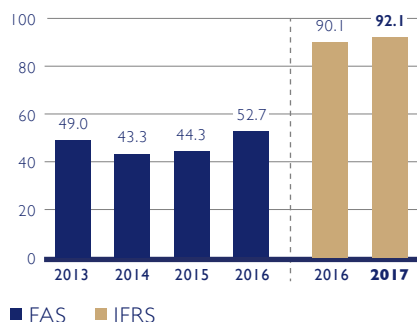
Fazer Group's net sales 2017

1,641.6 M€

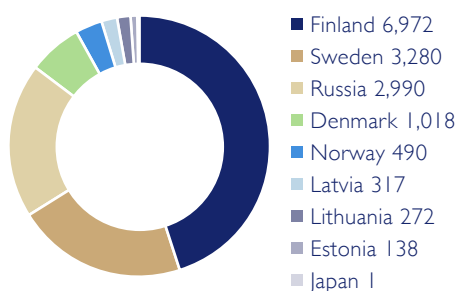
Fazer Group's operating profit 2017

92.1 M€

OPERATING PROFIT, M€



NUMBER OF EMPLOYEES AT THE END OF 2017



Fazer Group's employees 2017

15,478

Highlights

A year of renewal and innovation

In line with our new strategy, we updated Fazer's vision and mission to guide us on the journey to become a modern sustainable food company with a joint direction.

A new business area, Fazer Lifestyle Foods, was established, with a focus on non-dairy products, plant-based meals, breakfast products and on-the-go snacking.

The new business area's offering was strengthened with the acquisitions of Yosa oat products and Froosh smoothies businesses. The Fazer Mills business unit is part of the new business area.

We combined the offerings of Fazer Cafés and Fazer Bakery Shops into a new business unit to strengthen the development of our direct-to-consumers business. Fazer Retail as a new organisation started in the beginning of 2018.

Fazer was recognised as the Brand Builder of the Year by the Finnish Association of Advertisers, and Karl Fazer Milk Chocolate voted as Finland's most valued brand. Fazer was also named the Best in Social Media in Finland and the Nordics in the Digital Leaders 2018 study.

We published our Sustainable Grain Farming Principles, with the goal to reduce the eutrophication of waters and maintain the cultivability of soil in the long term.

More than 180,000 people visited the Fazer Experience Visitor Centre during 2017.

Fazer Belly Friendly Rye took the first prize in the international NutraIngredients Awards 2017.

Our Fazer Cricket Bread, launched in November 2017, received worldwide attention and piqued the interest of curious consumers.

We organised Fazer Foodathon to find new solutions in plant-based food.

This is Fazer



Fazer is all about meaningful food experiences

Fazer is transforming into a modern sustainable food company with a joint direction. We combine a strong heritage with bold innovations to offer superior tastes and memorable experiences. We are guided by our High Performance Culture based on our core values: customer focus, quality excellence and team spirit. We build on that foundation by developing a sustainable product and service offering and business portfolio to answer the needs of customers and consumers, today and tomorrow.

Fazer is an international family-owned company offering quality bakery, confectionery, biscuit and grain products, plant-based meals and non-dairy products as well as food and café services. We operate in eight countries and export to around 40 countries. In 2017, Fazer Group had net sales of 1.6 billion euros and 15,478 employees. Corporate responsibility and respect for people and the planet are an integral part of all our operations.

Operating environment



As we work to provide meaningful food experiences to customers, we are affected in many ways by the market environment in which we operate as well as by the general economic situation in our operating countries.

Our business environment and consumer lifestyles are changing at an increasingly rapid pace, and food players need to take action. Businesses around the globe are affected by population growth, aging and extended work life, tightening regulation and urbanisation, among other things. These phenomena need to be acknowledged and addressed to ensure success in today's business world.

The global economy is showing continuing positive momentum. With solid GDP growth in all our operating countries, consumer outlooks are developing well. However, competition is fierce and holding on to and developing our market shares requires hard work.

Economic development: positive outlook in all main markets

The Finnish economy saw clear growth, with an estimated GDP increase of +3.1% in 2017. Unemployment decreased slightly in 2017 and is expected to continue decreasing in 2018. Inflation increased to +0.8% in 2017. The Russian economy is recovering, which decreases the risks to the Finnish economy.

Russia saw a positive step with GDP growth at 1.8% in 2017. The economic sanctions imposed on Russia by the EU were extended to July 2018, and Russia's food import ban stands until the end of 2018. The rouble has continued to fluctuate in response to oil price changes, but it has stabilised somewhat in 2017. Inflation has continued to decrease, ending up at 2.5% at the end of December 2017.

The Swedish market is expected to remain strong and the economy is looking up with a GDP growth of approximately 3% in 2017. However, expectations for the coming years are somewhat lower. Inflation is on the rise but still quite moderate at around 2% in December 2017.

Currency fluctuations impact profitability

The Russian rouble was stronger than the year before. The Norwegian krona remained quite stable and the Swedish krona weakened from 2016. These changes had an impact on our result. Weaker currencies may also weigh down local profits due to higher costs for materials purchased in foreign currencies. The weakening of currencies may also create pressure on sales prices: Fazer Confectionery Russia and Sweden purchase their confectionery products from Finland and are therefore vulnerable to currency fluctuations, which are reflected on their costs.

Pound sterling, which is the main currency for cocoa purchases, has weakened against the euro ever since the Brexit vote in 2016. This development has lowered our raw material costs somewhat but not significantly as pound currency rates were fixed pre-Brexit for a long period to bring stability into pricing.

Market development: tight competition and strong demand for sustainable and health-enhancing products

The health and well-being trend continues strong, which is reflected in the success of the health-enhancing products of our bakery offering. However, the bakery market as a whole is stagnating or declining slightly in all our markets.

In Finland, the competition in chocolate tablets was tough and our market share declined slightly. The biscuit market, on the other hand, developed in a positive direction.

The food service market is also seeing tightening competition, especially in the University sector in Finland. Sales of new contracts take time, but the sales pipeline is showing improvement, giving 2018 a promising start.

Customer demand for non-dairy and plant-based products continued to grow in 2017, providing a good operating environment for Fazer Lifestyle Foods. Product development in this market is speedy and new products are introduced by competitors as well. Retailers are expanding their selections and open to introducing new products in this category.

Wheat and rye markets declined in Finland but remained stable in Sweden. The popularity of oats continues, with great promise in the oats derivatives market in particular. The demand for organic oats exceeded our supply capacity and raised considerably the price of organic oats. The cold summer and rainy autumn may impact grain availability and prices negatively.

The café sector was under pressure from tightening competition particularly in the Helsinki area.

In corporate responsibility, active dialogue is sought by consumers, with the anticipation on companies to take a stand on societal issues. We have seen steady development in our reputation in all markets. Read more about our corporate responsibility work on page 28.

Strategy



Fazer of the future: a modern sustainable food company

We have defined a new strategy for 2018–2022 in order to transform into the Fazer of the future. Our focus for the coming years is on value creation through portfolio choices, growth, continued operational excellence and structural improvements.

We will continue to develop our business and product portfolios, based on deep customer insight and research. Close co-operation with the scientific community allows us to examine new solutions to enhance the well-being of people.

A new business area, Fazer Lifestyle Foods, was established in 2017 to answer the needs of consumers interested in health, well-being and sustainability. In the beginning of 2018, our bakery shop business and Fazer Cafés were combined into a new business unit, Fazer Retail, to strengthen our direct-to-consumers retail business.

We intend to grow beyond the Nordic countries and to introduce our offering to new customers by 2022. We believe that meaningful brand experiences in growing categories are the key to reaching a wider customer base in Europe and beyond.

As we transform into Fazer of the future, we embrace digitalisation and explore its applications to enhance our performance and support our safety culture.

A transformed Fazer with joint strategic direction

Our ambition is to reach an annual net sales growth of 6-8 per cent and a Group EBITDA level of at least 12 per cent. We will be a modern, sustainable food company with a joint strategic direction. We aim to strengthen our consumer focus and establish ourselves as an innovative trend setter. Our target is to be in the top 2 in our categories in selected Northern European markets.

To reach our strategic targets, we build on our broad offering of high-quality products and services, the dedication and expertise of our personnel, high performance culture and our distinguished brands. Our work is supported by well-functioning production facilities, a wide distribution network and close customer relations.

We will continue to develop our business and product portfolios, with an enhanced focus on clear growth areas. We must also ensure that our organisational structure supports our ambition and accountability. We will continue to systematically develop our capabilities to meet the needs of the future.

Focused growth areas to provide major value increase

The ongoing development of the new Fazer Lifestyle Foods business area will continue, with organic growth complemented with potential acquisitions. We plan to grow our confectionery offering in the Nordics. Chocolate will be the key category in this development, and it will also lead the way to international markets.

We will strengthen our direct retail offering to consumers in bakery shops, cafés and online. Growth is also sought in the public food service sector, with increased outsourcing and new capabilities as key drivers.

Geographically, our ambition is to grow in the Nordics but also beyond to wider Northern European markets, and to selected markets outside Europe.

Our ambition is to become a leading modern, sustainable food company in Northern Europe. Following our joint direction, we will target a strong retail presence in several markets in Europe and beyond, and grow faster outside Finland.

Fazer values guide everything we do

Our values are a foundation for everything we do. They define the way we interact with each other and our stakeholders. They form a core around which our strategy, mission and vision are built, and help us choose the best ways to reach our goals.

Customer Focus

When we create new food experiences, define our business goals or develop our sustainability work, we always keep the customer in focus. We strive to exceed our customers' expectations. We place great importance on consumer insight as we strive to provide meaningful food experiences to customers with varying needs and tastes.

Quality Excellence

From artisanal bread to smoothies and from chocolate tablets to lunch salads, we demand the highest quality from our products. We strive to provide superior products and service experiences across our entire offering. We show responsibility in everything we do.

Team Spirit

We are one team, one Fazer. We respect each other and work together to bring our customers the best possible food experiences. We support each other to achieve our common goals.

Our High Performance Culture is built around our values and we are in the process of taking it to the next level. We ensure everyone at Fazer understands their role in creating our success. We motivate by consistent and inspiring leadership and communication. We emphasise accountability for our performance and encourage personal development. We want everyone at Fazer to take pride in their work.

Mission and vision



New mission and vision guide us towards the future

Like the world around us, we as a company are continually transforming. That's simply what the world's greatest brands do. In order to ensure sustainable growth today and tomorrow, we have renewed our mission and vision.

People today pursue authentic experiences tailored to fit their personal desires and schedules. As digitalisation creates new possibilities, people expect more from customer experience than before. A growing concern for personal well-being as well as that of the planet guides consumer choices. Yet there is always room for some indulgence. This is the world of our new mission and vision.

We have shifted our focus; Fazer stands for more than products and services. We create experiences to remember. We want to be present in the everyday lives and special moments of our customers. Through our offering, we want to invoke emotions and create strong and lasting impressions.

Our mission: **Food with a purpose**

We add a little extra joy, well-being, inspiration, passion and love to everything we do. We want to enrich people's lives with our offering.

- We create healthy and easy-to-eat products for people to enjoy any time, any place
- We offer wholesome, tasty and environmentally conscious solutions to guests of our restaurants and cafés
- We seek new solutions to bring convenience into the hectic lives of busy people
- In all we do, we respect our environment

Our mission supports our strategic goals and opens up new opportunities to grow. It explains the reason for our being – our purpose in this world.

Our vision: **We spark joy and well-being through meaningful food experiences**

We want to delight, surprise and excite by infusing pleasure, enjoyment and well-being into people's lives. We want to do good for the people and the planet.

When someone has a moment to enjoy a Fazer experience, we want them to taste and feel the love – to feel the care and passion we put into every product and service.

Our vision sets a clear direction towards the future and describes our bigger ambition.

We will realise this vision by

- searching and developing new plant-based foods
- co-creating new products and services with partners
- crafting premium foods to bring enjoyment
- developing new channels to serve consumers
- growing beyond the Nordics

Our brands are our strength, and we will continue to strengthen them further to ensure that we are globally competitive. We will develop a captivating customer journey that provides superior experiences at every touch point.

Fazer creates value

Fazer creates value for customers, consumers, society at large and owners. The value creation graph illustrates how we turn resources into tangible outputs and shows our wider impact on nature, people and the economy. Fazer stands for an innovative offering that enables sustainable lifestyles. We work firmly to further reduce environmental impacts and waste as well as to discover advanced ways to improve overall resource efficiency. Fazer's value creation is a result of mutually beneficial collaboration and co-creation with a great variety of stakeholders, experts and local communities.

Our value creation is also linked with changes in business environment, megatrends, risks, opportunities and governance. For a more comprehensive understanding of our performance and the value we create, please also see other sections of our annual reporting.

Creating value at Fazer



Our brands



Our ambition is to grow throughout Northern Europe and selectively beyond it with desirable, meaningful brand experiences in growing categories. We invest in the development and renewal of our brands based on deep consumer insight and research.

Reflecting our mission, vision and strategy, our brand portfolio is built around consumers and their needs. Our brands have clear roles and serve a wide variety of consumer needs and motives. The approach of using multiple brands enables a flexible way of working with differentiated brand positioning across different markets. Our brand value chains are managed in a responsible way and we encourage consumers to consume more wisely.

Consumers that appreciate honesty, purity and great taste, living a contemporary lifestyle with an open mind, are the ones who will find their perfect match in the Fazer portfolio of brands. These people value brands and high quality. Our key channels for reaching consumers are retail, restaurants, bakery shops, cafés and online, where we always strive to encourage people to express themselves through our brands and to share and recommend.

We want to win over new people and, at the same time, maintain and improve our connection with existing customers. We will evolve with our consumers while staying true to our values and who we are. We are 15,000 brand ambassadors, each creating brand experiences every day.

Understanding human behaviour is of high importance when we want to inspire people to enjoy the moment. People today require tailored brand experiences for all the senses. We create meaningful brand experiences for consumers who make purpose-based choices. Our way of utilising data helps us reach the people who crave for our brands. Our ambition is to increase our understanding through both data and dialogue.

With over 70 brands in our brand portfolio, people are sure to find the brand with the perfect fit to their needs. The revolutionary Fazer Cricket bread for food pioneers, a heart-shaped box of Fazer Geisha chocolate for a loved one, a brain-friendly lunch with colleagues at a Fazer Food & Co restaurant, a family breakfast to remember at Gateau or a Froosh smoothie to drink on the go – we create meaningful brand experiences for everyone to enjoy.

Our businesses



Fazer is devoted to creating meaningful food experiences, in everyday life as well as in moments of celebration.

We are present in people's lives through our products and services: breads, pastries and cakes from Fazer Bakery; chocolates, sweets and biscuits from Fazer Confectionery; nutritious lunches from Fazer Food Services; wholesome snacks, smoothies and breakfast foods from Fazer Lifestyle Foods; freshly baked bread, special coffees and sweet and savoury pastries, offered directly to consumers from our cafés and bakery shops in Fazer Retail.

Fazer Bakery



Product innovations and operational efficiency go hand in hand

Fazer Bakery crafts bread and sweet bakery products for retail and other customers. We are the market leader in Finland and Russia, and in the top 3 in pre-packed bread in all our home markets – Finland, Sweden, Russia and the Baltic countries. In Russia, we also lead the market in frozen bakery products. We export bakery products to 12 countries, with a focus on novelties, such as Root Vegetable bread, and Nordic rye bread.

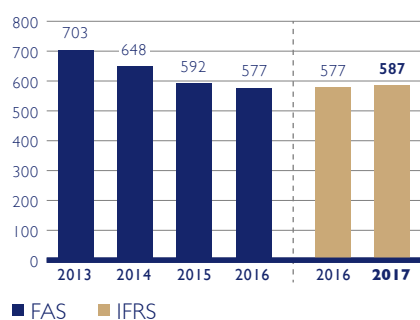
We are continuously developing our product portfolio with innovative products that enhance well-being, and our artisanal bread offering in our shop-in-shops has won the hearts of customers. The market is polarised, with demand for premium artisanal quality as well as low-priced bread sold in retail. Health and well-being products such as belly-friendly breads continue their success as well. The snacking trend is apparent in the bakery business as consumers look for convenient products to enjoy on the go.

Performance in 2017

The net sales of the bakery business increased somewhat in 2017. We were able to successfully implement value creation actions despite the challenging market situation. In Finland, overall performance was very good. This was mainly due to the strong portfolio consisting of a good product mix and successful novelties, and improved operational efficiency. In addition, the shop-in-shop business continued its success. Sweden, on the other hand, suffered from the market decline and the competition from private labels. Russia carried out successful product launches and operational improvements. The Baltic countries improved their product portfolio with successful new product launches and price positioning.

The bakery market as a whole declined slightly in all markets during 2017. The share of private label sales increased. The health trend continued and supported the sales of our well-being offering, and the popularity of artisanal bread remained strong.

NET SALES – FAZER BAKERY, M€



Fazer of the Future

We will continue to renew the bread category by introducing interesting, consumer-oriented novelties to the market, especially for health-conscious people. We have set ambitious growth and profitability targets and will develop our operational and commercial capabilities in order to reach them.

We will improve our overall efficiency to enhance value creation. This we will do by looking into and optimising each function, e.g. manufacturing and logistics. We will continue to execute our Perfect Store initiative, in which we develop the retail shopping path together with our customers, to build category leadership and point-of-sales excellence. New capabilities in, among other things, sales and marketing will help us reach our targets.

Fazer Confectionery



Headed for international growth

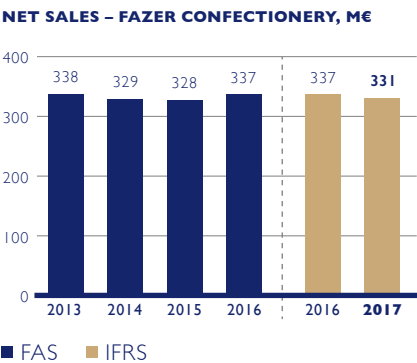
Fazer Confectionery creates taste experiences for everyday indulgence as well as for special occasions. Our high-quality chocolates, sweets and biscuits are renowned and cherished by customers. In Finland, Fazer leads the confectionery market.

Fazer Confectionery and its iconic chocolates are heading towards international expansion. We are currently present in more than 40 countries around the world through our products and services. We aim to expand to new markets while strengthening our position and competitiveness in the existing ones.

Performance in 2017

2017 was an excellent year for Fazer Confectionery, as our overall performance reached an all-time record. Nearly all commercial units exceeded their targets and improved their figures from the previous year.

Competition in chocolate tablets was tough, but we were able to defend our core market in Finland. The confectionery market volume increased during 2017, and the biscuit market saw some growth as well, with Domino, Jaffa and Fasupala performing above expectations. Our market share grew in Sweden. In 2017, comparable net sales of the confectionery business area, taking into account the excise tax that was still in force in 2016 but abolished in the beginning of 2017, increased clearly from the previous year.



Fazer of the Future

Confectionery is one of the growth areas in our strategy, and we expect organic growth both in the Nordic countries and beyond. Chocolate will be the main driver for the international expansion. We will also seek opportunities for acquisitions to support growth.

Supply chain performance saw clear improvement in 2017, and we will continue to optimise it in a sustainable way. We will further develop our operational excellence and cost management through an increased focus on sales and operations planning. Core capabilities in sales, marketing and R&D will be improved further.

In addition to strengthening our chocolate business, spearheaded by Karl Fazer chocolate tablets, we will continue to develop our entire portfolio and create snacking solutions to answer consumer needs.

Fazer Food Services



Growth through existing markets

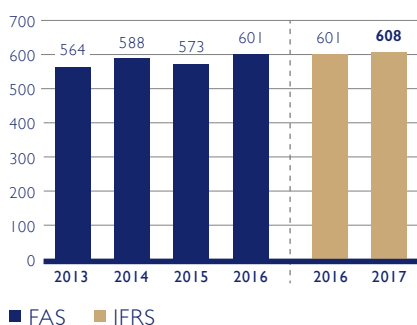
Fazer Food Services stands for food with a purpose. As the leading food service company in the Nordic countries, we serve delicious and nutritionally balanced meals to hundreds of thousands of people every day. We strive to make a difference in the lives of our customers as well as to the entire planet.

The demand for healthy and flexitarian options is growing as the well-being and sustainability trends continue. Our offering includes high-quality plant-based meals and we encourage our customers to increase their consumption of greens. However, we respect our customers' right to make individual choices, and offer them opportunities for indulgence as well.

Performance in 2017

In 2017, our net sales increased somewhat, and we maintained a strong position in the Nordic countries despite increasing competition especially in the public sector. Our focus has been growth in the public sector, and we signed our first public contract in Norway. A brand renewal was started, and it will continue in 2018 with the refreshing of the Amica brand and continued building of the new Fazer Food & Co restaurant brand.

NET SALES – FAZER FOOD SERVICES, M€



Fazer of the Future

The ambition for Fazer Food Services is to continue to grow profitably. We currently have 1,200 restaurants in Finland, Sweden, Norway and Denmark. We aim for growth in each country, and across multiple sectors. We will strengthen our focus on strategic sales and develop our operating models to support us in reaching our ambition. We will expand our capabilities by recruiting new talent and developing our line management.

The public sector will continue to be an important growth area, and the outsourcing rate of food services is expected to grow in the sector. We aim to be the first choice of public decision-makers. We will continue to promote the consumption of vegetables and plant-based foods to promote the well-being of restaurant guests and mitigate the environmental impacts of food production.

Fazer Lifestyle Foods



Well-being and sustainability in focus

The health and well-being megatrend is strong. People are increasingly interested in their well-being and are willing to improve it through nutritional choices as well as exercise. They are looking for sustainable alternatives to meat and dairy, and at the same time, they seek meal choices that are not tied to time and place. Fazer Lifestyle Foods concentrates on products that answer the needs of today's health-conscious consumer.

Fazer Lifestyle Foods' products are for contemporary and conscious consumers who want inspiration, convenience and well-being in their daily lives. Its offering consists of plant-based foods, non-dairy products and snacks. Established in March 2017 with the acquisition of oat expert Bioferme and its popular brand Yosa, Fazer Lifestyle Foods is one of the major growth areas within our business portfolio.

The smoothie brand Froosh, acquired in late 2017, serves as a platform for Fazer Lifestyle Foods' offering of healthy fruit-based products. In addition to its strong position in the Nordics, Froosh exports e.g. to the Baltics, Germany, France and Ireland.

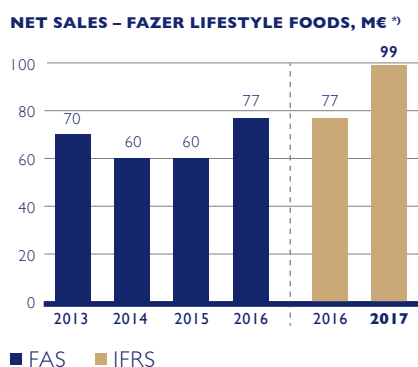
In addition to its traditional milling products, Fazer Mills, which is a part of Fazer Lifestyle Foods, produces oat-based breakfast products like porridge, muesli and cereals. It also produces oat derivatives such as beta-glucan and oat protein for the food industry as well as oat oil and oat fibre for the cosmetic and pharmaceutical industries.

Performance in 2017

Net sales of the Fazer Lifestyle Foods business area reached 99 million euros during its first year of operation. This includes the sales of Bioferme for some 9 months, sales of Froosh for less than two months and sales of Fazer Mills for the full year. Bioferme's pro forma (12 months) net sales grew in 2017 by 29 per cent.

The breakfast products of Fazer Mills complement Fazer Lifestyle Foods' offering, and our healthy oat products are of special interest to well-being oriented customers. Oats continued to sell well in 2017, with organic oat sold out already in the spring. The Swedish mill performed above expectations, but the traditional milling business did not reach its targets in Finland.

During 2017, Fazer Lifestyle Foods' offering was further developed to answer consumers' desires. Concept and brand work are still ongoing for some new product categories, and product development continues.



^{*)} The figures for 2013 to 2016 only include Fazer Mills.

Fazer of the Future

The ambition for Fazer Lifestyle Foods is strong growth and international expansion. We aim to complement organic development with acquisitions.

We will build an innovative, consumer insight driven offering in the non-dairy, plant-based meals, breakfasts and on-the-go food categories. We will create a world-class branded offering based on sharp consumer insights and innovation, representing outstanding taste.

Fazer Retail



New business unit caters directly to consumers

Fazer Retail was established as a separate business unit at the start of 2018 to strengthen our direct-to-consumer business. The new business unit combines the Gateau bakery shops in Finland and Sweden and Fazer Cafés in Finland. Fazer Retail offers high-quality artisanal bread, sweet and savoury delicacies, chocolates and hot and cold beverages to café and bakery shop customers.

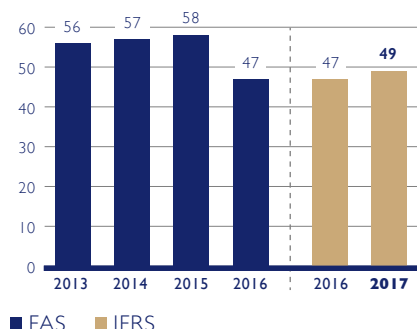
Performance in 2017

Fazer Bakery Shops were part of the Fazer Bakery business area until December 2017. Artisanal bread continued to attract consumers, but Fazer Bakery Shops' result suffered in Sweden with increased social costs and start-up costs in Gothenburg. Five new bakery shops were opened.

Fazer Cafés' net sales remained on the same level as in the previous year. New cafés were opened at Sanomatalo in Helsinki and Ainoa in Tapiola, Espoo. Consumer satisfaction improved from the already high level of the previous year.

The 2017 pro-forma net sales of Fazer Retail increased clearly from the previous year.

NET SALES – FAZER RETAIL, M€



Fazer of the Future

Our premium Fazer Café and Gateau bakery shop chains seek further efficiency improvement, which will build the foundation for further growth. We will streamline and modularise our concept to enable profitable growth. We will strive towards this goal by highlighting innovations, developing our offering, streamlining processes and improving day-to-day management of our cafés and shops. We have a strong service culture that we will continue to develop. Digitalisation will support the development process by, for example, expanding online engagement and examining e-commerce possibilities.

Corporate responsibility



We monitor our economic, social and environmental impact and develop our business in a sustainable manner.

Fazer is a renowned food company. It is also a part of society, and of people's everyday lives. We co-operate with various stakeholders in environmental activities, research projects and social initiatives, creating value for shareholders, employees, suppliers, customers and the society.

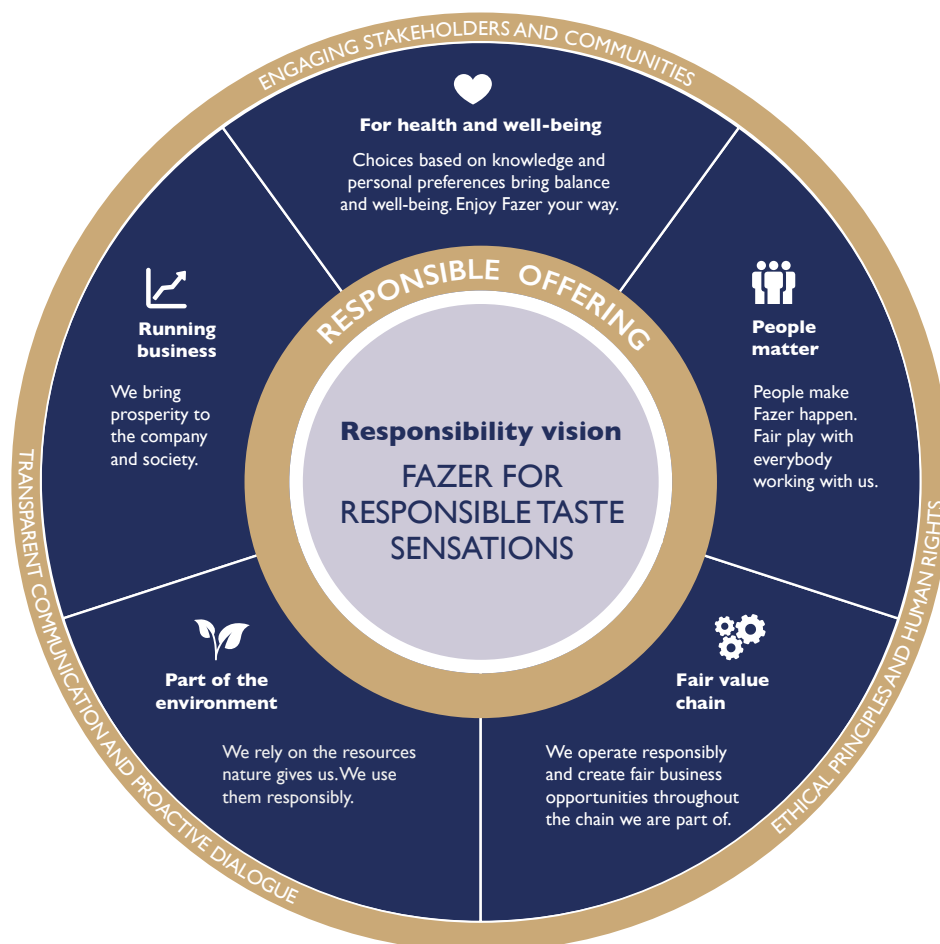
We accomplished much with our responsibility work in 2017 and have ambitious targets for the years ahead. As we move forward with our new strategy to build the Fazer of the future, we will continue to ensure that sustainability has an important role in everything we do.

Corporate responsibility highlights

We achieved much in 2017 with our work on responsible sourcing, sustainable farming and the well-being of our people and the environment.

100% responsibly produced cocoa: 86% certified and 14% from direct programmes	100% RSPO certified palm oil	Sustainable Grain Farming Principles
Development of sustainable food innovations	Anti-harassment guideline	Reputation improved on all main markets
Improved results in the People Power Survey	88% renewable electricity in our industrial sites: 100% renewable electricity in Finland, Sweden and Latvia	97% of waste recycled or directed to energy recovery

Our corporate responsibility approach



We observe sustainable practices in our use of resources and throughout our supply chain. We treat our personnel, suppliers, customers and environment with respect.

As our new mission states, Fazer is all about food with a purpose. We create meaningful food experiences that nourish, delight and support the well-being of people while respecting the planet. Food is a major factor in social, economic and environmental development, and we contribute to that development through our corporate responsibility work.

At Fazer, corporate responsibility is part of all our operations. It is ingrained in our corporate culture and business development. It is observed in the value chain. Securing long-term business development is at the core of our corporate responsibility strategy.

In 2017, we created a new company strategy. We now work towards further alignment and integration of corporate responsibility into the new strategy. We will also keep developing our CR programme further through prioritisation of initiatives, target-setting and supporting our businesses in its implementation.

Effective use of resources is not only environmentally important; it impacts costs and profitability as well. By supporting the well-being of our personnel, we aim to get energetic and motivated employees who perform better. Close attention to the responsible management of the supply chain ensures the availability of high-quality raw materials in the future. Simply put, corporate responsibility is good for business.

Corporate responsibility management

The roles and responsibilities of our corporate responsibility team, network and leadership forum have been clearly defined, with our Board of Directors and the Group Management Team holding the highest authority on matters relating to corporate responsibility.

Corporate responsibility work at Fazer is guided by our Corporate Responsibility Policy, Human Rights Policy, QEHS Policy, governance practice, operating principles and ethical principles, which are based on the ten international principles of the UN Global Compact. Fazer Group signed the UN Global Compact initiative in 2012.

Managing corporate responsibility

<div>BOARD OF DIRECTORS</div> <div>Approves ethical principles</div>	<div>Corporate Responsibility Leadership Forum</div> <div>Ensures alignment within the Group; defines Group-level strategies, policies, guidelines, targets and positions</div> <div>Assesses, monitors and develops corporate responsibility topics within the Group</div> <div>Ensures the agreed actions are implemented</div> <div>Escalates and prepares issues to the right decision forums</div>	<div>Corporate Responsibility Network</div> <div>Ensures corporate responsibility alignment within Fazer Group</div> <div>Ensures the effective use of resources</div> <div>Shares the knowledge, know-how and market views in different countries and businesses</div>
<div>GROUP MANAGEMENT TEAM</div> <div>Approves policies and objectives</div> <div>Group President: ultimate responsibility</div> <div>Group’s EVP, Communications and Branding: responsible for corporate responsibility</div>		
<div>HEAD OF FUNCTION</div> <div>Approves instructions</div>		
<div>BUSINESS AREAS AND BUSINESS UNITS</div> <div>Implement corporate responsibility programme, strategic outlines, and set targets and objectives</div> <div>Set corporate responsibility focus areas</div> <div>Follow instructions, practices and operating models</div>		
<div>CORPORATE RESPONSIBILITY TEAM</div> <div>Develops corporate responsibility vision, strategy and programme, and supports its implementation</div>		

Stakeholder engagement

By maintaining an active dialogue with all stakeholders – from customers to shareholders, employees and suppliers – we have established strong relationships based on transparency and trust. Stakeholder feedback helps us to identify local and global trends as well as to keep up with regulatory and political changes. We, in turn, share information actively and participate in, for instance, the public discussion on nutrition and health.

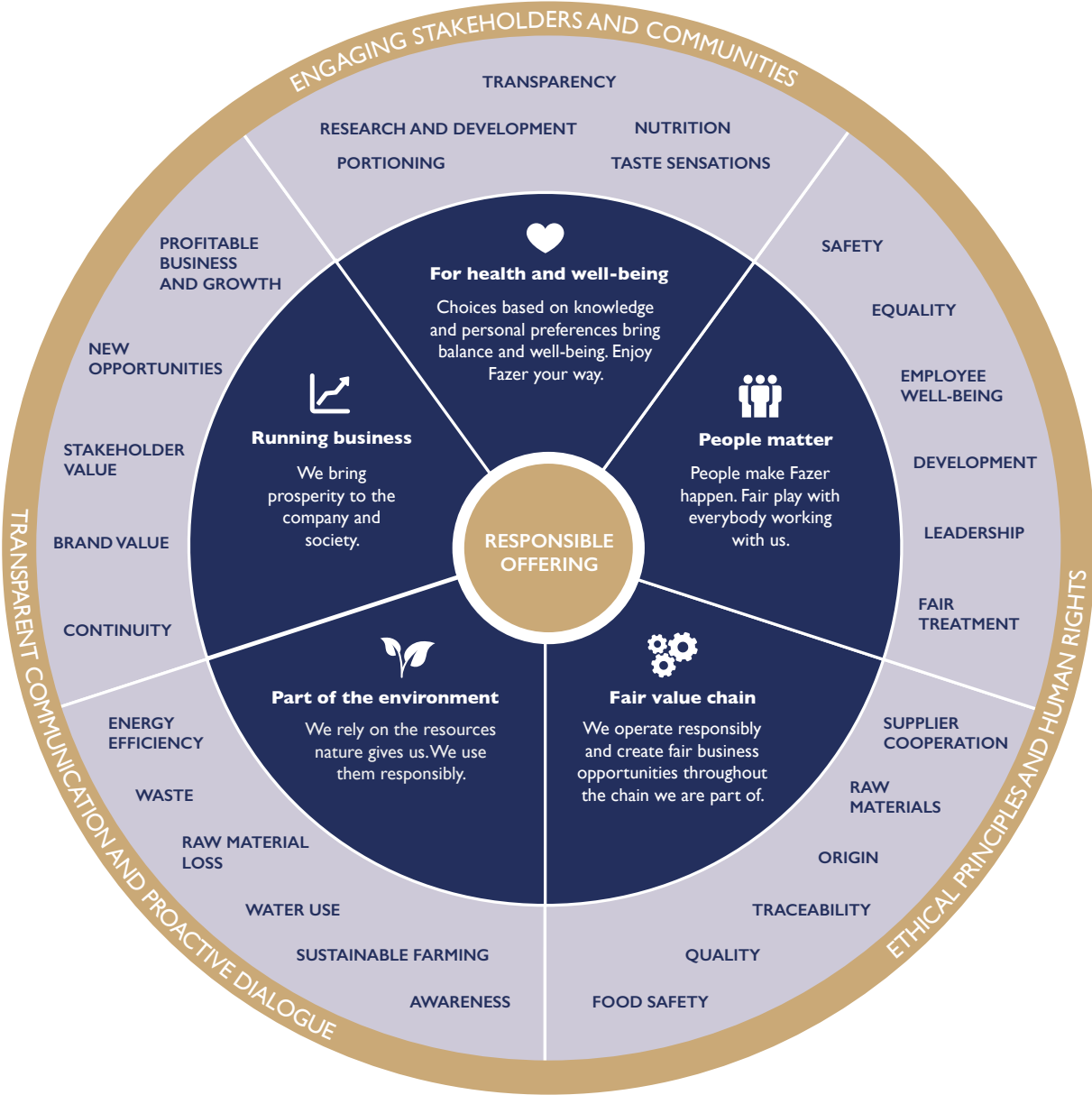
We have identified our most important stakeholder groups and outlined several engagement methods.

STAKEHOLDER	CHANNEL OF DIALOGUE
Consumers	Customer service, surveys, restaurant and café materials, websites, social media, packaging, visits
Customers	Meetings and cooperation, newsletters, customer feedback systems, customer events, websites, social media
Shareholders	Regular contact, meetings and events, Annual Review, tertiary reports, website, extranet
Employees	Performance Management Process, continuous communication between managers and employees, induction, training, occupational health and safety management system, personnel events, personnel surveys, Fazer's whistleblowing service, intranet and other internal channels, theme days
Suppliers	Meetings, contracts, supplier requirements, supplier assessments, follow-up actions, partnerships, research, continuous collaboration between sourcing managers and suppliers
NGOs and local communities	Memberships, partnerships, joint projects and initiatives, websites, social media, questionnaires
Universities and research institutes	Partnerships, joint R&D projects, knowledge sharing, donations, thesis and job opportunities for students, lectures, excursions
Healthcare professionals	Knowledge sharing, events, lectures
Media	Media releases and events, interviews, websites, social media, visits
Authorities and governments	Regular contact, meetings, memberships, seminars, work groups
Start-ups	Opportunities and support through pilots and hackathons

Our CR programme

Our corporate responsibility vision, strategy and programme are based on the Group's business strategy and supported by a deep understanding of evolving customer and market demands. Our corporate responsibility programme is structured around five strategic focus areas, which guide our operations:

- Running business
- For health and well-being
- People matter
- Fair value chain
- Part of the environment



Running business



By securing the continuity of our business, we can provide high-quality products and services sustainably. We create value for our stakeholders and for society.

Consumer trends are changing and interest in sustainability has been increasing. We at Fazer need to take into account these evolving trends but, at the same time, understand other drivers behind sustainability as well as our impact on the environment and society. We want to maintain a focus on developing sustainable solutions.

Focus and goals

- Securing profitability and growth
- Identifying new business opportunities and savings potential via corporate responsibility
- Managing issues which affect Fazer's reputation
- Following our ethical principles in all businesses
- Securing and increasing brand value
- Bringing added value to stakeholders

2018 and onwards

- Securing the long-term continuity of the business
- Understanding the global risks and mitigating their impacts
- Continuing active stakeholder dialogue
- Identifying new business opportunities that support sustainable development
- Continuing the work with Human Rights: development of the grievance and remediation processes
- Identifying cost saving possibilities via corporate responsibility work
- Deepening our understanding of the UN SDGs and of our contribution towards their realisation

Performance in 2017

The United Nations' Agenda 2030 and Sustainable Development Goals (SDGs) were one of the key sustainability topics of the year 2017. We see food as a solution, contributing to many of the SDGs. We continued to develop a deeper understanding of the goals and their targets, as well as their connection to our business. We identified SDG 9 as the most relevant to our Running business sustainability area:



We have engaged in **active stakeholder dialogue** on the topic, as it is of great interest to many of our stakeholder groups. We have had positive feedback on our approach to the SDGs and will continue to examine ways to contribute to them.

We continued to take part in stakeholder discussions on other topics related to corporate responsibility, as well, for instance by organising a stakeholder workshop with WWF Finland and by participating in the EAT network, which examines the links between climate, health and sustainability. We have seen increased interest in collaboration projects, as it becomes more and more evident that no single party can solve sustainability challenges alone. There is a growing need for public-private partnerships and co-operation on many levels, and we actively seek new ways of co-operation to contribute to the global goals.

Fazer's reputation improved in all main markets. We will continue to closely monitor the development of our reputation across our operating countries and beyond, as we prepare to expand internationally.

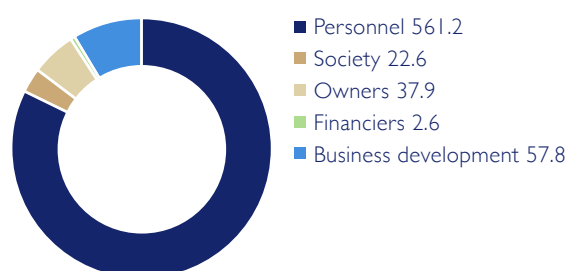
Fazer's whistleblowing service is an important tool for fostering high business ethics and maintaining customer and public trust in our business. During 2017, sixteen compliance cases were reported via the Fazer Way Helpline directly to Group Compliance and to HR. The cases concerned mainly harassment and conflict of interests. The cases having sufficient ground have been investigated internally and the necessary measures have been taken. Two investigations are ongoing.

Fazer of the Future

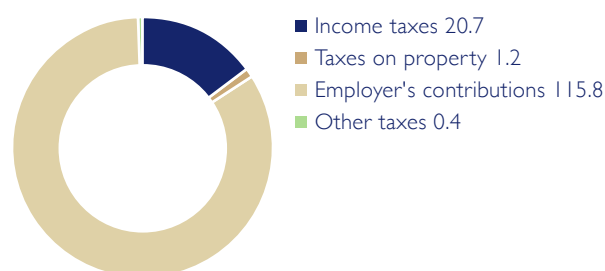
We will update our corporate responsibility vision, strategy and programme in order to align our CR work with our business strategy, including the new mission and vision. This will be a significant undertaking in which we aim to create an even stronger connection between corporate responsibility and sustainable development and our group strategy.

We will strive to **increase our understanding of local customers** and their needs in new markets as we prepare to expand geographically. Entering new markets widens our stakeholder groups and adds new expectations, requirements and focus areas.

DIVISION OF ECONOMIC VALUE, M€

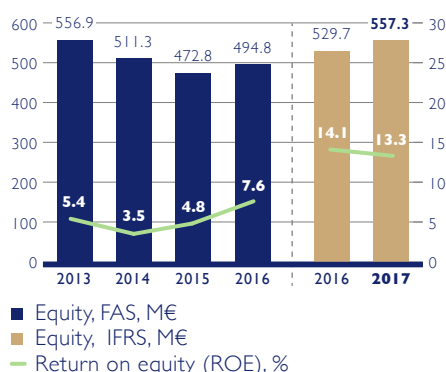


TAXES BORNE AND EMPLOYER'S CONTRIBUTIONS, M€ *)

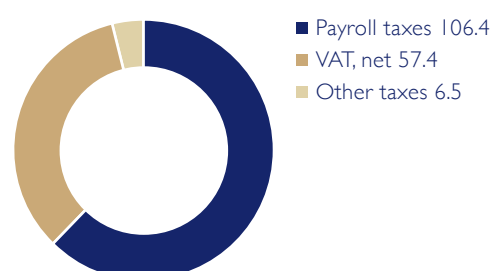


*) Insurance taxes and energy taxes not included.

EQUITY AND RETURN ON EQUITY



TAXES COLLECTED, M€



We will set a strong focus on the **integration of our new business areas** and acquired businesses as they join our sustainability work. We will create a specific corporate responsibility programme for Fazer Lifestyle Foods to address the sustainability issues most relevant for the business.

The UN Guiding Principles on Business and Human Rights (UNGPs) guide us in our human rights work. We will continue to carry out human rights impact assessments of our operations in accordance with the principles.

We will examine new ways to co-operate with our stakeholder groups in all areas of corporate responsibility.

Sustainability risks

Sustainability risks are evaluated and managed as part of Fazer Group's risk management process, described in the Corporate Governance section. As a food company, we rely on a variety of agricultural commodities. Recognised risks for food production include the effects of climate change on the availability, price and quality of raw material as well as water-related risks. Changing consumer trends relating to health are considered both a risk and an opportunity. All quality, environmental, health and safety risks related to our operations are evaluated as part of Fazer's production site and restaurant level risk evaluation.

How we mitigate risks and capture opportunities related to them is reported on the following pages covering our work in the different strategic corporate responsibility areas.

Anti-corruption

Fazer Group is committed to preventing the occurrence of bribery in all its businesses. Fazer has made a risk assessment of its operations and monitors risks in all its countries of operation. Fazer Group's Anti-bribery programme consists of risk assessment, an anti-bribery policy, face-to-face training of targeted employees, eLearning, registration duties, counterparty risk assessments, targeted internal audits, a hotline and reacting to shortcomings.

Economic value generated and distributed, M€	2017	2016
Economic value generated:		
Customers (net sales, other operating income, financial income, sales of assets)	1,657	1,613
Suppliers		
Direct purchases	-586	-561
Indirect purchases	-327	-307
Operative investments	-62	-86
Added value	682	659
Economic value distributed:		
Personnel (salaries, wages and other indirect employee costs)	-561	-550
Society (taxes and donations)	-23	-43
Owners (dividends)	-38	-19
Financiers (interest and other financial expenses)	-3	-3
Economic value retained in business	58	44

For health and well-being



The well-being of our customers is very important to us, and we strive to promote a healthy, balanced relationship with food.

As we state in our new vision, we spark joy and well-being through meaningful food experiences. We offer a large variety of products and services for different occasions. We provide scientifically valid information to support people in making informed dietary choices.

Focus and goals

- Developing a responsible offering
- Transparently communicating with stakeholders about topics related to health and well-being
- Participating in studies on food, health and sustainability
- Exploring and developing brain-friendly foods through the Fazer Brainhow programme
- Increasing the use of plant-based foods

2018 and onwards

- Continuing health-related research, both proprietary and in co-operation with partners
- Continuing the Fazer Brainhow programme
- Launching new innovative plant-based products
- Continuing promoting #moregreens in Fazer Food Services
- Continuing portfolio development

Performance in 2017

Our focus in 2017 was on the development of products that support well-being and sustainability. Fazer Lifestyle Foods was established in the spring of 2017 to further boost Fazer's response to emerging consumer needs within the areas of health, well-being and sustainable lifestyles. Fazer Lifestyle Foods focuses on non-dairy grain products, plant-based meals and on-the-go snacking. It includes new acquisitions: Bioferme, an expert in fermented oat products, and the leading Nordic smoothie brand Froosh. In addition to Bioferme and Froosh, Fazer Lifestyle Foods comprises Fazer Mills and its Fazer Alku and Frebaco branded breakfast products such as porridges, cereals and mueslis.

We were the first company in the world to introduce insect bread to grocery stores, and our Cricket bread gained worldwide attention. In Finland, we also launched a healthy Seed bread and Lempikaura snacking biscuits that contain root vegetables. In Russia and in the Baltics, we introduced tasty Fazer Root Vegetable breads that include vegetables, and healthy novelties in the Fazer Health Energy product range and under the Hlebny Dom brand in Russia. The very

first product launches of Fazer Brainhow took place in Russia and in the Baltics. Our low-FODMAP belly-friendly rye bread won the first prize at the international NutraIngredients awards.

We engaged in research in many operating countries and with many research partners. Our **Fazer Brainhow programme** took an important step forward with co-operation with Nokia and Nightingale Health. The Fazer Brainhow programme seeks to find ways in which food can support cognitive functions. The aim of the collaboration is to gain a holistic view of the impacts of a diet designed to enhance cognitive capacity. The programme also explored the effects of cocoa flavanols on senior citizens' cognitive performance.

In our statement titled **Fazer for balanced offering**, we have listed 11 actions to tackle the challenge of obesity. The actions include, for instance, packaging and portion sizes, product information and product development. We believe that a balanced diet based on knowledge and personal tastes brings well-being. We want to provide both nutritional information – by, for instance, informing customers of the energy content of portions – and an offering that respects individual choice.

We continued our work to **increase the share of vegetables in meals**. Nudging, in which restaurant guests are gently encouraged to choose more greens through buffet design and the presentation of dishes, was continued in Fazer Food Services' restaurants. In 2017, the share of vegetables was 37.9%.

We launched the new Wicked Rabbit vegetarian food concept, which aims to encourage a change in attitudes towards vegetarian food. The Fazer Foodathon event was organised to find new plant-based food solutions and to highlight food as a solution in stakeholder dialogue. The winner of the foodathon was a vegan egg that can be used in cooking and baking.

The **United Nations' Sustainable Development Goals** (SDGs) were among the most discussed corporate responsibility topics in 2017. SDG 3 and SDG 12 were recognised as the most relevant to our For health and well-being CR area:



In addition, SDG 9 encourages innovation, which is an intrinsic part of our work to support health and well-being. We will continue to examine the ways in which we can contribute to the SDGs with our corporate responsibility agenda.

Fazer of the Future

We will continue our **Fazer Brainhow programme** and increase its visibility. Through research and co-operation we strive to improve people's quality of life and find ways to support the cognitive functioning and overall well-being of people.

Fazer Lifestyle Foods will continue creating a product portfolio with strong, innovative and international concepts and brands for the health-conscious consumer.

Fazer Food Services' successful **#moregreens** actions will continue in 2018, and nudging will continue as a key initiative. We will continue to train our chefs and develop vegetarian recipes.

Portion control, supported by packaging sizes and information, will continue to be developed to **combat obesity**.

We will continue to develop our offering across business areas to support well-being.

People matter



We want to provide motivating and meaningful work in a safe and respectful work environment. We continuously develop our personnel and leadership.

Our devoted personnel is our greatest asset. We work together and continuously develop our capabilities to ensure that our business is profitable and sustainable. We cultivate an atmosphere of respect and work according to a high performance culture in which everyone knows their role and responsibility.

Focus and goals

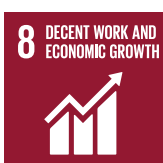
- Providing all employees an equal working community, motivating and meaningful work and a safe working environment
- Encouraging employees to seek and sustain work-life balance
- Supporting the well-being of employees
- Developing a diversified working community as a strength and success factor
- Developing leadership capabilities at all levels
- Ensuring a work environment in which people are treated with dignity, decency and respect. We do not tolerate harassment of any kind.

2018 and onwards

- Implementing HR Vision 2022
- Growing internal entrepreneurship and agility
- Continuing to develop role exchange and job rotation
- Continuing anti-harassment work

Performance in 2017

We continued to work with the United Nations' Sustainable Development Goals (SDGs). The SDG we identified as most closely associated with the People matter sustainability area is SDG8:



This goal was seen to be very much in line with our own responsibility targets. We will continue to assess the ways in which we can contribute to reaching this goal.

In 2017, harassment was addressed to a great extent in media and the society at large, and this discussion prompted us to create a **new Anti-harassment Guideline**. We respect the value, privacy and rights of every individual. We do not tolerate discrimination, threats, harassment or insulting behaviour. We also revised our whistleblowing system to allow third parties to contact us in case of grievance.

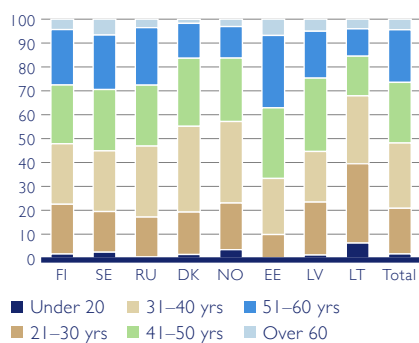
We began the creation of a **novel learning culture**. A new digitalisation training was piloted in Finland and will be expanded in 2018. Planning of the renewal of Fazer Academy, to take place in 2018, began. The Trainee programme continued and produced good results, with trainees contributing to our business after a very short time.

We also continued our **125 Opportunities for Working Life programme**, which began in 2016, in co-operation with the Helsinki Deaconess Institute and the Finnish Centre for Economic Development, Transport and the Environment. It offers working opportunities for people with difficulty in finding employment, such as people with reduced functional ability or immigrants.

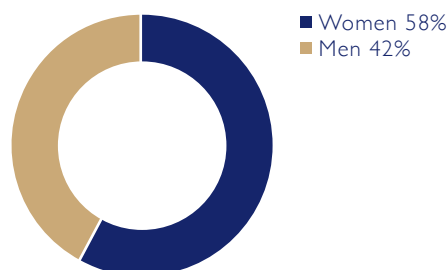
In Russia, we continued our **co-operation with the SOS Children's Village** in Pushkin by offering employment to young people from the village. The village alumni get a chance to get their first work experience in an international company.

We took further the implementation of **role exchange and job rotation** – a new practice that gives us an opportunity for professional development. This practice provides learning possibilities, new responsibilities and a chance to grow in the organisation. Role exchange can also be applied to support diversity work.

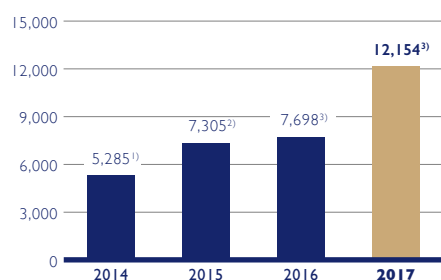
EMPLOYEES BY AGE, %



EMPLOYEES BY GENDER



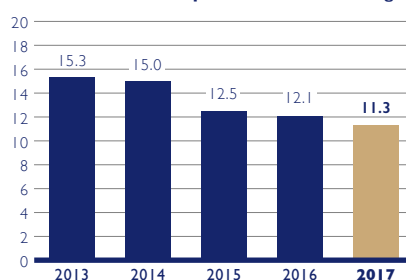
OCCUPATIONAL SAFETY OBSERVATIONS



1) Figure includes Fazer Confectionery and Fazer Bakery

2) Figure includes Fazer Confectionery, Fazer Bakery and Fazer Food Services Finland

3) Figure includes Fazer Confectionery, Fazer Bakery, Fazer Food Services Finland, Fazer Mills Finland and Fazer Cafés

FREQUENCY OF OCCUPATIONAL ACCIDENTS (LTAF)
Number of accidents per one million working hours

During 2017, we finalised our **HR Vision 2022**. It will guide us forward in the years to come and support us in implementing our new strategy. It will also facilitate our transformation towards a leading, sustainable North European food company, while ensuring the well-being of the personnel. Furthermore, we stepped up the implementation of our **safety culture** by beginning the tracking of also minor accidents and near misses, increasing safety communication and conducting more than 40 safety reviews, among other things.

We conducted again the **People Power Survey** to find out how our employees experience their work. At Group level, the overall results improved from the previous survey. The most positive changes occurred within the company-level themes, including employer image and leadership culture. All five indexes measured – Commitment, Leadership, Performance, Engagement and the People Power index – were clearly above the general European norm.

Fazer of the Future

We will begin to implement our **HR Vision 2022**. We will focus on employee experience, internal entrepreneurship and agility. We will develop an extended talent ecosystem that encompasses not only our own talent but that of co-operation partners and stakeholders as well.

We will develop our capabilities in **human resource information systems (HRIS) and analytics**, and implement business HR training to improve our strategic capabilities in HR. We will recruit new key talent to support our strategic growth plans.

We will strengthen our **Group-level leadership capabilities** as well as those in the management of organisational changes. Occupational health and well-being at work will continue to be a priority focus area as well. We will continue to systematically improve work safety at every location to provide a safe working environment for all employees.

We will continue our anti-harassment work by, among other things, creating an obligatory training package addressing the matter.

Number of employees per country 31 Dec. 2017	2017
Finland	6,972
Sweden	3,280
Russia	2,990
Denmark	1,018
Norway	490
Latvia	317
Lithuania	272
Estonia	138
Japan	1

Frequency of occupational accidents (LTAF)

Number of accidents per one million working hours	2017	2016
Fazer Bakery	5.4	5.5
Fazer Confectionery	10.5	13.7
Fazer Food Services	18.8	19.5
Total in Group	11.3	12.1

Fair value chain



We work to ensure that our raw materials, such as cocoa and grain, are produced responsibly from a social and environmental point of view.

High-quality products can only be made with high-quality ingredients. We work with thousands of suppliers, and part of our corporate responsibility is to ensure that they operate sustainably, as well. We respect human, labour and land rights and want our suppliers to receive fair compensation for their work.

Focus and goals

- Constantly improving the level of responsibility and strengthening cooperation in the value chain
- Improving traceability in the value chain and securing food quality and safety
- Controlling and mitigating responsibility risks related to the raw material base

2018 and onwards

- Continuing to use 100% responsibly produced cocoa
- Continuing the implementation of the sustainable grain farming principles so that by 2025 all flour in Finland and Sweden fulfil their requirements
- Increasing the share of responsible soy to 100% by 2020
- Using 100% RSPO segregated or mass balance certified palm oil by 2020 in all operating countries
- Continuing to follow the WWF seafood guides
- Continuing the use of seasonal and second grade fruit and vegetables in our restaurants to reduce food waste in the value chain
- Further developing sustainability in fruit value chains

Performance in 2017

In the beginning of 2017, we achieved one of our most important goals: **100% of our cocoa was responsibly produced**. We source cocoa through UTZ, Rainforest Alliance and Fairtrade Cocoa Programme as well as through our own direct programmes.

The relationship of certifications and direct programmes is one that has sparked lively discussion among our stakeholders. We see the combination of the two sourcing methods as the best option for several reasons. Only approximately 20% of the world's cocoa farmers work in co-operation with certification organisations, which means that the supply of certified cocoa is insufficient to cover the needs of chocolate producers. Direct programmes are

needed to complement certified cocoa. In addition, we need to ensure that all cocoa farmers have the possibility to produce cocoa sustainably.

With direct programmes, we are also able to constantly monitor, for instance, whether child labour is used, as we train local people for this task. This is more efficient than occasional inspections. Our direct programme in Ecuador was audited in 2017 and development actions were planned based on the results.

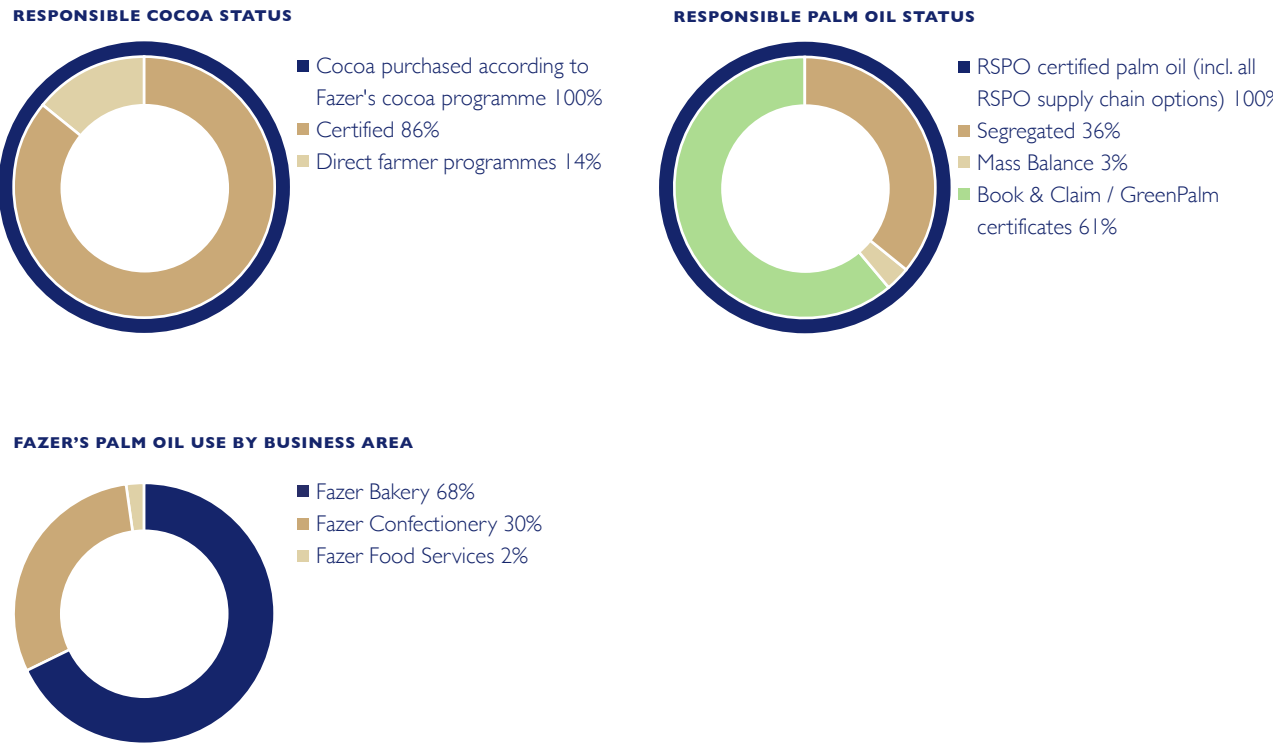
Our direct programmes address social as well as environmental aspects of cocoa farming and support the farming communities. They have encouraged women especially to participate in training and improve their standards of living with their learnings. The cost of implementing direct programmes is higher than that of purchasing certified cocoa, but we see this as a necessary investment towards a reliable supply in the future.

We became a member of **the Roundtable for Responsible Soy (RTRS)** and published our commitment to 100% certified soy by 2020. All the soy used directly or indirectly in the value chain will meet the requirements set by the RTRS or ProTerra. We purchased RTRS credits to cover all our indirect soy consumption in Sweden for 2017. We also became members of the Swedish and Finnish soy commitments. The share of certified soy for the Group was 54%.

We reviewed our **palm oil commitment**. We use 100% RSPO certified palm oil, sourced through three supply chain options: segregated, mass balance and book and claim. Our aim is to increase the share of segregated palm oil, but this has, however, proved challenging. Our target in 2017 was to use 100% segregated palm oil in Fazer Confectionery, but we did not quite reach it as 92% of the palm oil used was segregated, with mass balance and book and claim certified oil making up the difference.

One of the reasons for not achieving the target was that segregated palm oil could not be sourced in the fractions we needed. This we will be able to solve in 2018 for the majority of remaining products.

We developed in 2017 a **sourcing process** for the prioritising of raw materials with high risks related to human rights, water and land use. For most prioritised high risk raw materials or those we use in large volumes, we have already developed Group-level commitments.



We engaged in **active discussion on animal welfare** with our suppliers, non-governmental organisations and other stakeholders. We, and our clients, place great importance on animal welfare in food production, and will continue our stakeholder dialogue on the matter.

Fazer Food Services in Sweden and Denmark strive to **increase the share of organic produce** in their offering. The targeted share in Sweden, 19%, was reached. In Denmark, the share of organic produce is 40%. We continue to use the WWF seafood guides as the basis of our fish sourcing and only use green or yellow listed fish. Fazer Cafés reached its goal in 2017 and is now serving only certified coffee.

Reducing food waste is one of our sustainability priorities, and it is also a way to enhance the efficiency of our value chain. Together with our suppliers we have been able to take advantage of second grade vegetables, which do not look perfect but are just as tasty and completely usable. Second grade vegetables are now used in all Fazer Food Services' business units.

Food safety is essential to our business and cannot be compromised. In 2017 we adopted a Group documentation management system and carried out food fraud awareness training and vulnerability assessments. New allergen guidelines were created by an internal work group and food safety professionals were trained.

We work with **United Nations' Sustainable Development Goals (SDGs)** and have identified the following as the most relevant to the Fair value chain area of our corporate responsibility work:



Fazer of the Future

We will continue the systematic work to ensure **food safety and quality throughout the supply chain**. We will constantly improve the sustainability of our sourcing.

We will work with the identified raw materials – grain, cocoa, palm oil, soy and fish – and also focus on new ones based on our risk evaluation.

We will continue to **reduce food waste** and apply seasonality to improve the efficiency and sustainability of our supply chain. For 2018 we have defined a common seasonal calendar for Fazer Food Services that will be taken into use in all countries.

We will continue to work towards our palm oil commitment and develop our soy purchasing.

Responsible Fish Status	%
Green list fish (Finland and Sweden, incl. certified fish)	69
Green list fish Finland	64
Certified fish Sweden	78

Part of the environment



We strive to minimise our environmental impact by improving energy efficiency, supporting sustainable water use and farming, and preventing waste.

Our mission is Food with a purpose. It refers to the joy we want to bring with our products and services, but also to our goal of offering our customers sustainably produced food. We want to promote the well-being of the planet as well as that of its inhabitants.

Focus and goals

- Reducing climate impact and increasing energy efficiency
- Preventing waste and loss of raw materials
- Managing and using water resources responsibly
- Supporting sustainable farming and preventing loss of biodiversity
- Raising environmental awareness

2018 and onwards

- Reducing Fazer's energy consumption per produced tonne with 20% from the 2011 level by 2020
- Implementing a packaging vision by examining alternatives for more sustainable packaging
- Reducing CO₂ emissions from bakery transports through shared deliveries with other companies
- Continuing implementation of our No Deforestation Commitment
- Implementing Fazer Grain Vision

Performance in 2017

We reviewed **our energy long term plan and targets** in 2017. In 2017, our energy consumption was 0.85 MWh/production tonne, and renewable energy made up 88% of our total energy consumption. In 2017, energy consumption per produced tonne decreased slightly. Despite the significant changes caused by business acquisitions to Fazer's environmental footprint, we are committed to reducing Fazer's energy consumption per produced tonne with 20% by 2020. The electricity used at all our sites in Finland, Sweden and Latvia is 100% renewable.

We continued to develop our **Water Stewardship Plan**, and joined a "Water and Food" cluster group facilitated by SIWI Swedish Water House in Sweden. The aim was to better understand and address our water risks in both production and raw material sourcing. The purpose is to identify and mitigate our impact on water in the value chain, identify main risks, and establish a plan of action. We looked into waste water quality at production facilities and created a waste water road map for 3 industrial sites (Neva, Smolenskaya and Zvezdny in Russia) to improve waste water quality and share best practices. In 2017, our water consumption decreased slightly.

We renewed our **Baltic Sea Commitment** for 2018–2022. In it, we commit to developing our production, ways of working and offering in a way that contributes to the promotion of the ecological balance of the Baltic Sea. The commitment involves actions and targets concerning circular economy, sustainable grain farming, water stewardship plan and offering development.

We published our **Sustainable Grain Farming Principles**, which we have developed in co-operation with farmers. We continue to cultivate a strong dialogue with the farming community to implement the principles and to improve the sustainability of farming. Studies are conducted to monitor how the fulfilment of the principles is developing.

We continue to promote the **use of vegetables**, as their impact on the climate is smaller than that of meat. In Sweden, we started using a Carbon calculator tool in a few restaurants to plan our menus and calculate the carbon footprint of individual dishes. We shared this information with our customers to support them in making sustainable choices.

We organised Fazer Foodathon to find innovative plant-based food products and introduced the Wicked Rabbit vegetarian food concept. We joined a Sustainable Food Chain initiative "Hållbar Livsmedelkedja" in Sweden to work towards a more sustainable food chain together with key stakeholders and WWF Sweden. Fazer Group joined the **Climate Leadership Council (CLC)**, which challenges companies and society to act on climate change.

In Fazer Bakery Finland we developed a **packaging vision 2018–2020**. According to this vision, we will consider environmentally friendlier packaging materials when revising product packaging or designing packaging for new products. In Sweden we also started looking at ways to use recycled and sustainably produced packaging material. During autumn 2017 we started an in-depth analysis of how we can fulfil this target looking at the whole value chain. The plan is yet to be finalised, but we already managed to reduce plastic packaging materials by 65 tonnes between May 2016 and May 2017.

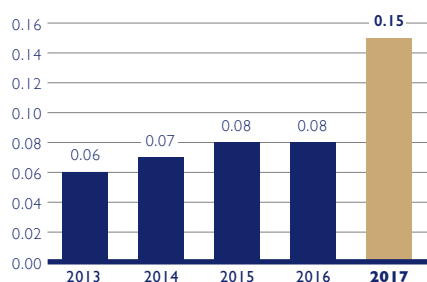
We continued our work to reduce **waste and raw material loss**. We increased awareness of the issue with a Group-wide workshop, specified instructions for shop personnel, applied a Consumer App in Gateau bakery shops in Sweden to sell products with a high discount near closing time and donated surplus products to charities.

In Fazer Food Services we organised waste reduction campaigns, which resulted in food waste reduction in restaurants in Sweden, Denmark and Norway. In Finland we changed the measurement method in 2017, which makes comparison with the previous year difficult. More food waste reduction actions are planned in order to reach our target.

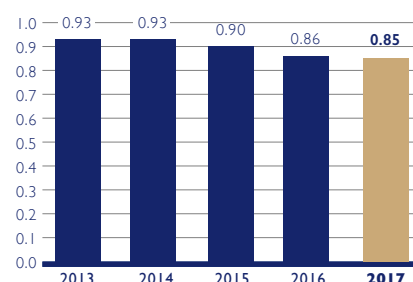
Due to the changes in our industrial footprint, waste and by-products and raw material consumption per produced tonne increased. However, the comparable figures show the declining trend also in these areas.

The total number of environmental incidents during 2017 was 14. The incidents were related to starts of fires, flour sprays, spills and leakages. All incidents were categorised as minor.

TOTAL AMOUNT OF WASTE/PRODUCED QUANTITY
tonnes/tonne



ENERGY CONSUMPTION/PRODUCED QUANTITY
MWh/tonne



We continue to work with United Nations' Sustainable Development Goals (SDGs). We identified the following goals as the most material to our environmental sustainability work:



Fazer of the Future

We will continue the work to **reduce our energy consumption** per produced tonne and strive to further increase the share of renewables by following the market development of renewable energy in Russia.

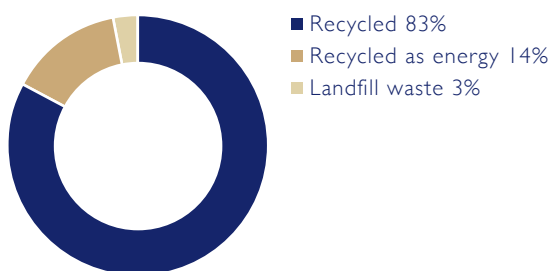
We will continue systematic work to **reduce raw material loss and waste** in all our businesses.

Our focus on **water issues** will be even stronger in 2018. We will begin implementation of the Fazer Water Stewardship Plan. The availability of fresh water, raw material production in potentially water-sensitive areas and waste water management are among topics that we intend to address. Through the Fazer Sustainable Grain Farming Principles we will continue our work to reduce the eutrophication of the Baltic Sea.

Sustainable packaging is an important focus area for the coming years. We aim for holistic sustainable packaging solutions throughout the value chain.

We will continue to **develop new plant-based products** in Fazer Lifestyle Foods and to promote the use of vegetables in Fazer Food Services.

WASTE TREATMENT



Environmental indicators	2017	2016
Amount of production (tonnes)	595,110	589,001
Energy consumption (MWh)	507,819	504,384
Energy consumption/produced quantity (MWh/tonne)	0.85	0.86
Usage of water (m³)	875,117	884,977
Usage of water/produced amount (m³/tonne)	1.47	1.50
Used raw materials (tonne)	567,019	481,683
Used raw materials/produced quantity (tonnes/tonne)	0.95	0.82
Total amount of waste/produced quantity (tonnes/tonne)	0.15	0.08
Total amount of waste (tonnes), of which	86,991	48,650
Recycled (%)	83%	66%
Recycled as energy (%)	14%	26%
Landfill waste (%)	3%	8%

The environmental indicators cover the operations of Fazer's bakeries, confectionery factories and mills.

Management system certificates at Fazer

	QEHS Standards				Food safety standards				Ethical trade	
	ISO 9001	ISO 14001	ISO 50001	OHSAS 18001	FSSC 22000	ISO 22000	BRC	IFS	AIB	SMETA 4-pillar
Fazer Confectionery										
Vantaa	X	X		X	X					X
Lappeenranta	X	X		X	X					X
Karkkila	X	X		X	X					X
Vantaa Biscuit	X	X		X	X					X
Fazer Bakery Finland										
Vantaa					X					
Lahti					X					
Lahti (Crisp)					X		X			
Lappeenranta					X					
Oulu					X					
Fazer Bakery Sweden										
Eskilstuna		X		X	X					
Stockholm		X		X						
Lidköping	X	X		X	X			X		
Lund		X		X	X					
Löfvånger		X		X	X					
Umeå		X		X	X					
Fazer Bakery Russia										
Smolenskaja	X	X		X	X					
Murinski	X	X		X	X					
Neva	X	X		X	X					
Zvezdny	X	X		X	X					
Fazer Bakery Baltics										
Ogre			X		X					
Kaunas										
Fazer Food Services										
Restaurants Finland	X	X								
Restaurants Sweden	X	X								
Restaurants Denmark										
Restaurants Norway										
Tallinn kitchen						X				
Fazer Lifestyle Foods										
Bioferme					X					
Fazer Mills Lahti				X	X				X	
Fazer Mills Lidköping	X	X			X					

ISO 9001	Quality
ISO 14001	Environment
ISO 50001	Energy Management
OHSAS 18001	Occupational Health and Safety
FSSC 22000	Food Safety
ISO 22000	Quality and Food Safety
BRC	Food Safety
IFS	Food Safety
AIB	Food Safety
SMETA 4-pillar	Sedex Members Ethical Trade Audit

Governance



Board of Directors' report

Fazer continued to improve its performance and to implement its strategy in 2017. The Group's net sales and operating profit increased from the previous year. In March 2017, a change was made to the company's operating structure by forming a new business area, Fazer Lifestyle Foods, which focuses on non-dairy grain products, plant-based meals and on-the-go food and drinks. In relation to the newly established business area, two acquisitions were made in 2017 – the acquisition of Bioferme, a Finnish company specialised in fermented oat products, and the acquisition of the leading Nordic smoothie brand Froosh. In addition, Fazer Mills was included in the Fazer Lifestyle Foods business area. Focus on efficiency improvements continued with initiatives in several fields. Work safety and the development of a safety culture remained an important theme in 2017 with positive results.

In 2017, Fazer started to apply the International Financial Reporting Standards (IFRS) in its consolidated accounts. Also, comparative figures for 2016 were restated in accordance with IFRS. The parent company's figures continued to be based on Finnish Accounting Standards (FAS).

Markets, business environment and sales

In 2017, the economies in many of Fazer's key markets took a turn to the better: the Finnish, Norwegian and Russian economies strengthened, and the Swedish economy continued on its growth path. The biggest foreign currency impact on Fazer came from the rouble, which strengthened 11% against the euro on average, and supported Fazer's financial performance in 2017.

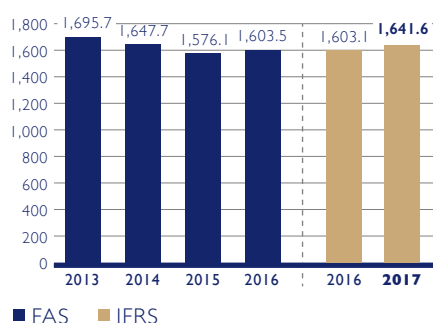
The bakery market as a whole slightly declined in the main markets during 2017, and the share of private label sales increased. Despite the challenging market situation, Fazer Bakery was able to increase its sales to 614.4 M€ (2016: 602.4) and successfully implement value creation actions to improve its operational efficiency and profitability. The health trend continued and supported the sales of the well-being offering, and the popularity of artisanal bread remained strong. In Finland, good performance was backed up by the strong portfolio with a good product mix and successful novelties. In addition, the shop-in-shop business continued its success. Sweden, on the other hand, suffered from the market decline and the competition from private labels. Successful product launches and operational improvements were carried out in Russia. The Baltic bakery operations improved their product portfolio with successful new product launches and price positioning. Artisanal bread continued to attract consumers, and bakery shops' sales increased.

2017 was an excellent year for Fazer Confectionery: comparable net sales increased to 331.2 M€ (313.4, excluding the excise tax of 24.0 M€) supported by successful product launches, novelties and campaigns. The confectionery market volume increased, and the biscuit market saw some growth as well with Domino, Jaffa and Fasupala performing above expectations. In Finland, competition in chocolate tablets was tough, but Fazer was able to defend this core market. The Karl Fazer brand was voted the most valued brand in Finland. Fazer Confectionery's market share grew in Sweden.

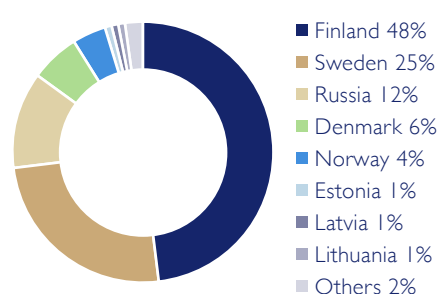
Fazer Food Services has around 1,200 restaurants in Finland, Sweden, Norway and Denmark serving specific sectors within three clusters – Business, Concession and Public. In 2017, Fazer Food Services maintained a strong market position, despite increasing competition especially in the public sector. Net sales reached 607.7 M€ (600.7). The impact of the net portfolio change was slightly negative, but comparable sales improved especially in Finland. Client satisfaction (NPS) increased during 2017. A brand renewal was started, and it will continue in 2018 with the refreshing of the Amica brand and building of the new Fazer Food & Co restaurant brand.

Fazer Lifestyle Foods is a new business area established in March 2017 with the acquisition of the oat expert Bioferme and its popular Yosa brand. Fazer Lifestyle Foods' offering consists of plant-based foods and drinks, non-dairy products, and snacks. The smoothie brand Froosh, acquired in November, serves as a platform for Fazer Lifestyle Foods' offering of healthy and sustainable fruit-based products. In addition to its strong position in the Nordics, Froosh exports to several European countries. Fazer Mills, which is a part of Fazer Lifestyle Foods, produces oat-based breakfast products, for instance porridge, muesli and cereals, in addition to the traditional milling products. It also produces oat derivatives such as beta-glucan and oat protein for the food industry, as well as oat oil and oat fibre for the cosmetic and pharmaceutical industries. Net sales of the new business area reached 99.4 M€ during its first year of operation. This includes the sales of Fazer Mills and post-acquisition sales of Bioferme and Froosh.

NET SALES, M€



NET SALES BY COUNTRY



In 2017, Fazer Cafés' net sales remained on the same level as previous year and stood at 21.9 M€ (22.0), despite continuously tightening competition. Two new cafés were opened, one in Sanomatalo in Helsinki and one in Ainoa in Tapiola, Espoo. Fazer Cafés' customer satisfaction improved from the already high level of the previous year.

The Fazer Experience visitor centre, opened in 2016 when Fazer celebrated its 125th anniversary, was visited in 2017 by more than 187,000 people who also gave high customer satisfaction ratings.

Financial results

Fazer's reported net sales increased by 2% from previous year and reached 1,641.6 M€ (1,603.1). Excluding the excise tax abolished from the beginning of 2017 from 2016 figures, the comparable net sales were up almost 4%. The strengthened foreign exchange rates increased the net sales by 14.4 M€ and the acquired and sold businesses by 25.8 M€ (net).

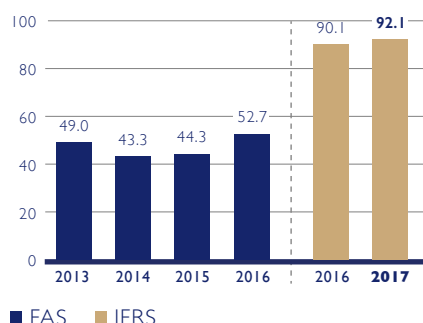
The Group's operating profit improved to 92.1 M€ (90.1). Operating profit included 3.5 M€ (0.6) one-time restructuring costs and write-offs (net). Profit for the financial period was 72.1 M€ (70.5). Fazer Bakery and Fazer Confectionery improved the profit most.

Cash flow and financial position

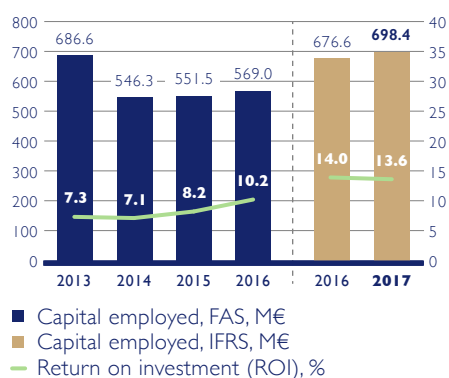
The Group's financial position remained strong. Interest-bearing net debt totalled 79.0 M€ (57.3). The Group's equity ratio improved to 55.1% (54.2%).

Cash flow from operating activities was 149.6 M€ (146.6) and gross investments amounted to 108.0 M€ (104.6). The most important investments included the acquisition of Bioferme and Froosh together with investments in new production equipment and upgrades to existing machinery in the bakery and confectionery operations.

OPERATING PROFIT, M€



CAPITAL EMPLOYED AND PROFITABILITY



Key figures	2017	2016
Net sales, M€	1,641.6	1,603.1
Operating profit, M€	92.1	90.1
– share of net sales, %	5.6	5.6
Return on equity, %	13.3	14.1
Equity ratio, %	55.1	54.2
Gearing, %	14.2	10.8
Personnel		
Number of employees, 31.12.	15,478	15,533
Number of employees, avg. FTE	13,198	13,287
Wages and salaries, M€	433.3	422.2

NB. 2015 (FAS) comparison information is excluded from the key figure tables due to IFRS incomparability.

Personnel

At year-end, Fazer had 15,478 employees (15,533). Out of these, 68 (143) were employed by the parent company.

Strategy implementation

In addition to the creation of the new business area, Fazer Lifestyle Foods, and the related acquisitions and business development, Fazer executed several initiatives to implement its strategy. These include value creation initiatives in the other business areas and Group functions as well as planning and developing means for growth and geographical expansion.

Quality, occupational health & safety and environment

In 2017, Fazer continued to manage and improve quality, occupational health & safety and environmental (QEHS) responsibility both via internal programmes and through 3rd party certifications for its management systems. The new QEHS policy was communicated broadly and common QEHS actions were rolled out across Fazer's operations.

New ways of communication and leadership activities were implemented to improve occupational health and safety. Management safety walks, safety reviews, safety commitments and other safety actions began to be part of the daily operations. Accident frequency reduced by 6% from 2016.

Fazer continued to improve its quality and food safety management in many ways. For example, new digital QEHS solutions were taken into use, the programme to certify all production sites against a global food safety system was continued, and allergen management was developed.

Fazer's environmental management was also improved: waste and by-product recycling as well as energy management certification were developed and, in Finland, Fazer Confectionery, Fazer Bakery and Fazer Mills joined the new national energy efficiency agreement with targets till 2025.

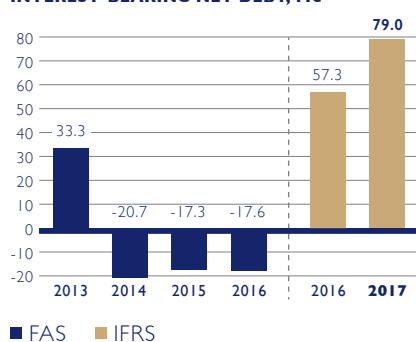
Corporate responsibility

In 2017, Fazer progressed in its systematic work towards its corporate responsibility targets. The highlights include reaching the target of 100% responsible cocoa, defining a target of 100% sustainable grain by 2025 for Finland and Sweden, promoting an increase in the share of vegetables in the restaurant offering, keeping Fazer's reputation on an excellent level in its main markets, continuing work on Human Rights, and starting the development of a Water Stewardship Plan.

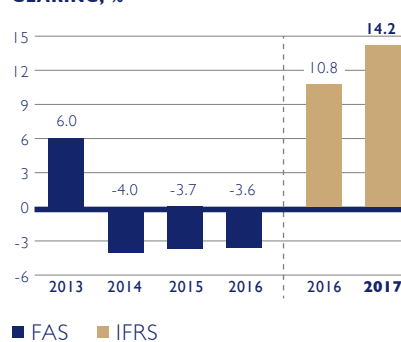
Risk management

Fazer regularly evaluates and analyses the Group's strategic, operative and financial risks within the framework of its risk management policy and takes action to mitigate these risks. In 2017, no major risks were realised.

INTEREST-BEARING NET DEBT, M€



GEARING, %



Research and development

The execution of the Fazer Brainhow programme, which focuses on the connection between food and cognitive performance, continued in 2017. Two new clinical trials were started. The FlaSeCo study focuses on the effect of cocoa flavanols on elderly people's cognitive performance and health biomarkers. The study is conducted collaboratively with Gery (Society for Gerontological Nutrition in Finland). Another clinical study called BRAVE is conducted in cooperation with Nokia Technologies and Nightingale Health. The BRAVE study investigates the effects of brain-friendly food on cognitive functions, physiology and blood biomarkers. The results from both studies will be ready in 2018.

Technology development for belly-friendly food solutions continued. In 2017, the focus was on the development of a proprietary improver for belly-friendly bakery products. Also cooperation with University of Helsinki and Aalto University continued with five ongoing master's or diploma works.

Research and development costs amounted to 9.9 M€ (9.0).

Changes in Group legal structure

The changes in the Group legal structure are disclosed in the Note 25 to financial statements.

Shares and share capital

At the end of 2017, the parent company had 3,958,763 preference shares and 2,365,200 ordinary shares. Preference shares carry a preferential right of at least 6% of the share's nominal amount, ahead of ordinary shares, for the annual dividend from the company's distributable profit. At the Annual Shareholders' Meeting, each ordinary share is entitled to ten votes and each preference share carries one vote.

Administration and auditors

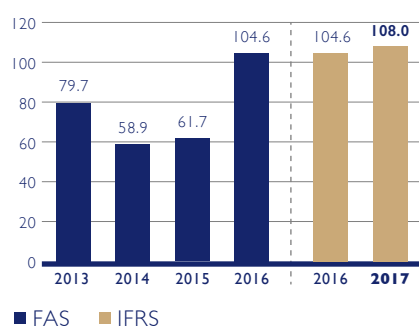
At the Shareholders' Meeting on 30 March 2017, the following Board members were re-elected: Berndt Brunow (Chairman), Anders Dreijer (Vice Chairman), Klaus Cawén, Ketil Eriksen, Jan Fazer, Leif Hagelstam, Johan Linder, Cecilia Marlow and Juhani Mäkinen.

Chartered Accountants PricewaterhouseCoopers were chosen as auditors, with Chartered Accountant Martin Grandell as auditor-in-charge.

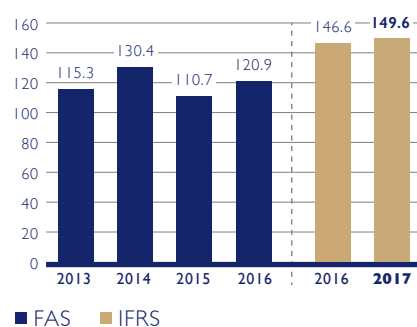
Outlook for 2018

The GDP growth in most of Fazer's main markets is expected to remain close to the same level as in 2017. The competitive environment is, however, expected to continue as tough for all Fazer's businesses.

GROSS INVESTMENTS, M€



CASH FLOWS FROM OPERATING ACTIVITIES, M€



Fazer will focus on creating profitable growth in order to reach the long-term sales and profitability targets aligned with its strategy to create value. In addition to relentlessly driving the organic growth within the established businesses and product categories, active M&A work will continue to explore inorganic opportunities to further strengthen growth and internationalisation. Fazer's net sales are expected to grow in 2018, subject to the development of key non-euro denominated currencies. Fazer will also continue to work on strengthening its competitiveness. This work is driven by the established value creation programmes and by continuously developing the company's organisational and structural efficiency.

Events after the reporting period

Fazer Retail was established as a separate business unit at the start of 2018 to strengthen Fazer's direct-to-consumer business. The new business unit combines the Gateau bakery shops in Finland and Sweden together with Fazer Cafés in Finland. Fazer Retail offers high-quality artisanal bread, sweet and savoury delicacies, chocolates and hot and cold beverages to café and bakery shop customers.

Proposal for distribution of profit

The parent company's distributable funds amount to 643,230,795.57 euros of which 41,511,658.90 euros represents profit for the financial year.

The Board of Directors proposes to the Shareholders' Meeting that distributable funds should be appropriated as follows:

- to pay a dividend of 9.60 euros per share, i.e. a total of	60,710,044.80 €
- to leave in profit brought forward	582,520,750.77 €
	<u>643,230,795.57 €</u>

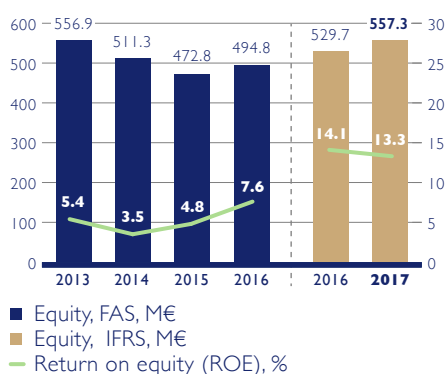
The proposed dividend does not pose any risk to the company's financial standing.

Vantaa, Finland, 8 March 2018

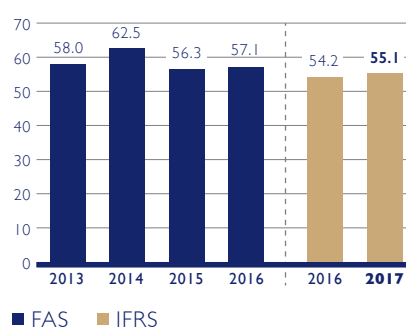
Oy Karl Fazer Ab

Board of Directors

EQUITY AND RETURN ON EQUITY



EQUITY RATIO, %



Corporate governance

The Corporate Governance of Oy Karl Fazer Ab (Fazer) and its subsidiaries follows the rules and regulations defined by the Articles of Association and the Finnish legislation and the corporate governance principles, which are based on the Finnish Companies Act and, to some extent, the recommendations for listed companies in Finland.

Shareholders' Meeting

Shareholders at the Shareholders' Meeting hold the highest power of decision in Fazer Group. The Annual Shareholders' Meeting is held at the latest in June in Helsinki or Vantaa. The Shareholders' Meeting addresses issues it is responsible for according to the current legislation and Fazer's Articles of Association, such as approving the Group's Financial Statements, deciding on dividend distribution, appointing the Board of Directors and auditors and their compensation.

According to the Articles of Association, notices of meetings for Shareholders' Meetings are posted at the latest 14 days before each Shareholders' Meeting.

Board of Directors

The Owners' Council, appointed by shareholders, convenes the Nomination Committee, which is responsible for preparing propositions regarding the composition of the Board of Directors and compensations of Board members. The Nomination Committee consists of one Owners' Council representative, the Chairman of the Board of Directors and one independent Board member.

The composition and duties of the Board of Directors

According to Fazer's Articles of Association, the Board of Directors consists of no less than five and no more than ten members who are elected annually at the Shareholders' Meeting. The Board of Directors has general jurisdiction in all issues that are not required of other institutions under the Finnish Companies Act and the Group's Articles of Association. Under the terms of the Finnish Companies Act, the Board of Directors is responsible for ensuring that the Group's administration and operations are managed appropriately. The Board of Directors is responsible for ensuring that accounting and financial control are managed appropriately. Other tasks of the Board of Directors include e.g. approving the Group's values, strategy and annual business plans. The Board of Directors decides on acquisitions and strategic investments and monitors the financial performance and position of the Group. The Board of Directors appoints the Chief Executive Officer (CEO) and decides on the salaries and compensation of the Group's senior management.

In addition, the Board of Directors assesses its own performance and cooperation with the management. The Board of Directors comprises Berndt Brunow (chairman), Klaus Cawén, Anders Dreijer, Ketil Eriksen, Jan Fazer, Leif Hagelstam, Johan Linder, Cecilia Marlow and Juhani Mäkinen.

Meeting practices

The Board of Directors holds at least eight meetings a year. The Annual Financial Statements are approved in March at the latest and the interim reports during each four-month period. As a rule, the Group's strategy is approved in June. The business plans for the year and bonus programmes for senior management are approved at the first meeting of the year. Additional meetings can be convened, if necessary, by the Chairman of the Board, the CEO or a member of the Board.

Chairman of the Board of Directors

The Board of Directors appoints a chairman from amongst its members, who is responsible for managing the activities of the Board, convening the Board and preparing Board meetings together with the CEO. The Chairman works closely and actively with the CEO, and should be well informed on significant issues affecting the company and its stakeholders. The Chairman and the CEO of the Group are responsible for ensuring that the members of the

Board are informed about matters concerning the Company and that notices of meetings, agendas and all relevant documents are delivered to the members of the Board well in advance of meetings. The Chairman and the CEO of the Group are also responsible for maintaining contact with the Family Council.

Committees of the Board of Directors

The Board of Directors makes decisions about appointing committees and their members. Committees are responsible for preparing issues coming up for decision at Board of Directors' meetings. Fazer's Board of Directors has appointed an Audit Committee and an HR Committee. The tasks of the Audit Committee are to take in-depth interest in audits, to control internal auditing, financial reporting and risk management and the company's financial situation and to participate in interim audits. The HR Committee is to prepare issues related to employment and rewarding the CEO and the Group's senior management, monitor the total compensation of the management and incentive programmes of the personnel and to evaluate the management's work including reviewing of the annual employee satisfaction survey results.

The Audit Committee comprises Jan Fazer (chairman), Anders Dreijer, Juhani Mäkinen and Ketil Eriksen. The Committee held four meetings during the financial period and, apart from ordinary issues, it dealt with questions related to e.g. IFRS implementation, information security and development of non-core assets.

The HR Committee comprises Berndt Brunow (chairman), Klaus Cawén, Leif Hagelstam and Johan Linder. The Committee has met twice during the financial period and prepared issues for the Board related to, for example, the Fazer people strategy, leadership development, and incentive programmes of the personnel.

CEO and Deputy CEO

Fazer's Board of Directors appoints and dismisses, if needed, the CEO, who is also the Group President. Under the requirements of the Finnish Companies Act, the CEO is responsible for the day-to-day administration of the company, in line with the instructions of the Board of Directors, and for ensuring that the company's accounting is carried out in accordance with legal requirements and that the company's financial management is handled appropriately. The CEO reports to the Board of Directors and informs the Board of Fazer's operating environment, e.g. customers, competition and market situation and Fazer's financial position and development. The CEO is supported by the Group Management Team and the Deputy CEO, who is nominated by the Board of Directors when needed. Christoph Vitzthum is the current CEO and President whereas Jouni Grönroos is the Deputy CEO.

Group Management Team

The Group Management Team consists of the CEO of the Group, who acts as Chairman, the Managing Directors of the Business Areas and Heads of certain Group functions. The duties of the Group Management Team are to support the CEO in his/her tasks and to draft propositions to the Board. The Group Management Team also e.g. coordinates operations across the Group and secures efficient operations on Group level. The current Group Management Team comprises Christoph Vitzthum (CEO & President, chairman), Andreas Berggren (MD Fazer Food Services Business Area), Marko Bergholm (acting MD Fazer Confectionery Business Area), Brendan Harris (MD Fazer Lifestyle Foods Business Area), Petri Kujala (MD Fazer Bakery Business Area), Jouni Grönroos (CFO & Deputy CEO), Sebastian Jägerhorn (EVP Legal), Ulrika Romantschuk (EVP Communications & Branding), Lara Saulo (EVP Transformation) and Mika Videman (EVP HR).

Risk management

Risk management is an important part of the management system of Fazer Group. The Board of Directors approves the risk management policy of Fazer Group and monitors its compliance. Risk management's task is to support the implementation of the Group's strategy and business targets, secure the recognition of risks affecting the company's business, assess, monitor and anticipate threats and opportunities affecting business and secure the continuity of operations. The management of Business Areas, Business Units and Group functions is responsible for the identification and evaluation of the risks of their respective areas and for mitigating these risks as part of their operative activities. Financial risks are administered by Group Finance. The Group's Chief Financial Officer is responsible for the management and development as well as reporting of risk management to Board and Audit Committee and also for supporting Business Areas, Business Units and Group functions in risk management.

Internal audit

Internal audit evaluates the efficiency and suitability of different operations and monitors the functioning of internal control. It is to make sure that financial and operative reporting is reliable and that the approved operating principles and given instructions are complied with. Internal audit drafts an annual audit plan, the results of which are regularly reported to the Group Management, auditors and the Audit Committee. Internal Audit reports to the Audit Committee.

Auditors

The Group's auditors are appointed by the Shareholders' Meeting for a term of one year. The auditors are responsible for auditing the Group's accounts, financial statements and administration. The details of these duties are contained in the relevant legislation and regulations covering good auditing practices. The auditors participate in the Annual Meeting of the Board of Directors devoted to consideration of the Group's Financial Statements and to meetings of the Audit Committee.

Ethical principles of Fazer Group

Fazer's ethical principles are based on international principles drawn up by the UN Global Compact, which aims to promote corporate sustainable development and good corporate citizenship. The ethical principles of Fazer Group are based on Fazer's common values and they guide Fazer's employees in treating customers, cooperation partners and work colleagues in an equal and fair way.

Through the ethical principles, Fazer as an employer is committed to providing all its employees in every country with modern and safe working conditions, and to looking after the employees' health, occupational well-being and work satisfaction, as well as treating every employee in an equal manner.

Board of Directors



Berndt Brunow

b. 1950
Master of Economic Sciences
Chairman of the Board of Directors of Oy Karl Fazer Ab 2009–
Chairman of the HR Committee



Anders Dreijer

b. 1953
Master of Science (Technology)
Vice Chairman of the Board of Directors of Oy Karl Fazer Ab 1994–
Member of the Audit Committee



Klaus Cawén

b. 1957
Master of Laws
Member of the Board of Directors of Oy Karl Fazer Ab 2002–
Member of the HR Committee



Ketil Eriksen

b. 1963
Bachelor of Science (Economics)
Member of the Board of Directors of Oy Karl Fazer Ab 2009–
Member of the Audit Committee



Jan Fazer

b. 1975
Member of the Board of Directors of Oy Karl Fazer Ab 2012–
Chairman of the Audit Committee



Leif Hagelstam

b. 1955
Engineer
Member of the Board of Directors of Oy Karl Fazer Ab 1996–
Member of the HR Committee



Johan Linder

b. 1959
Master of Laws
Member of the Board of Directors of Oy Karl Fazer Ab 2000–
Member of the HR Committee



Cecilia Marlow

b. 1960
Master of Business Administration
Member of the Board of Directors of Oy Karl Fazer Ab 2016–



Juhani Mäkinen

b. 1956
Master of Laws, lagman
Member of the Board of Directors of Oy Karl Fazer Ab 2006–
Member of the Audit Committee

Group Management Team



Christoph Vitzthum

b. 1969
Master of Economic Sciences
President and CEO, Fazer Group



Jouni Grönroos

b. 1965
Master of Economic Sciences
CFO and Deputy CEO, Fazer Group



Andreas Berggren

b. 1966
Master of Sciences (Business
and Economics)
Managing Director, Fazer Food Services
and Executive Vice President, Fazer Group



Marko Bergholm

b. 1970
Bachelor of Science (Business
and Economics)
Acting Managing Director, Fazer
Confectionery



Brendan Harris

b. 1962
Master of Business Administration, B.A.
in Politics, Philosophy and Economics
Managing Director, Fazer Lifestyle Foods
and Executive Vice President, Fazer Group



Sebastian Jägerhorn

b. 1969
Master of Laws
Master of Economic Sciences
Legal and Executive Vice President,
Fazer Group



Petri Kujala

b. 1962
Bachelor of Economic Sciences
Managing Director, Fazer Bakery and
Executive Vice President, Fazer Group



Ulrika Romantschuk

b. 1966
Bachelor of Political Science
Communications & Branding and
Executive Vice President,
Fazer Group



Lara Saulo

b. 1972
Master of Economic Sciences
Transformation and Executive Vice
President, Fazer Group



Mika Videman

b. 1967
Master of Science (Technology)
Human Resources and Executive Vice
President, Fazer Group

Financial information

Fazer adopts International Financial Reporting Standards

Fazer wants to provide meaningful and relevant information in a transparent way. To this end, we have decided to adopt International Financial Reporting Standards (IFRS), and will report our financial statements in accordance with them from this report on. Fazer has until now reported according to the Finnish Accounting Standards (FAS). IFRS is the most commonly used set of accounting standards, contributing to the comparability of reported figures. It also facilitates the integration of acquired companies. It is a good foundation for common accounting principles for an international group such as Fazer.

Fazer's first consolidated financial statements in accordance with IFRS

The consolidated financial statements in the year 2017 are Fazer's first consolidated financial statements prepared in accordance with IFRS and the following exemptions for the first-time adoption have been applied:

- IFRS 3 (Business Combinations) standard has not been applied to acquisitions of subsidiaries which have occurred before 1 January 2016,
- cumulative translation differences for all foreign operations are deemed to be zero at 1 January 2016,
- IFRS 16 (Leases) has not been applied to operating leases with a remaining lease term of less than 12 months as at January 2016,
- the Group has used a single discount rate to leases at first-time adoption,
- assets of finance leases are measured to the amount equal to liability.

Fazer has early adopted IFRS 9 (Financial instrument), IFRS 15 (Revenue from contracts with customers) and IFRS 16 (Leases) standards. More detailed information about Fazer's accounting principles and transition to IFRS is available in Fazer Group's official financial statements and note 4 to them.

Fazer Group's consolidated statement of comprehensive income

M€	2017	2016
Revenue	1,641.6	1,603.1
Other operating income	6.3	8.2
Change in finished goods & work in progress	3.7	-2.4
Materials and services	-600.8	-572.0
Employee benefit expenses	-551.1	-540.0
Depreciation, amortization and impairment	-81.7	-74.4
Other operating expenses	-326.3	-332.7
Total expenses	-1,556.1	-1,521.5
Share of profit of associate	0.3	0.2
Operating profit	92.1	90.1
Finance income and expenses		
Finance income	20.3	22.2
Finance expenses	-22.9	-23.0
Total finance income and expenses	-2.6	-0.8
Profit before income tax	89.5	89.3
Income tax	-17.3	-18.7
Profit for the year	72.1	70.5
Profit is attributable to		
Owners of the parent	63.4	62.0
Non-controlling interests	8.8	8.5
Other comprehensive income		
Items that may be classified to profit or loss		
Changes in fair value of cash flow hedges	2.7	-2.7
Exchange rate differences on translation of foreign operations	-9.0	6.3
Income tax relating to these items	-0.5	0.6
Items that will not be reclassified to profit or loss		
Changes in fair value of equity investments through other comprehensive income	0.2	3.6
Remeasurement of post-employment pension obligations	0.3	-0.4
Income tax relating to these items	-0.1	-0.6
Other comprehensive income, net of tax	-6.5	6.8
Total comprehensive income for the period	65.7	77.3
Total comprehensive income for the period attributable to:		
Owners of the parent	58.9	66.4
Non-controlling interests	6.8	11.0

Key impacts of the adoption of IFRS on Fazer's income statement

According to IFRS standards the goodwill and trademarks with indefinite useful life are not amortised. According to IFRS acquisition costs are reported in the income statement in other operating expenses. Off-balance sheet intangible items identified at the time of acquisition, such as customer contracts, trademarks and technology, are allocated to intangible assets in balance sheet. Depreciations of these asset items are reported in the income statement in depreciations and amortizations. Equivalent changes of deferred tax liability related to depreciations are reported in the income taxes. According to Finnish accounting standards (FAS) all lease agreements are treated as other lease agreements. Under the IFRS the lease expenses are removed from other operating expenses and replaced by depreciations on right-of-use assets and by interest expenses on the lease liability. According to IFRS standards financial assets are classified in three categories; assets valued at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income. Consequently, the company has transferred investments in bonds, previously classified as cash and cash equivalents, and shareholdings in listed companies, previously classified as investments, to assets measured at fair value through other comprehensive income. The company applies hedge accounting on foreign exchange hedging transactions. According to IFRS standards the fair value of the component in a derivative instrument which is designated as hedge is reported through other comprehensive income to the extent that the hedging relationship is effective. The company has applied hedge accounting also in FAS reporting.

Fazer Group's consolidated balance sheet

M€	31.12.2017	31.12.2016
ASSETS		
Non-current assets		
Goodwill	160.6	129.6
Intangible assets	51.2	32.1
Property, plant and equipment	431.8	427.7
Investments accounted for using the equity method	1.1	1.0
Financial assets at fair value through profit or loss	3.1	3.2
Financial assets at fair value through other comprehensive income	-	8.4
Other receivables	2.0	2.0
Deferred tax assets	1.0	0.3
Total non-current assets	650.9	604.4
Current assets		
Inventories	90.3	82.5
Trade and other receivables	206.0	198.5
Financial assets at fair value through profit or loss	21.8	21.7
Financial assets at fair value through other comprehensive income	-	4.9
Current income tax receivables	4.0	3.4
Cash and cash equivalents	40.3	62.9
Total current assets	362.4	373.9
TOTAL ASSETS	1,013.3	978.3
EQUITY AND LIABILITIES		
Equity		
Share capital	126.5	126.5
Other reserves	-0.2	0.1
Retained earnings	372.7	351.5
Total equity attributable to the owners of the parent	499.0	478.1
Non-controlling interest	58.3	51.7
Total equity	557.3	529.7
Non-current liabilities		
Interest-bearing liabilities and borrowings	54.7	53.8
Deferred tax liabilities	21.5	22.7
Defined employee benefit liability	4.4	5.0
Provisions	2.0	2.2
Other liabilities	9.6	5.6
Total non-current liabilities	92.2	89.3
Current liabilities		
Interest-bearing liabilities and borrowings	86.5	93.0
Trade and other payables	268.9	260.7
Provisions	1.6	1.1
Current income tax liabilities	6.8	4.5
Total current liabilities	363.8	359.3
Total liabilities	456.0	448.6
TOTAL EQUITY AND LIABILITIES	1,013.3	978.3

Key impacts of the adoption of IFRS on Fazer's balance sheet

According to IFRS standards the goodwill and trademarks with indefinite useful life are not amortised. The goodwill and trademarks are tested for impairment on a yearly basis. Under the IFRS assets and liabilities are valued at fair value at the time of acquisition. At the time of acquisition identified off-balance sheet intangible items, such as customer contracts, trademarks and technology, are allocated to intangible assets in balance sheet. These allocations are depreciated at economical useful lifetime. Equivalent deferred tax liability is reported from these allocations and fair value adjustments. According to FAS all lease agreements are treated as other lease agreements. When applying IFRS 16 standard almost all leasing agreements are included in the balance sheet. An asset corresponding to the right-of-use asset, and a finance liability corresponding to the lease payments are reported in the balance sheet. Part of lease agreements include a commitment to restore the premises to their original condition. With reference to these rental agreements, restoration provision is booked. As a result of change in classification of financial assets, investments in interest funds previously classified to cash and cash equivalents have been transferred to assets measured at fair value through profit or loss and investments in bonds previously classified to cash and cash equivalents have been transferred to assets measured at fair value through other comprehensive income. Shareholdings in listed companies are measured at acquisition cost or lower value of this according to FAS, whereas according to IFRS these are reported as assets measured at fair value through other comprehensive income. The company applies hedge accounting on foreign exchange hedging transactions. According to IFRS standards the fair value of the component in a derivative instrument which is designated as hedge is reported through other comprehensive income.

Fazer Group's consolidated statement of cash flows

M€	2017	2016
Cash flows from operating activities	171.3	159.6
Interest received	20.4	24.4
Interest paid	-23.2	-22.9
Dividends received	0.3	0.4
Income taxes paid	-19.2	-14.9
Net cash flows from operating activities	149.6	146.6
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	-45.6	-18.5
Payments for tangible and intangible assets	-62.4	-83.6
Payments for financial assets at fair value through other comprehensive income	-	-2.6
Proceeds from financial assets at fair value through other comprehensive income	8.4	-
Proceeds from sale of fixed assets	0.6	3.4
Net cash flows from investing activities	-98.9	-101.2
Cash flows from financing activities		
Proceeds from borrowings	60.0	4.1
Repayment of borrowings	-74.5	-9.5
Finance lease payments	-25.4	-25.7
Dividends paid	-37.9	-19.0
Net cash flows from financing activities	-77.8	-50.0
Net decrease in cash and cash equivalents	-27.1	-4.6
Cash and cash equivalents at January 1	89.5	94.0
Translation difference	-0.4	-0.1
Cash and cash equivalents at December 31	62.1	89.5
Non-cash financing and investing activities		0.0

Cash generated from operations

M€	2017	2016
Profit before income tax	89.5	89.3
Adjustment for		
Depreciation and amortisation	80.4	76.2
Write-off of assets	1.3	0.1
Reversal of asset write-offs	-	-1.9
Net gain / loss on sale of non-current assets	1.0	-1.9
Gain on derecognition of contingent consideration payable	-0.3	-0.2
Dividend income and interest classified as investing cash flows	0.0	-0.1
Finance costs - net	2.6	1.0
Change in operating assets and liabilities		
Increase (-) / decrease (+) in trade debtors and bills of exchange	-1.1	-2.6
Increase (-) / decrease (+) in inventories	-5.3	2.3
Increase (-) / decrease (+) in other operating assets	-5.6	-1.1
Increase (+) / decrease (-) in trade creditors	7.5	-2.0
Increase (+) / decrease (-) in other operating liabilities	-1.5	1.0
Increase in other provisions	2.8	-0.2
Cash generated from operations	171.3	159.6

Key impacts of the adoption of IFRS on Fazer's cash flows

According to IFRS operating cash flows are higher as cash payments for the principal portion of the lease liability are classified within financing activities. The part of the payments that reflects interest is still presented as operating cash flows.

Five-year summary

	IFRS		FAS			
	2017	2016	2016	2015	2014	2013
Income statement						
Net sales, M€	1,641.6	1,603.1	1,603.5	1,576.1	1,647.7	1,695.7
Net sales outside Finland, %	52.1%	50.6%	50.6%	51.4%	52.6%	53.1%
Operating profit, M€	92.1	90.1	52.7	44.3	43.3	49.0
Operating margin, %	5.6%	5.6%	3.3%	2.8%	2.6%	2.9%
Profit before taxation, M€	89.5	89.3	54.9	41.4	36.6	48.6
% of net sales	5.5%	5.6%	3.4%	2.6%	2.2%	2.9%
Profit for the financial year, M€	72.1	70.5	36.6	23.7	21.0	26.2
Attributable to owners of the parent	63.4	62.0	29.4	19.4	16.5	23.9
Attributable to non-controlling interests	8.8	8.5	7.3	4.4	4.5	2.3
Balance sheet						
Non-current assets, M€	650.9	604.4	497.3	472.0	506.8	589.7
Inventories, M€	90.3	82.5	79.3	78.7	73.4	78.4
Other current assets, M€	272.1	291.4	291.3	290.2	239.3	294.1
Equity attributable to the owners of the parent, M€	499.0	478.1	443.2	430.9	472.2	505.9
Non-controlling interest, M€	58.3	51.7	51.5	41.9	39.2	51.0
Liabilities, M€	456.0	448.6	373.1	368.1	308.2	405.4
Balance sheet total, M€	1,013.3	978.3	867.9	840.9	819.6	962.3
Key figures						
Gross investments, M€	108.0	104.6	104.6	61.7	58.9	79.7
Depreciations and impairments, M€	81.7	74.3	51.0	52.3	61.0	62.2
Amortization of goodwill and impairments, M€	0.0	0.1	35.2	35.1	36.4	34.3
Interest-bearing net debt, M€	79.0	57.3	-17.6	-17.3	-20.7	33.3
Gearing, %	14.2%	10.8%	-3.6%	-3.7%	-4.0%	6.0%
Return on investment, % (ROI)	13.6%	14.0%	10.2%	8.2%	7.1%	7.3%
Return on equity, % (ROE)	13.3%	14.1%	7.6%	4.8%	3.5%	5.4%
Equity ratio, %	55.1%	54.2%	57.1%	56.3%	62.5%	58.0%
Personnel (FTE)	13,198	13,287	13,287	13,416	13,803	13,762

$$\text{ROI} = \frac{\text{Profit before taxation} + \text{Financial charges}}{\text{Balance sheet total} - \text{Non-interest bearing liabilities (average)}} \times 100$$

$$\text{ROE} = \frac{\text{Profit before taxation} - \text{Taxes}}{\text{Equity (average)}} \times 100$$

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Balance sheet total} - \text{Advance payments received}} \times 100$$

$$\text{Gearing} = \frac{\text{Interest-bearing net debt}}{\text{Equity}} \times 100$$



Makes
the World
taste
good