



Fazer Group's Annual Review 2018



Contents

Year in brief	3	Governance	53
Group President's review	4	Board of Directors' report	53
Key figures 2018	7	Corporate governance	59
Highlights	8	Board of Directors	63
		Group Management Team	64
This is Fazer	10	Financial information	65
Operating environment	11	Consolidated statement of income	65
Strategy	13	Consolidated statement of comprehensive income	66
Mission and Vision	16	Consolidated balance sheet	67
Fazer creates value	18	Consolidated statement of cash flows	68
Our brands	19	Five-year summary	69
Our businesses	21		
Fazer Bakery	22		
Fazer Confectionery	24		
Fazer Food Services	26		
Fazer Lifestyle Foods	28		
Fazer Retail	30		
Sustainability	32		
Sustainability highlights	33		
Our approach	35		
For people	40		
For planet	44		
For business	48		



Year in brief

We are in the midst of a strategic transformation into a modern sustainable food company with a joint direction. In 2018 we renewed the Fazer brand positioning and placed the consumer in a central role as part of this transformation. We co-created food innovations both internally and with partners and developed our High Performance Culture.

2018 was the first year of our new strategy period, and we began strategy implementation in all business areas and units. We amplified our consumer-centric approach to form a solid basis for brand and business development. Our renewed Fazer brand positioning, 'Northern Magic. Made Real.', ensures that Fazer is meaningfully different in the eyes of the consumer also in the future. It is an ambitious promise that builds on our mission and vision, reflects our heritage and reaches out to the future.

Fazer Group's net sales were 1,618 M€ in 2018, showing a slight decrease from the previous year. Fazer Bakery reached net sales of 552 M€, Fazer Confectionery of 333 M€, Fazer Food Services of 593 M€, Fazer Lifestyle Foods of 122 M€ and Fazer Retail of 46 M€.

We continued to develop our offering throughout the year and prepare our businesses for future international expansion. Through research and innovation, we created new foods and services that maintain and enhance well-being and support sustainable lifestyles. We created value for our customers, partners, owners, supply chain and society at large while observing sustainable practices in our operations.



Group President's review

A modern sustainable food company

Fazer's focus, in the coming years, will be on speeding up our transformation to become a modern sustainable food company with a joint direction. In 2018, we started important actions to implement our new strategy. Financially, our operating result fell behind previous year even if the net sales were at 2017 levels.

Life today is fast-paced. People's criteria for making choices have changed. We as a company are expected to understand what people want before they've even asked for it. For Fazer, it means that we shall become smarter, faster; to understand where consumer behaviour is evolving and to act upon it; to innovate across our categories, collaborating to uncover our potential in the market. Developing these capabilities will impact our way of working and our culture.

Trends are heavily shaping the world of food. New proteins and plant-based substitutes for meat are increasing in popularity. The climate impact of food production is being actively discussed, and many are willing to reduce their meat consumption. Fazer Lifestyle Foods is directly targeting this sustainable, health-conscious lifestyle and it will have a significant role in our geographical expansion beyond the Nordics. Vegetables and oats are at the innovative core of sustainable snacking, and bakery products that enhance well-being as well as artisanal products continue to attract consumers. Flexible eating habits shape the offering of Fazer Food Services, too. In Fazer Confectionery, we have combined classics with innovations, resulting in successful tablet launches. The launch of the online Fazer Candy Store demonstrates on the other hand our enhanced attention to consumer-convenience. In Fazer Retail, we focus on strengthening our direct-to-consumer offering and the unique Fazer experience.

In 2018, we began implementing our new strategy. We are heading towards our joint strategic goal backed by a strengthened consumer focus and a renewed Fazer brand positioning. We emphasize value creation through portfolio choices, continued operational excellence and structural improvements. We invest in the development and renewal of our products and business portfolio, based on deep consumer insight and research. We target growth within our selected categories and will reach new customers in Northern Europe and other selected markets with an offering based on strong brands in growing categories. Fazer Lifestyle Foods' products, together with chocolate, will lead the way to international markets.

We continue to concentrate on delivering our strategy, with an emphasis on future proofing for a digitalised world, our high-performance culture as well as our safety culture. We are committed to improving our performance with strategic initiatives in all our businesses and geographies. We have set the bar high and will focus on execution. We leverage deep customer insight

and close cooperation with the scientific community to create new, attractive products and solutions. We innovate through collaboration, creating added value for customers and partners alike.

The investment in a new factory in Lahti, Finland, which will utilise state-of-the-art technology to produce xylitol from oat hulls – a side stream of the oat milling process – marks a further step on the way towards enhanced sustainability and circular economy through innovation. The works on the site in Lahti have already been started.

With our renewed Fazer brand, we will ensure that Fazer will be meaningfully different in the eyes of the consumer also in the future. 'Northern Magic. Made Real.' is unique and forward-looking; it is an ambitious promise that builds on our heritage and reaches out to the future, enabling Fazer's ambition of strong expansion in Northern Europe and beyond. In addition to excellent products and services, there is a growing consumer need for brands to stand for a deeper purpose and to demonstrate values, attitudes and actions that do good for society. We want consumers to choose Fazer. Our renewed brand helps us better communicate who we are, what we offer and what we stand for.

We have defined a new Sustainability Approach to take a stronger stand and to deliver concrete actions. It is aligned with Fazer's mission, strategy and the renewed Fazer brand. The new Sustainability Approach consists of four Core goals: 1) 50% less emissions, 2) 50% less food waste, 3) 100% sustainably sourced, and 4) More plant-based. We know that how we grow, produce and consume food has a significant impact on the environment, on society and on our well-being. With food, we can make a difference. We are committed to the principles of the UN Global Compact and by working towards reaching our core goals by 2030 we contribute to the Sustainable Development Goals.

To support Fazer's transformation into a modern sustainable food company, Fazer's research and innovation unit Fazer Lab invited everyone at Fazer to come up with ideas at the first ever Fazer Innovation Challenge in spring 2018. The challenge attracted 110 ideas and culminated with 24 innovator teams joining the final pitching event. The teams were working on a wide range of ideas, and the first outcome, an artisan bread baked with hemp, is already available for consumers in Finland. We value cooperation with external partners, aiming to increase our knowledge and innovate across categories. We believe in open and agile innovation and, during the year, we have collaborated on the development of renewable and recyclable packaging materials, among others.

In 2018, the economies in many of Fazer's key markets continued to develop favourably. The Finnish economy saw growth supported by private consumption and favourable development in employment as well as slow inflation. Also, the Swedish economy witnessed steady growth in 2018. The labour market continued to be tight, but wage growth was quite stable, and inflation remained at a normal level. On the other hand, the Russian economy continued to face the threat of sanctions and challenges caused by internal reforms, although their effects are buffered by strong macroeconomic indicators and a cautious monetary policy. The country's unemployment rate remained low, while the risk of inflation increased.

In all markets, competition is fierce and has further increased. Fazer is, however, well equipped to strengthen its positions on its home markets and to grow in Northern Europe and beyond.

In Fazer Bakery, both the Finnish and the Baltic units showed strong development. The triumph of in-store bakeries in Finland continued with new bakeries being opened and new products added to the offering. In Russia, Fazer received a record number of awards for quality and innovation. Unfortunately, consumers' weakening purchasing power had a negative effect on volumes and business performance in Russia. In Sweden, the performance issues continued, but towards the end of the year, improvements could be seen.

In Fazer Confectionery, all commercial units delivered a good result. Fazer Confectionery promoted international growth by signing a deal with a distributor in China and by starting to build an organisation in the USA.

The launch of the re-designed Fazer Yosa products marked the start of Fazer Lifestyle Foods' stronger presence on store shelves across the Nordics. The creation of Fazer Retail opened new possibilities for cross-unit cooperation and stronger direct-to-consumer business opportunities.

Fazer Food Services' performance was on a good level, especially in Denmark and in Finland. New concepts and ideas, reflecting current trends and flexible eating habits, have been tested in Fazer Food Services, and at the end of the year, we celebrated the success of the Swedish and Finnish Fazer Culinary Teams which won double victory in the Culinary World Cup: Fazer Team Sweden was number 1 and Fazer Team Finland number 2.

The Fazer Experience visitor centre has been steadily growing in popularity. The centre drew over 200,000 visitors in 2018. Fazer Experience is a unique place where everybody can experience Fazer in their own way. It's a destination that interests people, and many visitors keep returning. Every interaction promotes continuous development, dialogue and a better understanding of consumer needs.

At Fazer, we aim high and dare to think big. We have grown stronger as a company and the market sees us in a new light – as being more progressive and forward-looking. This is the result of the work of all our great people. Together, we will develop the company further and continue its success.

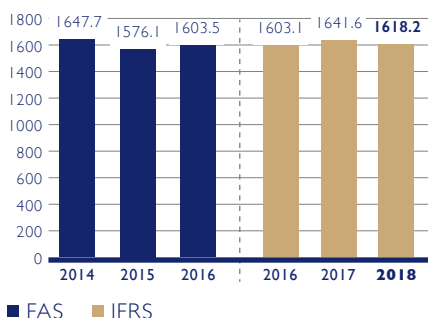
Finally, I'd like to thank all our partners and stakeholders for their engagement and support in 2018.

Christoph Vitzthum

President & CEO

Key figures 2018

NET SALES, M€



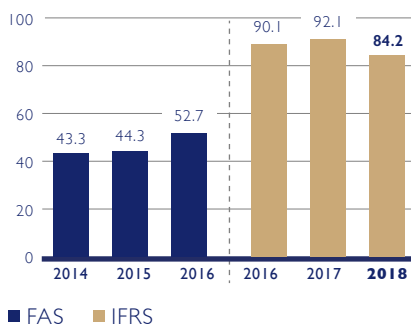
Fazer Group's net sales 2018

1,618.2 M€

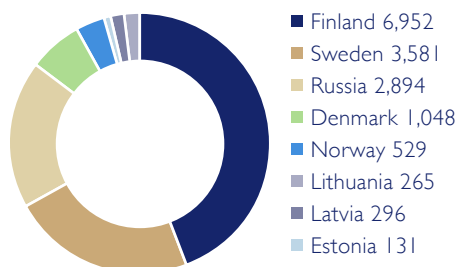
Fazer Group's operating profit 2018

84.2 M€

OPERATING PROFIT, M€



NUMBER OF EMPLOYEES AT THE END OF 2018



Fazer Group's employees 2018

15,696



Highlights in 2018

We renewed the Fazer brand position to ensure that Fazer is meaningfully different in the eyes of the consumer also in the future. 'Northern Magic. Made Real.' is a unique and forward-looking promise that enables our ambition of strong expansion in Northern Europe and beyond.

Our sustainability approach was revised to better reflect our current strategy. Fazer's ambitious direction towards 2030 consists of four Core goals: 1) 50% less emissions, 2) 50% less food waste, 3) 100% sustainably sourced and 4) more plant-based. Fazer made a new five-year commitment to the Baltic Sea. In the new commitment we focus on circular economy, sustainable grain farming, implementation of our water stewardship plan and development of Fazer's offering.

In Fazer Bakery, the strong demand for health and well-being products, as well as the interest in artisanal bread continued. We continued to invest in our offering in new growth areas such as healthy products, developing novelties and driving the bread category further. We increased the number of in-store bakeries offering fresh artisanal bread to 64 in Finland. Fazer Cricket Bread received huge international attention and won several awards. Fazer Veggie bread and Hlebny Dom Hercules Mini won Innovative product of the year 2018 awards in Russia.

Fazer Confectionery's business performance was strong. Our market share in chocolate tablets increased and biscuit sales developed strongly in Finland. Fazer Candy Store was opened to serve consumers online, and cooperation with JD.com was started to explore opportunities in the Chinese market. In the USA, we have started to build our own organisation and have developed the first new products for international markets. The new MD for the Business Area, Nathalie Ahlström, started in September.

In Fazer Food Services we set up an innovation ecosystem and research restaurant TestEat in cooperation with IBM and VTT Technical Research Centre of Finland to study people's diets and behavioural patterns in the lunch restaurant. Fazer Food & Co was launched in Denmark and Norway. In Denmark, we also launched our new vegetarian street food concept "Green Street". Together with our client, we developed a ground-breaking Meal Watch concept for senior people in Sweden to help the elderly to receive the right food and nutrition based on their individual profile. Fazer Food Services' Culinary Teams Sweden and Finland took a double victory at the Culinary World Cup in Luxembourg.

In Fazer Lifestyle Foods, significant investments were made in organisational development and marketing activities to ensure future growth. The Fazer Yosa oat product family was expanded with eight products, and the brand was refreshed with, for example, new

packaging design. Fazer Mills launched the unique, patented LOFO™ enzyme-based solution that provides a low-FODMAP feature for wheat and rye baking. The new MD for the Business Area, Mats Liedholm, started in November.

Fazer Retail was formed at the beginning of 2018, combining our Gateau bakery shops in Finland and Sweden and Fazer Cafés in Finland into one business unit. Fazer Café Kluuvikatu – the very first Fazer Café, opened in 1891 in Helsinki – was renovated and its offering refreshed with new products.

The Fazer Innovation Challenge invited everyone at Fazer to join to create new, bold and creative ideas, many of which have been moved forward to further development and realization.

More than 200,000 people visited the Fazer Experience Visitor Centre during 2018. We are very pleased to welcome new guests and returning visitors to the centre, which allows people to experience the Fazer brand.



This is Fazer

Fazer is all about meaningful food experiences.

Fazer is an international family-owned company offering bakery, confectionery, biscuit and grain products, plant-based meals, non-dairy products, on-the-go food & drinks as well as food and café services. We operate in nine countries and export to around 40 countries. In 2018, Fazer Group had net sales of 1.6 billion euros and more than 15,000 employees.

Our operations are guided by high quality, responsibility and respect for the planet and people. We aim to develop a culture where our employees perform, engage and develop together. It means taking initiative, looking further than completing our task, understanding the impact of our contribution and taking responsibility for the result.

With our renewed Fazer brand, we will ensure that Fazer will be meaningfully different in the eyes of the consumer also in the future. 'Northern Magic. Made Real.' is unique and forward-looking; it is an ambitious promise that builds on our heritage and reaches out to the future, enabling Fazer's ambition of strong expansion in Northern Europe and beyond.



Operating environment

Our work with meaningful food experiences and delightful food moments takes place in a rapidly changing market landscape, with economic and social factors continuing to shape our operations.

The world around us, the business environment and our lifestyles are changing at a rapid pace – setting new demands for companies across industries. The continuing trends of an aging and growing population, extended work life, urbanisation, technology and sustainability, among others, affect our operating environment.

While the economies in our key markets continued to develop favourably, the competitive landscape has become tougher for all our businesses.

Economic development: growth in all main markets

The Finnish economy saw growth, supported by private consumption and favourable development in employment as well as slow inflation. Employment has improved significantly, but the growth rate is expected to slow down in the coming months due to uncertainties in the global economy and to a gap between the supply and demand of workforce.

The Swedish economy witnessed steady growth in 2018. The labour market continued to be tight. Inflation (excluding food and energy prices) was at a normal level, setting modest cost pressures on the Swedish economy. The Swedish krona is likely to remain weak due to the expansionary monetary policy, uncertain housing markets and the effects of potential trade wars.

The Russian economy continues to face the threat of sanctions and challenges of internal reforms, although their effects are buffered by strong macroeconomic indicators and a cautious monetary policy. The country's unemployment rate remains low, while the risk of inflation has increased due to a number of factors. With the currency highly dependent on political factors, the outlook remains uncertain.

Weakened currencies affect result

All of Fazer's main currencies have weakened against the euro in 2018. Weaker currencies affect Fazer Group's figures directly, when local currencies are recalculated to euros. They may also adversely influence local profits through, for example, higher material or product costs. Pound sterling, the main currency for cocoa purchases, has remained relatively stable during 2018, but was clearly weaker at the end of 2018 than before the Brexit vote in 2016. This affects Fazer's raw material costs favourably.

Market development: Competition remains strong and demand for well-being offering continues

The demand for health and well-being products continues to be strong and the shop-in-shop business is gaining ground in Finland. However, with record competition, our bakery business lost market share in Sweden and Russia. In Finland, domestic rye and oats have sufficed to fill the needs of Fazer Bakery despite the exceptionally challenging crop year. The deficit in wheat may have to be replaced in part by imports.

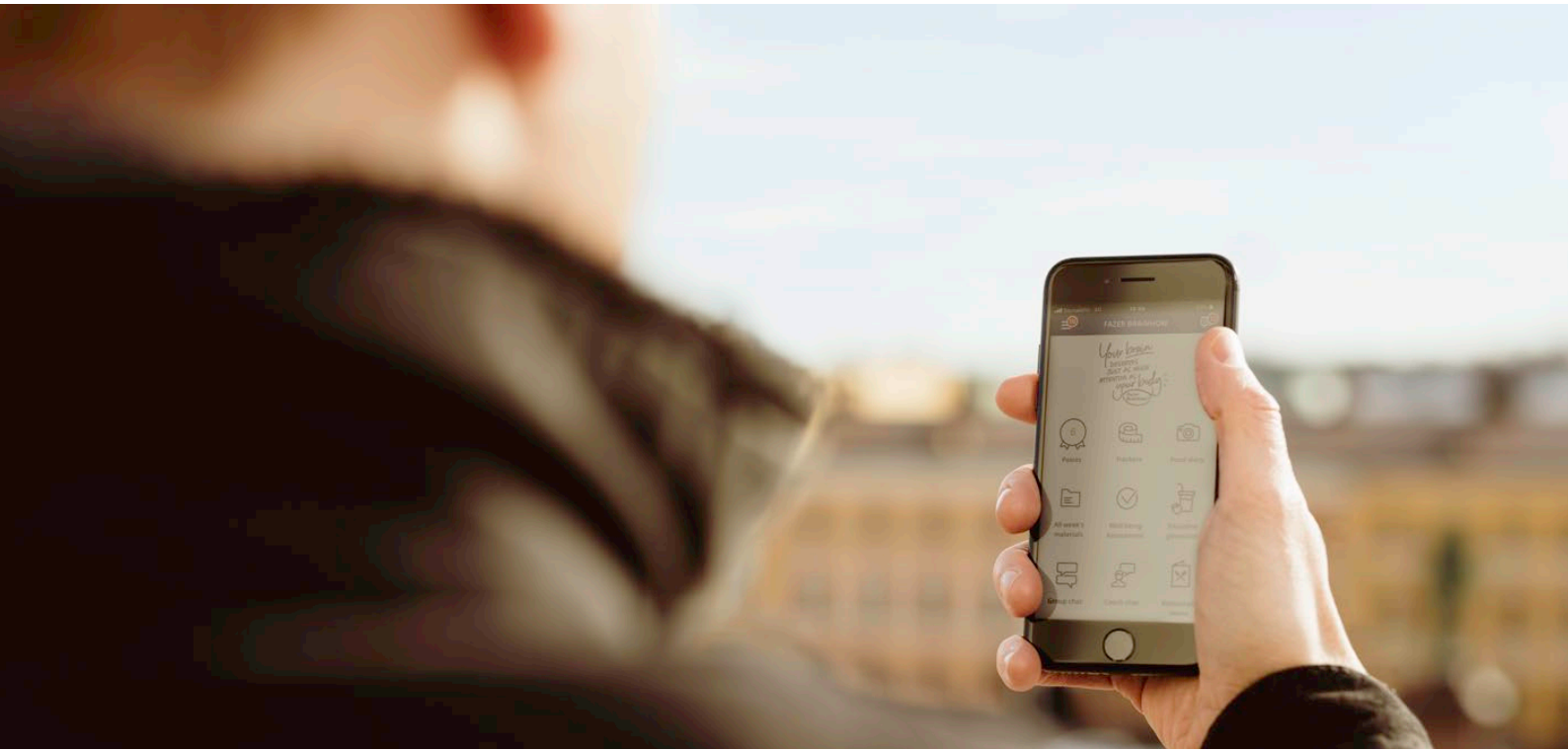
Artisanal bread has maintained its popularity especially in Finland and Sweden. Bread consumption declined in value in value-added segments in Russia, although consumers moved from low-price segments to mid-price segments, increasing the market value in Moscow. The extraordinarily hot weather affected the consumption during the summer.

Despite sales challenges set by the hot weather in the summer, Fazer Confectionery's net sales in 2018 grew from the previous year. Fazer Confectionery's market share in tablets increased in Finland, but heavy competition continues to set challenges. The market share in biscuits remained unchanged.

The food service market saw positive contract sales in 2018, with some large contracts won. The retention of existing contracts was close to target level and some unprofitable contracts were exited. Actions to improve performance were carried out successfully to support profitability also in 2019.

Fazer Lifestyle Foods is seeing increasing competition from private label companies in the smoothie and non-dairy categories. The profitability of Fazer cereal business is being challenged by increasing raw material prices. Fazer Mills suffered from high grain prices after the weak crop in 2017 and an even worse crop in 2018 due to the hot summer.

Fazer Retail's performance for the full year 2018 was affected by challenges with sales in the spring and summer while an improvement was visible later in the year, especially in Finland. The market situation in Stockholm continues to be particularly challenging.



Joint strategic direction: Value through growth and portfolio development

In 2018, we began to implement our new strategy. We aim to become a modern, sustainable food company in Northern Europe and beyond. With this strategic goal in mind, we have strengthened our focus on the consumer, and renewed the Fazer brand positioning. We target growth, value creation through portfolio choices, continued operational excellence and structural improvements.

We have begun our transformation into a modern sustainable food company with joint strategic direction. During the 2018–2022 strategy period, we intend to grow our net sales on average by 6–8 per cent annually. We target a Group EBITDA margin of at least 12 per cent. In relation to these targets, 2018 was a challenging year. We are nevertheless committed to improving our performance with strategic initiatives in all businesses and geographies. We have set the bar high and will focus on execution.

Development of our business and product portfolios is one of the cornerstones of our strategy. We leverage deep customer insight and close cooperation with the scientific community to create new, attractive products and solutions. In addition to the development and innovation in the businesses, we use Fazer Lab to build new growth engines for Fazer and accelerate transformative business development across the Group. We innovate through collaboration, creating added value for customers and partners alike.

Renewed brand supports strategic expansion

With our renewed Fazer brand, we will ensure that Fazer will be meaningfully different in the eyes of the consumer also in the future. 'Northern Magic. Made Real.' is unique and forward-looking; it is an ambitious promise that builds on our heritage and reaches out to the future, enabling Fazer's ambition of strong expansion in Northern Europe and beyond. In addition to excellent products and services, there is a growing customer need for brands to stand for a deeper purpose and to demonstrate values, attitudes and actions that do good for the society. We want consumers to choose Fazer. Our renewed brand helps us better communicate who we are, what we offer and what we stand for.

In 2018, we introduced new products across categories; functional Froosh smoothies and Fazer Alku cereals, new Fazer Yosa oat products for snacking, drinking and cooking, as well as crispy, fibre-rich Fazer Snacks, to name a few. We also developed products and services to be introduced in 2019 and beyond.

Consumer insight guides portfolio development

In our strategy, we place the consumer first. By engaging with consumers in all contact points – online and in our cafés, bakery shops and restaurants – we learn what people value. Understanding their needs more thoroughly allows us to deliver new products, services and experiences faster. We experiment fearlessly to surprise consumers with new flavours and services. Having a meaningful role in people's lives is reflected as added value in our customer relationships.

The health and well-being trend continues strong, and customers' interest towards sustainability continues to grow. According to a food trend survey commissioned by Fazer in 2018, as many as 41% of Finns are interested in favouring vegetable proteins to protect the environment and 54% would eat food tailored to their health condition.

Fazer Lifestyle Foods, a business area established in 2017, serves conscious customers looking to enhance their quality of life through food. The business area focuses in non-dairy, plant-based meals and breakfasts and sustainably produced foods. Fazer Lifestyle Foods has been recognised as a strong growth area, and its organic growth will be supported with potential acquisitions. In Fazer Food Services, we introduced Fazer Brainhow to increase awareness about brain-friendly foods – a topic we continue to research.

In the beginning of 2018, we formed the Fazer Retail business unit to strengthen our direct retail offering to consumers. Fazer Retail caters to customers in cafés and bakery shops, combining its high-quality artisan products with an exceptional customer experience. Strategic recruitment actions have been carried out during the year to ensure the organisation is equipped for future growth.

Our ambition is to grow beyond our main markets in the Nordics, Baltics and Russia. We will reach new customers in Northern Europe and other selected markets with an offering based on strong brands in growing categories. The lifestyle category, together with chocolate, will lead the way to international markets.

Smarter, faster, digital Fazer

We have created a digital vision and roadmap for the Group. Fazer Digital means that we will become smarter and faster. We will increase our understanding of how consumer behaviour is evolving and innovate across our categories. Our digital roadmap for 2019-2020 will focus on the following themes:

Direct to consumer – We will build direct relationships and insight for creating meaningful offerings and experiences, supporting brand loyalty. Consumer understanding, offerings and insight drive Fazer's position as a preferred trade partner and enable new business models and opportunities.

Digital commerce – We will ensure capabilities to serve customers in various channels. We will create new business models, revenue streams and go-to-market strategies as well as develop our existing models and relationships.

Connect the operations – We will use data and analytics to make the supply chain transparent and to drive efficiency. We will enable new delivery and fulfilment models by increasing agility and responsiveness through connected processes, shared information and demand analytics.

Build data capabilities – We will harness data from processes, markets and transactions to create insight and to transform operations. We will create an environment for learning and sharing.

Fazer values are at the heart of our operations

Our values guide us in everything we do, and they form a core around which strategy, mission and vision were built. These values form the basis for our everyday interactions and steer us towards the future.

- **Customer Focus**

The needs, tastes and preferences of our customers guide us in product development and service design as well as in sustainability work and stakeholder cooperation. Meaningful food experiences can only be created by thoroughly understanding customers' expectations and striving to exceed them every day.

- *Quality Excellence*

We demand the highest quality from ourselves across all our operations and functions – from products and services to logistics, financial management and leadership. We create superior experiences throughout our offering, efficiently and sustainably.

- *Team Spirit*

Providing joy and well-being through food is a joint effort. We work together, as one Fazer, one team, supporting and respecting each other. We share the same goals and take responsibility for our performance. Together, we take pride in what we do.

Agile High Performance Culture driven by entrepreneurial spirit

Staying competitive requires fast moves. We favour action to lengthy planning processes. We engage others early, collaborating iteratively to integrate points of view along the way. This requires trust and openness to learn from each other. It is our shared task to build a working culture, where we are comfortable to share without fear of judgement before being ready. Our behaviours enable the development of a truly entrepreneurial culture: we engage, we perform and we develop.

We aim to develop a high performance culture in which we act more like entrepreneurs than employees. It means looking further than completing our task, understanding the impact of our contribution, adapting quickly to changes in the environment and taking responsibility for the result. We all have an important role in transforming Fazer.



Mission and vision

In a changing and hectic world, people look for meaning and delight tailored to their tastes. Fazer is transforming along with the world to create sustainable growth and serving new desires with the same passion that has driven us to serve the needs of past generations.

With everything increasingly available immediately and in real time, the wish for real and authentic experiences and delightful moments grows. At the same time, technological development has allowed for new, richer customer experiences to emerge.

Sustainability has made its way into consumer lifestyles and even indulging through food. People care about themselves and the planet, and consumers expect responsible and transparent solutions that fulfil their needs and exceed their expectations.

The passion with which we have served previous generations lives on today and in the future. Like all great brands, we are evolving along with new expectations in order to provide products and services that exist to delight, excite and stimulate people every day. The future of our success builds on being authentic, desirable and progressive.

Our mission: Food with a purpose

Our reason for being – our mission – is to create magical moments in people's lives by adding a little extra joy, well-being, inspiration, passion and love to everything we do. We want to enrich lives and make a difference every day with our products and services.

- We invest in healthy and easy-to-eat products that can be enjoyed any time, any place
- We offer wholesome, tasty and environmentally conscious solutions at our restaurants and cafés
- We seek new ways to bring convenience into the hectic lives of busy people
- We consider our impact on people, planet and business in all we do

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

We want to delight, surprise and excite by bringing pleasure and well-being into people's lives – while doing good for the people and the planet. When people enjoy a Fazer experience, we want them to taste and feel the love and the passion we put into every product and service.

Our vision guides our future, which is realised by:

- crafting new foods that inspire people to enjoy life
- producing new and creative plant-based foods
- co-creating new products and services together with partners
- developing new channels to serve consumers when and where they want
- growing in Northern Europe and beyond

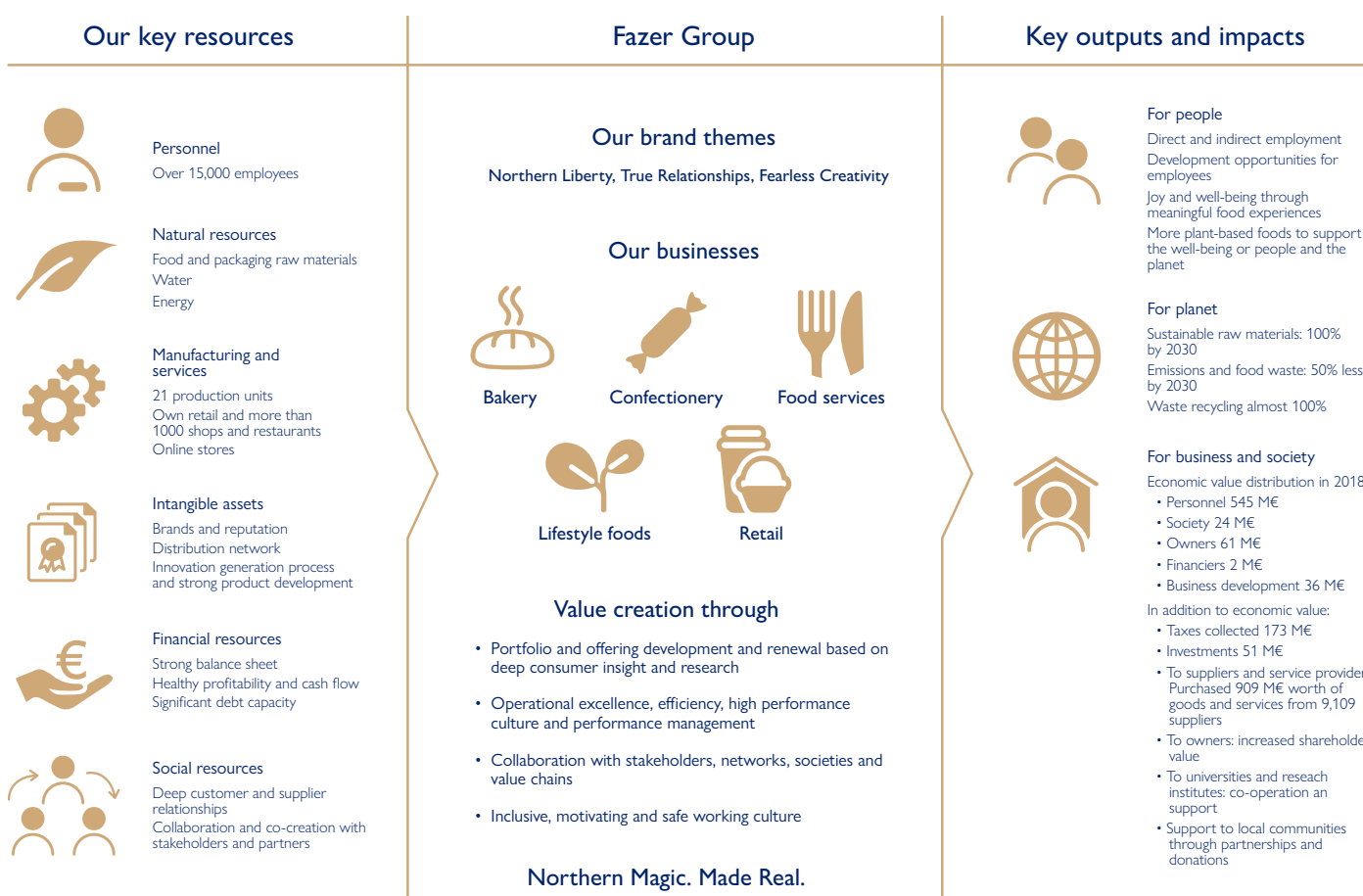
In order to live up to our vision, we will strengthen our brands and inspire our customers with personalised experiences. We want to be present in people's lives – always – with carefully crafted experiences at every step of the way.

Fazer creates value

Fazer creates value for customers, the company's owners and the society at large. We are also part of a value chain, in which our operations benefit suppliers and sub-contractors as well as service providers and other partners. More than that – we are part of society, contributing on a national and international level through, for instance, employment and taxes.

The value creation graph presents the resources we use, the processes we apply and the impacts we create in the world. We continue our work to reduce our environmental impacts. We carefully manage our value chains to ensure fair, resource-efficient and environmentally sound procurement. By conducting profitable business, we enable investments, acquisitions and growth.

Our value creation is affected by changes in the business environment, megatrends, risks, opportunities and governance, and we systematically observe the impacts of such changes on our business.



Our ambition is to transform into a modern sustainable food company with a joint direction



Fazer renews its positioning – we make Northern Magic Real

In 2018, we worked to crystallise the Fazer brand and found our essence: Fazer is Northern Magic. Made Real. This is a unique, forward-looking and ambitious promise, building on Fazer's current and aspired home market presence. It is aligned with Fazer's future ambition of strong expansion in Northern Europe and beyond. 'Northern Magic. Made Real.' enables the Fazer brand to enter new markets and supports us in reaching our strategic goals.

With our renewed Fazer brand, we will ensure that Fazer is meaningfully different in the eyes of the consumer also in the future. 'Northern Magic. Made Real.' is an ambitious promise that builds on our heritage and reaches out to the future, enabling Fazer's ambition of strong expansion in Northern Europe and beyond.

In addition to excellent products and services, there is a growing consumer need for brands to stand for a deeper purpose and to demonstrate values, attitudes and actions that do good for the society. We want consumers to choose Fazer. Our renewed brand helps us better communicate who we are, what we offer and what we stand for. With our new positioning, we stand behind three themes: Northern Liberty, True Relationships and Fearless Creativity.

The Fazer brand architecture is a hybrid. It is a mix of Fazer branded, Fazer identity brands, Fazer identity endorsed brands and independent brands. We combine tradition with innovation, creating meaningful brand experiences. Our brands are developed in line with our strategy, guided by customer engagement, strong consumer insight and research. They help us connect with consumers and build a relationship based on trust and authenticity.

Global trends and changing lifestyles

Global trends of aging and extended work-life, urbanisation, dialogue of cultures, technology, digitalisation and sustainability strongly impact the food business, as do politics and regulation. At the same time, the hectic, urban lifestyle sets new standards for consumers' expectations towards brands, products and services. We engage with modern-day, conscious consumers who seek food experiences that enrich their lives. We share their concern for the health and well-being of people and the planet.

We set the consumer first. The key insight for the development of the Fazer brand states how our strategy impacts people engaging with us, every day. We have therefore delved deep into the thoughts and ideas that consumers have on joy and well-being – in order to create these positive impacts, we need to thoroughly understand them.

We continue innovating and building strong brands

In 2018, we have launched new taste experiences in familiar, highly appreciated brands – Karl Fazer Tyrkisk Peber chocolate tablet, Fazer Alku cereals and Jaffa Pihlaja biscuits to name a few. We introduced the pink Fazer Pure Ruby chocolate, based on the special ruby cocoa beans and a unique manufacturing method. Our ambition is to build a strong Fazer brand recognised across our markets and our new brand philosophy supports strategy execution. A strong brand opens doors internationally and allows us to focus our efforts.



Our businesses

Fazer's products and services, created with the greatest passion and care, exist to delight, excite and stimulate people.

We have four business areas and one business unit that together form a comprehensive offering. Bringing our strategy, mission, vision and brands to life, the different businesses ensure that people can experience meaningful moments with all Fazer's products and services.

We are present throughout people's lives with our products and services and across the different Fazer touchpoints: 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: Sustainability and innovation

The demand for products that enhance health and well-being continues to grow in the bakery business. People seek to balance healthiness with treats and flexible eating habits, and we are responding to these trends.

New and innovative solutions are at the core of sustainable snacking, with ingredients such as vegetables, oats and insects replacing traditional raw materials in the bakery business' end products. The artisanal trend continues to grow.

We have continued to invest in our offering in new growth areas such as healthy products, developing novelties and driving the bread category further. We have increased our focus on innovation and sustainability in the bakery business. Strengthening our shop-in-shop business has driven the development.

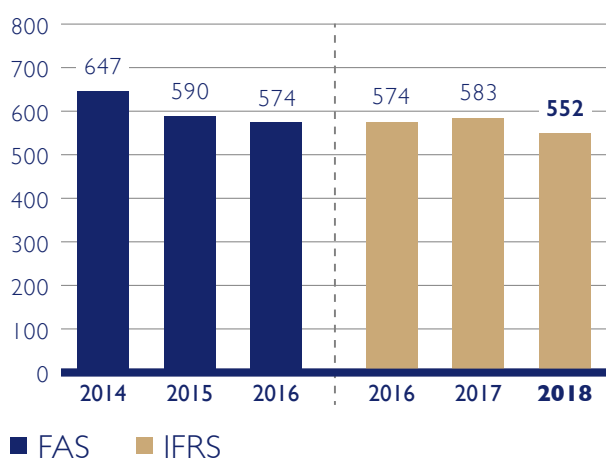
Performance in 2018

2018 was a challenging year for Fazer Bakery in Sweden and Russia. Fazer Bakery grew its market share in the Finland and Baltics, with dark portion bread and artisanal bread, in particular, driving growth in the Finnish market. The shop-in-shop business also continued to grow in Finland.

We launched a number of healthy novelties and snacking products. In Russia, Fazer Veggie bread and Hlebny Dom Hercules Mini won the Innovative product of the year 2018 awards. Our popular Fazer Sirkkaleipä cricket bread, introduced in 2017, won the Bronze Lion in the Sustainable Development Goals section of the Cannes Lions competition, under the category Responsible Consumption and Production, along with several other prizes in Finland. We introduced two hemp breads, originating from Fazer's internal innovation competition, in our in-store bakeries in Finland.

Fazer's sustainability approach is being applied to the bakery business. We continued stakeholder dialogue on the implementation of our grain vision and sustainable farming principles in Finland and Sweden. Sustainability was high on the agenda also for food waste where we introduced, for example, in in-store bakeries the Hävikkitalkoot (joint food waste effort) concept, with people being able to buy products made the previous day for an affordable price.

The poor crops resulted in an increase in raw material prices, especially during the second half of the year.

NET SALES – FAZER BAKERY, M€**Going forward**

We will continue to strengthen our local presence and increase operational efficiency in all our operations. Supporting our growth in artisanal business, we will expand our in-store bakery network and will also pilot the concept outside Finland.

In order to drive our consumer-centric experience, we will invest in an innovation culture to support growth in new areas, aiming to also become a category leader in point of sale excellence. We will also increase agility within the Fazer Bakery business, with a focus on, for example, the go-to-market process and the utilisation of innovations across different countries.



Fazer Confectionery: Combining classics with new innovations

Fazer's chocolates, sweets and biscuits continue to exceed expectations and meet the needs of consumers. Fazer retains its position as Finland's leading confectionery company. People want to enjoy life and delightful moments. With our confectionery offering, we at Fazer want to enable this indulgence.

Consumers are making increasingly conscious choices when it comes to food, and this is reflected in our current and future product portfolio. The cocoa we use is 100% sustainably sourced, and we have continued to future-proof our sweets by favouring plant-based ingredients in recipes. We are also optimising our packages and improving their recyclability. Amidst tightening competition, we want to be the confectionery brand of choice in all our markets.

Performance in 2018

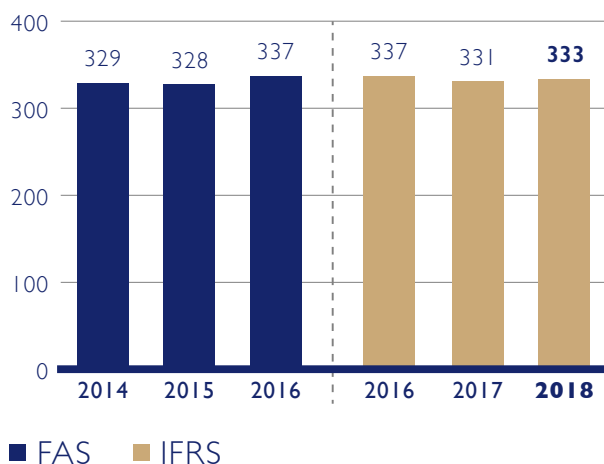
Fazer is the market leader in confectionery in Finland, with the market share increasing. Fazer Confectionery's net sales grew in 2018 from the previous year, despite challenges in sales during the summer due to the extremely hot weather. Fazer chocolate tablets saw healthy growth.

We have successfully used our strong brands to create appealing novelties. We had three successful co-branded Karl Fazer Milk Chocolate launches during 2018: Domino, Tyrkisk Peber and Dumle. These were well received by our customers. In November 2018, Fazer launched a special limited edition of the Fazer Ruby Pure chocolate, based on the rare ruby cocoa beans. Fazer Pure Ruby was sold out in less than a week. The Tutti Frutti recipe change towards vegan and more natural ingredients generated increased sales, especially in Sweden, with the Tutti Frutti Original up by 36.5%. Biscuit sales have grown significantly, supported by strong sales in Domino, Jaffa Pihlaja and Jaffa Green Jellies. The Jaffa brand has gained over 500,000 new purchasing households during the rolling year.

To respond to high demand for the beloved Fazer brands, we opened our own e-commerce channel Fazer Candy Store. The web store contains all confectionery products as well as a Fazer Novelty Box that includes a selection of novelties. Currently, the web store ships to EU countries, and geographical expansion is being planned.

We have continued to develop our partner network in China and signed a deal with a distributor. In the USA, we have started to build our own organisation and we have developed the first new products for international markets. Fazer Nordi is a chocolate concept and brand created to meet the better-for-you chocolate trend in the USA.

NET SALES – FAZER CONFECTIONERY, M€



Going forward

We will nurture our chocolate brands spearheaded by Karl Fazer. We will also expand and grow our snacking portfolio based on current and future products. Our key growth drivers are attractive launches supported by marketing investments. Seasonality will also be highlighted more heavily to drive business growth.

We will develop our sweets portfolio to meet the needs of modern consumers, with well-being and fun as key elements.

Fazer will implement organic growth plans for Sweden and Norway with a focus on chocolate as the primary game changer. In Denmark, we established our own sales organisation in January 2019. Beyond the Nordics, we will grow in new markets, spearheaded by our chocolate portfolio.

We will continue the execution of our portfolio strategy, aiming for fewer but bigger innovations to grow our strategic brands. To facilitate growth, we will focus on operational excellence and cost management through improved sales and operational planning. Growth will also be supported by the continuous improvement of supply chain operations.



Fazer Food Services: Creating the future of food

Food is more than just fuel. What and how we eat impacts how we feel. It affects our productivity and even our cognitive capabilities. Fazer Food Services creates modern food experiences that nourish, delight and energise people.

Trends are heavily shaping the world of food. New proteins, such as lupins, and plant-based substitutes for meat are increasing in popularity. The climate impacts of food production are actively discussed in traditional as well as social media. Today's consumers are interested in maintaining and improving their health through dietary choices, but they also want their food to be sustainably produced.

At the same time, the eating experience has grown in significance. Great taste is no longer enough – food has to satisfy all senses. Guests come to Fazer Food Services' restaurants for visually attractive, fragrant food served in an inspiring environment.

Performance in 2018

Net contract sales were strong especially at the end of the year, and some large new contracts were won. Retention of existing contracts improved. Reported net sales for the full year were slightly below and with comparable currency rates at the previous year's level. Performance improvement actions were initiated in 2018 and they will continue further into 2019 strengthening the competitiveness of the business. Positive impacts were already seen at the end of 2018, with raw material management succeeding particularly well.

We launched a new research and pilot restaurant, TestEat, in cooperation with IBM and VTT Research Centre of Finland. The restaurant, located on IBM's premises in Helsinki but open to all, includes modern research technology that collects data in both the kitchen and the lunch room. The goal of the cooperation is to study how and what people eat and how they behave in the lunch restaurant. The research paves the way for the crEATe open innovation ecosystem, which was launched by the three parties in early 2019.

The first Tastory restaurant in Finland was opened in Espoo. The restaurant specialises in providing delicious and green lunches as well as café and deli products in a welcoming and attractive environment.

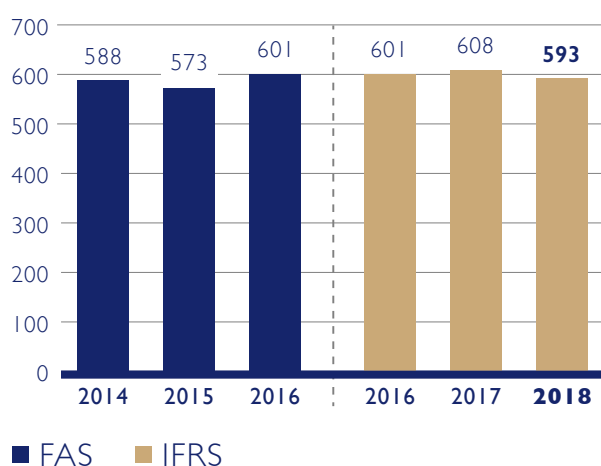
We extended our partnerships with two of our largest clients in Sweden - Volvo and SEB. As part of the cooperation, we have introduced our new service brand Fazer Food & Co to renew our offering. Fazer Food & Co was also launched in Denmark and Norway. In Denmark, we launched our new vegetarian street food concept "Green Street" – a culinary journey to the green world cuisine. This concept takes green nudging to the next level.

Together with our client Ersta Diakoni, we developed a ground-breaking meal concept for senior people in Sweden. The purpose of this Meal Watch concept is to help the elderly to receive the right food and nutrition based on their individual profile.

Fazer Culinary Teams from Finland and Sweden participated in the Culinary World Cup with the overall theme "Against food waste". The Swedish team won the competition, successfully defending its title from the last World Cup, with the Finnish team taking the second place and securing a double victory for Fazer.

We participated in the YouTuber event Tubecon in Helsinki by organising a food court with activities that challenged participants to reflect on their eating habits.

NET SALES – FAZER FOOD SERVICES, M€



Going forward

In 2019, we will improve our performance, and our focus will be threefold. In portfolio management, retention remains a key priority.

We will complete and fully leverage our account management programme to reduce churn with a stronger focus on profitability. We will work to optimise revenue in each unit more systematically to drive net sales on a unit level. We will also execute local programmes in raw material management and add personnel planning initiatives to sustain restaurant margins.

We aim to grow in each of our operating countries and across sectors, with the public sector, business parks and universities as focus areas.

We will continue to feel the pulse of the consumers and anticipate their evolving needs. Our More Greens campaigns and approach will be even more relevant in the future as more people embrace a plant-based diet. The trend of on-the-go eating continues, and we are developing our offering to provide food flexibly throughout the day.



Fazer Lifestyle Foods: Good for the body, mind and planet

At its best, food delights, nourishes and supports our health, all at the same time. Plant-based foods are quickly gaining market share as customers look for tastes that are good for the body, the mind and the environment. Fazer Lifestyle Foods answers these needs.

Our Food Trends of the Future study, conducted in summer 2018, shows that the health trend still continues strong in the Nordic countries. People are interested in plant-based foods, new proteins and diets tailored to their health needs. Many are willing to reduce meat consumption to mitigate climate impacts. Locally produced, sustainable ingredients are welcome on the lunch menu.

Fazer Lifestyle Foods combines foods that enhance well-being with products for those who seek to reduce the environmental strain of global food production. Its offering includes fruity Froosh smoothies, Fazer Yosa oat products and non-dairy drinks as well as Frebaco and Fazer Alku oat-based breakfast foods, and oat derivatives for the food, cosmetics and pharmaceuticals industries. The investment in a new factory in Lahti, Finland, which will utilise state-of-the-art technology to produce xylitol from oat hulls – a side stream of the oat milling process – marks a further step on the way towards enhanced sustainability and circular economy through innovation. The works on the site in Lahti have already been started.

Performance in 2018

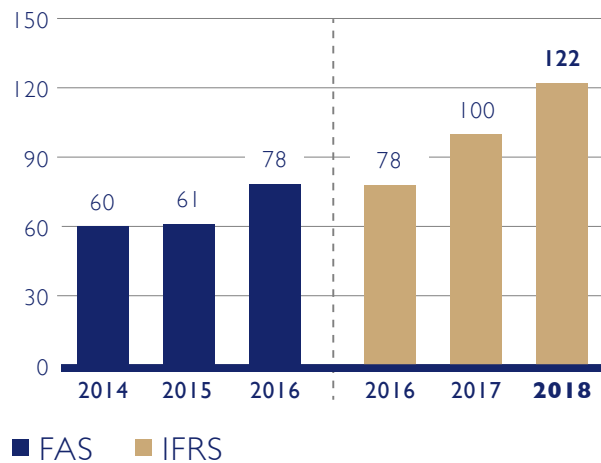
Fazer Lifestyle Foods' net sales, supported by the acquisitions completed in 2017, increased clearly from the previous year. Competition is tightening in the smoothie and non-dairy markets, with both branded and large private label competitors vying for market share. In the cereals business, higher raw material costs led to price increases in Finland during the last few months of the year. Significant investments were made in Fazer Lifestyle Foods' organisational development and marketing activities to ensure future growth.

Several new products were launched during the year under existing brands. The Froosh smoothie range was complemented with functional smoothies produced solely from plant-based ingredients: Froosh plus energy, Froosh plus protein and Froosh plus natural herbs. Cereals and organic porridges were launched under the Fazer Alku breakfast food brand.

The Fazer Yosa oat product family was expanded with eight products, and the brand was refreshed with, for example, new packaging design. The well-established brand, acquired by Fazer in 2017, was the first of its category in Finland. Oat-based products have sparked global interest, and we want to stay at the forefront in developing this category. Nordic oats are highly regarded around the world, and Fazer Yosa products are well positioned in the tightening competition.

New products and innovations were developed also to be introduced in 2019 and beyond.

NET SALES – FAZER LIFESTYLE FOODS, M€



Going forward

A sustainable, health-conscious lifestyle is shifting from early adopters to mainstream. Fazer Lifestyle Foods is a strong growth area for us and will have a significant role in our geographical expansion beyond the Nordics. We aim to complement organic development with acquisitions.

We will build an innovative, consumer insight driven offering in the categories of non-dairy, plant-based meals, cereals and fruits. Customers will be able to choose their favourites from a wide selection including “throughout-the-day” food products and premium on-the-go food and beverages. We will create a world-class branded offering representing outstanding taste and creativity.

Implementation and finetuning of the growth strategy will continue in the business area, with the development of plant-based meals and marketing strategy as important focus points. The strong concept and brands, together with organisational efficiency and investments in sales and marketing, support us in reaching our ambitious targets.



Fazer Retail: Premium quality meets superb service experience

Fazer Retail was formed at the start of 2018, combining our Gateau bakery shops and Fazer Cafés into one business unit. With Fazer Retail, we will strengthen and develop our direct-to-consumers offering and experience, reflecting the renewed Fazer brand positioning.

There is growing demand for great café experiences and artisanal bakery products.

Fazer Retail combines artisanal bakery products and high-quality delicacies with first-class experience. In Fazer Cafés, excellent taste is complemented by scents, sounds and stylish design to create a comprehensively enjoyable experience. Gateau's fresh breads have been embraced by customers in Finland and Sweden looking for everyday luxury.

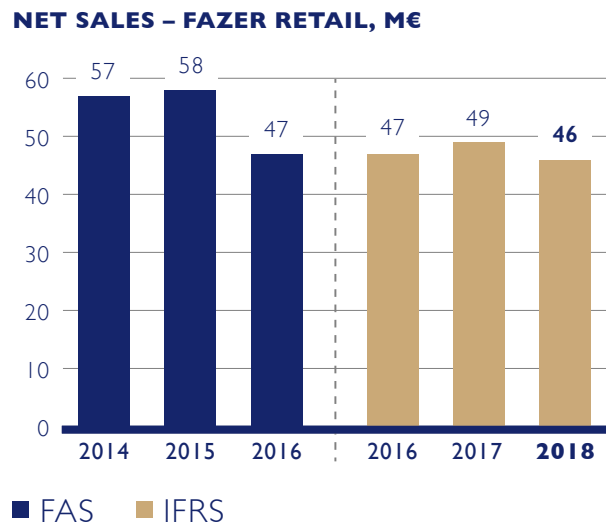
Performance in 2018

The competitive situation in the bakery shop and café business was increasingly challenging, with both newcomers and established players increasing their market presence. The grocery channel is gaining ground in the unpackaged bread category, impacting bakery shop sales of artisanal bread. Following a somewhat challenging spring and summer, performance took a positive turn in Finland during the last three months of the year.

We have focused on building the organisation for future growth and recruited new talent to expand our retail expertise. Two new Gateau stores were opened in Helsinki, Finland: one in the city centre and one in the newly built REDI shopping centre. In Sweden, three unprofitable Gateau stores were closed. A new Fazer Café, with an updated concept, opened its doors in Helsinki in November, and the unprofitable café in Vaasa was closed at the end of the year.

Fazer Café Kluuvikatu – the very first Fazer Café, opened in 1891 in Helsinki – was renovated and its offering refreshed with new products. The flagship café's renovation was carried out with respect to the historical milieu of the current building, dating back to 1930, and the Finnish National Board of Antiquities was consulted about all changes.

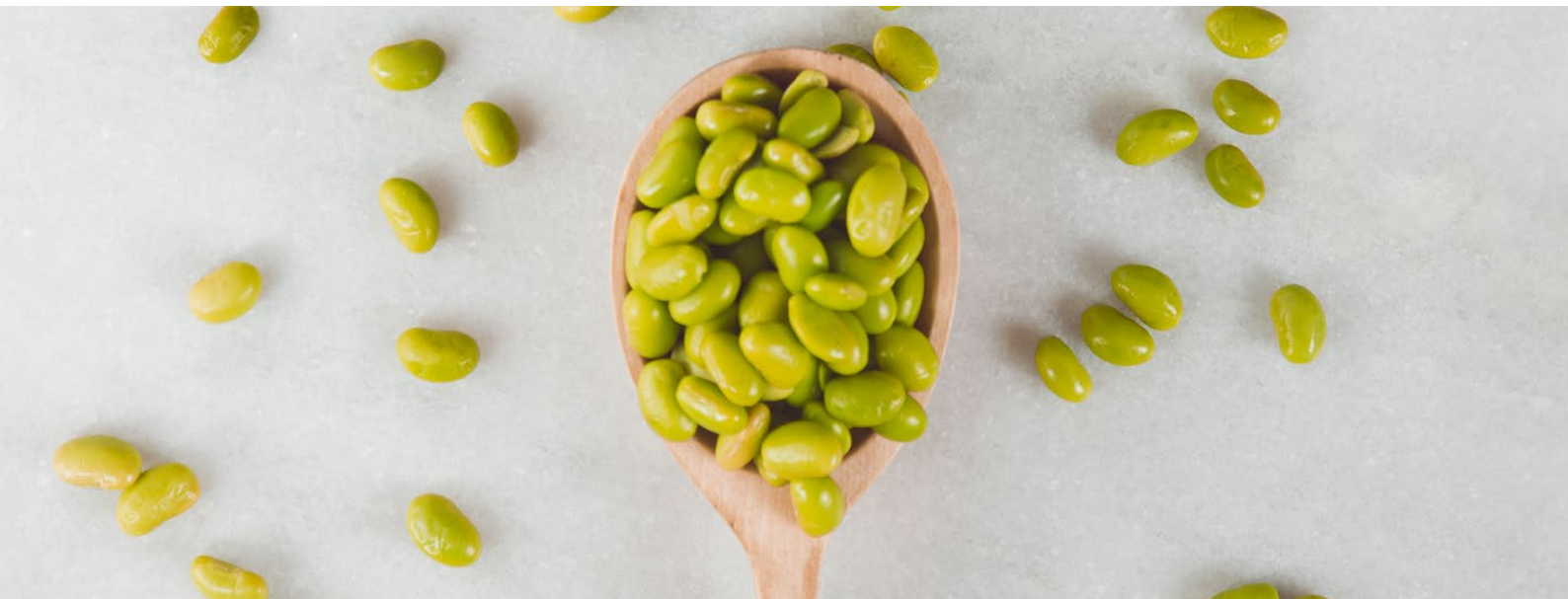
During 2018, sales to e-commerce B2B customers doubled in Sweden and are expected to continue growing. In Finland, a new cooperation with S-Group was initiated around sales of Gateau artisanal bakery products in one of S-Group's chains.



Going forward

The expansion of our retail business will continue to be an important focus area in our strategy implementation, and we will examine potential new concepts to increase its versatility. We will focus our efforts on organic growth in the Nordics.

We will maintain our strong focus on customer experience and develop our service culture further. At the same time, we will seek and implement improvements in operational efficiency and streamline our processes to ensure profitable growth.



Food with a purpose – For people, planet and business

In 2018, we introduced a new sustainability approach. Sustainability is integrated into our strategy and our new approach will support us in implementing our mission, Food with a purpose, and our vision, We spark joy and well-being through meaningful food experiences. Our high regard for the social and physical environment in which we operate is reflected in this new approach. We want to actively participate in sustainability dialogue, take a stand and create solutions that respond to the global challenges of our time.

The Core goals by 2030 driving our sustainability work are:



We approach sustainability through three areas: For People, For Planet and For Business. We want to do business in a sustainable way throughout the value chain and respond to consumers' expectations of responsibly produced goods and services. We will continue to invest in collaboration with stakeholders to find new sustainable solutions.



Sustainability highlights 2018

In 2018, we revised and updated our sustainability approach. Fazer's ambitious direction towards 2030 consists of four Core goals that support reaching the UN Sustainable Development Goals through food. The Core goals are: 1) 50% less emissions, 2) 50% less food waste, 3) 100% sustainably sourced and 4) more plant-based.

Our reputation remained on a good level in all main markets, with especially high marks in Russia and Finland. Fazer was ranked as the 3rd most sustainable brand in Finland in the Sustainable Brand Index 2018 and the 4th most reputable company in Finland in T-Media's Reputation & Trust study 2018.

Fazer's 125 Opportunities for Working Life initiative was awarded as the Recruitment Activity of the Year in Finland

Our lost time accident frequency dropped by 17% from 2017 and by 46% from 2013.

Fazer Lab organised an internal Fazer Innovation Challenge, in which employee teams created and developed ideas for new products and services. One innovation, artisanal hemp bread, is already on the market.

We continued our commitments concerning responsible sourcing of cocoa, grain, soy, palm oil and fish. 100% of our cocoa was sustainably sourced. We started a new farmer programme under the Fazer for Better Cocoa Programme in Ivory Coast.

We became the first food industry company to make a Finnish water stewardship commitment.

Fazer made a new five-year commitment to the Baltic Sea Action Group. The focus areas of the new commitment are circular economy, sustainable grain farming, a water stewardship plan and the development of Fazer's offering.

Our energy usage per produced tonne increased slightly to 0.86 MWh/tonne from 0.85 MWh/tonne in 2017. This was mainly due to fewer production tonnes as well as increased cooling and heating needs due to changing weather conditions. The share of the renewable electricity was 88%.

Our total waste amount decreased compared to the previous year, showing positive development, but more efforts towards waste reduction are needed. The recycling percentage decreased from 83% to 76%, and more waste was directed to energy recovery. 97% of the waste was recycled or used for energy production in 2018.

Fazer Food Services continued food waste reduction campaigns in restaurants. We met the reduction targets in Norway and Denmark and saw good progress in Sweden while in Finland we still need to intensify our actions.

Through optimised and more sustainable packaging, we succeeded in reducing the use of plastic. We created Fazer Group's approach to sustainable packaging and committed to stop using plastics in disposables by 2020.

We further developed our Grain Vision guidance. We shared knowledge of the vision and initiated a project with pilot farms to measure its impact.

All our businesses increased their offering of plant-based foods and developed new plant-based products.

Fazer, Nokia and Nightingale Health carried out a research project within the Fazer Brainhow® programme on new tools for people to monitor and control their health. The research focused on understanding the effect of a brain-friendly diet on work productivity, cognitive performance and quality of life.



Our updated sustainability approach: Core goals guide our way

In 2018, we revised and updated our sustainability approach to better support our transformation into a modern sustainable food company with a joint direction. Sustainability is integrated in the Group strategy and our new sustainability approach is strongly aligned with the strategy and the renewed brand positioning. Together with them, it will help us to reach higher than ever.

We chose four Core goals to crystallise our ambitious direction towards 2030. These goals were chosen because of their global impact, but also because they encourage others to join the work to create a more sustainable future.

Goal 1: 50% less emissions

Climate change is a challenge faced by everyone on the planet. The food system and its emissions are a factor in climate change, and by taking action to reduce the impacts of food production, we can make a difference. Climate change also has a direct impact on the availability, accessibility and affordability of our raw materials, and by doing our best to mitigate it, we are also future-proofing our business. In addition to climate emissions, the global food system causes also other emissions in water and on land, which we need to reduce as well.

Goal 2: 50% less food waste

Approximately one third of the global food production is lost or wasted annually, creating major negative impacts on the climate, water, land and biodiversity. Reducing food waste is one of the key actions to minimise negative environmental impacts of food and, at the same time, drive value for business through lower costs.

Goal 3: 100% sustainably sourced

Our impacts on people, societies and livelihood are not only limited to our own actions; raw material production, logistics and sourcing are equally involved. Therefore, we must ensure sustainability throughout the value chain from farmer to consumer. This we can do with clear basic requirements for all suppliers and extra attention to selected value chains such as cocoa, palm oil, grain and soy.

Goal 4: More plant-based

Our strategy states that we want to support consumers' healthy and sustainable lifestyles. There is strong scientific evidence that fibre-rich plant-based foods contribute to a decreased risk of many diseases. Plant-based foods have a significantly smaller climate impact than meat and dairy. We develop our offering to reflect the favourable impacts of plant-based foods on both people and the planet.

Wheel of Essentials and SDGs

The four Core goals are supplemented with the Wheel of Essentials – an overview of essential sustainability topics addressed by Fazer. These topics are strongly interconnected but can be divided into three groups: For People, For Planet and For Business. We have defined an action plan that includes key actions, targets and KPIs.

We have also defined the ways in which our work with these topics contributes to the realisation of the United Nations' Sustainable Development Goals (SDGs). We are strongly committed to supporting the implementation of the SDGs and encourage active stakeholder dialogue on them. We see food as a solution and know that the food industry has a significant impact on reaching the goals.





Managing sustainability

In order to efficiently manage our sustainability work, we have defined the roles and responsibilities of the sustainability team, network and leadership forum. The highest authority in sustainability matters lies with our Board of Directors and Group Management Team.

Our sustainability work 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.

Board of Directors

Approves ethical principles

Group Management Team

Approves policies and objectives

Group President: ultimate responsibility

Group's EVP, Communications and Branding: responsible for sustainability

Head of function

Approves instructions

Business areas and business units

Implement sustainability programme and strategic outlines, and set targets and objectives

Set sustainability focus areas

Follow instructions, practices and operating models

Sustainability team

Develops sustainability approach and supports its implementation

Sustainability Leadership Forum

Ensures alignment within the Group; defines Group-level strategies, policies, guidelines, targets and positions

Assesses, monitors and develops sustainability topics within the Group

Ensures the agreed actions are implemented

Escalates and prepares issues for the right decision forums

Sustainability Network

Ensures sustainability alignment within Fazer Group

Ensures the effective use of resources

Shares knowledge, know-how and market views in different countries and businesses



Stakeholder engagement

In order to develop our operations and offering, we maintain a continuous dialogue with all our stakeholders – customers, shareholders, employees and other actors in the value chain as well as the research community, NGOs, local communities, decision-makers and authorities. We earn their trust through openness and transparency. Their insight helps us to anticipate changes in consumption patterns and the regulatory environment. We reciprocate by actively sharing information and supporting, for instance, research initiatives on health and nutrition as well as other sustainability topics.

We partner with various organisations in the area of sustainability. These organisations include the Baltic Sea Action Group, WWF Finland, Climate Leadership Coalition, EAT, Hållbar Livsmedelkedja, SOS Children Villages, the Lake Vesijärvi Foundation, Helsinki Zoo (Korkeasaari) and universities.

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

Key stakeholders	Key channels of dialogue	How we respond to stakeholder expectations
Consumers	Daily encounters, customer service channels, surveys, websites and social media, packaging, visits	Through immediate connections both online and in our cafés, bakery shops and restaurants we learn what people value. We turn these consumer insights into new products and services. Consumers need to be able to trust the quality and safety of our products and services. We need to provide reliable information on our products and services and Fazer as a company
Customers	Meetings and cooperation, questionnaires, newsletters, customer feedback systems, customer events	We have close customer relationships. We bring value through both services and products that are of high quality and right for the consumer

Key stakeholders	Key channels of dialogue	How we respond to stakeholder expectations
Shareholders	Annual general meeting and Annual Review, tertial reports and tertiary information meetings, other regular events such as the summer meeting, shareholders' website	We provide shareholders with timely and relevant information in channels which best suit them
Employees	Individual Performance Management Process, continuous communication between managers and employees, personnel events, personnel surveys, Fazer's whistleblowing service, intranet and other internal channels, communication between employees/managers and local HR	Through official communication channels and processes, we can communicate with all employees. Through direct communication between employees, managers and HR, we ensure daily dialogue with employees
Suppliers	Supplier relationship management process, meetings, agreements, supplier requirements, audit questionnaires, audits, monitoring meetings and visits	We have close supplier relationships and we cooperate with our suppliers for example in the area of sustainability
Society (authorities and governments, media, NGOs and local communities)	Meetings, partnerships and collaboration, questionnaires, events	We create value to the society and engage in active dialogue. We are members in and have partnernships with various organisations. We believe in open and transparent communication
Universities and research institutes, start-ups	Partnerships and collaboration	Through partnerships and by combining our own research with university and start-up collaboration, we expand our own expertise and improve our capabilities to introduce sustainable innovations with social significance



For people

As part of enabling meaningful food experiences, we want to ensure that people have easy access to products and services that promote health and well-being. By promoting a plant-based diet, we want to have a positive effect on people's health while reducing the environmental impact. We also want to create a safe and healthy working environment for our employees and to give opportunities for development.

Our Core goal related to people is increasing our plant-based offering. Fazer looks to respond to the consumers' increasing need for more healthy and sustainable lifestyles. There is a growing market opportunity for plant-based products. Eating more vegetables and less meat is moving from early adopters to mass market, and we want to be at the core of this trend.

Other essential Fazer people-related themes include health and nutrition, stakeholder dialogue, human rights, employee health and safety, diversity and inclusion, quality and food safety and responsible marketing. We want to promote employee health and well-being. We follow UN's guiding principles on businesses and human rights and related processes. Our focus has been in carrying out human rights impact assessments for our different businesses based on these principles. Diversity is also a key enabler for us in our transformation into a modern sustainable food company. We want to provide a culture of diversity and inclusiveness where all employees can experience an equal working community with a motivating, respectful and safe work environment.

Work in 2018

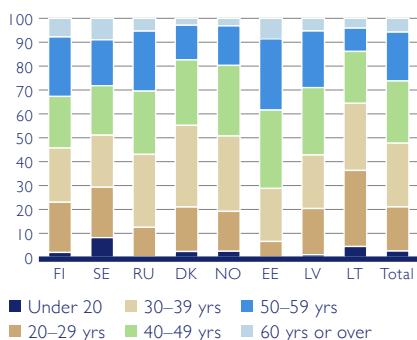
The health trend has continued strong, and in order to respond to people's interest towards enhancing their well-being, we introduced several new products and campaigns. Fazer Brainhow, the research programme studying cognitive abilities through food, proceeded well, and more products will carry the Brainhow claim in 2019. In the beginning of 2018, Fazer Food Services Finland organised a Fazer Brainhow restaurant campaign. Fazer, Nokia and Nightingale Health carried out a research project on new tools for people to monitor and control their health, with Fazer providing the "brainfood" meals for study participants.

All Fazer businesses have focused on increasing the offering of plant-based foods: Fazer Lifestyle Foods expanded the Fazer Yosa product range with eight new products; Fazer Bakery launched a product type for healthier snacking; Fazer Confectionery introduced a vegan chocolate, and Fazer Food Services continued recipe development towards vegetarian and vegan options and arranged employee trainings to promote cooking with more greens. Share of vegetables of Fazer Food Services' purchases was 37,7% in 2018. We also collaborated with universities and research networks, startups and NGOs.

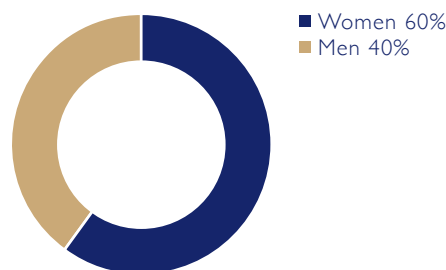
In our human rights impact assessments, we have identified potential negative impacts on our operations, along with mitigation actions and grievance activities. This work continues.

We have continued to manage and improve quality, occupational health and safety and environmental (QEHS) responsibility both via internal programmes and through third-party certifications for our management systems.

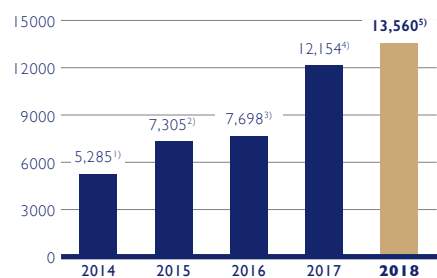
EMPLOYEES BY AGE, %



EMPLOYEES BY GENDER

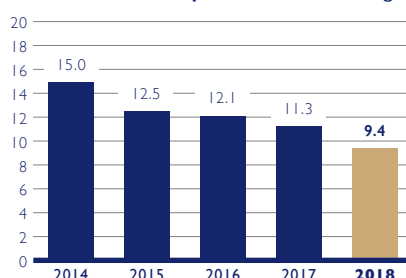


SAFETY OBSERVATIONS



- 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
- 4) Figure includes Fazer Confectionery, Fazer Bakery, Fazer Food Services Finland, Fazer Mills Finland and Fazer Cafés
- 5) Figure includes Fazer Confectionery, Fazer Bakery, Fazer Food Services, Fazer Lifestyle Foods and Fazer Retail

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



During 2018, we had no product recalls regarding food safety. Fazer Food Services' food safety self-monitoring was digitalised and all processes refined across the Nordics. We accomplished to certify all our internal production sites against the Global Food Safety System (FSSC 22000). We evaluated food fraud risks of raw materials in all industrial businesses and started mitigation actions on a corporate level.

Our lost time accident frequency dropped by 17% from 2017 and 46% from 2013. The year 2018 saw significant efforts put on safety communications across the company. New videos, e-learnings and other materials were produced to raise awareness and competence on the subject.

Frequency of occupational accidents (LTAF)

Number of accidents per one million working hours	2018	2017	2016
Fazer Bakery	3,7	5,4	5,5
Fazer Confectionery	17,0	9,4	13,7
Fazer Food Services	14,9	18,8	19,5
Total in Group	9,4	11,3	12,1

Number of employees per country 31 Dec. 2018	2018
Finland	6 952
Sweden	3 581
Russia	2 894
Denmark	1 048
Norway	529
Lithuania	265
Latvia	296
Estonia	131

Fazer Campus, the new e-learning platform was launched in 2018 and is available for everyone at Fazer. In 2018, we put focus on growing internal entrepreneurship and agility. As an example, Fazer Innovation Challenge was organised in spring 2018 offering everyone at Fazer a chance to take a great idea forward, learn new skills and work with colleagues from across the company.

In 2017, we introduced anti-harassment guidelines. The year 2018 saw continuation of this work and the introduction of a cross-functional diversity team and Fazer Diversity Officer. We focused on building awareness of diversity and inclusion. Diversity guidelines were included in the recruitment instructions.

Going forward

During the coming years, we will continue to implement our HR vision 2022. We will develop capabilities in human resource information systems (HRIS) and analytics. We will also develop role exchange and job rotation. We aim to develop a culture where our employees perform, engage and develop together. It means taking initiative, looking further than completing our task, understanding the impact of our contribution and taking responsibility for the result. We invest in strengthening our group-level leadership capabilities and growing internal entrepreneurship and agility. Fazer Lead leadership programme pilot will start in 2019. Diversity and inclusion e-learning will be launched during 2019. Diversity as a topic will be included in recruitment trainings.

E-learning on quality, environment, health and safety as well as other sustainability topics will be introduced to increase overall awareness and competence. We will continue building a safety culture where all employees are involved. We will also continue food fraud and food defense mitigation actions.

We will continue to invest in R&D and product and service development as well as in new ingredients and technologies to increase healthy and sustainable plant-based offering across businesses. The goal and target setting of increasing plant-based foods will be evaluated. Communication with relevant stakeholders will be in an important role, as our work continues.

What	Why	Key actions in 2018
Plant-based offering; health and nutrition	<ul style="list-style-type: none"> Offering everyone easy access to products and services to promote health and well-being to enable meaningful food experiences Promoting a plant-based diet which can decrease environmental impact and has a positive impact on people's health Core goal of more plant-based 	<ul style="list-style-type: none"> All Fazer businesses have focused on increasing the offering of plant-based foods Fazer Food Services organised a Fazer Brainhow restaurant campaign at the start of 2018
Stakeholder dialogue	<ul style="list-style-type: none"> With engaging stakeholder dialogue ensuring stakeholder support and securing trust towards Fazer 	<ul style="list-style-type: none"> Active dialogue We organised and participated in several stakeholder events

What	Why	Key actions in 2018
Human rights	<ul style="list-style-type: none"> Respecting all Human Rights and striving for equality and tolerance, for inclusivity and acceptance and for strong relationships 	<ul style="list-style-type: none"> In our human rights impact assessments, we have identified potential negative impacts on our operations, along with mitigation actions and grievance activities. Active dialogue on Human Rights and participation in the “#ykkösketjuun” campaign by citizens, civil society organisations, companies and trade unions promoting mandatory human rights due diligence Discussion on human rights continued with customers and suppliers
Employee health & safety	<ul style="list-style-type: none"> Occupational safety is a central part of well-being at work across Fazer's production units and restaurants Providing for all employees an equal working community, motivating and meaningful work and a safe working environment 	<ul style="list-style-type: none"> Accident frequency dropped by 17% from 2017 and 46% from 2013 Raising awareness and promoting competence development on employee safety promoting Strong focus on safety culture continued
Diversity and inclusion	<ul style="list-style-type: none"> Diversity and inclusion as a key enabler for transforming into a modern sustainable food company 	<ul style="list-style-type: none"> Continued working with anti-harassment based on the guidelines, introduced in 2017 Included diversity guidelines in the recruitment instructions
Quality and food safety	<ul style="list-style-type: none"> As a food company, ensuring the safety and quality of our products is at the core of business 	<ul style="list-style-type: none"> Fazer Food Services' food safety self-monitoring was digitalised and all processes refined across the Nordics Evaluated food fraud risks of raw materials in all industrial businesses
Responsible marketing	<ul style="list-style-type: none"> The Marketing Policy defines the basic principles for marketing communications throughout Fazer Group 	<ul style="list-style-type: none"> Identified three cases that were against the marketing policy. After internal monitoring and reviewing, those campaigns were stopped.



For planet

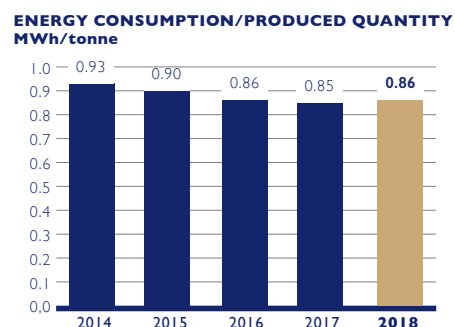
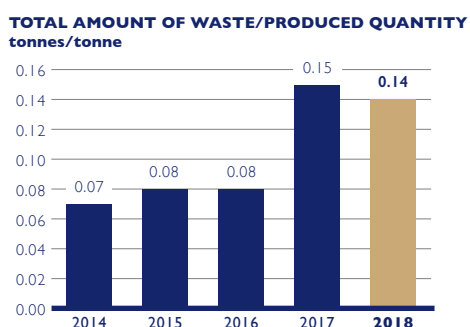
With the increasing need to act on climate change and environmental issues such as biodiversity loss, we continue to innovate sustainable solutions that support the well-being of people and the planet. We want to act sustainably throughout the supply chain and minimise the negative environmental impacts of our operations.

Our Core goals regarding our environmental responsibility include 50% less emissions and 50% less food waste. Increasing the share of renewable energy sources together with energy efficiency actions are a crucial part of Fazer's climate change actions. We carry out waste reduction actions across the Group, focusing on preventing food waste and recycling our side streams in order to increase the circular economy activities.

Other essential Fazer sustainability themes include water management, packaging, animal welfare, biodiversity and sustainable agriculture. We continuously assess water risks in the value chain and engage in collective action to develop sustainable water use. Our packaging has been optimised to reduce the use of plastic and we strive to close the loop of materials by using recyclable packaging and increase the share of recyclable materials. A key part of our quest to support sustainable agriculture is the Fazer Grain Vision. We are committed to maintaining global ecosystems by following the WWF seafood guide as well as with our no deforestation, palm oil and soy commitments and World Cocoa Foundation's Cocoa and Forests Initiative.

Work in 2018

In March 2018, Fazer became the first food industry company to make a Finnish water stewardship commitment. With this commitment, we aim to improve and develop water management through operational and value chain actions. A waste water quality project was continued in Finnish industrial sites, with a focus on Fazer Confectionery and Fazer Bakery production sites.



We began the implementation and steering of our renewed long-term energy plan. We aim to reduce our energy use per produced ton by 20% by 2020. We increased the focus on our investments and actions related to energy efficiency. Finnish large bakeries continued to conduct self-assessments of best practices in energy efficiency.

Reducing food waste and other waste has been one of the key sustainability focus areas at Fazer for many years now. In Fazer Bakery, we analysed the amount of bread waste we generate from production to end consumption to understand where we have the biggest impact.

Through optimised and more sustainable packaging, we have succeeded in reducing the use of plastic. Fazer Bakery Finland has adopted a target of reducing the use of plastic by 20% by the year 2025. Since 2017, Fazer Bakery Sweden has reduced plastic packaging with 81 tonnes. For the Oululainen Reissumies branded products alone, we have saved 27 tonnes of plastic annually.

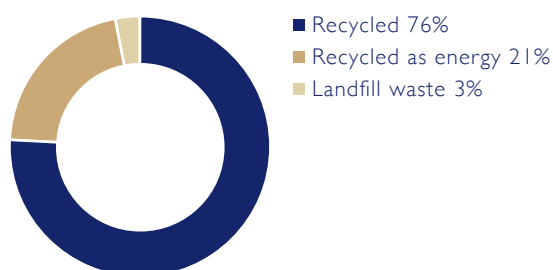
We continued our journey towards fulfilling our palm oil commitment and increased our share of segregated palm oil, although we were not able to achieve our target for 2018. We continued dialogue with suppliers on other sustainable vegetable oil alternatives.

We offer organic options based on customer and consumer needs. Fazer Mill Sweden was nominated as one of the finalists for the sustainability award "Årets Garant Ekostjärna 2019". We carried out dialogue with animal welfare organisations. In light of the UN IPPC report and the summer drought, reducing our climate emissions was also a big focus point for stakeholders during 2018. We witnessed our customers also committing to reducing their CO₂ emissions in the value chain.

During 2018, we carried out a vast number of activities to realise the Fazer Grain Vision. We developed a guidance document on how to fulfil Fazer Grain Vision. Moreover, we participated in stakeholder events and shared knowledge of the vision. We initiated a pilot project to measure the impact of the vision and performed audits to follow up on the progress.

We joined the World Cocoa Foundation's Cocoa and Forests Initiative to commit to no further conversion of any forest land for cocoa production, to end deforestation and restore forest areas. The actions related to achieve these objectives are to include monitoring systems for traceability, and they will focus on long-term sustainable production of cocoa while increasing productivity, so that growing more cocoa on less land becomes a reality. This can be reached with improved planting materials, training in good agricultural practices, and the development of sustainable livelihoods and income diversification for cocoa farmers.

WASTE TREATMENT



Going forward

We will continue to monitor and mitigate our impacts on the climate. We are committed to reducing our CO₂ emissions throughout the value chain, also in parts of the value chain where we do not have direct control. We will have focus also on material efficiency and national food waste initiatives. During 2019, we will create a Group level guidance on CO₂ emission and food waste calculations and KPIs. We are preparing our commitment on animal welfare, based on dialogue with animal welfare organisations as well as suppliers.

We will continue to execute our commitments related to waste, water management, energy, the Baltic Sea, cocoa, palm oil, grain, soy and fish.

We believe the agricultural and food sector can have a big role in curbing global warming. This is something we will consider in our work.

What	Why	Key actions in 2018
Food waste and side streams	<ul style="list-style-type: none"> Halving food waste and reducing food losses by 2030, according to SDG target 12.3 	<ul style="list-style-type: none"> Continued waste and food waste reduction and recycling activities Analysed the amount of bread waste we generate from production to end consumption
Energy efficiency	<ul style="list-style-type: none"> Following Energy Efficiency Directive (2012), requiring all EU countries to use energy more efficiently, aiming to meet 20% reduction by 2020. Following European Commission's proposal (2016) for new 30% target for 2030 Core goal of 50% less emissions 	<ul style="list-style-type: none"> Continued executing the long-term energy plan, aiming to reduce our energy use per produced tons by 20% by 2020 Increased the focus on our investments and actions related to energy efficiency
Water management	<ul style="list-style-type: none"> Water as a major economic, political and social issue. Water crisis was ranked as a top global risk by World Economic Forum (2016) 	<ul style="list-style-type: none"> Became the first food industry company to make a Finnish water stewardship commitment in order to advance water management A wastewater quality project in Finnish industrial sites was continued, with a focus on Fazer Confectionery and Fazer Bakery production sites.
Packaging	<ul style="list-style-type: none"> Reducing the amount of plastic waste and stopping the use of plastics in disposables, as guided by the European Commission 	<ul style="list-style-type: none"> Created our approach to sustainable packaging Reduced the use of plastic through optimised packaging
Animal welfare	<ul style="list-style-type: none"> Ensuring animal welfare as part of the core goal of 100% sustainably sourced 	<ul style="list-style-type: none"> Carried out dialogue with animal welfare organisations Working with animal rights, more specifically, for cage-free eggs, milk production and the use of antibiotics
Biodiversity	<ul style="list-style-type: none"> Importance of biodiversity for agriculture and food production Core goal of more plant-based 	<ul style="list-style-type: none"> Worked towards adopting our promises in our No deforestation commitment for key raw materials: palm oil, soy, paper and pulp-based packaging Used organic raw materials, primarily in Fazer Food Services as well as Fazer Bakery Joined Cocoa and Forest Initiative
Climate change	<ul style="list-style-type: none"> Responding to the UN Paris Agreement's climate goal of limiting the global temperature rise to "well below 2 °C Core goal of 50% less emissions 	<ul style="list-style-type: none"> Investigated possibilities for low carbon technologies. Began pilot project to start evaluating the CO₂ emissions based on the raw material purchase data

What	Why	Key actions in 2018
Sustainable agriculture	<ul style="list-style-type: none"> Core goal of 100% sustainably sourced 	<ul style="list-style-type: none"> Developed a Guidance document for fulfilling Fazer Grain Vision Initiated pilot project for measuring the results of Fazer Grain Vision

Environmental indicators	2018	2017	2016
Amount of production (tonnes)	586218	595 110	589 001
Energy consumption (MWh)	506768	507 819	504 384
Energy consumption/produced quantity (MWh/tonne)	0,86	0,85	0,86
Usage of water (m ³)	923431	875 117	884 977
Usage of water/produced amount (m ³ /tonne)	1,58	1,47	1,50
Used raw materials (tonne)	562843	567 019	481 683
Used raw materials/produced quantity (tonnes/tonne)	0,96	0,95	0,82
Total amount of waste/produced quantity (tonnes/tonne)	0,14	0,15	0,08
Total amount of waste (tonnes), of which	83505	86 991	48 650
Recycled (%)	76 %	83 %	66 %
Recycled as energy (%)	21 %	14 %	26 %
Landfill waste (%)	3 %	3 %	8 %

The environmental indicators cover Fazer's industrial production sites (Fazer Bakery, Fazer Confectionery, Fazer Food Services and Fazer Lifestyle Foods).



For business

Ensuring the continuity of our business is an essential part of our sustainability work. The profitability of our operations is a prerequisite for growth, development and employment. We conduct our business in a fair and transparent way.

Our main Core goal regarding responsible business operations is 100% sustainably sourced. Ensuring the sustainability of our entire value chain, from raw material production to consumers, is highly important to us. We have a continuous dialogue with our suppliers to develop the environmental, social and economic responsibility of our sourcing. We have sustainability requirements for our suppliers and we systematically monitor and audit their operations. We use a risk management tool to identify and evaluate risks related to our raw materials.

Other essential themes concerning sustainable business practices include ethical principles, profitability and growth and shared value, research and innovation and brand value. Sustainable, profitable growth allows us to employ and hire personnel and to develop our offering. It also makes it possible for us to carry out projects and programmes, such as our cocoa farmer programmes and scientific research initiatives, that benefit society. We seek to continuously develop our brand value, improve our reputation and reach new consumers with our message of meaningful food experiences.

Work in 2018

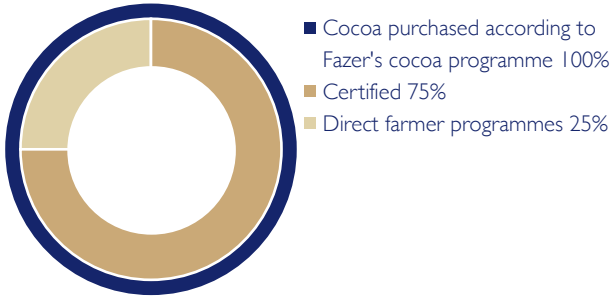
We continued our commitments concerning responsible sourcing of cocoa, grain, soy, palm oil and fish. In 2018, all our cocoa was sustainably sourced, either through UTZ, Rainforest Alliance or Fairtrade Cocoa Programme certifications or via our own direct programmes. We monitored our cocoa programme in Nigeria and opened two schools to support the education of the farming community. In addition, we started a new programme in the Ivory Coast.

We were also able to source 100% RSPO certified palm oil through the three supply chain options, segregated, mass-balance and book and claim. Target in 2018 was to use 100% segregated palm oil in Fazer Confectionery, but we did not quite reach it as 96% of the palm oil used was segregated, with mass balance and book and claim certified oil making up the difference. We had the same challenge in 2017 and continue to work on solving the issue for the remaining products and fractions. We also decided to cover these amounts of palm oil with small holder certificates supporting the small holders in palm oil production.

In 2018, we reached our goal for 100% sustainable certified soy. Of the 100%, Fazer has bought certificates to cover 35% and 65% is covered by our suppliers. In Fazer Cafés, all coffee served is certified. We have continued to follow the WWF seafood guide in our restaurants and cafés.

Ensuring the continuity and profitability of our business is a prerequisite for sustainable growth and development. We create value for customers, consumers, society at large and owners. Our value creation is a result of mutually beneficial co-operation with a variety of stakeholders, experts and local communities.

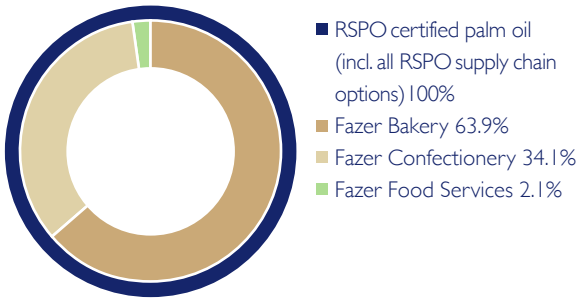
RESPONSIBLE COCOA STATUS



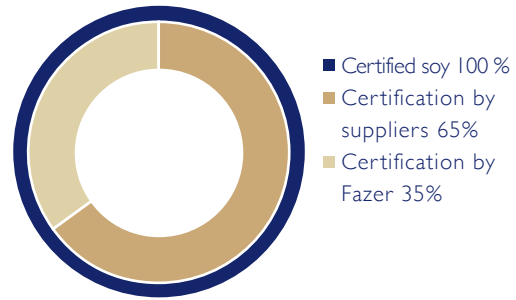
RESPONSIBLE PALM OIL STATUS



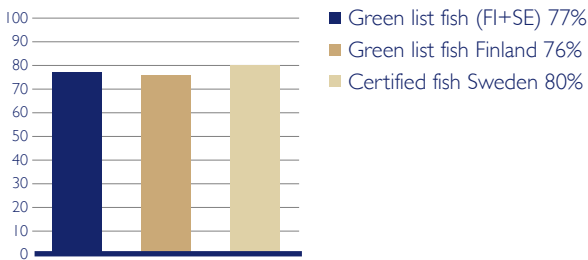
FAZER'S PALM OIL USE BY BUSINESS AREA



RESPONSIBLE SOY STATUS



RESPONSIBLE FISH STATUS



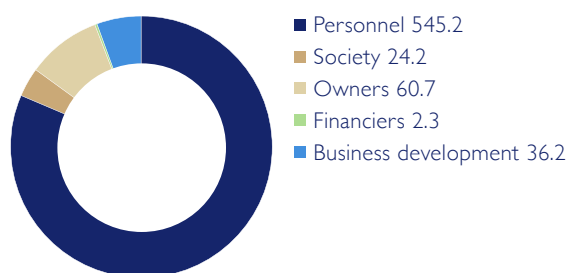
Our reputation remained on a good level in all markets, with especially high marks in all main markets. We regularly monitor our reputation in all our operating countries and regard it as an important factor in our preparation for international expansion.

Investments in research and innovation help us secure profitable business also in the future. Fazer Lab organised an internal Fazer Innovation Challenge, in which teams of Fazer employees created and developed ideas for new products and services. One of the results, an artisanal hemp bread, has already reached market. The Challenge was also a way to promote a culture of internal entrepreneurship and open-minded exploration within the company. Throughout the year, we also collaborated with several universities and research institutions to increase scientific knowledge on health and nutrition.

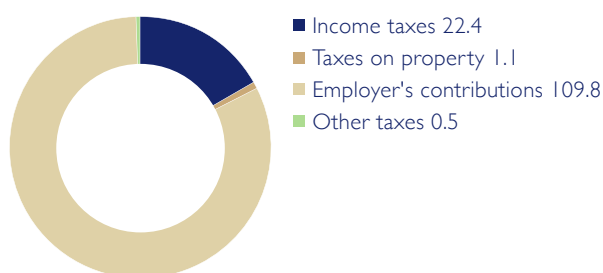
We conduct our business according to our Ethical principles that apply to all employees in all business areas and countries of operation. These principles are based on our values and the UN Global Compact, which aims to promote corporate sustainable development and good corporate citizenship. We carry out human rights impact assessments to identify the potential negative impacts on our operations and establish mitigation and grievance procedures. Our human rights approach is based on the UN guiding principles on businesses and human rights and the related process.

We renewed and expanded our whistleblowing system. As a grievance mechanism, it serves also third parties, who are now able to report observed or suspected breaches of company policies or regulations. During 2018, 18 cases were reported through the system, mainly concerning HR matters and QEHS. The cases have been investigated internally and the necessary measures have been taken. Three investigations are still ongoing.

DIVISION OF ECONOMIC VALUE, M€

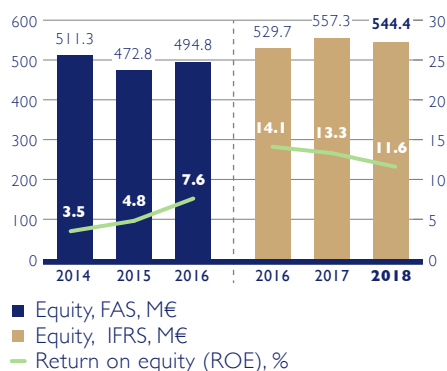


TAXES BORNE AND EMPLOYER'S CONTRIBUTIONS, M€ *)

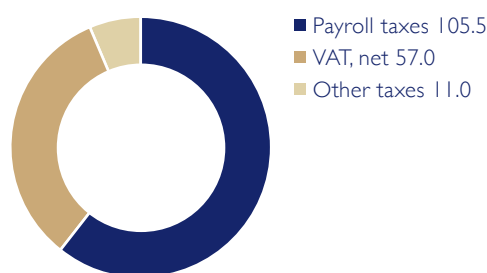


*) Insurance taxes and energy taxes not included.

EQUITY AND RETURN ON EQUITY



TAXES COLLECTED, M€



We are committed to preventing the occurrence of bribery in all our businesses. We have made a risk assessment of our operations and systematically monitor risks in all our businesses. We have a comprehensive anti-bribery programme in place, which includes among other things an anti-bribery policy, training and eLearning, gift registration procedures, internal audits and a counterparty risk assessment.

Going forward

The new sustainability approach will be taken into practice across business areas and functions. We will concentrate on the implementation, focusing on the core goals and taking into account business needs and focus areas of each business area.

We will further develop our issues management and risk management from the perspective of sustainability. We will continue to monitor our reputation.

Together with the sourcing, QEHS and legal functions, we will develop our sourcing processes to ensure responsibility and compliance throughout the value chain. We will revise our supplier requirements both for direct raw material categories and for indirect services. We will also work to increase supplier understanding of these requirements. We continue the work to develop the transparency and traceability of our extensive value chain. By cultivating good relationships with our suppliers, we ensure the availability of high-quality raw materials in the future.

We will continue developing our approach concerning categories such as packaging and eggs, in which we strive to reach the highest sustainability level. Work with existing focus areas – cocoa, soy, palm oil, grains and fish – continues as well.

We want to earn the trust shown by our stakeholders and develop our sustainability work together with them. We believe that through co operation, new innovations and solutions can be found, and we therefore apply a collaborative approach.

What	Why	Key actions in 2018
Ethical principles and Human Rights	<ul style="list-style-type: none"> Following our ethical principles in all business and encouraging our partners to follow them as well 	<ul style="list-style-type: none"> Renewed and expanded our whistleblowing system to include third parties
Fair value chain	<ul style="list-style-type: none"> Strengthening collaboration in the value chain Ensuring that our raw and packaging materials as well as our services are produced sustainably 	<ul style="list-style-type: none"> Sourced 100% sustainable cocoa; 100% certified soy; 100% RSPO certified palm oil. Continued with other focus raw materials: grains, fish Established a new direct cocoa programme in Ivory Coast and monitored the programme in Nigeria
Research and innovations	<ul style="list-style-type: none"> Development of foods through investments in food science Investing in new technologies and ingredients to create plant-based novelties 	<ul style="list-style-type: none"> Organised Fazer Innovation Challenge to create and develop ideas for new products and services
Profitability and growth; shared value	<ul style="list-style-type: none"> Creating shared value through profitability and growth Being part of the society 	<ul style="list-style-type: none"> Created value for customers, consumers, society at large and owners through co-operation with a variety of stakeholders
Brand value	<ul style="list-style-type: none"> Securing brand value and earning the trust of stakeholders Implementing our mission "Food with a purpose" 	<ul style="list-style-type: none"> Renewed the Fazer brand position, which includes sustainability: 'Northern Magic. Made Real.' to ensure that we are relevant to consumers also in the future

Economic value generated and distributed, M€	2018	2017
ECONOMIC VALUE GENERATED:		
Customers (net sales, other operating income, financial income, sales of assets)	1 628	1 657
Suppliers		
Direct purchases	-572	-586
Indirect purchases	-337	-327
Operative investments	-51	-62
Added value	669	682
ECONOMIC VALUE DISTRIBUTED:		
Personnel (salaries, wages and other indirect employee costs)	-545	-561
Society (taxes and donations)	-24	-23
Owners (dividends)	-61	-38
Financiers (interest and other financial expences)	-2	-3
Economic value retained in business	36	58

Management system certificates at Fazer 2018

	QEHS Standards				Food safety standards				Ethical trade
	ISO 9001	ISO 14001	ISO 50001	OHSAS 18001	FSSC 22000	ISO 22000	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
Fazer Bakery Finland									
Vantaa					X				
Lahti					X				
Lahti (Crisp)					X		X		
Lappeenranta					X				
Oulu					X				
Fazer Bakery Sweden									
Eskilstuna		X		X	X				
Stockholm office	X	X							
Lidköping	X	X		X	X		X		
Lund		X		X	X				
Umeå		X		X	X				
Fazer Bakery Russia									
Smolenskaya	X	X		X	X	X			
Murinsky	X	X		X	X	X			
Neva	X	X		X	X	X			
Zvezdny	X	X		X	X	X			
Fazer Bakery Baltics									
Ogre			X		X				
Kaunas					X				
Fazer Lifestyle Foods									
Mills Lahti				X	X			X	
Mills Lidköping	X	X			X				
Kaarina					X				
Fazer Food Services									
Restaurants Finland	X	X							
Restaurants Sweden	X	X							
Restaurants Denmark									
Restaurants Norway									
Tallinn kitchen						X			

ISO 9001	Quality Management System Standard
ISO 14001	Environmental Management System Standard
ISO 50001	Energy Management System Standard
OHSAS 18001	Occupational Health and Safety Management System Standard
FSSC 22000	Food Safety System Certification
ISO 22000	Food Safety Management System Standard
IFS	Food safety and quality audit of food processes and products
AIB	Food Safety Audit by AIB International
SMETA 4-pillar	Ethical Trade Audit



Governance

Board of Directors' report

In 2018, Fazer commenced the implementation of its new strategy to transform into a modern sustainable food company with a joint direction. While the economies in Fazer's key markets continued to develop favourably, the competitive landscape became tougher for all the businesses. Also, the extraordinarily hot summer affected Fazer's businesses. In addition, the weak performance in Fazer Bakery Russia and Sweden and the weakening of all Fazer's main foreign currencies had a negative impact on the 2018 financials. As a result, Fazer Group's net sales and operating profit decreased from the previous year.

In 2018, Fazer's brand positioning was redefined to amplify the consumer-centric approach. At the start of 2018, Fazer Retail was established as a separate business unit to strengthen the direct-to-consumer business. Also, the organisational setup for Fazer Lifestyle Foods was further developed. Focus on efficiency improvements continued with initiatives in several fields. Occupational safety and developing Fazer's safety culture remained an important theme with positive results.

Markets, business environment and sales

In 2018, the economies in Fazer's key markets continued to develop favourably. On the other hand, all of Fazer's main foreign currencies weakened against the euro, and affected Fazer's financial performance negatively. The largest foreign currency impact on Fazer came from the Swedish krona, which weakened by 6% against the euro.

Year 2018 was a challenging year for Fazer Bakery Russia and Sweden. At the same time, the performance in Finland reached record levels and business in the Baltics developed positively: in these markets Fazer's market share also increased. Artisanal bread maintained its popularity, especially in Finland and Sweden. Bread consumption in Russia shifted towards lower-priced segments. The extraordinarily hot summer affected bread consumption in all markets. Fazer Bakery's net sales decreased to 552.3 M€ (2017: 583.2 excluding net sales of Bakery Shops transferred to Fazer Retail and net sales of Alku porridges transferred to Fazer Lifestyle Foods). Programmes are in place to turn the development and to increase operational efficiency in all Fazer Bakery operations.

Fazer Confectionery's net sales for 2018 reached 333.1 M€ (2017: 331.2). The market share in chocolate tablets increased and biscuit sales grew in Finland. In Sweden, Fazer kept its confectionary market share. Fazer Candy Store was opened to serve

consumers online. Currently, the web store ships to EU countries only but the geographical expansion is being planned. Cooperation was started with JD.com to explore opportunities in the Chinese market.

Fazer Food Services with more than 1 000 restaurants in Finland, Sweden, Norway and Denmark reached net sales of 593.2 M€ (607.7). With comparable currency rates the net sales were at previous year level. Retention of existing contracts was on a good level while some unprofitable contracts were exited. Actions to improve performance were initiated and they will continue further into 2019 to strengthen the competitiveness of the business. Fazer's Culinary Teams from Sweden and Finland took a double victory at the culinary World Championships in Luxembourg in November.

The competition tightened in the smoothie and non-dairy markets, with both branded and large private label competitors vying for market share. Fazer Lifestyle Foods' net sales increased 21% and amounted 121.8 M€ (100.4). Several new products were launched during the year. The Froosh smoothie range was complemented with functional smoothies. Cereals and organic porridges were launched under the Fazer Alku breakfast food brand. The Fazer Yosa oat product family was expanded with eight products and the brand was refreshed with, for example, a new packaging design. Oat-based products have sparked global interest and Nordic oats are highly regarded around the world. Significant investments were made in Fazer Lifestyle Foods' organisational development and marketing activities to ensure future growth.

Fazer Retail was established as a separate business unit at the start of 2018 to strengthen Fazer's direct-to-consumer business. The business unit combines the Gateau bakery shops in Finland and Sweden with Fazer Cafés in Finland. The new business unit combines artisanal bakery products and high-quality delicacies with a first-class experience. In 2018, the focus was on building an organisation and operating platform for future growth and for expanding its retail expertise. The net sales of the new business unit reached 46.4 M€ during its first year of operation.

The Fazer Experience Visitor Centre was visited by more than 200,000 people in 2018, which is a new record.

Financial results

Fazer's reported net sales decreased by 1% from previous year and reached 1,618.2 M€ (1,641.6). The weakened foreign exchange rates reduced the net sales by 48.6 M€. The businesses acquired in 2017 increased the 2018 net sales by 18.8 M€ compared to previous year.

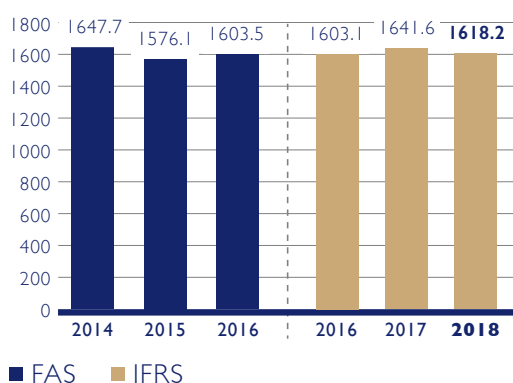
The Group's operating profit decreased to 84.2 M€ (92.1). Operating profit included 4.2 M€ (3.5) one-time restructuring costs and write-offs (net). Profit for the financial period amounted to 63.9 M€ (72.1). Fazer Confectionery was the only business area that improved its profitability.

Cash flow and financial position

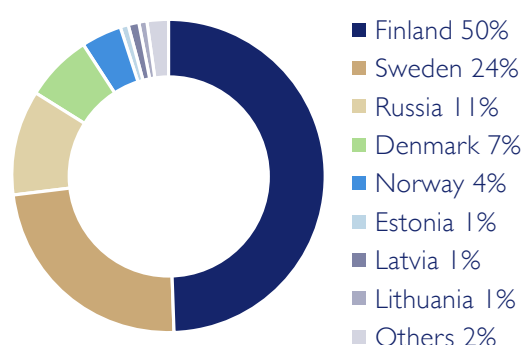
The Group's financial position remained strong. Interest-bearing net debt totalled 95.0 M€ (79.0). The Group's equity ratio was 56.8% (55.1%).

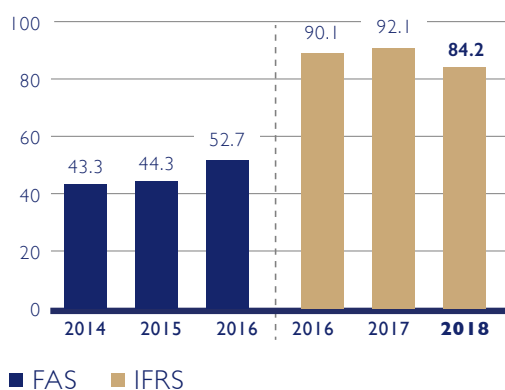
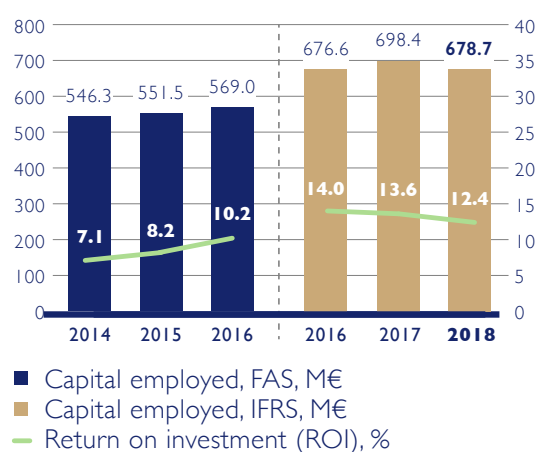
Cash flow from operating activities was 114.6 M€ (149.6) and gross investments amounted to 50.5 M€ (108.0). The majority of the investments were done in new production equipment and upgrades to the existing machinery in the bakery and confectionery operations.

NET SALES, M€



NET SALES BY COUNTRY



OPERATING PROFIT, M€**CAPITAL EMPLOYED AND PROFITABILITY**

Key figures	2018	2017	2016
Net sales, M€	1,618.2	1,641.6	1,603.1
Operating profit, M€	84.2	92.1	90.1
Share of net sales %	5.2	5.6	5.6
Return on equity, % (ROE)	11.6	13.3	14.1
Equity ratio, %	56.8	55.1	54.2
Gearing, %	17.5	14.2	10.8

Personnel

At year-end, Fazer had 15,696 employees (15,993). Out of these, 91 (68) were employed by the parent company.

Personnel	2018	2017	2016
Number of employees 31.12.	15,696	15,993	16,048
Number of employees (FTE, on average for the year)	13,242	13,198	13,287
Wages and salaries, M€	423.7	433.3	422.2

Strategy implementation

In 2018, Fazer began to implement its new strategy, with the aim to become a modern sustainable food company in Northern Europe and beyond. With this strategic goal in mind, Fazer strengthened its focus on the consumer and updated the Fazer brand positioning. Fazer targets growth and value creation through portfolio choices, continued operational excellence and structural improvements. Despite 2018 having been a challenging year, Fazer is committed to improve its performance in all its businesses and geographies. Implementation of Fazer's new strategy included in 2018 a large number of value creation initiatives in different businesses and Group functions, building the organisation and capabilities for growth in the new Fazer Lifestyle Foods business area, creating the new Fazer Retail business unit, establishing a distribution company for Fazer Confectionary in the USA as well as planning and developing other means for profitability, growth and geographical expansion.

Quality, environment, occupational health & safety and food safety

In 2018, the focus in quality, environment, health and safety (QEHS) was on the development and digitalisation of the related management system, ensuring compliance with regulations, improving competences, strengthening risk management and promoting safety leadership.

New ways of communication and leadership activities continued to improve occupational health and safety. Management safety walks, safety reviews, safety commitments and other safety practises are part of the daily operations. Accident frequency fell by 17% from 2017. All businesses have safety plans in place.

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

Fazer has certified all its production sites against the Global Food Safety System (FSSC 22000). In addition to this, also other QEHS management systems have been certified depending on the demands of the markets and customers. Fazer Food Services' HACCP (preventative food safety) process was digitalised and harmonised across the Nordics. In 2018, there were no product recalls.

Fazer's environmental management continued to improve through internal programmes and 3rd party certifications. Fazer continued to engage in energy efficiency activities, conducting energy efficiency mappings and self-assessments. Waste reduction actions across the Group were carried out, focusing on preventing food waste and recycling side streams. Fazer was the first food industry company to make a Finnish water stewardship commitment.

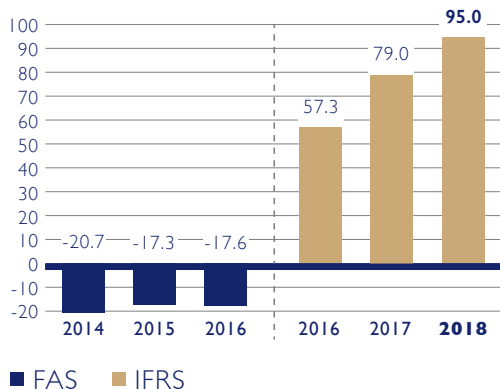
Sustainability

In 2018, Fazer revised and updated its sustainability approach to support the transformation into a modern and sustainable food company with a joint direction. Fazer's ambitious direction towards 2030 consists of four core goals that support reaching the UN sustainable development goals through food. The core goals are: 1) 50% less emissions, 2) 50% less food waste, 3) 100% sustainably sourced and 4) more plant based. The highlights of Fazer's sustainability work for 2018 include systematic work to improve energy efficiency to reduce climate emissions and continuing to focus on food waste reduction. Fazer continued its commitments concerning the sustainable sourcing of cocoa, grain, soy, palm oil and fish, and increase of its offering of plant-based foods. Fazer's reputation remained on a good level in its main markets.

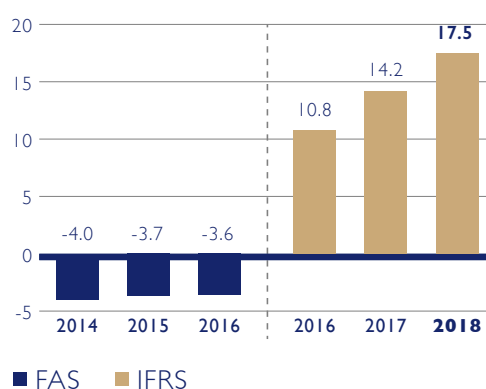
Risk management

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 2018, no major risks were realised. For more information on financial risk management, see Note 11.3 to the Financial Statements.

INTEREST-BEARING NET DEBT, M€



GEARING, %



Research and development

Fazer continued to execute the Fazer Brainhow programme, which focuses on the connection between food and cognitive performance. Two clinical trials were successfully finalised in 2018. The BRAVE study, a cooperative project with Nokia and Nightingale Health investigating the effects of brain-friendly food on cognitive functions, physiology and blood biomarkers, showed very promising results that will be published in 2019.

Fazer Lifestyle Foods' technology and new product development work resulted in the launch of the new non-dairy oat products under the Fazer Yosa brand. The Fazer LOFO improver, which is a result of long-term R&D work, was presented at the international bakery exhibition (IBA) in Munich. This patented improver is the world's first enzyme-based solution to reducing the amount of FODMAP compounds in bread making the bread more belly-friendly.

Fazer's cooperation with universities and researchers continued and resulted in the publication of one doctoral dissertation and multiple master thesis works.

Research and development costs amounted to 9.8 M€ (9.9).

Changes in Group legal structure

Fazer continued its work to simplify its legal structure and several legal entities were merged in 2018. The changes in the Group legal structure are disclosed in Note 22 to the Financial Statements.

Shares and share capital

At the end of 2018, 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.

Board of Directors and auditors

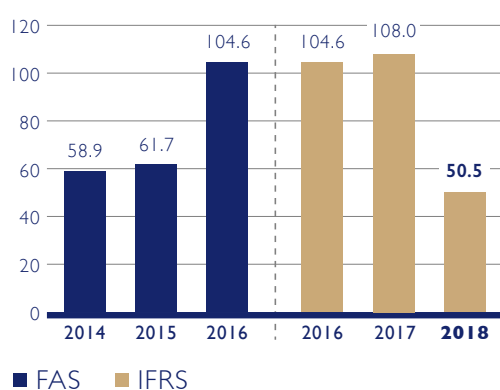
At the Shareholders' Meeting on 10 April 2018, the following Board members were re-elected: Berndt Brunow (Chairman), Anders Dreijer (Vice Chairman), Klaus Cawén, Ketil Eriksen, Jan Fazer, Leif Hagelstam, Johan Linder, Cecilia Marlow and Juhani Mäkinen.

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

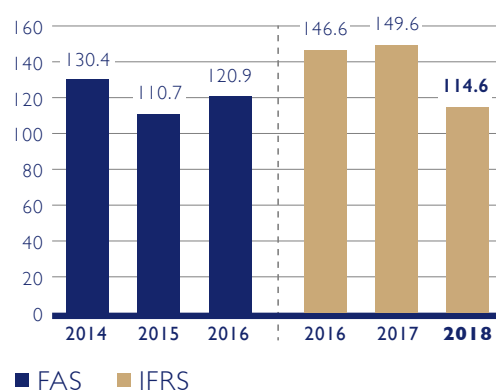
Outlook for 2019

GDP growth in most of Fazer's main markets is expected to continue, but to slow down in 2019. The competitive environment is expected to remain tough for all Fazer's businesses.

GROSS INVESTMENTS, M€



CASH FLOWS FROM OPERATING ACTIVITIES, M€



Fazer will continue its transformation, with strong focus on execution. Development of Fazer's business and product portfolios will remain key cornerstones in implementing the strategy, along with the renewed Fazer brand and several growth initiatives. In addition to organic growth, active M&A work will continue to further strengthen growth and internationalisation. Fazer will also continue to work on strengthening its competitiveness through its value creation programmes and the continuous development of its organisational and structural efficiency. In 2019, the net sales and the operating profit are expected to increase compared to previous year.

Events after the reporting period

In January 2019, Fazer announced considering closing of the Oulu bakery in Finland to improve efficiency of its bakery network. Collaboration negotiations concerning Oulu bakery were concluded in March 2019. Bakery's operations will gradually be transferred to other Fazer bakeries. Operations of the bakery and contracts of all 83 employees will end in September 2019.

In January, Fazer also announced its plan to invest 40 million euros into a new production facility in Lahti, Finland. With this investment, Fazer brings Finnish raw material based xylitol production back to Finland and builds the first xylitol manufacturing facility in the world that uses oat hull as its raw material. The xylitol market is expected to grow, and Fazer targets markets in Northern Europe and beyond with this plant-based product.

Proposal for distribution of profit

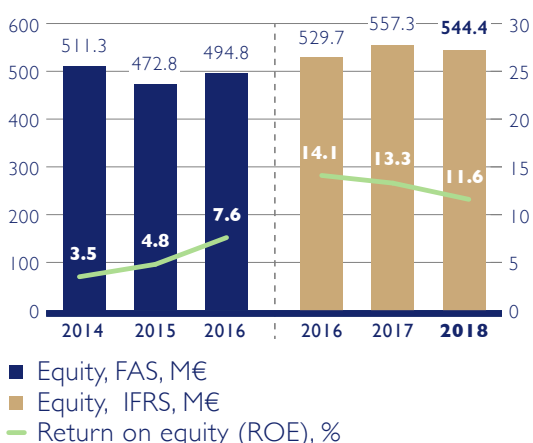
The parent company's distributable funds amount to 634,028,543.13 euros of which 51,507,792.36 euros represent profit for the financial year.

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

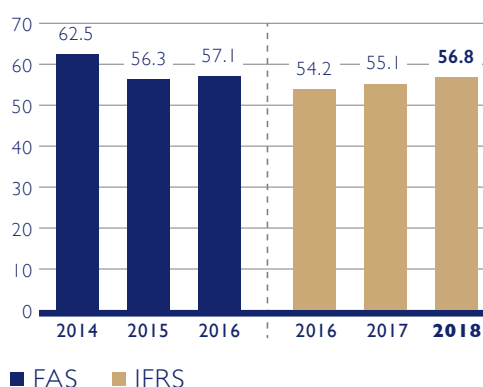
- to pay a dividend of 9.50 euros per share	60,077,648.50 €
- to leave in profit brought forward	573,950,894.63 €
	634,028,543.13 €

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

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 the 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 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 deciding on 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, appoints and convenes the Nomination Committee, which is responsible for preparing proposals regarding the composition of the Board of Directors and the compensation 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), Anders Dreijer (Vice Chairman), Klaus Cawén, 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 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 are also responsible for maintaining contact with the Owner's 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 employee satisfaction survey results.

The Audit Committee comprises Jan Fazer (Chairman), Anders Dreijer, Ketil Eriksen and Juhani Mäkinen. The Committee held four meetings during the financial period and, apart from ordinary issues, it dealt with questions related to e.g. 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 CEO and President whereas Jouni Grönroos is the Deputy CEO.

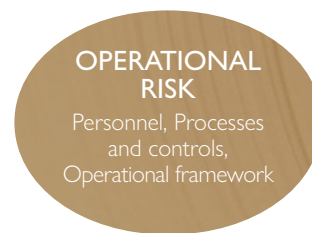
Group Management Team

The Group Management Team consists of the CEO (Chairman), the Managing Directors (MD) 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), Nathalie Ahlström (MD Fazer Confectionery), Mats Liedholm (MD Fazer Lifestyle Foods), Petri Kujala (MD Fazer Bakery), Jouni Grönroos (CFO & Deputy CEO), Sebastian Jägerhorn (EVP Legal & Compliance), Ulrika Romantschuk (EVP Communications & Branding) and Lara Saulo (EVP, People & Transformation).

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 (CFO) 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.

Fazer defines risk as external or internal uncertainty that may affect the Group in the execution of its strategy, achievement of its goals or the continuity of its businesses. Risks may be caused by events within Fazer, or by external conditions or events. For the identification and monitoring of risks, these are divided into four categories: strategic risks, operational risks, hazard risks and financial risks.



Strategic risks are external risks that affect the whole industry (change in demand, raw material availability, change in regulation, change in competitive field, etc.) or self-inflicted risks due to strategic choices (new business development, M&A, partnerships, dependency on one market/customer, corporate social responsibility, etc.). Focus on strategic period: 3–5 years.

Operational risks are related to implementation of the strategy and everyday business activities. These include for example supply chain efficiency, customer relations, raw material prices, managing projects, IT, security and personnel related risks, etc. Focus on budgeting period: 1–2 years.



Hazard risks are errors, malfunctions and accidents that occur within Fazer or in the business environment and that cause damage or loss.

Financial risks are related to changes in market prices, the sufficiency of financial assets and the ability of counterparties to meet their financial obligations.

The most significant risks related to Fazer's operations include raw material risks (price and availability risks mitigated with e.g. hedging and contractual arrangements), risks related to customers and consumer demand (mitigated with e.g. portfolio and brand management), product safety risks (mitigated with e.g. food safety management and quality certifications), political environment (mitigated with e.g. close monitoring of political development) and hazard risks (mitigated with Group insurance programmes, regularly updated risk analyses and continuity plans for all key plants as well as investments in workplace safety to prevent occupational accidents and risk of occupational diseases). These risks together or separately may have an effect on Fazer's business, results, financial standing, competitiveness or reputation.

Climate change affecting raw material availability, price and quality as well as water-related risks are recognised risks for food production. Fazer has recognised potential risks compromising human rights or unethical practices that may occur especially within the value chains. Any possible risks related to the realisation of human rights, anti-corruption or bribery are managed with the help of personnel training, internal policies and audits. Human rights related risks are also mitigated by following UN Guiding Principles on businesses and human rights and processes described in these guiding principles. Fazer has implemented a whistleblowing system that provides an opportunity to report suspicions of misconduct. It is available to employees and external parties.

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 Fazer's common values and international principles drawn up by the UN Global Compact, which aims to promote good corporate citizenship and sustainable development. The ethical principles of Fazer Group 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 ensuring 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



Nathalie Ahlström

b. 1974

Master of Science (Technology)
Managing Director, Fazer
Confectionery and Executive Vice
President, Fazer Group



Andreas Berggren

b. 1966

Master of Sciences (Business and
Economics)
Managing Director, Fazer Food
Services 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



Mats Liedholm

b. 1965

Master of Sciences (Marketing and
International Business)
Managing Director, Fazer Lifestyle
Foods 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
People & Transformation and Executive
Vice President, Fazer Group

Financial Information

Fazer wants to provide meaningful and relevant information in a transparent way. To this end, Fazer is following International Financial Reporting Standards (IFRS) and reports its financial statements in accordance with them. 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.

Consolidated income statement

M€	2018	2017
Revenue	1,618.2	1,641.6
Other operating income	7.3	6.3
Change in finished goods and work in progress	-3.5	3.7
Materials and services	-587.4	-600.8
Employee benefits expenses	-534.8	-551.1
Depreciation, amortization and impairment	-81.3	-81.7
Other operating expenses	-334.7	-326.3
Share of profit/loss of associated companies	0.3	0.3
Operating profit	84.2	92.1
Financial income and expenses		
Financial income	1.4	1.5
Financial expenses	-4.0	-4.1
Total financial income and expenses	-2.6	-2.6
Profit before income tax	81.6	89.5
Income tax	-17.8	-17.3
Profit for the year	63.9	72.1
Attributable to		
Owners of the parent company	58.5	63.4
Non-controlling interests	5.3	8.8

Consolidated statement of comprehensive income

M€	2018	2017
Profit for the year	63.9	72.1
Other comprehensive income		
Items that may be classified to profit or loss		
Cash flow hedges	0.3	2.7
Translation differences	-16.0	-9.0
Income tax relating to these items	-0.1	-0.5
Items that will not be reclassified to profit or loss		
Changes in fair value of financial assets	-	0.2
Remeasurements of defined benefit plans	-0.2	0.3
Income tax relating to these items	0.0	-0.1
Other comprehensive income, net of tax	-16.0	-6.5
Total comprehensive income for the period	47.9	65.7
Attributable to		
Owners of the parent company	46.0	58.9
Non-controlling interests	1.9	6.8

Consolidated balance sheet

M€	31 Dec 2018	31 Dec 2017
ASSETS		
Non-current assets		
Goodwill	158.7	160.6
Intangible assets	52.0	51.2
Property, plant and equipment	408.9	431.8
Investments in associated companies	1.2	1.1
Other non-current financial assets	3.1	3.1
Other non-current receivables	2.0	2.0
Deferred tax assets	1.1	1.0
Total non-current assets	627.0	650.9
Current assets		
Inventories	91.8	90.3
Trade and other receivables	198.9	206.0
Other current financial assets	-	21.8
Income tax receivables	3.0	4.0
Cash and cash equivalents	39.3	40.3
Total current assets	332.9	362.4
TOTAL ASSETS	959.9	1,013.3
EQUITY AND LIABILITIES		
Share capital	126.5	126.5
Other reserves	0.0	-0.2
Retained earnings	358.5	372.7
Equity attributable to the owners of the parent	484.9	499.0
Non-controlling interests	59.4	58.3
Total equity	544.4	557.3
Non-current liabilities		
Interest-bearing liabilities	51.7	54.7
Deferred tax liabilities	16.6	21.5
Pension obligations	4.2	4.4
Provisions	2.0	2.0
Other non-current liabilities	8.8	9.6
Total non-current liabilities	83.4	92.2
Current liabilities		
Interest-bearing liabilities	82.6	86.5
Trade and other payables	244.8	268.9
Provisions	0.6	1.6
Income tax liabilities	4.2	6.8
Total current liabilities	332.2	363.8
Total liabilities	415.6	456.0
TOTAL EQUITY AND LIABILITIES	959.9	1,013.3

Consolidated statement of cash flows

M€	2018	2017
Cash flows from operating activities		
Profit before income tax	81.6	89.5
Adjustments ¹	77.8	87.8
Change in working capital ²	-19.3	-6.0
Interest received	1.3	1.6
Interest paid	-1.4	-2.4
Other financial income and expenses, net	-1.7	-1.9
Dividends received	0.2	0.3
Income taxes paid	-24.0	-19.2
Net cash flows from operating activities	114.6	149.6
Cash flows from investing activities		
Acquisition of shares in subsidiaries, net of cash	-	-45.6
Purchases of tangible and intangible assets	-50.5	-62.4
Proceeds from sale of other financial assets	21.9	13.2
Proceeds from sale of tangible and intangible assets	1.6	0.6
Net cash flows from investing activities	-27.0	-94.1
Cash flows from financing activities		
Repayment of current debt	-8.7	-10.0
Proceeds from current debt	18.2	3.0
Net cash flows from commercial papers	-11.5	-7.5
Repayment of leasing debt	-24.6	-25.4
Dividends paid	-60.9	-37.9
Net cash flows from financing activities	-87.5	-77.8
Net increase (+) decrease (-) in cash and cash equivalents	0.1	-22.3
Cash and cash equivalents at the beginning of the period	40.3	62.9
Exchange rate difference	-1.0	-0.4
Cash and cash equivalents at the end of the period	39.3	40.3
1) Adjustments		
M€	2018	2017
Depreciations, amortisations and impairments	81.3	81.7
Share of result in associated companies	-0.3	-0.3
Financial income and expenses	2.6	2.6
Non-cash income and expenses	-6.2	2.8
Other non-operating adjustments	0.4	1.0
Total adjustments	77.8	87.8
2) Change in working capital		
M€	2018	2017
Decrease (+) / increase (-) in inventories	-3.1	-5.3
Decrease (+) / increase (-) in trade and other receivables	1.5	-6.7
Decrease (-) / increase (+) in trade and other payables	-17.7	6.0
Change in working capital	-19.3	-6.0

Five-year summary

	2018 IFRS	2017 IFRS	2016 IFRS	2016 FAS	2015 FAS	2014 FAS
Income statement						
Net sales, M€	1,618.2	1,641.6	1,603.1	1,603.5	1,576.1	1,647.7
Net sales outside Finland, %	50.5%	52.1%	50.6%	50.6%	51.4%	52.6%
Operating profit, M€	84.2	92.1	90.1	52.7	44.3	43.3
Operating margin, %	5.2%	5.6%	5.6%	3.3%	2.8%	2.6%
Profit before taxation, M€	81.6	89.5	89.3	54.9	41.4	36.6
% of net sales	5.0%	5.5%	5.6%	3.4%	2.6%	2.2%
Profit for the financial year, M€	63.9	72.1	70.5	36.6	23.7	21.0
Attributable to owners of the parent	58.5	63.4	62.0	29.4	19.4	16.5
Attributable to non-controlling interests	5.3	8.8	8.5	7.3	4.4	4.5
Balance sheet						
Non-current assets, M€	627.0	650.9	604.4	497.3	472.0	506.8
Inventories, M€	91.8	90.3	82.5	79.3	78.7	73.4
Other current assets, M€	241.2	272.1	291.4	291.3	290.2	239.3
Equity attributable to the owners of the parent, M€	484.9	499.0	478.1	443.2	430.9	472.2
Non-controlling interest, M€	59.4	58.3	51.7	51.5	41.9	39.2
Liabilities, M€	415.6	456.0	448.6	373.1	368.1	308.2
Balance sheet total, M€	959.9	1,013.3	978.3	867.9	840.9	819.6
Key figures						
Gross investments, M€	50.5	108.0	104.6	104.6	61.7	58.9
Depreciations and impairments, M€	81.3	81.7	74.3	51.0	52.3	61.0
Amortization of goodwill and impairments, M€	0.0	0.0	0.1	35.2	35.1	36.4
Interest-bearing net debt, M€	95.0	79.0	57.3	-17.6	-17.3	-20.7
Gearing, %	17.5%	14.2%	10.8%	-3.6%	-3.7%	-4.0%
Return on investment, % (ROI)	12.4%	13.6%	14.0%	10.2%	8.2%	7.1%
Return on equity, % (ROE)	11.6%	13.3%	14.1%	7.6%	4.8%	3.5%
Equity ratio, %	56.8%	55.1%	54.2%	57.1%	56.3%	62.5%
Personnel (FTE)	13,242	13,198	13,287	13,287	13,416	13,803

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

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

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

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