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Year 2017- strong performance and progress in transforming Fazer into a modern sustainable food company

Financial year 2017 in brief

- Reported net sales increased by 2% to EUR 1,641.6 million (2016: 1,603.1)
- Comparable net sales, excluding excise tax in 2016, increased 4%.
- Operating profit increased to EUR 92,1 million (90.1)
- Cash flow from operating activities was 149.6 M€ (146.6) and gross investments amounted to 108.0 M€ (104.6)
- Fazer renewed its strategy and established a new business area Fazer Lifestyle Foods

Outlook for 2018

Fazer's net sales are expected to grow in 2018, subject to the development of key non-euro denominated currencies. Fazer will also continue to work on strengthening its competitiveness. This work is driven by the established value creation programmes and by continuously developing Fazer's organisational and structural efficiency.

Christoph Vitzthum, President & CEO of Fazer Group says:

"In 2017, the economies in many of Fazer's key markets took a turn to the better: the Finnish, Norwegian and Russian economies strengthened, and the Swedish economy continued on its growth path. However, competition is fierce and holding on to and developing our market shares requires hard work. Despite this, sales developed positively, and the operating profit improved for Fazer in 2017.

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

"In June, we presented our strategy for 2018-2022 as well as our new mission and vision. Fazer's new mission is Food with a purpose. Our vision is to spark joy and well-being through meaningful food experiences.



“In our strategy for the coming years, we focus on value creation through portfolio choices, growth, continued operational excellence and structural improvements. 2017 was certainly a good start for our growth path. In March, we established a new business area, Fazer Lifestyle Foods, with a focus on non-dairy grain products, plant based meals and on-the-go food and drinks, and we acquired Bioferme, a Finnish company specialised in fermented oat products. In November, we acquired the leading Nordic smoothie brand Froosh. We also formed a new Business Unit, Fazer Retail, which will strengthen our direct-to-consumer business”.

Fazer continued to improve its performance and to implement its strategy in 2017

Fazer’s net sales and operating profit increased from 2016. In March 2017, a change was made to the company’s operating structure by forming a new business area, Fazer Lifestyle Foods, which focuses on non-dairy grain products, plant-based meals and on-the-go food and drinks. In relation to the newly established business area, two acquisitions were made in 2017 – the acquisitions of Bioferme, a Finnish company specialised in fermented oat products, and the acquisition of the leading Nordic smoothie brand Froosh. In addition, Fazer Mills was included in the Fazer Lifestyle Foods business area. Focus on efficiency improvements continued with initiatives in several fields. Work safety and the development of a safety culture remained an important theme in 2017 with positive results.

In 2017, Fazer started to apply the International Financial Reporting Standards (IFRS) in its consolidated accounts. Also, comparative 2016 figures were restated in accordance with IFRS.

Markets, business environment and sales

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

The bakery market as a whole slightly declined in the main markets during 2017, and the share of private label sales increased. Despite the challenging market situation, Fazer Bakery was able to increase its sales to 614.4 M€ (2016: 602.4) and successfully implement value creation actions to improve its operational efficiency and profitability. The health trend continued and supported the sales of the well-being offering, and the popularity of artisanal bread remained strong. In Finland, good performance was backed up by the strong portfolio with a good product mix and successful novelties. In addition, the shop-in-shop business continued its success. Sweden, on the other hand, suffered from the market



decline and the competition from private labels. Successful product launches and operational improvements were carried out in Russia. The Baltic bakery operations improved their product portfolio with successful new product launches and price positioning. Artisanal bread continued to attract consumers, and bakery shops' sales increased.

2017 was an excellent year for Fazer Confectionery: comparable net sales increased to 331.2 M€ (2016: 313.4, excluding the excise tax of 24.0 M€) supported by successful product launches, novelties and campaigns. The confectionery market volume increased, and the biscuit market saw some growth as well with Domino, Jaffa and Fasupala performing above expectations. In Finland, competition in chocolate tablets was tough, but Fazer was able to defend this core market. The Karl Fazer brand was voted the most valued brand in Finland. Fazer Confectionery's market share grew in Sweden.

Fazer Food Services is the leading food service company in the Nordic countries with some 1,200 restaurants in Finland, Sweden, Norway and Denmark serving delicious and nutritionally balanced meals to hundreds of thousands of people every day. Fazer Food Services operates within three clusters – Business, Concession and Public. In 2017, Fazer Food Services maintained a strong market position, despite increasing competition especially in the public sector. Net sales reached 607.7 M€ (600.7). The impact of the net portfolio change was slightly negative, but comparable sales improved especially in Finland. Client satisfaction (NPS) increased during 2017. A brand renewal was started, and it will continue in 2018 with the refreshing of the Amica brand and building of the new Fazer Food & Co restaurant brand. Fazer Food Services continues to promote the consumption of vegetables and plant-based foods to promote the well-being of restaurant guests and mitigate the environmental impacts of food production.

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



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

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

Financial results, cash flow and financial position

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

The Group's operating profit improved to 92.1 M€ (90.1). Operating profit included 3.3 M€ (0.6) one-time restructuring costs and write-offs (net). Profit for the financial period was 72.1 M€ (70.5). Fazer Bakery and Fazer Confectionery improved the profit most.

Cash flow from operating activities was 149.6 M€ (146.6) and gross investments amounted to 108.0 M€ (104.6). The most important investments included the acquisition of Bioferme and Froosh together with investments in new production equipment and upgrades to existing machinery in the bakery and confectionery operations. Fazer's financial position remained strong: interest-bearing net debt was 79.0 M€ (57.3) and equity ratio improved to 55.1% (54.2%).

Key figures	2017	2016
Net sales, M€	1,641.6	1,603.1
Operating profit, M€	92.1	90.1
– share of net sales, %	5.6	5.6
Return on equity, %	13.3	14.1
Equity ratio, %	55.1	54.2
Gearing, %	14.2	10.8

Personnel

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



Personnel	2017	2016
Number of employees, 31.12.	15,478	15,533
Number of employees, avg. FTE	13,198	13,287
Wages and salaries, M€	433.3	422.2

Strategy implementation

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

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

Quality, occupational health & safety and environment

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

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

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

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



Corporate responsibility

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

Research and development

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

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

Research and development costs increased 10% and amounted to 9.9 M€ (9.0).

Outlook for 2018

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

Fazer will focus on creating profitable growth in order to reach its long-term sales and profitability targets aligned with its strategy to create value. In addition to relentlessly driving the organic growth within the established businesses and product categories, Fazer will continue to explore inorganic opportunities to further strengthen growth and internationalisation.

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Fazer Group

Fazer is an International family-owned company offering quality bakery, confectionery, biscuit and grain products, plant-based meals, non-dairy products, on-the-go food & drinks as well as food and café services. Fazer's mission is Food with a Purpose. The Group operates in eight countries and exports to around 40 countries. Fazer's success, ever since its establishment in 1891, has been based on the best product and service quality, beloved brands, the passion of its skilful people and the Group's responsible ways of working. In 2017, Fazer Group had net sales of 1.6 billion euros and nearly 15,000 employees. Fazer's operations comply with ethical principles that are based on the Group's values and the UN Global Compact.

Makes the world taste good