

ANNUAL REPORT
2017

THE SOLUTIONIST

BUFAB

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” 2017 reported a strong growth and order intake.”



YEAR IN BRIEF

- Net sales rose by 12 percent to SEK 3,201 million (2,847), of which 8 percent was organic.
- Bufab gained market share on several markets.
- Operating profit (EBITA) rose to SEK 311 million (277), corresponding to an operating margin of 9.7 percent (9.7).
- Earnings per share increased to SEK 5.61 (4.29).
- The Board of Directors proposes raising the dividend to SEK 2.25 (2.00) per share
- Two new companies were acquired during the year, Thunderbolts in the UK and Kian Soon in Singapore.
- Bufabs Management and Board of Directors decided on new financial targets as from 2018.
- During the year Bufab communicated the ambition to be the leading player in the industry by 2020.

NET SALES

+12%

OPERATING PROFIT (EBITA)

+12%

DIVIDEND

2.25 PER SHARE

KEY FIGURES

SEK million	2017	2016	Change
Order intake	3,256	2,887	13 %
Net sales	3,201	2,847	12 %
Gross profit	917	828	11 %
%	28.6 %	29.1 %	
Operating profit (EBITA)	311	277	12 %
%	9.7 %	9.7 %	
Profit after tax	213	163	31 %
Adjusted profit after tax	213	187	14 %
Earnings per share, SEK	5.61	4.29	31 %
Adjusted earnings per share, SEK	5.61	4.92	14 %
Dividend, SEK	2.25*	2.00	13 %

*Proposed by Board of Directors.

See page 58 for definitions.

THIS IS BUFAB

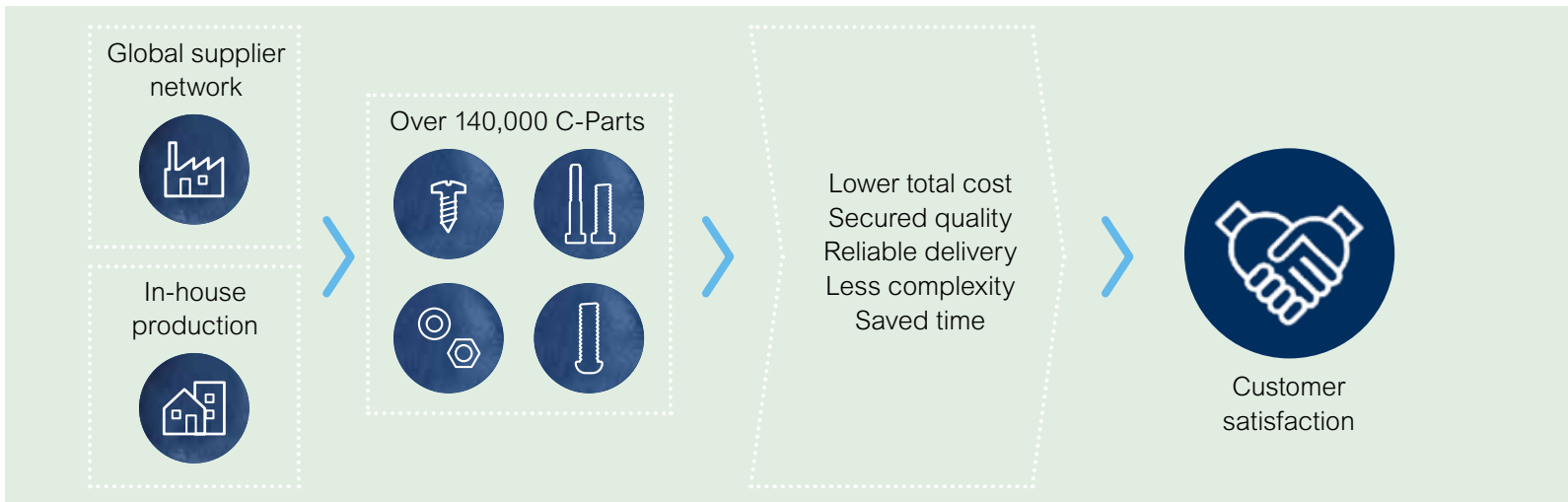
Bufab is a trading company that offers its customers a full service solution as a Supply Chain Partner for sourcing, quality control and logistics for C-Parts (screws, nuts, etc).

A GLOBAL SUPPLY CHAIN PARTNER

Bufab has built up a global network of suppliers and sources a total of 140,000 unique parts from mainly Asia and Europe. Parts equivalent to approximately 45 percent of the total sourcing value are purchased in Asia, 45 percent in Europe and the remaining 10 percent in Sweden. Bufab secure the quality, making sure the customers get the parts on time, in the right quantity and in ac-

cordance with the relevant ethical and environmental standards. Alongside its trading activities, Bufab also manufactures C-Parts in Sweden and in the UK.

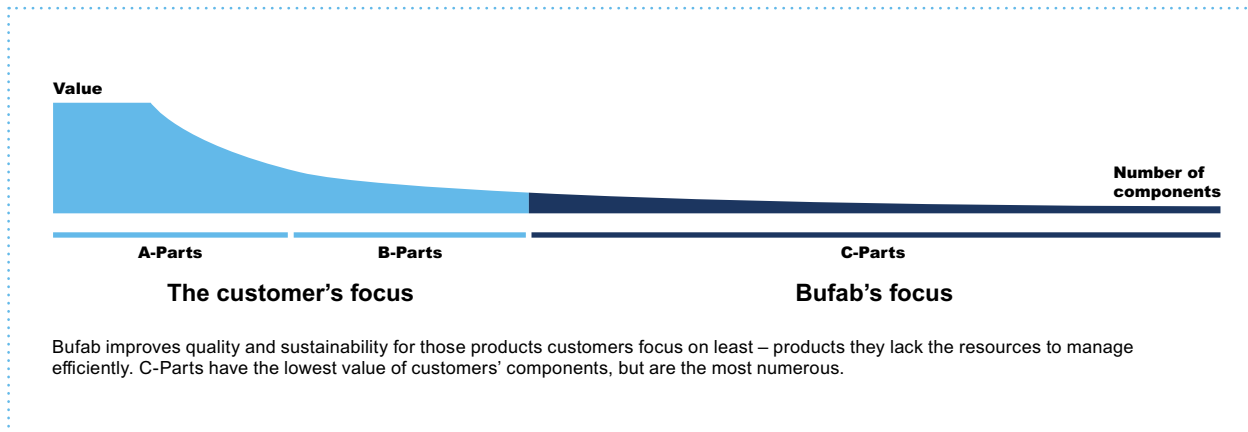
Bufab's customer base is diversified and comprises approximately 13,000 customers in numerous different industries. These customers are also diversified geographically, with locations in the Nordic countries, the rest of Europe, Asia and the US. The customers also vary in size, and consequently their sourcing behaviours and needs vary as well. Bufab therefore offers both flexible solutions at the local level, and global solutions to national and international customers.



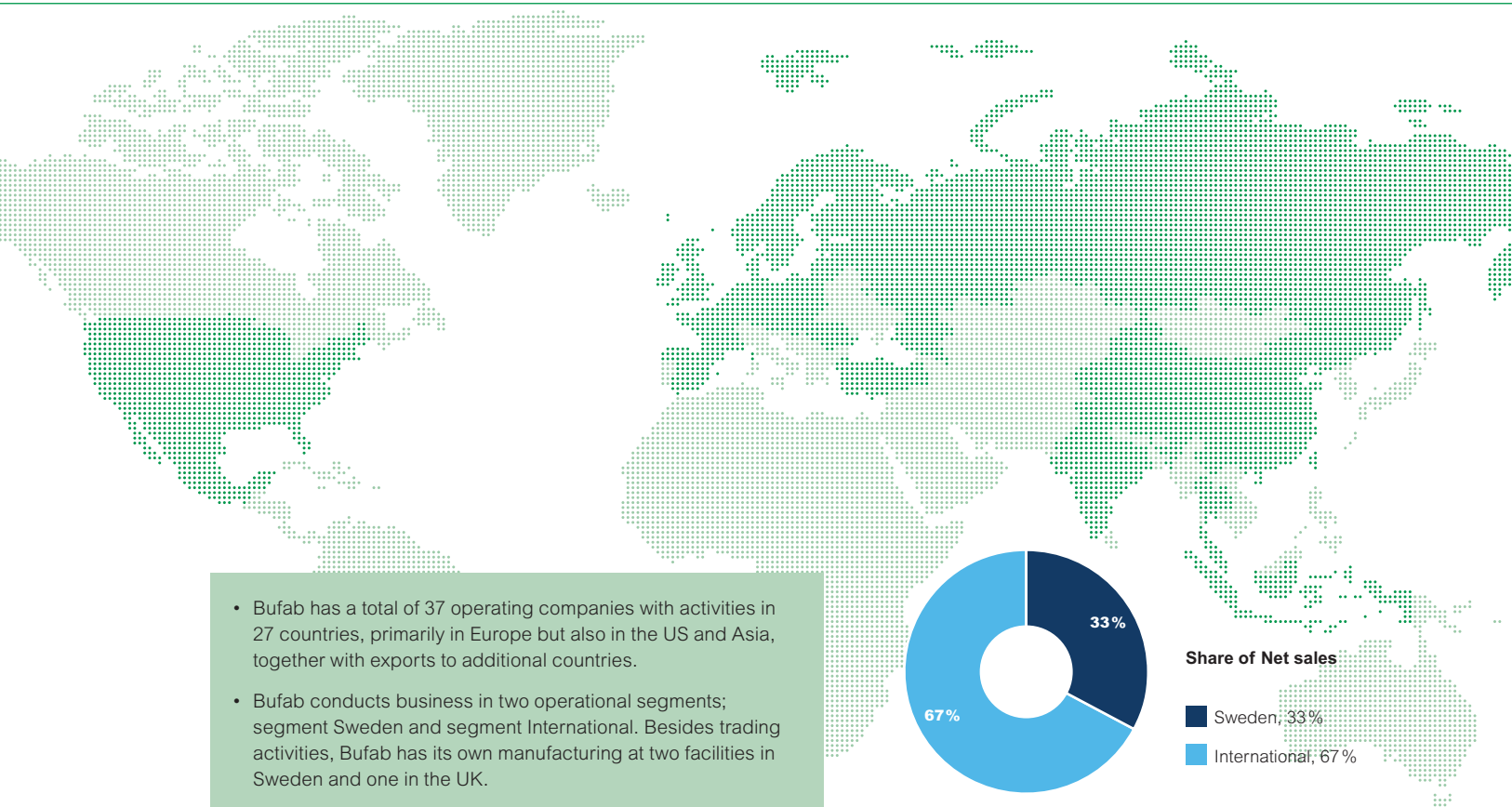
C-PARTS A MAJOR CHALLENGE FOR CUSTOMERS

The manufacturing industry classifies components as A-Parts, B-Parts and C-Parts. C-Parts are the least strategically important components and make up a relatively small portion of the customer's total component costs. However, due to high volumes and the sheer number of suppliers, the indirect costs associated

with C-Parts are often high in relation to direct costs. The cost of potential deficiencies in C-Part quality and delivery precision can also be significant. Bufab's offer to customers is a full-service integrated solution for sourcing, design, logistics and management, warehousing and quality assurance of C-parts.



BUFAB GLOBAL PRESENCE



- Bufab has a total of 37 operating companies with activities in 27 countries, primarily in Europe but also in the US and Asia, together with exports to additional countries.
- Bufab conducts business in two operational segments; segment Sweden and segment International. Besides trading activities, Bufab has its own manufacturing at two facilities in Sweden and one in the UK.

BUFAB AS AN INVESTMENT

Strong offering creates value for Bufab's customers

C-Parts have low direct costs but high indirect costs, and are demanding to handle professionally. Through Bufab's *Global Parts Productivity™* offering, our customers can usually expect total cost savings in the range of 15-20 percent, while achieving higher quality and delivery reliability. Thanks to Bufab's global scale and efficient processes, customers can achieve better results while using less resources.

Global trend drives organic growth

Switching from managing C-Parts on a proprietary basis to a Supply Chain Partner such as Bufab offers many advantages. It also provides the basis for greater sustainability across the supply chain. An increasing number of industrial companies globally have identified the benefits of this approach. Bufab therefore sees a strong potential for organic growth. Over the past five years, our organic growth was 5 percent and in 2017 it was 8 percent, significantly higher than underlying industry growth.

Robust business model – operating profit every year for 40 years

As a trading company, Bufab has a limited need for capital-intensive equipment and machinery. Low capital expenditure means that our fixed costs, primarily salaries and rent, can be adapted to demand. Our business is spread over thousands of customers and suppliers in many industries and geographies, which limits our dependence on individual counterparties. Bufab has reported an operating profit each year for 40 years, and has financed all growth using its own cash flow.

International leader in fragmented market. Consolidation through value-creating acquisitions

Bufab is one of a small number of leading players in a highly fragmented market. In each of our 27 countries, we are a strong local partner, while serving international customers on several continents. This is becoming increasingly important for customers. Our position makes it possible to acquire smaller players that have growth synergies with Bufab. In three years, we have completed six acquisitions with total sales of SEK 600 million. In this way, we have expanded our presence in new industries, product segments and geographies and have become even more relevant for our customers.

2017 was a successful year for Bufab. Strong growth was achieved, both organically and through acquisitions. Our market share increased in most markets. We grew with good profitability despite pressure on both costs and prices. The companies we acquired in recent years contributed strongly to Bufab's development, and another two acquisitions were finalised during the year. We strengthened our team, our organisation, and our processes and systems.

And finally, we significantly raised our ambition level in 2017. Our new target – Leadership – means that we will be the leading player in our industry by 2020.

A SUCCESSFUL YEAR FOR BUFAB



“ Our strong growth is proof that we have further strengthened our customer relationships.

During the year, Bufab reported strong sales growth and order intake. Organic growth was a healthy 8 percent. Key factors were the favourable development of industrial demand during the year and the fact that we captured market shares in nearly all markets – the result of a systematic focus on the sales organisation over many years. Organic growth in our industry is ultimately dependent on only one thing: that our customers are confident that Bufab is the best partner to take care of sourcing, quality control and logistics for their C-Parts. Growth thus proves that we have successfully strengthened our customer relationships during the year.

Profitability growth despite pressure on costs and prices

Gross margin in 2017 was slightly lower than in 2016. The decline was the result of rising purchasing prices, which in turn were the result of global increases in raw material prices. It is essential for Bufab to compensate for such changes by improved sourcing and by raising prices for customers when necessary. We implemented such activities during the year and saw the gross margin recover slightly in the fourth quarter. We will continue along this path in 2018. Thanks to healthy growth, we balanced the lower gross margin by a lower cost ratio. We therefore improved operating profit and reported an operating margin in line with last year.

Best in the industry by 2020

During the year, we raised our ambition level and communicated the objective to become the leading player in our industry by 2020. This requires us to be best in a number of key areas.

Growth driven by strong customer relationships. Our strong growth during the year was no coincidence, but rather a direct result of the growth strategy we established in 2012. It was based on building deep and trusting customer relationships, often over an extended period. Moving forward, we will continue to put customers first.

World's best supplier base. In 2017, we continued to strengthen our purchasing organisation through new strategic recruitments intended to build a truly leading supplier base. This is of major strategic importance. By providing our customers access to the best suppliers worldwide in each segment, we can ensure that the technical solution is correct and maintains a high quality, that prices are competitive and that the complex logistics work flawlessly. Customers can also trust our suppliers to conduct business in a sustainable manner. Against this background, it is natural to decide to continue to grow together with Bufab.

Value-adding acquisitions. The acquisitions we have completed in recent years continue to develop well. We made two additional value-generating acquisitions in 2017. Thunderbolts, acquired during the second quarter, complements our other operations in the UK, and Kian Soon, acquired during the fourth

quarter, strengthens our position in a strategically important region, Southeast Asia. Acquisitions have always been part of Bufab's business model. During the 40 years we have been in business, we have completed more than 40 acquisitions. It is a natural part of our ambition to be the leader in a consolidating industry. Work is continuing to find other suitable acquisition candidates and Bufab's pipeline of potential acquisitions became stronger during the year. This is necessary in order to achieve the new growth target.

Bufab (Digital) Best Practice. During the year, we also strengthened our Bufab Best Practice management system, which provides the platform for our daily work. This means we can guarantee that our customers always receive the same good service regardless of whether they buy from us in Romania, Norway, India or the US. Developing new and improved working methods, processes and systems is continuing and is even more important as we grow and become increasingly international. During 2017, we finalised the roll-out of the Group's new shared IT platform. In 2018, we will be investing heavily in "Digital Bufab," which will increase efficiency and precision in our working methods by stepping up the digitisation of our processes and systems. We also raised the level of ambition for sustainability, which we explain more about in Bufab's Sustainability Report.

Plenty of challenges, but even more opportunities

But there is no shortage of challenges. We can see a risk of higher raw material prices, which means we must continue to introduce price adjustments to customers and to further strengthen our sourcing. We have witnessed a strong rate of growth over the past five years. To continue with this growth, we must ensure that Bufab is the customers' first choice as Supply Chain Partner.

But we see even more opportunities. The strong development of industrial demand in 2017 resulted in a favourable order intake. This is a positive signal as we begin 2018. We intend to continue to gain market shares, and we hope to make additional value-generating acquisitions moving forward.

Against this backdrop, we are continuing to work towards our target to become the industry leader, which implies that we will be the preferred choice for customers, suppliers, acquisition candidates and talents in our industry by 2020.

Finally, I would like to say thank you to Bufab's more than 1,000 skilled and dedicated employees for your fantastic commitment and hard work in 2017. Well done!

Värnamo, March 2018

Jörgen Rosengren
President and CEO

BOARD OF DIRECTORS' REPORT

The Board of Directors and CEO of Bufab AB (publ) (Bufab), Corporate Registration Number 556685-6240, hereby submits its annual report and consolidated accounts for the 2017 financial year.

The business

Bufab is a trading company that offers its customers a full-service solution as a Supply Chain Partner for sourcing, quality control and logistics for C-Parts (screws, nuts etc). Bufab's customers are found in the manufacturing industry, in which components generally are classified as A-Parts, B-Parts and C-Parts. C-Parts are the least strategically important components, and they make up a relatively small portion of the customer's direct component costs. C-Parts have a relatively low value, both per component and in total, in combination with high volumes and a large number of suppliers. This means the indirect costs associated with C-Parts management are often high in relation to the direct costs. The costs of potential deficiencies in C-Part quality and delivery precision can also be significant. Bufab's customer offering, Global Parts Productivity™, is an integrated full-service solution for sourcing, design, logistics and management, warehousing and quality assurance of C-Parts. For the customer, this means more efficient handling, thus reducing the customer's total costs.

Bufab was founded in 1977 in Småland, Sweden and through organic growth and acquisitions, it has grown into a multinational corporation. Today, the Group has a total of 37 operating companies with activities in 27 countries, primarily in Europe but also in the US and Asia, together with exports to additional countries. Alongside its trading activities, the Group also manufactures C-Parts in Sweden and in the UK. Bufab's in-house manufacturing accounts for about 8 percent of total sales and constitutes a strong complement to its trading activities.

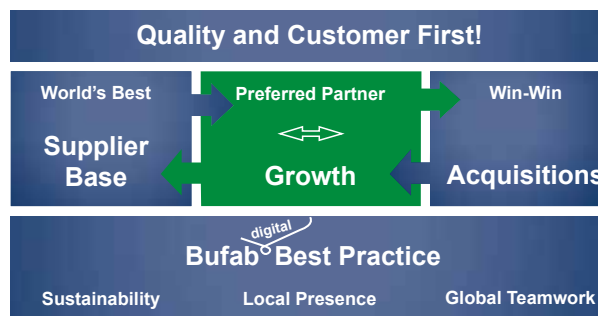
Bufab's customer base is diversified and comprises approximately 13,000 customers in numerous different industries. These customers are also diversified geographically, with locations in the Nordic countries, the rest of Europe, Asia and the US. Bufab's customers vary in size, and consequently their sourcing behaviours and needs vary as well. Bufab therefore offers both flexible solutions at the local level, and global solutions to national and international customers.

Bufab has built up a global network of suppliers and sources a total of 140,000 unique parts from mainly Asia and Europe which are stocked in about thirty own warehouses around the world. Parts equivalent to approximately 45 percent of the total sourcing value are purchased in Asia, 10 percent in Sweden and 45 percent in the rest of Europe. The proportion of specialised fasteners is rising at the expense of standardised fasteners and today accounts for roughly 50 percent of Bufab's sales.

The head office is located in Värnamo, Sweden, and at year-end 2017, Bufab had approximately 1,100 employees around the world. The Bufab share has been listed on Nasdaq Stockholm since 21 February 2014.

Strategy

During the year Bufab communicated the ambition to be the leading player in the industry by 2020. Bufab's way there is based on three focus areas: to develop a world-leading supplier



base, become a priority partner for customers and continue with value-adding acquisitions. In addition, the management system "Bufab Best Practice" has been strengthened during the year, which is the platform for the control of internal processes. This will help drive continuously improved precision, efficiency and sustainability in Bufab's operations.

Significant events during the financial year

Bufab recorded strong growth during 2017 primarily through organic growth, but also from acquisitions. The growth is a direct result of a systematic focus on the sales organisation over many years. Bufab continued strengthening its purchasing organisation during the year as well as working with the consolidation of the supplier base and improving the cooperation with the most important suppliers. These programs aim at lowering the purchasing prices, but also strengthening Bufab in other areas such as logistics, capital efficiency, quality and sustainability.

During the year, Bufab communicated an ambition to be the leading player in its industry by 2020. To reflect this ambition, Bufab's Management and Board of Directors decided on new financial targets for the Group as from 2018. The targets mean increased growth and more flexibility for value creation acquisition.

Bufab acquired two companies in 2017; Thunderbolts Group in the UK and Kian Soon in Singapore. Thunderbolts Group is a significant supplier to the construction, manufacturing, marine and healthcare industries in the south of England and complements Bufab's other operations in the UK. Kian Soon is one of the leading distributors of C-Parts in Southeast Asia, one for Bufab strategically important region. Together, these two companies add annual sales of approximately SEK 137 million to the Group. Bufab continues looking for suitable acquisition targets. For further information see Note 35.

New financial goals:

GROWTH 10%

Average annual revenue growth of 10 percent, through organic growth as well as acquisitions.

PROFITABILITY 12%

Operating margin (EBITA) of 12 percent over a business cycle.

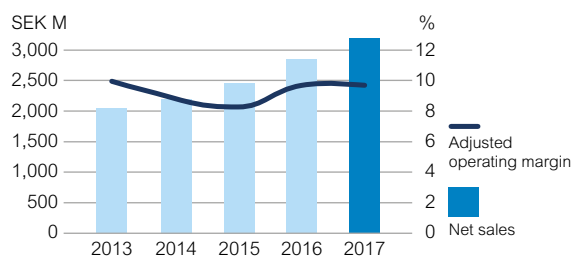
DIVIDEND POLICY 30–60%

Dividend of 30–60 percent of annual net profit.

Order intake and net sales

Order intake was SEK 3,256 million (2,887), which was higher than net sales. Net sales rose by 12 percent to SEK 3,201 million (2,847). The Group's organic growth was +8 percent, comprising +9 percent for segment Sweden and +7 percent for segment International. Underlying demand is considered higher in both segments compared with 2016 and the market share is assessed to have increased in both segments.

Net sales (SEK m) and adjusted operating margin (%)



Profit and profitability

The gross margin was slightly lower compared with the preceding year, mainly due to rising purchasing prices during the year. Bufab compensated for the increased costs through price increases towards customers, a work that was intensified during the year.

EBITA rose to SEK 311 million (277), equal to a margin of 9.7 percent (9.7). Compared with the preceding year, exchange-rate fluctuations impacted operating profit positively by SEK +1 million, volumes positively by SEK +66 million, the price/cost/mix/other negatively by SEK -50 million and acquisitions positively by SEK +17 million.

The Group's net financial items amounted to SEK -26 million (-21), of which exchange-rate differences accounted for SEK -2 million (+5). The Group's profit after financial items was SEK 278 (251).

The tax expense for the quarter was SEK -65 million (-88). The high tax expense in 2016 is attributable to an additional tax for disallowed deductions for certain interest expenses from previous financial years. For further information see Note 6.

Cash flow, working capital and financial position

Operating cash flow amounted to SEK 183 million (267). The deterioration in cash flow for the full year is attributable to a rise in working capital in the form of trade receivables and inventories, driven in turn by growth. Average working capital in relation to net sales improved to 35.4 percent (36.2).

On 31 December 2017, the Group's net debt totalled SEK 1,015 million (839) and debt/equity ratio to 72 (65) percent. Despite positive operating cash flow, net debt increased due to acquisitions carried out, payment of additional purchase considerations, share repurchases and dividends paid over the past 12 months.

SEK million	2017	2016	2015	2014	2013
Order intake	3,256	2,887	2,463	2,195	2,072
Net sales	3,201	2,847	2,458	2,198	2,031
Gross profit	917	828	677	641	596
%	28.6%	29.1%	27.5%	29.2%	29.3%
Operating profit (EBITA)	311	277	198	174	201
%	9.7%	9.7%	8.1%	7.9%	9.9%
Adjusted operating profit (EBITA)	311	277	198	192	203
%	9.7%	9.7%	8.1%	8.7%	10.0%
Profit after tax	213	163	125	112	131
Adjusted profit after tax	213	187	125	126	131
Earnings per share, SEK	5.61	4.29	3.27	2.94	3.43
Adjusted earnings per share, SEK	5.61	4.92	3.27	3.41	3.48
Dividend, SEK	2.25*	2.00	1.70	1.50	N/A
Debt/equity ratio, %	72%	65%	75%	47%	60%
Average working capital in relation to net sales, %	35.4%	36.5%	36.3%	36.6%	35.5%
Operating cash flow, SEK millions	183	267	194	117	199
Average number of employees	1,058	973	834	805	771

*Proposed by Board of Directors.

See page 58 for definitions.

Segments

Bufab conducts business in three segments of which two are operational segments, segment Sweden and segment International. Consolidated activities that were not assigned to the geographic segments are reported in segment Other.

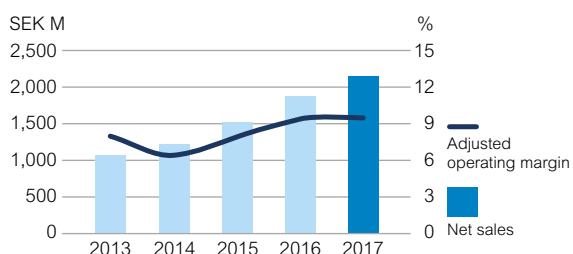
Segment International

Segment International encompasses activities Bufab engages in outside Sweden and the United States. Businesses within the segment are organised in six regions: North, South, Central, East, Asia & Pacific and UK. The segment comprises in total 30 companies in 24 countries.

Order intake was SEK 2,172 million (1,907), which was higher than net sales.

Net sales rose by 14 percent to SEK 2,144 million (1,880). Organic growth was 7 percent, primarily due to higher market

Net sales (SEK m) and adjusted operating margin (%)



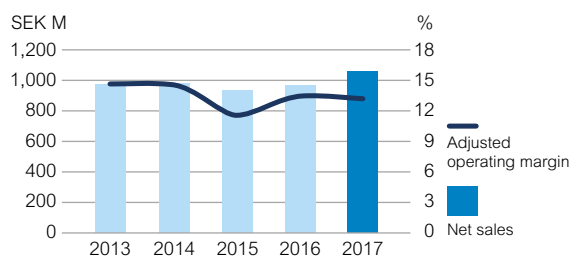
Segment Sweden

Segment Sweden comprises Region Sweden, which includes Bufab's subsidiaries in Sweden, the USA and Mexico. Besides trading activities, Bufab has its own manufacturing at two facilities in Sweden: Värnamo and Åshammar.

Order intake was SEK 1,089 million (980), which was higher than net sales.

Net sales rose by 9 percent to SEK 1,057 million (968), of which 9 percent was organic. The high organic growth was a result of increased market shares and improvements in underlying demand.

Net sales (SEK m) and adjusted operating margin (%)



Seasonal variation

Bufab has no significant seasonal variation in its sales, but sales over the year vary based on the number of production days in each quarter for customers.

The two operational segments manage local customer relationships and offer similar product and service ranges for C-Parts. The two operational segments' subsidiaries are organised into seven geographic regions.

shares in most markets and higher underlying demand compared with the corresponding period in the preceding year.

The gross margin was 29.1 percent (29.1).

EBITA amounted to SEK 203 million (179), equal to a margin of 9.5 percent (9.5).

Compared with the preceding year, fluctuations in exchange rates impacted operating profit positively by SEK +3 million, volumes positively by SEK +41 million, the price/cost/mix/other negatively by SEK -34 million and acquisitions positively by SEK +14 million.

Financial position

SEK million	2017	2016	Change in percent
Order intake	2,172	1,907	14
Net sales	2,144	1,880	14
Gross margin	623	547	14
%	29.1%	29.1%	
Operating profit (EBITA)	203	179	11
%	9.5%	9.5%	

The gross margin declined to 29.5 percent (30.5). The decline was attributable to rising purchasing prices during the year.

EBITA amounted to SEK 139 million (131), equal to a margin of 13.2 percent (13.5).

Compared with the preceding year, exchange-rate fluctuations impacted operating profit negatively by SEK -2 million, volumes positively by SEK +24 million, the price/cost/mix/other negatively by SEK -15 million and acquisitions positively by SEK +1 million.

Financial position

SEK million	2017	2016	Change in percent
Order intake	1,089	980	11
Net sales	1,057	968	9
Gross margin	312	295	6
%	29.5%	30.5%	
Operating profit (EBITA)	139	131	7
%	13.2%	13.5%	

Risks and uncertainties

Exposure to risk is a natural part of business activity, as reflected in Bufab's approach to risk management. The aim is to identify and prevent risks and to limit any loss or damage from these risks. The most significant risks to which the Group is exposed are related to the economy's bearing on customer demand. See Note 3 for further information.

Employees

The number of full-time employees in the Group as of 31 December 2017 was 1,119 (1,020), 19 and 64 of whom stem from the acquisition of Thunderbolts and Kian Soon, respectively. The average number of full-time employees in 2017 was 1,058 (973). For further information about employees, see Note 7.

Environment

The Group works proactively with environmental issues to reduce its environmental impact.

Bufab conducts operations through 37 companies, three of which operate in-house manufacturing. At year-end 2017, two out of the three manufacturing companies were subject to environmental licensing requirements under the Swedish Environmental Code. Environmentally licensed operations account for 8 percent (8) of the Group's overall net sales. Environmental licences are required due to the nature of the operations. These companies have been granted licences to conduct environmentally hazardous activities. The Group's other companies conduct trading activities only, which have limited environmental impact. See Note 33 for further information.

Sustainability Report

Bufab has in accordance with ÅRL kap. 6 11§ issued a Sustainability Report distinguished from this Annual Report.

Guidelines for remuneration of senior executives

The guidelines for the remuneration of senior executives were adopted by the AGM on 4 May 2017. The guidelines apply for remuneration of the CEO and other senior executives. Bufab strives to offer total remuneration that will attract and retain qualified employees. Fixed salary is to be market-based and must reflect the responsibility that the work involves. The fixed salary is to be revised annually. Normally, variable salary is not to exceed 50 percent of the fixed salary. The variable salary is to be based on established goals connected to Bufab's financial development and is to be revised annually. The Board is to annually evaluate whether or not a long-term share-based incentive programme for senior executives and any other employees is to be proposed to the AGM. Senior executives may be offered individual pension solutions. The pensions are, as far as possible, to be defined contribution. Other benefits may be provided but are not to constitute a significant portion of the total remuneration. The notice of termination between the company and the CEO is a maximum of 18 months. Other senior executives are to have a shorter notice of termination period.

The Board is entitled, in individual cases and if there are specific reasons, to deviate from the above guidelines for remuneration. Should such deviation occur, information about this and the reason must be reported at the next AGM. The guidelines for the remuneration of senior executives to be proposed to the 2018 AGM are available on the company's website, www.bufab.com.

Long-term share-based incentive programme

The 2017 Annual General Meeting resolved to adopt a long-term share-based incentive programme based on call options, comprising the CEO, senior executives and other key employees within the Group. The programme comprises a maximum of 350,000 call options, corresponding to approximately 0.9 percent of the total number of shares in the company. The purchase price for the call options has been set at SEK 10.01, corresponding to the market value of the options at the date of transfer.

Each call option entitles the holder to acquire one share in Bufab during the period 15 May 2020 – 15 November 2020. The purchase price per share is SEK 120.40, corresponding to 115 percent of the volume-weighted average price paid for the com-

pany's share on Nasdaq Stockholm during the period 8 May 2017 – 12 May 2017. During the period a total of 333,950 call options were subscribed.

To encourage participation in the programme, the Board of Directors has resolved on a subsidy in the form of gross salary additions to participants who remain as employees of the company in 2020, which may correspond to not more than the price paid for the call options. To hedge Bufab's delivery of shares, the Annual General Meeting also resolved to authorise the Board of Directors to repurchase a maximum of 350,000 shares in the company, and approved the transfer of a maximum of 350,000 of the company's repurchased shares to the participants of the programme. During the year, 333,950 shares were repurchased for a total value of 31 MSEK.

Related-party transactions

During the period, the CEO and senior executives subscribed for call options within the framework of the long-term share-based incentive programme adopted at the Annual General Meeting under the terms outlined in more detail above. In addition, no significant transactions with related parties have occurred during the period.

Parent Company

The operations of the Parent Company, Bufab AB (publ), cover the CEO, the consolidated financial reports and the financial management of the Group. Most Group-wide operations pertaining to the remaining members of Group management and administration are managed by the subsidiary Bult Finnveden AB. Accordingly, the Parent Company does not report any sales. The Parent Company reported a loss after financial items of SEK –8 million (–7).

Share capital and ownership structure

On 31 December 2016, the Parent Company's share capital amounted to SEK 547,189.10 divided among 38,110,533 ordinary shares. There was no change during 2017, and consequently the share capital on 31 December 2017 amounted to SEK 547,189.10 divided among 38,110,533 ordinary shares. The largest shareholder on 31 December 2017 with 24 percent of shares and votes was Liljedahl Group AB.

2018 Annual General Meeting

The AGM for Bufab AB (publ) will be held on 26 April 2018 in Värnamo, Sweden. Notice of the 2018 AGM and other documentation are available on Bufab's website, www.bufab.com.

Dividend

The Board of Directors proposes a dividend of SEK 2.25 (2.00) per share for 2017, corresponding to a total dividend of SEK 85 million (76). The proposed record date is 30 April 2018 and the expected payment date for dividends is 4 May. It is proposed that the share be traded without dividend entitlement as of 27 April 2018.

Proposed appropriation of profits

The following earnings are at the disposal of the AGM (SEK):

	(SEK)
Retained earnings	383,751,649
The Board of Directors and CEO propose that the earnings be appropriated as follows:	
A dividend of SEK 2.25 per share to be paid to shareholders	84,996,113
To be carried forward	298,755,536

CONSOLIDATED INCOME STATEMENT

SEK million		2017	2016
	Note		
Net sales	2, 5	3,201	2,847
Cost of goods sold	8	-2,284	-2,019
Gross profit		917	828
Distribution costs	8, 23	-446	-398
Administrative expenses	8	-166	-156
Other operating income	9	32	32
Other operating expenses	10	-33	-34
Operating profit	2, 3, 4, 5, 6, 7, 11, 12, 15	304	272
Profit from financial items			
Interest and similar income	13	1	7
Interest and similar expenses	14	-27	-28
Profit after financial items	15	278	251
Tax on profit for the year	16	-65	-88
PROFIT FOR THE YEAR		213	163

STATEMENT OF COMPREHENSIVE INCOME

SEK million		2017	2016
Profit after tax		213	163
Other comprehensive income			
<i>Items that will not be reclassified in profit or loss</i>			
Actuarial gains and losses, net after tax		-1	-2
<i>Items that may be reclassified in profit or loss</i>			
Translation difference, net assets in foreign currency		13	10
Gain from hedging of net assets in foreign currency		-2	11
Deferred tax on gain from hedging		—	-3
Other comprehensive income after tax		10	16
Total comprehensive income		223	179
Total comprehensive income attributable to:			
Parent Company shareholders		223	179
EARNINGS PER SHARE			
SEK			
Earnings per share	17	5.61	4.29
Weighted number of shares outstanding, thousands		37,978.7	38,110.5
Diluted earnings per share, SEK	17	5.61	4.29
Weighted number of shares outstanding after dilution, thousands		37,978.7	38,110.5

CONSOLIDATED BALANCE SHEET

SEK million		31 Dec 2017	31 Dec 2016*
	Note		
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Goodwill	18	1,054	975
Other intangible assets	18	80	69
Work in progress and advances for intangible assets	20	0	0
Total intangible assets		1,134	1,044
<i>Property, plant and equipment</i>			
Land and buildings	19	16	13
Plant and machinery	19	59	44
Equipment, tools and fixtures & fittings	19	62	65
Work in progress and advances for property, plant and equipment	20	27	10
Total property, plant and equipment	21	164	132
<i>Financial assets</i>			
Deferred tax assets	27	18	18
Other non-current receivables	22	5	4
Total financial assets		23	22
Total non-current assets		1,321	1,198
Current assets			
<i>Inventories</i>	2		
Raw materials and consumables		27	13
Products in progress		48	25
Finished goods and merchandise		1,018	882
Total inventories		1,093	920
<i>Current receivables</i>			
Trade receivables	23	671	550
Current tax assets		10	8
Other receivables		27	30
Prepaid expenses and accrued income	24	32	33
Total current receivables		740	621
Cash and bank balances		120	122
Total current assets		1,953	1,663
TOTAL ASSETS		3,274	2,861

* Translated, for further information see Note 35 on page 34.

CONSOLIDATED BALANCE SHEET

SEK million		31 Dec 2017	31 Dec 2016*
	Note		
EQUITY AND LIABILITIES			
Equity			
	25		
Share capital		1	1
Other paid-in capital		488	488
Other reserves		19	8
Retained earnings		908	800
Total equity		1,416	1,297
Non-current liabilities			
Pension obligations, interest-bearing	26	33	32
Deferred tax, non-interest-bearing	27	56	50
Other interest-bearing liabilities	28, 31	1,047	852
Other non-interest-bearing liabilities	29	46	25
Total non-current liabilities		1,182	959
Current interest-bearing liabilities			
Liabilities to credit institutions		23	18
Overdraft facilities	30, 31	32	58
Total current interest-bearing liabilities		55	76
Current non-interest-bearing liabilities			
Trade payables		395	302
Current tax liabilities		27	27
Other liabilities	29	85	90
Accrued expenses and deferred income	32	114	110
Total current non-interest-bearing liabilities		621	529
TOTAL EQUITY AND LIABILITIES		3,274	2,861

* Translated, for further information see Note 35 on page 33.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK million	Share capital	Other paid-in capital	Other reserves	Retained earnings	Total equity
Equity on 1 January 2016	1	488	-10	704	1,183
Comprehensive income					
Profit after tax	—	—	—	163	163
Other comprehensive income					
<i>Items that will not be reclassified in profit or loss</i>					
Actuarial loss on pension obligations, net after tax				-2	-2
<i>Items that may be reclassified in profit or loss</i>					
Translation difference, net assets in foreign currency	—	—	10	—	10
Gain from hedging of net assets in foreign currency	—	—	11	—	11
Deferred tax on gain from hedging	—	—	-3	—	-3
Total comprehensive income	0	0	18	161	179
Transactions with shareholders					
Dividend to Parent Company shareholders	—	—	—	-65	-65
Total shareholder transactions	0	0	0	-65	-65
Equity on 31 December 2016	1	488	8	800	1,297
Comprehensive income					
Profit after tax	—	—	—	213	213
Other comprehensive income					
<i>Items that will not be reclassified in profit or loss</i>					
Actuarial loss on pension obligations, net after tax	—	—	—	-1	-1
<i>Items that may be reclassified in profit or loss</i>					
Translation difference, net assets in foreign currency	—	—	13	—	13
Gain from hedging of net assets in foreign currency	—	—	-2	—	-2
Deferred tax on gain from hedging	0	0	0	0	0
Total comprehensive income	0	0	11	212	223
Transactions with shareholders					
Issued call options				3	3
Repurchase of own shares				-31	-31
Dividend to Parent Company shareholders	—	—	—	-76	-76
Total shareholder transactions	0	0	0	-104	-104
Equity on 31 December 2017	1	488	19	908	1,416

The Group's restricted equity comprises share capital and SEK 32 million in other paid-in capital.

CONSOLIDATED CASH FLOW STATEMENT

SEK million		31 Dec 2017	31 Dec 2016
	Note		
Operating activities			
Profit before financial items		304	272
Depreciation/amortisation and impairment		43	43
Interest and other finance income		—	—
Interest and other finance expenses		-25	-27
Other non-cash items		2	1
Income tax paid		-68	-74
Cash flow from operating activities before changes in working capital		256	215
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-142	-35
Increase (-)/decrease (+) in operating receivables		-79	-32
Increase (+)/decrease (-) in operating liabilities		116	49
Cash flow from operating activities		151	197
Investing activities			
Acquisition of property, plant and equipment		-61	-29
Acquisition of subsidiaries	35	-132	-69
Acquisition of intangible assets		—	-2
Cash flow from investing activities		-193	-100
Financing activities			
Dividend paid		-76	-65
Call options		3	—
Repurchase of own shares		-31	—
Increase (+)/decrease (-) in borrowings	36	142	-21
Cash flow from financing activities		38	-86
Cash flow for the year		-4	11
Cash and cash equivalents at beginning of year		122	107
Translation differences		2	4
Cash and cash equivalents at year-end		120	122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*All amounts are in SEK million unless otherwise specified.
The figures in brackets indicate the preceding year's values.*

NOTE 1

GENERAL INFORMATION

The company, Bufab AB (publ), Corporate Registration Number 556685-6240, operates as a limited liability company, with its registered office in Stockholm, Sweden.

The address of the head office is Box 2266, SE-331 02, Värnamo, Sweden.

NOTE 2

SUMMARY OF KEY ACCOUNTING POLICIES

This Annual Report has been prepared in accordance with IFRS as adopted by the EU, as well as the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act. The consolidated annual financial statements have been prepared in accordance with the cost method. The Parent Company's accounting policies are consistent with those applied for the Group, unless otherwise specified.

In addition to these standards, both the Swedish Companies Act and the Swedish Annual Accounts Act contain regulations requiring the disclosure of certain additional information. Preparing financial statements in accordance with IFRS requires the use of a number of important accounting estimates. Management is also required to make certain judgements when applying its accounting policies. Information about areas that are complex or involve a high proportion of assumptions and estimates, or about areas where accounting estimates are of key significance to the consolidated financial statements, can be found in Note 4. The estimates and assumptions are reviewed regularly and the effect on the reported amounts is recognised in profit or loss.

No standards or interpretations of significance to the company's financial statements had been published or come into effect as per 31 December 2017 when preparing the consolidated financial statements.

New and amended standards that come into effect in 2018 and onward

The following standards come into effect in financial years beginning on or after 1 January 2018.

IFRS 16 Leases

In January 2016, the IASB published a new leasing standard that will replace IAS 17 Leases and the associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities attributable to all leases, with some exceptions, are recognised in the balance sheet. This method of recognition is based on the approach that the lessee has the right to control the use of the asset for a period of time in exchange for consideration. Lessor accounting is substantially unchanged. The standard is to be applied to financial years beginning on or after 1 January 2019. Early application is permitted. The EU has not yet adopted the standard. The Group has initiated work to assess the effects of introducing the standard. The standard will mainly impact recognition of the Group's operational leases. As

of the balance-sheet date, the Group's non-cancellable leases amounted to SEK 249 million, refer to Note 12. However, the Group has not yet evaluated the extent to which these commitments will be recognised as assets and liabilities or how this will impact the Group's earnings and classification of cash flows. Some commitments may be encompassed by the exception for short-term leases and leases of low-value assets, while other commitments may relate to arrangements that should not be recognised as leases under IFRS 16.

IFRS 9 Financial Instruments

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that pertain to classification and measurement of financial instruments. The standard is to be applied to financial years beginning on or after 1 January 2018.

The Group's work during 2017 has shown that IFRS 9 will not have any material impact on the Group's financial statements and current accounting policies.

However, IFRS 9 will introduce a new model for calculating provisions for credit losses based on expected credit losses. The new model for impairment contains a three-step approach based on changes in credit quality for the financial assets. The different steps govern how a company measures and recognises impairment and how it must apply the effective interest rate method. For financial assets without a significant financing component, for example, normal trade receivables and lease receivables, there are simplification rules that entail the company can immediately recognise a provision for the receivable's entire maturity period and thus does not need to register when a material deterioration in creditworthiness occurs.

Bufab applies the simplified approach to credit provision, meaning a provision corresponding to the expected loss over the entire life expectancy of the account receivable. No material effect of this has been identified as bad debt losses are historically very low and the forward-looking assessment is that credit risk will remain low.

IFRS 15 Revenue from Contracts with Customers

This standard regulates how revenue is to be recognised. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated SICs and IFRICs. IFRS 15 came into effect on 1 January 2018.

Revenue is recognised when a customer obtains control over the product or service sold, a principle that replaces the previous principle that revenue is recognised when risks and benefits have been transferred to the purchaser. The basic principle in IFRS 15 is that the company recognises revenue in the manner that best reflects the transfer of the goods or service promised to the customer. This method of recognition is conducted using a five-step model:

- Step 1: identify the contract with a customer.
- Step 2: identify the performance obligations in the contract.
- Step 3: determine the transaction price.
- Step 4: allocate the transaction price to the performance obligations in the contract.
- Step 5: recognise revenue when the entity satisfies a performance obligation.

The main changes compared with current rules are:

- Distinct products or services in integrated contracts must be recognised as separate obligations and any discounts must, as a general rule, be allocated to the separate obligations.
- If the transaction price contains variable consideration (such as performance bonuses, discounts, royalties, etc.) then revenue can be recognised earlier than under current rules. This is to be estimated and included in the transaction price to the extent it is highly probable that its inclusion will not result in a reversal.
- The date when the revenue is to be recognised may change: certain revenue that is currently recognised when a contract is finalised may need to be recognised allocated across the contract period or the opposite may be the case.
- There are new specific rules for licenses, guarantees, payments on account that are not refunded and consignment contracts.
- The standard also involves enhanced disclosure requirements.

The Group is engaged in trading fastener products. Revenue from product sales is recognised at the time when control of the product is transferred to the customer. This is usually when delivery takes place to the customer and ownership rights are transferred.

The Group's work during 2017 has determined that IFRS 15 will not have any material impact on the Group's financial statements, and no transitional effects will therefore arise.

Consolidated financial statements

Subsidiaries

Subsidiaries are all the entities in which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50 percent of the voting rights.

The existence and effect of potential voting rights which may be used or converted is taken into account when assessing whether control exists. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from the consolidated financial statements as of the date on which control ceases.

The Group's acquisition of subsidiaries is accounted for in accordance with the acquisition method. The cost of an acquisition comprises the fair value of assets transferred including any additional purchase considerations, equity instruments issued and liabilities incurred or assumed at the transfer date. Conditional purchase consideration is classified either as shareholders' equity or a financial liability. Amounts classified as financial liabilities are remeasured each period at fair value. Any remeasurement gains or losses are recognised in operating profit/loss. Transaction expenses attributable to the acquisition are recognised as incurred. Identifiable acquired assets and assumed liabilities and contingent liabilities in a business combination are measured initially at their acquisition-date fair value, irrespective of any minority interest. If the cost of acquisition exceeds the fair value of the Group's share of the acquired net identifiable assets, the difference is recognised as goodwill. If the cost of acquisition is less than the fair value of the acquired subsidiary's net assets, the difference is recognised directly in profit or loss.

Elimination of intra-group transactions

Intra-group transactions and balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The accounting policies for subsidiaries have been amended, where necessary, in order to ensure consistent application of the Group's policies.

Foreign currency translation

Items in the individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in Swedish kronor (SEK), which is the Parent Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency according to the exchange rates prevailing at the date of the transaction. Exchange gains and losses arising from the settlement of such transactions and during translation of foreign currency monetary assets and liabilities at the closing rate are recognised in profit or loss.

The results and financial position of all Group entities are translated into the Group's presentation currency. Assets and liabilities are translated at the closing rate, while income and expenses are translated at the average rate, with all resulting exchange-rate differences recognised as a separate component of equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are reported as assets and liabilities in the Group's balance sheet and are translated at the closing rate. The following exchange rates were used for the translation of foreign operations:

Currency	Average rate		Closing rate	
	2017	2016	2017	2016
DKK	1.294942	1.272013	1.32285	1.286894
EUR	9.6326	9.4704	9.8497	9.5669
GBP	10.9896	11.5664	11.1045	11.1787
CZK	0.366084	0.350324	0.384935	0.354041
HUF	0.031154	0.030417	0.031741	0.030757
NOK	1.032966	1.019931	1.00105	1.054
PLN	2.2626	2.1711	2.3606	2.1662
RMB	1.2631	1.2879	1.2642	1.3091
INR	0.13126	0.127424	0.128578	0.134047
NTD	0.2847	0.2695	0.2816	0.2859
RUB	0.146377	0.128604	0.143062	0.149701
USD	8.538	8.5613	8.2322	9.0971
RON	2.1402	2.1341	2.1061	2.1462
TRY	2.3419	2.8339	2.1775	2.5796

Classification

Non-current assets, liabilities and provisions are amounts expected to be recovered or settled more than 12 months after the balance-sheet date. Current assets and liabilities are amounts expected to be recovered or settled no more than 12 months after the balance-sheet date.

Items affecting comparability

Items affecting comparability are recognised separately in the financial statements when it is necessary to explain the Group's earnings. Items affecting comparability relate to material income or cost items recognised separately due to the significance of their nature or amount.

Intangible assets

Goodwill

The amount by which the cost exceeds the acquisition-date fair value of the Group's share of the acquired subsidiary's net identifiable assets is recognised as goodwill. Goodwill on acquisitions of subsidiaries is reported under intangible assets.

Goodwill is not amortised but is tested for impairment annually and is carried at cost less accumulated impairment.

Goodwill is allocated to cash-generating units for impairment testing.

Other intangible assets

The Group's other intangible assets comprise acquired customer and supplier relationships and capitalised expenditure for IT and business systems. The Group's basis for acquisitions is that customer relationships and supplier relationships have a limited useful life and are recognised at cost less any accumulated depreciation. Amortisation is applied on a straight-line basis to distribute the costs of their estimated useful lives.

Property, plant and equipment

Property, plant and equipment is recognised as an asset in the balance sheet when, based on available information, it is probable that future economic benefits associated with the ownership will flow to the Group/company and the cost of the asset can be measured reliably.

Items of property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

The carrying amount of an item of property, plant and equipment is derecognised from the balance sheet on disposal or divestment, or when no future economic benefits are expected from its use. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the selling price and the asset's carrying amount less direct distribution costs. The gain or loss is reported under other operating income/expenses.

Leases – Group as lessee

The Group applies IAS 17 Leases. Leases are classified in the consolidated financial statements as financial leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise, it is classified as an operating lease. Assets held under financial leases are recognised as assets in the consolidated balance sheet. Future lease payment obligations are reported as current and non-current liabilities. An asset leased under a finance lease is subject to depreciation, while the lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each accounting period during the lease term so as to produce a constant periodic rate of interest on the balance of the liability reported during the period. Contingent rents are recognised as an expense in the period in which they are incurred.

Operating lease payments are recognised as an expense over the lease term, based on the use of the asset, which may differ from actual lease payments during the year. If significant changes are made to the provisions of the lease during the term of the lease, an assessment is made as to whether these new provisions would have resulted in a different lease classification had they been in effect at the inception of the lease. If this is the case, the lease is treated as a new lease, to be assessed using the updated parameters at its inception.

Depreciation policies for property, plant and equipment

Depreciation according to plan is based on original cost less estimated residual value. Depreciation is applied on a straight-line basis over the useful life of the asset.

The following depreciation periods are applied:

Customer and supplier relationships	10 years
Other intangible assets	3–5 years
Buildings*	12–15 years
Plant and machinery	5–10 years
Equipment, tools and fixtures & fittings	3–10 years

* In addition to capitalised improvement expenses on others' property, Buildings also includes financial leases of buildings, and for these the period of depreciation corresponds to the length of the lease. Also refer to Note 21.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment

Assets with an indefinite useful life are not subject to depreciation or amortisation; instead, these assets are tested annually for impairment. Assets that are subject to depreciation or amortisation are also tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less distribution costs and its value in use. For impairment testing, assets are grouped at the lowest levels at which there are separate identifiable cash flows (cash-generating units).

Receivables

Receivables are recognised at cost less any impairment.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. An obsolescence risk is also taken into account. At the end of the financial year, the obsolescence reserve totalled SEK 76 million (77), of which SEK 2 million pertain to obsolescence reserves assumed from acquired companies during the year. The cost of the Group's merchandise is calculated as a weighted average purchase price and includes expenses arising from the acquisition of inventories and bringing them to their existing location and condition.

The cost of finished goods and work in progress includes a reasonable proportion of indirect costs. Measurement takes into account normal capacity utilisation.

Business combination

The purchase method is used to recognise the Group's business combinations, regardless of whether the acquisition consists of equity interests or other assets. The purchase consideration for the acquisition of a subsidiary comprises the fair value of:

- transferred assets,
- liabilities the Group assumes from previous owners,
- shares issued by the Group,
- assets or liabilities that result from an agreement covering a contingent purchase consideration,
- earlier equity interests in the acquired company.

Identifiable acquired assets, assumed liabilities and assumed contingent liabilities in a business combination are initially measured, with a few exceptions, at fair value on the date of acquisition. For each acquisition, that is, on an acquisition-by-acquisition basis, the Group determines whether non-controlling interest in the acquired company is to be recognised at fair value or at the shareholding's proportional share in the carrying amount of the acquired company's identifiable net assets.

Acquisition-related costs are expensed as they arise.

Goodwill pertains to the amount with which

- transferred consideration,
- any holding of non-controlling interests in the acquired company, and
- fair value at the date of acquisition of earlier equity interests in the acquired company, (if the business combination was conducted in stages) exceeds the fair value of acquired net identifiable assets. If the amount is less than the fair value of the acquired net assets, in the event of an acquisition at low price, the difference is recognised directly in the income statement. If all or part of the purchase consideration is deferred, future payments are to be discounted to the present value at the date of acquisition. The discount rate is the company's incremental borrowing rate of interest, which is the interest rate the company would have paid for financing through loans during a corresponding period and at similar terms. Conditional purchase consideration is classified either as shareholders' equity or a financial liability. Amounts classified as financial liabilities are remeasured each period at fair value. Any remeasurement gains or losses are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances and other current investments with an original maturity of three months or less, and overdraft facilities. Utilised overdraft facilities are reported as borrowings under current liabilities in the balance sheet.

Borrowings

Borrowings are recognised initially at fair value and are subsequently measured at amortised cost. Any difference between the amount received and the repayment amount is recognised in profit or loss over the borrowing period using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance-sheet date.

Employee benefits

Group companies have various pension schemes in accordance with local conditions and practices in the countries in which they operate. The most common pension arrangements are defined-contribution pension plans. Under these plans, the company settles its obligations on an ongoing basis through payments to insurance companies or pension funds.

However, the company has a more extensive responsibility in the case of defined-benefit pension plans, which are based on an agreed future pension entitlement. With these plans, the company's recognised cost is affected by factors such as assumptions about the future. The Group's net obligation is calculated separately for each plan by estimating the future benefit that employees have earned through their service in the current and prior periods. The present value of this benefit is determined by discounting the estimated future cash flows. The Group has safeguarded a portion of its obligations through transfers to pension funds, and the fair value of plan assets is offset against the provision in the balance sheet. The discount rate is obtained

by reference on the balance-sheet date to market yields on high-quality corporate bonds of a term consistent with the term of the Group's pension obligation. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains and losses are presented in other comprehensive income when they arise.

For salaried professionals in Sweden, the ITP 2 plan's defined-benefit pension obligations for retirement and survivors' pensions are backed by an Alecta insurance policy. According to a statement from the Swedish Financial Reporting Board (UFR10 Recognition of ITP 2 pension plan financed by an Alecta insurance policy), this is a defined-benefit plan that encompasses several employers. For the 2017 financial year, the company has not had access to enough information to report its proportional share of the plan's obligations, plan assets and costs, and the company was therefore unable to recognise it as a defined-benefit plan.

Accordingly, the ITP 2 pension plan, which is backed by an Alecta insurance policy, was recognised as a defined-contribution plan. The premium for the defined-benefit retirement and survivors' pension is calculated on a case-by-case basis and is determined by such factors as salary, previously vested pension benefits and the expected remaining professional life of the beneficiary.

The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance obligations calculated using Alecta's actuarial methods and assumptions, which do not correspond with IAS 19. The collective consolidation level is generally permitted to range from 125 to 155 percent. If Alecta's collective consolidation level falls below 125 percent or exceeds 155 percent, actions must be taken to enable the consolidation level to return to the standard interval. In the event of a low consolidation level, the company may raise the contractual cost of signing up for a policy and expanding the current benefits. In the event of a high consolidation level, the company may introduce premium deduction. At the end of the financial year, Alecta's surplus in the form of the collective consolidation level was 154 percent (149).

Revenues

Net sales comprise revenues from the sale of goods and services. Revenue is recognised in profit or loss when it is probable that future economic benefits will flow to the company and when these benefits can be measured reliably. Revenue includes only the gross inflow of economic benefits received and receivable for the company's own account. Revenue from the sale of goods is recognised when the company has transferred the significant risks and rewards of ownership of the goods and the company does not exercise any effective control over the goods sold. Revenue is recognised at the fair value of the consideration received or receivable, net of discounts. Settlement is made in cash, with revenue comprising the amount of cash received or receivable. Amounts collected on behalf of third parties are not included in the company's revenue. Revenue from the rendering of services is recognised when the economic outcome of the services can be estimated reliably and the economic benefits flow to the company.

The item "other operating income" includes other revenues in the operation that do not stem from the day-to-day business operations, such as capital gains from the sale of non-current assets and exchange-rate gains from operating receivables/liabilities.

Dividends are recognised when the right to receive payment is established.

Intra-group sales are eliminated in the consolidated financial statements.

Costs

The income statement is classified using the function of expense method. The functions are as follows:

Cost of goods sold comprises material handling and manufacturing costs, including payroll and material costs, purchased services, costs of premises, and depreciation/amortisation and impairment of property, plant and equipment.

Administrative expenses comprise costs of the companies' own administrative functions and costs relating to boards, management and staff functions.

Distribution costs comprise costs associated with the sales organisation and inventory obsolescence.

Other operating income/expenses relates to secondary activities, exchange-rate differences on operating items, the remeasurement of additional purchase considerations for acquired companies and capital gains/losses on the sale of property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest income on bank deposits and receivables, interest expense on borrowings, dividend income, exchange-rate differences and other financial income and expenses.

The interest component of finance lease payments is recognised in profit or loss using the effective interest method, which means that the interest is allocated to each accounting period during the lease term so as to produce a constant periodic rate of interest on the balance of the liability reported during the period.

Tax

Income tax consists of current tax and deferred tax. Taxes are recognised in profit or loss except when the underlying transaction is recognised directly in equity, in which case the related tax effect is also recognised in equity.

Current tax is the amount of income taxes payable or recoverable in respect of the current year. This includes adjustments of current tax attributable to prior periods. Deferred tax is accounted for using the balance-sheet method. A deferred tax liability is recognised for temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Amounts are calculated based on how the temporary differences are expected to be settled and by applying the tax rates enacted or substantively enacted by the balance-sheet date. Deferred tax is not recognised on temporary differences arising from goodwill on consolidation, and is not normally recognised on temporary differences arising from participations in subsidiaries that are not expected to be taxed in the foreseeable future. Untaxed reserves are recognised including deferred tax liabilities in the legal entity. However, in the consolidated financial statements, untaxed reserves are divided into deferred tax liability and equity. Deferred tax assets related to deductible temporary differences and loss carry-forwards are only recognised insofar as it is probable that they will result in lower tax payments in the future.

Cash-flow statement

The cash-flow statement is prepared using the indirect method. Recognised cash flows only concern transactions that involve cash inflows and outflows. Cash and bank balances are classified as cash and cash equivalents.

Related-party transactions

None of the Parent Company's total purchases charged to operating profit relate to transactions with other companies within the corporate group to which the company belongs. Within the Group, there are some internal sales between its different markets. Related-party transactions are also reported in Note 7 (Employees, personnel expenses and fees paid to directors and auditors) and Note 34 (Related-party transactions). Related-party transactions are made on terms equivalent to commercial transactions.

Financial instruments

The Group classifies its financial instruments into the following categories: loans and receivables, and other financial liabilities. Management makes a classification decision on initial recognition, and reviews this decision on each balance-sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These instruments arise when the Group provides money, goods or services directly to a customer without intending to trade the receivable. They are included in current assets unless the settlement date is more than 12 months after the balance-sheet date, in which case they are classified as non-current assets. Loans and receivables are reported under trade receivables and other receivables, as appropriate, in the balance sheet.

NOTE 3

RISKS AND RISK MANAGEMENT

Operational risks

Market and business risks

Customer demand for products and services from Bufab depends on general economic conditions and the level of activity in the manufacturing industry in the countries in which Bufab and its customers operate.

Bufab operates in Sweden, Denmark, Finland, Norway, Germany, France, the Netherlands, Austria, the Czech Republic, Poland, the UK, Estonia, Hungary, Spain, Slovakia, India, the United States, Taiwan, China, Russia, Turkey, Romania, Italy, Singapore, Malaysia, Indonesia and Mexico.

Bufab's customers are found in a wide spectrum of manufacturing industries, including the technology sector, electronics/telecommunications, consumer goods, the offshore and refining industry, the transportation and construction sectors, furniture and the automotive sector. Geographical diversification combined with a vast number of customers spread across many sectors reduces the effects of isolated changes in customer demand.

However, despite this breadth, it can be stated that the company is clearly impacted by customers' underlying demand, which is considered to comprise the company's most tangible operational risk. The company was substantially impacted by reduced customer demand during the sharp global economic downturn in 2009.

There is a risk that major customers will choose to bypass the wholesale stage and deal directly with manufacturers. However, Bufab adds value to its customers by providing efficient logistics and a broad base of suppliers, as well as a reliable level of quality. The company believes that this broad range as a logistics partner remains competitive.

Bufab can be negatively impacted when its suppliers experience economic, legal or operational problems, raise prices or when they are unable to deliver on time or at the agreed level of quality. Bufab sources most of its goods from suppliers that are mainly located in Asia, but also from some European suppliers. Bufab works with a large number of suppliers from different countries. The company aims to avoid making itself dependent on specific suppliers.

Inventories constitute a significant share of Bufab's assets and are costly to relocate, store and manage. Accordingly, efficient inventory management is a key element in Bufab's operation. Inefficient inventory management can lead to inventory surpluses or deficits. Inventory surpluses expose Bufab to the risk of having to incur impairment losses on or to dispose of the inventory. Conversely, inventory deficits expose Bufab to the risk of having to source products at higher prices in order to deliver on time, or to incur expensive express delivery costs or penalties.

With its large and complex flow of items combined with a broad base of customers and suppliers, there is a risk that Bufab's customers will not receive their products at the specified time or with the right quality. Bufab may become subject to significant product liability and other claims if the products it sources and produces are defective, cause production stops or personal or property damage, or otherwise do not fulfill the requirements agreed with the customer. Such defects may be caused by mistakes made by Bufab's own personnel or the company's suppliers. If a product is defective, Bufab may also have to recall the product. Furthermore, Bufab may not be able to file or collect a corresponding claim against, for example, its own suppliers in order to receive compensation for damages and related costs. To address this risk, internal and external processes are in place that must be adhered to by employees and external parties. Bufab works continuously to develop these processes and to train employees and external parties.

Bufab is exposed to fluctuations in the market price of certain commodities, particularly steel, stainless steel (which fluctuates with the price of alloy metals) and other metals. Any increase in such prices may impact the price for which Bufab purchases its products, and thereby the cost of goods sold. Energy prices and the price of oil impact manufacturing and freight costs, which significantly affect cost of goods sold. In addition, labour shortages and labour costs in the countries from which Bufab sources its products may increase Bufab's cost of goods sold through its sourcing prices. Moreover, Bufab may not be able to compensate for increased sourcing prices by raising prices for its own customers.

Bufab could lose business or growth opportunities from existing customers as a result of many factors, including, but not limited to, relocations of the customers' manufacturing operations or customer dissatisfaction, particularly with product quality or service, as well as customers underperforming in, or shutting down, their businesses. In connection with a customer relocating manufacturing operations, for example, to a low-cost country, Bufab may not be requested, or be able, to make deliveries to the new location to the same extent as prior to the relocation, or may not be able to efficiently source all, or any, of its products to the new location. Moreover, should customers relocate outside of Bufab's operating jurisdictions, and particularly outside the European Union, it may be difficult or burdensome for Bufab to establish new operations and comply with local regulations in such locations. As a consequence, Bufab may lose all, or part of, its business from that manufacturing operation.

Bufab's supply chain (including manufacturing units and some warehouses) and business processes are, to a large extent, automated via hardware and software for robotics and via the Group's IT systems. Bufab is particularly dependent on these systems to purchase, sell and deliver products, to invoice its customers and to manage its production units and certain automated warehouses. It is also an important tool for accounting and financial reporting as well as inventory and net working capital management. Disruptions, as a consequence of, for example, upgrades of existing IT systems, or deficiencies that materialize in the function of its IT systems or hardware could, even in the short term, adversely affect Bufab's business, results of operations and financial condition.

Bufab's strategy covers both organic growth and growth through acquisitions. Acquisitions may expose Bufab to risks, primarily related to integration, such as impairment of relationships with key customers, inability to retain key employees and difficulties and higher costs than anticipated for combining operations. Following some of its past acquisitions, Bufab has experienced such integration difficulties. Moreover, acquisitions may expose Bufab to unknown liabilities.

Bufab manages its operations through operating subsidiaries in a number of countries. The business, including transactions between Group companies, is run according to Bufab's understanding or interpretation of current tax laws, tax treaties, other tax law stipulations and the requirements of the tax authorities concerned. Furthermore, the tax authorities of the countries concerned could make assessments and take decisions which deviate from Bufab's understanding or interpretation of the abovementioned laws, treaties and other regulations. Bufab's tax position, both for previous years and the current year, may change as a result of the decisions of the tax authorities concerned or as a result of changed laws, treaties and other regulations. Such decisions or changes, possibly retroactive, could adversely affect Bufab's business, results of operations and financial condition.

Bufab holds environmental permits for manufacturing at its production facilities. Bufab previously conducted manufacturing at other facilities in Sweden. Bufab has completed environmental inventories and, where required, environmental technical investigations, at all properties where Bufab has historically conducted manufacturing in Sweden. These investigations detected traces of contamination at or in proximity to some of these properties. For more information regarding environmental risks, refer to Note 33.

Bufab has a substantial goodwill item in its consolidated balance sheet, which is regularly tested for impairment requirements; see also Note 18.

Competition

Bufab acts as a subcontractor to the engineering industry and faces competition in all types of customer segments. Customer requirements concerning price, quality, delivery reliability, etc. are constantly increasing. Since the entry barriers for smaller companies and the investments required to start a competing business are low, Bufab can also lose sales to new companies. The company's continued success is dependent on its ability to respond to these increasing requirements and be more competitive than its competitors in the areas of attractive pricing, delivery reliability, quality, high internal efficiency and broad, secure logistics solutions from all of the countries in which Bufab operates.

Legal risks

Legal risks primarily include legislation and regulation, government decisions, disputes, etc. The fastener industry within the EU has been subject to heavy duties on imports of standard parts from China in recent years. Bufab has been forced to find alternative purchasing channels, primarily in Asia, which has worked well considering the volume size. In 2011, the EU also imposed heavy duties on imports of standard parts from Malaysia. At the end of February 2016, the EU withdrew the increased duties on imports of standard parts from China and Malaysia, on the advice of the WTO. Great uncertainty remains as to whether the EU will re-introduce increased duties, and the amount of such duties.

Bufab's operations face risks related to taxes and the environment. See also Note 33.

Insurance

Bufab insures its assets against property damage and business interruption losses. In addition, there are insurance policies for product liability, product recall, transportation, legal protection, crime against property and business travel. There have been no claims for damages with regard to product liability or product recall that had any material impact on earnings during the last decade.

Financial risks

Bufab is exposed to various types of financial risk in the course of its operations. Examples of these are currency, financing, interest rate and counterparty risks. The Board is responsible for adopting risk-management policies. Financial activities such as risk management, liquidity management and borrowing are managed at the Group level by the subsidiary Bult Finnveden AB.

Currency risks

Changes in exchange rates affect the Group's earnings and equity in different ways. Currency risk arises from:

- flow exposures in the form of receipts and payments in different currencies,
- recognised assets and liabilities of subsidiaries,
- translation of the earnings of foreign subsidiaries to SEK,
- translation of net assets of foreign subsidiaries to SEK.

Exchange-rate fluctuations may also affect the Group's competitiveness or that of its customers, thereby indirectly affecting the Group's sales and earnings. The Group's overall currency exposure has increased over time as operations have become more global, with increased trade from Asia as well as a higher proportion of sales outside Sweden – from Swedish subsidiaries but mainly from foreign subsidiaries. The Group's currency risk management policy primarily focuses on transaction-related currency risks. Currency risks are mainly managed by price adjustments to customers and suppliers, and by working to change the business's operating terms by aligning revenues and costs in currencies other than SEK with each other.

Some 74 percent (75) of the Group's total invoicing and 76 percent (78) of its costs are in foreign currencies. Flow exposure in 2017 was marginally hedged at fixed exchange rates.

During the financial year, the Group's currency flows (excluding the reporting currency, SEK) were distributed as follows (amounts in SEK million):

Currency	Costs*	Sales*
EUR	1,344	1,609
GBP	211	406
USD	617	249
RMB	95	93
NOK	46	83
PLN	85	68
DKK	26	61
CZK	20	48
TRY	24	29
RUB	11	28
RON	12	27
HUF	8	0
NTD	23	0
Other	6	10

* Expressed in SEK million at the average rate for 2017. Currency flows represent gross flows, including intra-group transactions

The company's largest exposure is to the USD, as trade from Asia is largely conducted in this currency, and to the EUR, as a large proportion of its European sales are in this currency.

Net assets in foreign subsidiaries correspond to investments in foreign currencies that give rise to translation differences when they are translated to SEK. Loans were raised in GBP and EUR to control the effect of translation differences on the Group's comprehensive income and capital structure. Exchange-rate gains and exchange-rate losses on these loans are considered to be effective hedges, as defined by IFRS, of translation differences and are recognised in other comprehensive income and the accumulated amount in equity. Refer also to the consolidated statement of comprehensive income and the consolidated statement of changes in equity.

Credit risk

Credit risk related to cash and cash equivalents, balances and credit exposures are managed at the Group level. Credit risk related to receivables outstanding are managed by the company in which the receivable was created. The company conducts individual assessments of its customers' credit ratings and credit risks, including customers' financial position, as well as previous experiences and other factors. Management does not expect any losses due to missing payments from counterparties other than the amount reserved as "doubtful debts." Refer to note 23.

Financing, liquidity and capital

Financing risk is defined as the risk of being unable to meet payment obligations as a result of insufficient liquidity or difficulties in obtaining financing. Liquidity risk is managed by ensuring that the Group holds sufficient levels of cash and cash equivalents and access to financing under credit facility agreements. Executive management regularly monitors the need to refinance external loans with the aim of renegotiating the Group's credit facilities at least 12 months before the maturity date.

The Group receives its primary financing from a bank under an SEK 1,300 million credit facility with a maturity in December 2019. The credit facility was signed in December 2016. This credit is linked to certain borrowing terms (known as covenants), which are detailed in Note 28.

At year-end 2017, the Group had a liquidity reserve in the amount of SEK 357 million (560). The Group's finance policy stipulates that the available funds, meaning cash and cash equivalents and available but unutilised credits, must be greater than the Group's standard expenses for 0.7 of a month. On 31 December 2017, the liquidity reserve totalled 1.5 months' standard expenses for the Group.

The Group has an equity/assets ratio of 43 percent (45), whereby the equity/assets ratio is defined as recognised equity divided by total assets.

Equity/assets ratio	2017	2016
Group		
Equity	1,416	1,297
Total assets	3,274	2,861
Equity/assets ratio	43.3%	45%

The net debt/equity ratio as at 31 December 2017 and 2016 was as follows:

Debt/equity ratio	2017	2016
Group		
Interest-bearing liabilities	1,135	961
Less: Cash and cash equivalents	-120	-122
Net indebtedness	1,015	839
Total equity	1,416	1,297
Debt/equity ratio	72%	65%

Classification of financial instruments

The following table shows the classification of financial instruments in the balance sheet for 2017 and 2016 (for definitions, see Note 2).

Assets, 2017	Loans and receivables	Non-financial assets	Total
Intangible assets	—	1,134	1,134
Property, plant and equipment	—	164	164
Financial assets	—	23	23
Current assets			
– Inventories	—	1,093	1,093
– Trade receivables	671	—	671
– Current tax assets	—	10	10
– Other receivables	32	—	32
– Prepaid expenses and accrued income	—	27	27
– Cash and cash equivalents	120	—	120
Total current assets	823	1,130	1,953
Total assets	823	2,451	3,274

Liabilities, 2017	Other financial liabilities	Non-financial liabilities	Total
Non-current liabilities and provisions	1,080	102	1,182
Current liabilities and provisions			
– Interest-bearing liabilities	55	—	55
– Trade payables	—	395	395
– Current tax liabilities	—	27	27
– Other liabilities	—	85	85
– Accrued expenses and deferred income	—	114	114
Total current liabilities	55	620	676
Total liabilities	1,135	722	1,857

Assets, 2016	Loans and receivables	Non-financial assets	Total
Intangible assets	—	1,044	1,044
Property, plant and equipment	—	132	132
Financial assets	—	22	22
Current assets			
– Inventories	—	920	920
– Trade receivables	550	—	550
– Current tax assets	—	8	8
– Other receivables	30	—	30
– Prepaid expenses and accrued income	—	33	33
– Cash and cash equivalents	122	—	122
Total current assets	702	961	1,663
Total assets	702	2,159	2,861

Liabilities, 2016	Other financial liabilities	Non-financial liabilities	Total
Non-current liabilities and provisions	884	75	959
Current liabilities and provisions			
– Interest-bearing liabilities	76	—	76
– Trade payables	—	302	302
– Current tax liabilities	—	27	27
– Other liabilities	—	89	89
– Accrued expenses and deferred income	—	110	110
Total current liabilities	76	528	604
Total liabilities	960	603	1,563

The maturity structure for existing borrowings is shown in Note 28. The amounts do not include the current portion, which will mature within one year. The overdraft facility normally matures within one year, but is usually extended on the due date.

The table below illustrates the Group's financial liabilities categorised by time left to maturity as per balance-sheet date. The amounts shown in the table are the contractual undiscounted cash flows.

On 31 December 2017	Less than 1 year	1–5 years	More than 5 years
Bank loans and overdrafts	55	1048	—
Trade and other payables	395	—	—
Total	450	1,048	0

On 31 December 2016	Less than 1 year	1–5 years	More than 5 years
Bank loans and overdrafts	78	900	—
Trade and other payables	302	—	—
Total	380	900	0

Financial instruments

IFRS 13 Fair Value Measurement is applied. The Group's borrowings mainly take the form of credit facilities with long-term credit but short fixed-rate periods. Consequently, it is the assessment that the fair value is essentially consistent with the carrying amount.

Interest-rate risk

Changes in interest rates have a direct impact on the Group's earnings, while their impact on the overall economy also produces an indirect effect. The Group's bank loans at the end of the year had an average remaining fixed-rate period of three months.

Sensitivity analysis

Significant factors affecting the Group's earnings are described below. The assessment is based on year-end values, assuming all other factors remain constant.

Fluctuations in sales prices are the variable that has the greatest impact on earnings, with a change of +/- 1 percent on resale prices affecting operating profit by about SEK 32 million (28).

Volume changes and sourcing prices affect Bufab's earnings. A 1-percent change in volume has an effect on earnings of about SEK 12 million (10), while a 1-percent change in merchandise sourcing prices has an effect of about SEK 20 million (18) on operating profit.

Payroll costs represent a large proportion of the Group's cost base. A 1-percent increase affects operating profit by about SEK 6 million (5).

The Group's net debt was SEK 1,015 million on the balance-sheet date. A one percentage point change in the market rate for the closing net debt has an effect on profit after financial items of SEK 10 million (8).

The Group has considerable exposure to the USD, which is related to the company's trade with Asia, particularly China and Taiwan. Local prices in Asia are largely set on the basis of the USD level. A one percentage point strengthening of the USD against the SEK, with all other variables held constant, has a negative impact of SEK 4 million (neg: 3) on operating profit.

The Group's exposure to the EUR is also considerable. Exposure to the EUR is primarily due to the fact that the Group's invoicing in Europe is largely in this currency. A one percentage point change in the EUR, with all other variables held constant, has a positive impact of SEK 3 million (3) on operating profit.

NOTE 4**SIGNIFICANT ESTIMATES AND ASSESSMENTS**

Accounting estimates and assessments are evaluated regularly. They are largely based on historical experience and other factors, including expectations about future events that are considered reasonable in the present circumstances. The Group makes judgements and assumptions concerning the future. These result in accounting estimates, which, by definition, rarely correspond with the actual outcome. Estimates and assumptions which involve considerable risk of material adjustments to the carrying amounts of assets and liabilities during the next financial year are described below.

The assumptions made in connection with goodwill impairment testing can be found in Note 18.

In 2006, the Group sold four properties located in Värnamo, Svartå and Åshammar. The properties were built and equipped for industrial use. In connection with the sale, leases were signed for a term of 15 years. In the management's overall assessment pursuant to IAS 17, since the future economic benefits and risks after the sale largely flow to the buyer of three of the properties (located in Värnamo and Svartå), the leases for these properties are recognised as operational leases. The leases were subject to minor changes without impacting their classification as operational leases under IAS 17. For the fourth property, located in Åshammar, a new lease was signed in 2013, entailing its classification as a financial lease. See also Note 12.

Inventories represents a significant item in the Group's balance sheet. At 31 December 2017, inventories amounted to SEK 1,093 million (920), net, after deductions for obsolescence of SEK 76 million (77).

The policies for recognising inventories are presented in Note 2. The risk of obsolescence is taken into consideration in conjunction with establishing the value of inventories. Bufab applies a Group-wide policy for determining obsolescence, which considers to turnover rate of the individual items and forecast sales volumes. Accordingly, the size of the obsolescence reserve is thus sensitive to changes in forecast sales volumes.

Bufab has been ordered to carry out surveys of environmental pollutants at an industrial property. See also Note 33.

NOTE 5**INFORMATION ON OPERATING SEGMENTS**

Segment reporting is prepared in accordance with IFRS 8. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the function that makes decisions about resources to be allocated to the operating segments and assesses their performance. For the Group, this function has been identified as Group management. Three segments have been identified in the Group, two operational, named segment Sweden and segment International, as well as segment Other. This segment structure is consistent with the internal reporting.

Segment Sweden includes Bufab's six subsidiaries in Sweden and its subsidiaries in the United States and Mexico, which work closely with other subsidiaries in the segment. Segment International encompasses all activities Bufab engages in outside Sweden and the United States, which includes operations in 26 countries allocated across six regions. Management of the business is carried out on a segment basis in terms of objectives, allocation of resources and monitoring of results. Net sales in the segments relates to net sales to external customers. No individual customer accounts for more than 10 percent of net sales in any of the segments.

Common overhead costs are distributed between the segments and are allocated on an arm's length basis. Segment Other consists of other unallocated costs for the Parent Company and Group eliminations.

Group	Sweden		International		Other		Group	
	2017	2016	2017	2016	2017	2016	2017	2016
Income items								
Total revenue	1,057	968	2,144	1,880	0	0	3,201	2,847
Operating profit (EBITA)	139	131	203	179	-31	-33	311	277
Amortisation of acquisition-related intangible assets	-1	-1	-6	-4			-7	-5
Financial items	—	—	—	—	—	—	-26	-21
Profit after financial items	—	—	—	—	—	—	278	251
Taxes	—	—	—	—	—	—	-65	-88
Profit for the year	—	—	—	—	—	—	213	163
Assets	1,271	1,177	1,968	1,629	35	48	3,274	2,854
Liabilities	343	308	432	338	1,082	911	1,857	1,557
Other disclosures								
Investments	29	22	10	6	0	0	39	28

NOTE 6

ITEMS AFFECTING COMPARABILITY

Tax on profit for the year	2017	2016
Additional tax	—	24
Total	—	24

Additional tax of SEK 24 million in 2016 relates to tax accruing to certain denied deductions for interest for the 2009, 2011 and 2012 financial years according to a ruling by the Administrative Court of Appeal in November 2016. Refer also to Note 32.

NOTE 7

EMPLOYEES, PERSONNEL EXPENSES AND FEES PAID TO DIRECTORS AND AUDITORS

Average number of employees	2017	% Male	2016	% Male
<i>Parent Company</i>				
Sweden	1	100	1	100
Total	1	100	1	100
<i>Subsidiaries</i>				
Sweden	306	75%	311	76%
Norway	21	90%	20	90%
Finland	53	83%	50	86%
Germany	23	74%	22	77%
Poland	48	81%	45	73%
Austria	28	79%	28	79%
Czech Republic	22	59%	19	68%
Spain	9	56%	10	60%
France	90	66%	83	65%
Netherlands	78	79%	75	80%
UK	196	88%	139	80%
Slovakia	12	67%	12	67%
Estonia	12	75%	11	82%
China	55	51%	54	59%
India	21	71%	22	82%
Taiwan	17	47%	16	50%
Romania	20	60%	20	60%
Russia	11	64%	10	60%
Hungary	11	73%	9	67%
Singapore	7	43%	—	—
Other	17	100%	16	100%
Total, subsidiaries	1,057	75%	972	75%
GROUP TOTAL	1,058	76%	973	75%

Board and senior executives	2017	% Female	2016	% Female
Board	7	29%	8	25%
Other senior executives	6	17%	5	20%

Salaries, employee benefits and social security fees	2017		2016	
	Salaries and benefits	Social security fees	Salaries and benefits	Social security fees
<i>Parent Company</i>	5.9	2.4	5.8	2.4
(of which pension cost)		0.8		0.8
<i>Subsidiaries</i>	401.0	135.1	360.8	123.5
(of which pension cost)		36.5		34.1
GROUP TOTAL	406.9	137.5	366.6	125.9
(of which pension cost)		37.3		34.9

Salaries and other remuneration categorised by country and among Board members, CEO and other employees	2017		2016	
	Management*	Other employees	Management*	Other employees
Parent Company	5.9	—	5.8	—
(of which bonuses, etc.)	0.7	—	0.8	—
Total, Parent Company	5.9	—	5.8	—
(of which bonuses, etc.)	0.7	—	0.8	—
Subsidiaries				
Subsidiaries, Sweden	11.7	134.9	11.7	127.2
(of which bonuses, etc.)	2.2		2.0	
Foreign subsidiaries	26.5	227.9	26.4	195.5
(of which bonuses, etc.)	2.7		2.4	
Total, subsidiaries	38.2	362.8	38.1	322.7
(of which bonuses, etc.)	4.9		4.4	
GROUP TOTAL	44.1	362.8	43.9	322.7
(of which bonuses, etc.)	5.6		5.2	

* Includes current and former Board members, the CEO of the Parent Company and subsidiaries, as well as other senior executives in Group management.

Group	2017				2016			
	Fee/ Basic salary	Variable remuneration	Other benefits	Pension	Fee/ Basic salary	Variable remuneration	Other benefits	Pension
Board of Directors								
Sven-Olof Kulldorff	0.4	—	—	—	0.4	—	—	—
Gunnar Tindberg	0.2	—	—	—	0.2	—	—	—
Adam Samuelsson	0.2	—	—	—	0.2	—	—	—
Hans Björstrand	0.2	—	—	—	0.2	—	—	—
Eva Nilsagård	0.2	—	—	—	0.2	—	—	—
Johanna Hagelberg	0.2	—	—	—	0.2	—	—	—
Johan Sjö	—	—	—	—	0.2	—	—	—
Bengt Liljedahl	0.2	—	—	—	0.1	—	—	—
CEO								
Jörgen Rosengren	3.5	0.7	0.1	0.9	2.9	0.8	0.1	0.7
Other senior executives	6.0	1.2	0.6	2.0	6.5	1.7	0.5	1.9

The Chairman is paid fees as resolved by the Annual General Meeting (AGM). The AGM set the Chairman's fees at SEK 0.4 million (0.4). Other Board members receive a total of SEK 1.6 million (1.4). Remuneration for the CEO and other senior executives comprises basic salary, variable remuneration, other benefits and a pension. The term "senior executives" refers to the members of Group management.

The variable remuneration received by the CEO and other senior executives is based on the achievement of financial targets. The CEO received a basic salary of SEK 3.5 million (2.9), variable remuneration of SEK 0.7 million (0.8) and pension benefits of SEK 0.9 million (0.7) during the year. The variable remuneration received by other senior executives is based on operating profit for each area of responsibility and at Group level. Other senior executives received a basic salary of SEK 6.0 million (6.5) and variable remuneration of SEK 1.5 million (1.7).

The CEO's retirement age is 65. Pension costs are premium based and correspond to 25 percent of basic salary paid. The company and the CEO have a mutual period of notice of six months. The CEO is also entitled to severance pay of 12 months' basic salary if notice is initiated by the company. The retirement age for other senior executives is 65, and their pension costs are also premium based. The company and other senior executives have a maximum period of notice of 12 months when notice is initiated by the company and six months when initiated by the employee.

Auditors' fees and remuneration	2017	2016
PricewaterhouseCoopers		
Audit assignment	3	3
- of which to ÖPwC*	1	1
Audit activities in addition to audit assignment	0	0
- of which to ÖPwC	0	0
Tax advice	0	0
- of which to ÖPwC	0	0
Other services	1	2
- of which to ÖPwC	0	0
Total	5	5
Other auditors		
Auditing fees to others	0	0

*Öhrlings PricewaterhouseCoopers AB.

Audit assignment refers to fees for the statutory audit, meaning the work that was necessary in order to submit the audit report, as well as audit advisory services provided in connection with the audit assignment.

NOTE 8 TYPES OF COSTS

	2017	2016
Materials purchased, including costs of delivery	1,987	1,752
Salaries, including social security fees	570	491
Depreciation	43	43
Other	297	289
Total operating expenses	2,897	2,575

NOTE 9 OTHER OPERATING INCOME

	2017	2016
Capital gain on sale of property, plant and equipment	1	2
Exchange-rate gains on operating receivables/liabilities	26	26
Rental income	1	1
Other	4	3
Total other operating income	32	32

NOTE 10 OTHER OPERATING EXPENSES

	2017	2016
Exchange-rate losses on operating receivables/liabilities	-28	-26
Remeasurement of additional purchase considerations	-3	-3
Other	-2	-5
Total other operating expenses	-33	-34

NOTE 11 DEPRECIATION/AMORTISATION OF NON-CURRENT ASSETS

	2017	2016
Depreciation/amortisation according to plan, by class of asset		
Other intangible assets	-11	-9
Buildings	-1	-1
Plant and machinery	-12	-13
Equipment, tools and fixtures & fittings	-19	-20
Total depreciation/amortisation	-43	-43
Depreciation/amortisation according to plan, by function		
Cost of goods sold	-20	-21
Distribution costs	-18	-17
Administrative expenses	-5	-5
Total depreciation/amortisation	-43	-43

NOTE 12

OPERATIONAL LEASING PAYMENTS

	2017	2016
Assets held under operational leases		
Minimum lease payments	63	70
Total lease payments for the year	63	70
Agreed future minimum lease payments on non-cancellable leases are due as follows:		
Within one year	65	65
Between one and five years	167	174
After five years	17	30
Total payments	249	269

The Group's operational leases primarily comprise business premises. These leases are principally indexed against the Consumer Price Index and include extension options. For more information, refer to Note 4.

NOTE 13

INTEREST AND SIMILAR INCOME

	2017	2016
Exchange-rate differences	—	6
Interest income, other	1	1
Total	1	7

NOTE 14

INTEREST AND SIMILAR EXPENSES

	2017	2016
Interest expenses, other	-21	-23
Exchange-rate differences	-2	-1
Other	-4	-4
Total	-27	-28

NOTE 15

EXCHANGE-RATE DIFFERENCES AFFECTING PROFIT/LOSS ITEMS

	2017	2016
Exchange-rate differences affecting operating profit	-1	—
Exchange-rate differences on financial items	-2	5
Total	-3	5

NOTE 16

TAX ON PROFIT FOR THE YEAR

	2017	2016
Current tax		
Current tax for the year	-62	-63
Current tax for previous years*	—	-24
Total	-62	-87
Deferred tax expense (-)/income (+)		
Deferred tax income on temporary differences	-3	-1
Total	-3	-1
Recognised tax expense	-65	-88

	2017	2016
Reconciliation of effective tax		
Profit before tax	278	251
Tax according to Parent Company's applicable rate	-61	-55
Tax for previous years*	—	-24
Effect of foreign subsidiaries' tax rates	-1	-4
Effect of non-deductible expenses	-1	-2
Revaluation of tax losses/temp. differences	-2	-3
Recognised tax expense	-65	-88
Effective tax rate	23%	35%

*Refer also to Note 33.

NOTE 17

EARNINGS PER SHARE

	2017	2016
Profit for the year attributable to shareholders	213	163
Estimated average number of ordinary shares outstanding before dilution	37,978,683	38,110,533
Earnings per share before dilution, SEK	5.61	4.29
Estimated average number of ordinary shares outstanding after dilution	37,978,683	38,110,533
Earnings per share after dilution, SEK	5.61	4.29
Profit for the year attributable to shareholders	213	163
Items affecting comparability	—	24
Profit for the year excluding items affecting comparability	213	187
Estimated average number of ordinary shares outstanding before dilution	37,978,683	38,110,533
Earnings per share before dilution excluding items affecting comparability, SEK	5.61	4.92
Estimated average number of ordinary shares outstanding after dilution	37,978,683	38,110,533
Earnings per share after dilution excluding items affecting comparability, SEK	5.61	4.92

NOTE 18

INTANGIBLE ASSETS

	Goodwill		Other intangible assets	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Accumulated cost				
At beginning of year	1,019	939	89	65
New purchases for the year	74	76	25	1
Reclassifications	—	—	—	5
New purchases through acquisitions	—	—	—	18
Exchange-rate differences for the year	5	4	-4	0
At year-end	1,098	1,019	110	89
Accumulated amortisation according to plan and impairments				
At beginning of year	-44	-43	-20	-11
Amortisation according to plan for the year	—	—	-10	-9
Amortisation in acquired companies	—	—	—	—
Exchange-rate differences for the year	—	-1	0	0
At year-end	-44	-44	-30	-20
Carrying amount at beginning of period	975	896	54	54
Carrying amount at end of period	1,054	975	80	69

Bufab tests goodwill for impairment requirements on an annual basis.

The Group's goodwill has been allocated to its lowest cash-generating units. Accordingly, SEK 526 million (526) was attributable to segment Sweden and SEK 528 million (442) to segment International. In segment Sweden, the goodwill item encompasses the entire segment as a single cash-generating unit, whereas in segment International, goodwill is divided among 17 (15) cash-generating units.

Since acquired units are integrated into Bufab's business model and exposed to similar risks, the same assumptions apply to all cash-generating units.

The recoverable amount for the cash-generating units was determined by calculating the value in use by way of discounting future cash flows.

The calculations were based on the company's budget and financial plans for 2018–2020, as approved by executive management and the Board. The plans for these years are detailed. The growth presented in the budget and financial plans during the forecast period is based on the Group's past organic growth and performance in the market segments in which Bufab is active. For the periods beyond those forecast, a 2 percent (2) rate of growth and inflation was assumed.

Expected future cash flows according to these assessments form the basis for the estimates. Changes in working capital and investment needs were also taken into account. The present value of the forecast cash flow was calculated using a discount rate of 7.5 percent (8.0) after tax, corresponding to 8.0 percent (8.5) before tax.

Impairment testing was conducted in conjunction with the annual accounts on 31 December 2017 and was addressed by the company's Board. No impairment requirement was indicated.

Executive management conducted a number of calculations based on reasonable potential changes in significant assumptions concerning the discount rate, growth and gross margins.

A change in the discount rate to 8.5 percent after tax would not result in any impairment requirement of the Group's recognised goodwill. The Group's budget and business plans during the forecast period include increases in sales, earnings and cash flow. Nor would an assumption of a halved rate of growth or an assumption of a halved increase in the gross margin result in any need for impairment of goodwill. Segment International includes a cash-generating unit that is particularly sensitive to changed assumptions of future cash flows. Assuming a sustainable cash-flow level on a par with the outcome for 2017, an impairment requirement of SEK 37 million arises in this separate unit.

NOTE 19

PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		Plant and machinery		Equipment, tools and fixtures & fittings	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Accumulated cost						
At beginning of year	17	14	153	142	176	166
New purchases for the year	5	1	27	7	6	9
New purchases through acquisitions	—	—	—	—	7	6
Divestments and disposals	—	—	-5	0	-3	-8
Reclassifications	0	2	2	4	8	2
Exchange-rate differences for the year	—	—	—	—	2	1
At year-end	22	17	177	153	196	176
Accumulated depreciation according to plan						
At beginning of year	-4	-3	-109	-96	-111	-93
Divestments and disposals	—	—	3	0	2	7
Depreciation according to plan for the year	-1	-1	-12	-13	-20	-20
Depreciation in acquired companies	—	—	—	—	-4	-4
Exchange-rate differences for the year	—	—	—	—	-1	-1
At year-end	-5	-4	-118	-109	-134	-111
Carrying amount at beginning of period	13	11	44	46	65	73
Carrying amount at end of period	16	13	59	44	62	65

NOTE 20

WORK IN PROGRESS AND ADVANCES FOR PROPERTY, PLANT AND EQUIPMENT

	Intangible assets		Property, plant and equipment	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
At beginning of year	0	5	10	8
Reclassifications	—	-5	-10	-8
Investments	0	0	27	10
Carrying amount at end of period	0	0	27	10

NOTE 21

FINANCIAL LEASES

	Cost		Accumulated depreciation	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Plant and machinery	0	12	0	-10
Buildings	14	14	-4	-4
Total financial leases	14	26	-4	-14

Future minimum lease payments fall due as follows:

	Nominal value		Present value	
	2017	2016	2017	2016
Within one year	2	4	2	4
Between one and five years	6	8	5	8
After five years	—	—	—	—
Total future lease payments	8	12	7	12

The present value of future minimum lease payments is recognised as an interest-bearing liability. The consolidated earnings do not include any variable fees concerning financial leases.

NOTE 22

OTHER NON-CURRENT RECEIVABLES

	31 Dec 2017	31 Dec 2016
Accumulated cost		
At beginning of year	4	4
Investments for the year	1	0
Carrying amount at year-end	5	4

NOTE 23

PAST-DUE RECEIVABLES

	31 Dec 2017	31 Dec 2016
Number of days past due		
30–90 days	37	25
91–180 days	3	5
181–360 days	1	3
More than 360 days	7	6
Carrying amount at year-end	48	39
Provision in balance sheet for doubtful debts	10	8

	2017	2016
Bad debt losses		
Costs of bad debt losses affecting profit for the year	2	3
Total	2	3

NOTE 24

PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2017	31 Dec 2016
Rent	7	9
Insurance	2	2
Licences	6	6
Other prepaid expenses	17	16
Carrying amount at year-end	32	33

NOTE 25

EQUITY

For a specification of the number of shares outstanding, refer to Note 8 for the Parent Company

NOTE 26

PENSION OBLIGATIONS, INTEREST-BEARING

	31 Dec 2017	31 Dec 2016
FPG/PRI	24	24
Retirement pension, foreign companies	9	8
Total	33	32

The assumptions in the table below are used to measure the pension obligation under defined-benefit pension plans.

	Sweden		Other countries	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Discount rate	2.5%	2.4%	2.3%	2.4%
Rate of salary increase	—*	—*	2.0%	1.6%
Inflation	1.9%	1.5%	1.2%	0.0%

* In the Swedish companies, the FPG/PRI pension plans are closed. The benefits are instead financed through insurance with Alecta. This assumption is not used for this reason.

Specification of total costs for post-retirement benefits recognised in profit or loss (SEK million)

	2017	2016
Costs relating to defined-benefit plans		
Service costs for current year	0	0
Interest on obligations	1	1
Costs relating to defined-benefit plans	1	1
Costs relating to defined-contribution plans	35	31
Total costs recognised in profit or loss	36	32

Post-employment benefits are settled mainly by payments to insurance companies or agencies which then assume the obligations to the employees (defined-contribution pensions). The remainder are settled under defined-benefit plans, meaning that the obligations remain in the Bufab Group. The largest defined-benefit plan is in Sweden (FPG/PRI). The company's costs and the value of the outstanding obligations under

defined-benefit plans are measured using actuarial calculations designed to determine the present value of the obligations.

Interest and the expected return are classified as finance costs. Other expense items are recognised in operating profit under cost of goods sold, distribution costs or administrative expenses, depending on the employee's function.

NOTE 27

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

	31 Dec 2017		31 Dec 2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Machinery and equipment	—	12	—	13
Tax allocation reserve	—	28	—	24
Intangible assets	—	12	—	12
Other	5	4	4	1
Loss carry-forwards	13	—	14	—
Total	18	56	18	50

Tax-loss carry-forwards are recognised as deferred tax assets insofar as it is probable that they can be credited against future taxable profits. According to current plans, all companies' earnings in the coming years will enable the Group to utilise the recognised tax asset that exists. The Group has no significant loss

carry-forwards that were not taken into account in its financial statements. The provision for deferred tax for intangible assets is attributable to the tax effect of consolidated remeasurement of assets to fair value.

NOTE 28

NON-CURRENT INTEREST-BEARING LIABILITIES

	31 Dec 2017	31 Dec 2016
Amount of liability items expected to be settled 1-5 years after balance-sheet date	1,047	852
Amount of liability items expected to be settled more than 5 years after balance-sheet date	0	0
Total	1,047	852

Of the Group's non-current interest-bearing liabilities, SEK 1,040 million (840) stem from credit from Svenska Handelsbanken. The remainder of the non-current interest-bearing liability derives primarily from financial leases. The Group must fulfil specific borrowing terms (covenants) required by external creditors, including equity/assets ratios and the ratio between operating profit before depreciation/amortisation and impairment, and net debt. These covenants were fulfilled throughout the financial year. On the balance-sheet date, the average interest rate on the Group's non-current liabilities was 1.8 percent (1.8).

Additional purchase considerations are related to acquisitions carried out in 2015, 2016 and 2017. For more information, see Note 35. All additional purchase considerations are conditional and dependent on the future earnings trend of the acquired companies and the effect of this on the companies' valuation. A small share in one of the acquisitions is also conditional upon an improvement in the company's tied-up working capital. Liabilities relating to additional purchase considerations are remeasured on an ongoing basis by management at an estimated fair value based on the acquired companies' earnings performance, established budget and business plans and forecasts. This means that the measurement of fair value is essentially based on unobservable input data (Level 3 according to the definition in IFRS 13).

NOTE 29

LIABILITIES RELATING TO ADDITIONAL PURCHASE CONSIDERATIONS

	2017	2016
Carrying amount at beginning of year	67	25
Additional purchase considerations for acquired companies	53	47
Paid additional purchase considerations for acquired companies	-46	-8
Remeasurement of liability for additional purchase considerations	3	3
Carrying amount at year-end	77	67
- of which recognised as "Other current liability"	34	43
- of which recognised as "Other non-interest-bearing liabilities"	43	24

NOTE 30

PLEGGED ASSETS

	31 Dec 2017	31 Dec 2016
Floating charges	246	231
Shares in subsidiaries	1,452	1,327
Total	1,698	1,558

NOTE 31

OVERDRAFT FACILITIES

	31 Dec 2017	31 Dec 2016
Credit limit granted	151	140
Unutilised portion	-119	-82
Credit amount utilised	32	58

NOTE 32

ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2017	31 Dec 2016
Accrued salaries incl. holiday pay	54	46
Accrued social security fees	20	21
Other items	40	43
Total	114	110

NOTE 33

CONTINGENT LIABILITIES

	31 Dec 2017	31 Dec 2016
Environment	30	30
Other contingent liabilities	5	5
Total	35	35

Environment

In accordance with an injunctive order, the company conducted environmental investigations at a property where a subsidiary had been engaged in manufacturing until 1989, which was prior to the subsidiary being acquired by Bufab. The investigations revealed traces of environmental pollution. In light of the investigations performed, it is probable that the subsidiary's operations caused the pollution at this property. The legal and technical experts engaged in this case believe that it is probable that the municipality will order the subsidiary to carry out remediation measures, although the extent of these measures is not known.

On the termination of a lease agreement in 2013, Bufab also conducted an environmental investigation at another property. In order to obtain an overview of environmental issues relevant to the Group, Bufab also conducted an environmental audit in 2013, and where necessary an environmental engineering survey, of all properties where Bufab has previously engaged in manufacturing. The investigations have shown traces of pollution in two additional cases. If any link were established between this pollution and Bufab's operations, it would be the result of working and production methods that ceased to be used in the 1980s or earlier. Based on the investigations, it is Bufab's assessment that the identified pollution may have been caused by activities conducted by parties other than Bufab. However, the legal liability issue is difficult to assess and it is not inconceivable that Bufab could be required to implement remediation measures. Further investigations may be conducted in the next few years at the initiative of Bufab or other parties. The legal and technical experts engaged in this case believe it to be less probable that Bufab will be made responsible for carrying out remediation measures.

Having consulted technical and legal experts based on the information available when the financial report was issued, it is Bufab's assessment that the total cost of potential remediation measures arising from the identified environmental pollution will not exceed a total of SEK 30 million during the next decade.

Tax

In a judgment by the Court of Appeal on 8 November 2016, the Tax Agency's assessment notice was upheld and Bufab AB (publ) has been denied deductions for certain interest expenses. The tax effect of these deductions was SEK 24 million and has been reported in previous years as a contingent liability. Following the judgement, it has been reclassified and recognised as a tax expense in net income for 2016.

NOTE 34

RELATED-PARTY TRANSACTIONS

Related parties to the Bufab Group are primarily the senior executives. Remuneration of senior executives is presented in Note 7.

NOT 35

ACQUISITIONS

2017

Liabilities for conditional, not yet paid purchase considerations have been remeasured as a result of the positive performance of acquired companies and incurred a cost in 2017 of SEK 3 million. This cost is recognised under other operating expenses in segment Other.

Two acquisitions were carried out during the 2017 financial year: Thunderbolts Group Ltd. in the UK in May, and Kian Soon Mechanical Components Pte. Ltd. in Singapore in December. Both of these companies are recognised in segment International.

Transaction costs for these acquisitions amounted to SEK 3 million and are recognised in the item administrative expenses in segment Other.

The amounts of the assets and liabilities included in the acquisitions were as follows:

Preliminary acquisition analysis Thunderbolts Group Limited	Carrying amount on acquisition date	Adjustment to fair value	Fair value
Intangible assets		6	6
Other non-current assets	0		0
Inventories	3		3
Other current assets	7		7
Cash and cash equivalents	7		7
Deferred tax liabilities		-1	-1
Other liabilities	-5		-5
Acquired net assets	12	5	17
Goodwill			8
Purchase consideration*			25
Less: cash and cash equivalents in acquired operations			-7
Less: conditional purchase consideration yet to be paid			-10
Effect on the Group's cash and cash equivalents			8

* The consideration is stated excluding acquisition expenses.

The purchase consideration for Thunderbolts Group Ltd. amounted to SEK 25 million, of which SEK 14 million was allocated to goodwill and other intangible assets according to the acquisition analysis. Of the not yet paid purchase consideration, the estimated fair value of the conditional purchase consideration amounted to SEK 10 million. The conditional purchase consideration is dependent on the future earnings trend and its effect on the company's valuation.

In 2017, the acquisition has positively impacted the Bufab Group's net sales by SEK 20 million since transfer. The net impact, after acquisition costs, on accumulated operating profit was a positive SEK 2 million and the effect on profit after tax was a positive SEK 1 million. The acquisition would have positively impacted the Group's net sales for the 2017 financial year by an estimated SEK 32 million, operating profit after transaction costs by about SEK 4 million and profit after tax for the period by about SEK 3 million if it had been implemented on 1 January 2017.

The amounts allocated to intangible assets refer to customer relationships. They were valued at the discounted amount of future cash flows and are amortised on a straight-line basis over a period of ten years. Amortisation for the year regarding intangible assets for acquisitions during the year amounted to SEK 0.3 million and annual future estimated amortisation amounts to SEK 0.6 million.

The acquisition analysis for Thunderbolts Group Ltd. is preliminary.

Goodwill arising in connection with the acquisition is attributable to the knowledge accrued in the acquired company and the established and consolidated market positions and the anticipated profitability related to it.

Preliminary acquisition analysis, Kian Soon Mechanical Components Pte. Ltd.	Carrying amount on acquisition date	Adjustment to fair value	Fair value
Intangible assets		19	19
Other non-current assets	4		4
Inventories	25	0	25
Other current assets	29		29
Cash and cash equivalents	15		15
Deferred tax liabilities		-3	-3
Other liabilities	-19		-19
Acquired net assets	54	16	70
Goodwill			66
Purchase consideration*			136
Less: cash and cash equivalents in acquired operations			-15
Less: conditional purchase consideration yet to be paid			-43
Effect on the Group's cash and cash equivalents			78

* The consideration is stated excluding acquisition expenses.

The purchase consideration for Kian Soon Mechanical Components Pte. Ltd. amounted to SEK 136 million, of which SEK 85 million was allocated to goodwill and other intangible assets according to the acquisition analysis. Of the not yet paid purchase consideration, the estimated fair value of the conditional purchase consideration amounted to SEK 43 million. The conditional purchase consideration is dependent on the future earnings trend and its effect on the company's valuation.

In 2017, the acquisition has positively impacted the Bufab Group's net sales by SEK 10 million since transfer. The net impact, after acquisition costs, on accumulated operating profit was a positive SEK 1 million and the effect on profit after tax was a positive SEK 1 million. The acquisition would have positively impacted the Group's net sales for the 2017 financial year by an estimated SEK 105 million, operating profit after transaction costs by about SEK 11 million and profit after tax for the period by about SEK 9 million if it had been implemented on 1 January 2017.

The amounts allocated to intangible assets refer to customer relationships. They were valued at the discounted amount of future cash flows and are amortised on a straight-line basis over a period of ten years. Amortisation for the year regarding intangible assets for acquisitions during the year amounted to SEK 0.2 million and annual future estimated amortisation amounts to SEK 2 million.

The acquisition analysis for Kian Soon Mechanical Components Pte. Ltd. is preliminary.

Goodwill arising in connection with the acquisition is attributable to the knowledge accrued in the acquired company and the established and consolidated market positions and the anticipated profitability related to it. In light of the company's independent role, the goodwill item totalling SEK 66 million that arose was recognised in a separate cash-generating unit in the segment International.

2016

Two acquisitions were carried out during the 2016 fiscal year: Magnetfabriken AB in Sweden in March and Montrose Holdings Ltd in the UK in December. Magnetfabriken AB is recognised in segment Sweden and Montrose Holdings Ltd in segment International.

Transaction costs for these acquisitions amounted to SEK 4 million and are recognised in the item administrative expenses in segment Other.

The amounts of the assets and liabilities included in the acquisitions were as follows:

Acquisition of Magnetfabriken AB	Carrying amount on acquisition date	Adjustment to fair value	Fair value
Intangible assets		8	8
Other non-current assets	0		0
Inventories	3		3
Other current assets	2		2
Cash and cash equivalents	4		4
Deferred tax liabilities		-2	-2
Other liabilities	-2		-2
Acquired net assets	7	6	13
Goodwill			23
Purchase consideration*			36
Less: cash and cash equivalents in acquired operations			-4
Less: conditional purchase consideration yet to be paid			-4
Effect on the Group's cash and cash equivalents			28

* The consideration is stated excluding acquisition expenses.

The purchase consideration for Magnetfabriken AB amounted to SEK 36 million, of which SEK 31 million was allocated to goodwill and other intangible assets according to the acquisition analysis. Of the not yet paid purchase consideration, the estimated fair value of the conditional purchase consideration amounted to SEK 4 million. The conditional purchase consideration is dependent on the future earnings trend and its effect on the company's valuation.

In 2016, the acquisition has positively impacted the Bufab Group's net sales by SEK 20 million since transfer. The net impact, after acquisition costs, on accumulated operating profit was a positive SEK 4 million and the effect on profit after tax was a positive SEK 3 million. The acquisition would have positively impacted the Group's net sales for the 2016 financial year by an estimated SEK 23 million, operating profit after transaction costs by about SEK 4 million and profit after tax for the period by about SEK 3 million if it had been implemented on 1 January 2016.

The amounts allocated to intangible assets refer to customer relationships. They were valued at the discounted amount of future cash flows and are amortised on a straight-line basis over a period of ten years. Amortisation for the year regarding intangible assets for acquisitions for the year amounted to SEK 1 million and annual future estimated amortisation amounts to SEK 1 million.

Goodwill arising in connection with the acquisition is attributable to the knowledge accrued in the acquired company and the established and consolidated market positions and the anticipated profitability related to it. Since Magnetfabriken AB conducts joint market activities with the other companies in Sweden, the goodwill item totalling SEK 23 million that arose has been attributed to the same cash-generating unit as the other Swedish companies.

Acquisition analysis, Montrose Holdings Ltd.	Carrying amount on acqui- sition date	Adjust- ment to fair value	Fair value
Intangible assets		10	10
Other non-current assets	1		1
Inventories	15	0	15
Other current assets	17		17
Cash and cash equivalents	19		19
Deferred tax liabilities		-2	-2
Other liabilities	-17		-17
Acquired net assets	35	8	43
Goodwill			53
Purchase consideration*			96
Less: cash and cash equivalents in acquired operations			-19
Less: conditional purchase consideration yet to be paid			-37
Added: paid out conditional consideration			25
Effect on the Group's cash and cash equiva- lents			65

* The consideration is stated excluding acquisition expenses.

The purchase consideration for Montrose Holdings Ltd initially amounted to SEK 89 million. According to the acquisition analysis, SEK 56 million was allocated to goodwill and other intangible assets, which is shown in the 2016 Annual Report. An adjustment was made during the year to the preliminary acquisition analysis, which increased the recognised goodwill and estimated additional purchase consideration by SEK 7 million. In accordance with IFRS 3, adjustments to the preliminary acquisition analysis have been recognised as of the acquisition date, and comparative figures for the 2016 financial year have therefore been restated. However, such restatements did not have any effect on recognised profit, earnings per share or recognised consolidated equity.

The additional purchase consideration was adjusted in 2017. The conditional purchase consideration is primarily dependent on the future earnings trend and its effect on the company's valuation, with a smaller part dependent on improvements in the company's tied-up working capital.

In 2016, the acquisition positively impacted the Bufab Group's net sales by SEK 6 million since transfer. The net impact, after acquisition costs, on accumulated operating profit was a negative SEK 3 million and the effect on profit after tax was a negative SEK 2 million. The acquisition would have positively impacted the Group's net sales for the 2016 financial year by an estimated SEK 81 million, operating profit after transaction costs by about SEK 4 million and profit after tax for the period by about SEK 2 million if it had been implemented on 1 January 2016.

The amounts allocated to intangible assets refer to customer relationships. They were valued at the discounted amount of future cash flows and are amortised on a straight-line basis over a period of ten years. Amortisation for the year regarding intangible assets for acquisitions for the year amounted to SEK 0 million and annual future estimated amortisation amounts to SEK 1 million.

Goodwill arising in connection with the acquisition is attributable to the knowledge accrued in the acquired company and the established and consolidated market positions and the anticipated profitability related to it. In light of the company's independent role in the UK market, the goodwill item totalling SEK 53 million that arose was recognised in a separate cash-generating unit in the segment International.

NOTE 36

EVENTS AFTER THE END OF THE FINANCIAL YEAR

In February 2018, Bufab negotiated a new financing agreement with the company's principal lender. The agreement runs until February 2021 and means that the total credit facility has increased from SEK 1,300 million to SEK 1,800 million. No changes took place with regard to covenants.

NOTE 37**INCENTIVE PROGRAMME**

The Annual General Meeting on 4 May 2017 resolved to adopt a long-term share-based incentive programme based on call options, comprising the CEO, senior executives and other key employees within the Group. The programme comprises a maximum of 350,000 call options, corresponding to approximately 0.9 percent of the total number of shares in the company. The purchase price for the call options has been set at SEK 10.01,

corresponding to the market value of the options at the date of transfer. Each call option entitles the holder to acquire one share in Bufab during the period 15 May 2020 and 15 November 2020. The purchase price per share is SEK 120.40, corresponding to 115 percent of the volume-weighted average price paid for the company's share on Nasdaq Stockholm during the period 8 May 2017 and 12 May 2017. During the year, a total of 333,950 call options were subscribed for.

	2017		2016	
	Average exercise price per call option	No. of options	Average exercise price per call option	No. of options
On 1 January	—	—	—	—
Allocated during the year	10.01	333,950	—	—
Redeemed during the year	—	—	—	—
Forfeited during the year	—	—	—	—
On 31 December	10.01	333,950	0	0

Date of allotment	Maturity date	Exercise price	Stock options on 31 December 2017	Stock options on 31 December 2016
15 May 2017	15 November 2020	10.01	333,950	—
Total		10.01	333,950	0

PARENT COMPANY INCOME STATEMENT

SEK million		2017	2016
	Note		
Administrative expenses	2	-14	-11
Other operating income		6	5
Operating loss	3	-8	-6
Profit/loss from financial items			
Interest and similar expenses	4	—	-1
Loss after financial items		-8	-7
Appropriations	5	89	102
Tax on profit for the year	6	-18	-45
PROFIT FOR THE YEAR		63	50

STATEMENT OF COMPREHENSIVE INCOME

SEK million	2017	2016
Profit after tax	63	50
Other comprehensive income	—	—
Total comprehensive income	63	50

PARENT COMPANY BALANCE SHEET

SEK million		31 Dec 2017	31 Dec 2016
	Note		
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	7	845	845
Total financial assets		845	845
Total non-current assets		845	845
Current assets			
Current receivables			
Receivables from Group companies		166	183
Other receivables		0	4
Total current receivables		166	187
Cash and bank balances			
		1	1
Total current assets		167	188
TOTAL ASSETS		1,012	1,033
EQUITY AND LIABILITIES			
Equity			
Share capital	8	1	1
Other paid-in capital		488	488
Retained earnings	13	384	424
Total equity		872	913
Untaxed reserves			
	9	128	109
Current non-interest-bearing liabilities			
Trade payables			
		1	1
Current tax liabilities			
		6	5
Accrued expenses and deferred income	10	5	5
Total current non-interest-bearing liabilities		12	11
TOTAL EQUITY AND LIABILITIES		1,012	1,033

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK million	Share capital	Other paid-in capital*	Retained earnings	Total equity
Equity on 1 January 2016	1	488	438	927
Transactions with shareholders				
Dividend to Parent Company shareholders	—	—	–65	–65
Total shareholder transactions	0	0	–65	–65
Equity on 31 December 2016	1	488	424	913
Total comprehensive income	—	—	63	63
Other comprehensive income	0	0	50	50
Transactions with shareholders				
Issued call options	—	—	3	3
Repurchase of own shares	—	—	–31	–31
Dividend to Parent Company shareholders	—	—	–76	–76
Total shareholder transactions	0	0	–104	–104
Equity on 31 December 2017	1	488	384	872

* The Parent Company's restricted equity comprises share capital and SEK 32 million in other paid-in capital.

PARENT COMPANY CASH-FLOW STATEMENT

SEK million		2017	2016
	Note		
Operating activities	2		
Loss before financial items		–8	–6
Income tax paid		–17	–33
Cash flow from operating activities before changes in working capital		–25	–39
Cash flow from changes in working capital			
Increase (–)/decrease (+) in operating receivables		20	–8
Increase (+)/decrease (–) in operating liabilities		0	2
Cash flow from operating activities		–5	–45
Financing activities			
Dividend to shareholders		–76	–65
Issued call options		3	—
Repurchase of own shares		–31	—
Group contributions received		109	111
Cash flow from financing activities		5	46
Cash flow for the year		0	1
Cash and cash equivalents at beginning of year		1	0
Cash and cash equivalents at year-end		1	1

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

All amounts are in SEK million unless otherwise specified. The figures in brackets indicate the preceding year's values.

NOTE 1

SUMMARY OF KEY ACCOUNTING POLICIES

The Parent Company applies the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Under the recommendation, the parent of a group which has voluntarily elected to apply IFRS/IAS in its consolidated financial statements is, as a general rule, to apply the IFRS/IAS that are applied in the Group.

The Parent Company's participations in Group companies are recognised using the cost method. Distributions received are only recognised as revenue if they are derived from post-acquisition earnings. Distributions received in excess of such earnings are regarded as a recovery of investment and are recognised as a reduction of the carrying amount of the investment.

Shareholders' contributions are recognised directly in the recipient's equity and are capitalised in the issuer's shares and participating interests, to the extent that impairment is not required. Group contributions are recognised as appropriations in profit and loss.

NOTE 2

ITEMS AFFECTING COMPARABILITY

Tax on profit for the year	2017	2016
Additional tax	—	24
Total	0	24

Additional tax of SEK 24 million in 2016 relates to tax accruing to certain denied deductions for interest for the 2009, 2011 and 2012 financial years. Refer also to Note 6.

NOTE 3

EMPLOYEES, PERSONNEL EXPENSES AND FEES PAID TO DIRECTORS AND AUDITORS

The company has 1 (1) employee.

Average number of employees	2017	2016
Female	—	—
Male	1	1
Total	1	1

Salaries, employee benefits and social security fees	2017		2016	
	Salaries and benefits	Social security fees	Salaries and benefits	Social security fees
Salaries and remuneration to Board and CEO	5.9	3.1	5.8	2.4
(of which bonuses, etc.)	0.7		0.8	
(of which pension cost, defined-contribution plans)		0.9		0.8
Total	5.9	3.1	5.8	2.4

Sickness absence

Sickness absence information is not disclosed since the Parent Company has fewer than ten employees.

Auditors' fees and remuneration	2017	2016
Öhrlings PricewaterhouseCoopers AB		
Audit assignment	1	1
Other services	0	0

Audit assignment refers to fees for the statutory audit, meaning the work that was necessary in order to submit the audit report, as well as audit advisory services provided in connection with the audit assignment.

NOTE 4

INTEREST AND SIMILAR EXPENSES

	2017	2016
Interest expenses, other	—	-1
Total	—	-1

NOTE 5

APPROPRIATIONS

	2017	2016
Transfers to tax allocation reserve, 2018 tax year	-28	—
Transfers to tax allocation reserve, 2017 tax year	—	-32
Transfers to tax allocation reserve, 2016 tax year	—	—
Reversal of tax allocation reserve, 2013 tax year	8	—
Reversal of tax allocation reserve, 2012 tax year	—	23
Group contributions received	109	111
Total	89	102

NOTE 6

TAX ON PROFIT FOR THE YEAR

	2017	2016
Current tax		
Current tax for the year	-18	-21
Current tax for previous years	—	-24
Total	-18	-45

Reconciliation of effective tax	2017	2016
Profit before tax	83	95
Tax according to Parent Company's applicable rate	-18	-21
Tax for previous years	—	-24
Recognised effective tax	-18	-45

NOTE 7

PARTICIPATIONS IN GROUP COMPANIES

	31 Dec 2017	31 Dec 2016
Accumulated cost		
At beginning of year	845	845
Total cost	845	845
Carrying amount at end of period	845	845

Specification of Parent Company's and Group's holdings of shares in Group companies

Subsidiary/Corp. Reg. No/registered office	Holding ¹	31 Dec 2017 Carrying amount	31 Dec 2016 Carrying amount
Bult Finnveden AB, 556194-4884, Värnamo, SE	100%	845	845
Bufab Sweden AB, 556082-7973, Värnamo, SE	100%		
Bufab Kit AB, 556250-8506, Värnamo, SE	100%		
Bufab Lann AB, 556180-8675, Värnamo, SE	100%		
Magnetfabriken AB, 559010-5614, Västerås, SE	100%		
Swedfast Trading AB, 556914-0733, SE	100%		
Bufab Benelux BV, 3117232260, Eindhoven, NL	100%		
Bufab Danmark A/S, 157848, Albertslund, DK	100%		
Bufab Norge AS, 876612062, Oslo, NO	100%		
Bufab (UK) Limited, 02611234, Reading, UK	100%		
Bufab France SAS, B 112 721, Gennevilliers, FR	100%		
Bufab Hungary Kft, 13-09-143460, HU	100%		
Bufab Germany GmbH, 07229 / 21283, Mörfelden-Walldorf, DE	100%		
Bumax AB, 556176-1957, Degerfors, SE	100%		
Bufab Poland Sp.z.o.o., KRS 000036164, Gdansk, PL	100%		
Bufab Austria GmbH, FN 266844 v, Vienna, AT	100%		
Bufab CZ s.r.o., (IC) 25561260, Brno, CZ	100%		
Bufab Baltic OÜ, EE101042585, Keila, EST	100%		
Bufab Spain SLU, ESB08464430, Terrassa Barcelona, ES	100%		
Bufab Industries SAS, FR12353237431, Corbas Lyon, FR	100%		
Bufab Fasteners Trading (Shanghai) Co Ltd, 310000400448552, Shanghai, CH	100%		
Bufab Finland Oy, Vantaa, 2042801-2, FI	100%		
Bufab India, U29299PN2008PTC131481, Pune, IN	100%		
Bufab USA Inc, 26-2606492, New York, US	100%		
Bufab Taiwan Co Ltd, 29002549, Kaohsiung City, TW	100%		
Bufab Slovakia s.r.o., Banska Bystrica, 31 639 291, SK	100%		
Bufab Russia, INN7840408623, St. Petersburg, RU	100%		
Bufab Turkey, 1890607929, Istanbul, TR	100%		
Bufab Romania SRL, RO25446590, Apahida Cluj, RO	100%		
Bufab Ireland LTD, NI061428, Dundalk, IE	100%		
Bufab Italy S.r.l., 97605340153, Corsico (Milan), IT	100%		
Bufab Singapore PTE. Ltd, 201614160Z, Singapore, SG	100%		
Flos B.V., 17062762, Eindhoven, NL	100%		
Apex Stainless Holdings Limited, 08403936, Rugby, UK	100%		
Apex Stainless Fasteners Limited, 02631068, Rugby, UK	100%		
Montrose Holdings Limited, 09731597, High Wycombe, UK	100%		
Montrose Fasteners Limited, 02646431, High Wycombe, UK	100%		
Thunderbolts Group Limited, 02841225, Southampton, UK	100%		
Thunderbolts Fasteners Limited, 02841171, Southampton, UK	100%		
Kian Soon Mechanical Components Pte. Ltd., 198703945H, Singapore, SG	100%		
Puresys Pte. Ltd., 201210504E, Singapore, SG	100%		
PT Kian Soon Hardware, 03-184-577-9-215-000, Batam, ID	100%		
Kian Soon Mechanical Components Sdn. Bhd., 1081316P, Penang, MY	100%		
Industrias Bufab de Mexico, S.a. de C.v., IBM170911RV6, Mexico, MX	100%		
		845	845

¹ Ownership of capital, which also corresponds to the percentage of votes for the total number of shares.

NOTE 8

EQUITY

A total of 38,110,533 ordinary shares were issued on the balance-sheet date. The shares had a quotient value of SEK 0.01436 on the balance-sheet date. All issued shares have been paid for in full.

NOTE 9

UNTAXED RESERVES

	31 Dec 2017	31 Dec 2016
Tax allocation reserve, 2012 tax year	—	—
Tax allocation reserve, 2013 tax year	—	8
Tax allocation reserve, 2014 tax year	27	27
Tax allocation reserve, 2015 tax year	22	22
Tax allocation reserve, 2016 tax year	20	20
Tax allocation reserve, 2017 tax year	32	32
Tax allocation reserve, 2018 tax year	28	—
Total	128	109

NOTE 10

ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2017	31 Dec 2016
Accrued salaries incl. holiday pay	3	2
Accrued social security fees	1	1
Other	1	2
Total	5	5

NOTE 11

PLEDGED ASSETS

	31 Dec 2017	31 Dec 2016
Shares in subsidiaries	845	845
Total	845	845

NOTE 12

CONTINGENT LIABILITIES

	31 Dec 2017	31 Dec 2016
Guarantees to subsidiaries	1,303	1,303
Total	1,303	1,303

Guarantees to subsidiaries relates to subsidiaries' liability in Svenska Handelsbanken.

NOTE 13

APPROPRIATION OF PROFITS

Proposed appropriation of profits	SEK
The following earnings are at the disposal of the AGM:	
Retained earnings	383,751,649
The Board of Directors and CEO propose that the earnings be appropriated as follows:	
A dividend of SEK 2.25 per share to be paid to shareholders	84,996,113
To be carried forward 298,755,536	298,755,536
Total	383,751,649

The income statements and balance sheets will be presented for adoption by the Annual General Meeting on 26 April 2018.

The undersigned certify that the annual report for the Group and the Parent Company has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and generally accepted accounting policies, and

gives a true and fair view of the financial positions and results of the Group and the Parent Company, and that the directors' report gives a fair overview of the performance of the operations, financial positions and results of the Group and the Parent Company, and describes substantial risks and uncertainties faced by the Group's companies.

Värnamo, 21 March 2018

Sven-Olof Kulldorff
Chairman of the Board

Hans Björstrand
Board member

Johanna Hagelberg
Board member

Bengt Liljedahl
Board member

Eva Nilsagård
Board member

Adam Samuelsson
Board member

Gunnar Tindberg
Board member

Jörgen Rosengren
President and CEO

Our audit report was submitted on 21 March 2018
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorised Public Accountant
Auditor in Charge

Frida Wengbrand
Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Bufab AB (publ), corporate identity number 556685-6240

Report on the annual accounts and consolidated accounts Opinions

We have audited the annual accounts and consolidated accounts for Bufab AB (publ), for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 6–42 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the supplementary report that has been submitted to the Parent Company's Audit Committee in accordance with Article 11 of the Auditors Ordinance (537/2014).

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This means that, based on our best knowledge and belief, no prohibited services referred to in Article 5.1 of the Auditors Ordinance (537/2014) have been provided to the audited company or, as the case may be, its parent company or its controlled company within the EU.

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

Our audit approach

Audit focus and scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

When we designed our group audit strategy and group audit plan, we determined the degree of audit activities required by the group audit team, respective component auditors within the PwC network. As a result of the group's decentralised finance organisation, a significant portion of the group's financial reporting is prepared in components outside Sweden. This implies that a significant portion of the group audit is required to be executed by component auditors working within the PwC network in other countries.

When we assessed the degree of audit activities required to be implemented in the respective units, we considered the group's geographical spread, the size of the respective units, and the specific risk profile represented by the respective components. Against this background, we determined that a full audit was to be executed on, in addition to the parent company in Sweden, financial information prepared by twelve significant subsidiaries (with registered offices in a total of six different countries).

For the components (17 units in as many different countries) where we have deemed that it is not motivated to execute a complete audit, we have instructed the component auditors to undertake specifically defined audit measures. For the other ten units deemed to be of no significance to the group audit, the group team undertook analytical procedures at group level.

In the case the unit auditors execute work which is significant to our audit of the group, we evaluate, in our role as group auditors, the need and degree of involvement required in the work of the component auditors with the aim of determining whether significant audit evidence has been obtained to provide the basis for our opinion in the group's Auditor's Report. For this purpose, the group audit team regularly visits the component auditors and significant subsidiaries.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter

Valuation of goodwill

As at 31 December 2017, the group reports goodwill of 1,054 MSEK which is divided between a total of 18 cash-generating units, of which the single largest cash-generating unit is Segment Sweden (526 MSEK).

In accordance with IAS 36, the group tests, on an annual basis, the existence of an impairment requirement as regards reported goodwill. This testing is undertaken per cash-generating unit and through the recoverable value being calculated and compared with the carrying value of the operations.

The recoverable value is determined by company management on the basis of a calculation of the cash-generating units' capacity to generate cash flow in the future.

The impairment tests are significant to our audit as goodwill represents a major item in the balance sheet and, in addition, the impairment testing implies that company management are required to undertake significant estimations and judgements on the future.

Based on the group's prepared impairment tests, no write-down requirement for goodwill was identified as at 31 December 2017. The most significant assumptions applied in the impairment testing are described in Note 18.

How our audit addressed the Key audit matter

Our audit measures included an assessment of the cash flow calculations' mathematical correctness and a reconciliation of the cash flow forecasts against the 2018 budget adopted by the Board of the Directors and against the business plan for 2019–2020.

We have evaluated and assessed the company's valuation model to determine if it is in accordance with generally accepted valuation techniques.

We have challenged the company management regarding the reasonableness of the assumptions having the greatest effect on the impairment testing, which includes the sustainable growth rate, sustainable gross margin and the discount rate

On the basis of our own implemented sensitivity analyses, we have challenged company management's assumptions and tested the margin of safety and assessed the risk of a write-down requirement.

We have also assessed whether the company has provided sufficient disclosures in the annual report regarding the assumptions which in the case of a change could lead to a write-down of goodwill in the future.

Valuation of inventories

As at 31 December 2017, the group reports inventories of 1,093 MSEK.

The valuation of inventories is significant to our audit as this valuation includes a number of estimations and judgements and, in addition, the value of the inventory is equivalent to a major portion (approximately 33%) of the group's total assets.

An important assessment which company management is required to undertake in making a valuation of the inventory comprises of the group's capacity to sell its products in the inventory at a price in excess of acquisition cost and, in this context, consider the risk of obsolescence.

The risk of obsolescence is impacted by Bufab's business model as an important portion of the group's client offering is comprised of fulfilling the clients' needs regarding fasteners quickly and cost effectively. Consequently, and with the aim of meeting the clients' requirements, Bufab can, in cases, find it necessary to keep in stock significant quantities of articles which reduces the turnover rate and increases the risk of obsolescence.

With the aim of identifying and calculating the consistency in the risk of obsolescence, company management has adopted a group-wide obsolescence policy. The obsolescence policy considers the individual articles' turn-over rate which, together with assessed future sales volumes, comprises the basis on which company management can determine a reasonable obsolescence provision.

The group's principles for the valuation of inventory and reporting of obsolescence are described in Note 2 in the annual report. Important estimations and judgements required to be undertaken by the group in conjunction with the accounting of the inventory are found in Note 4 in the annual report.

Our audit measures included an evaluation of the group's principles for calculating obsolescence in the inventory.

With the aim of assessing the reasonability of the company's obsolescence provisions, we have instructed our component auditors to examine and report back to the group team any possible deviations from the group-wide obsolescence policy.

We have tested the reasonableness of the assumptions and judgements made by company management regarding the saleability of articles with a low turnover rate.

We have, on a sample basis, tested the mathematical correctness of the company's reports concerning obsolescence calculations.

We have also discussed with management and examined minutes from Board meetings and other management meeting with the aim of identifying forecasted changes in the company's sales which could result in inventory items being obsolete.

Finally, we have evaluated to determine if the group has described, in an appropriate manner, its principles for inventory valuation in the annual report, including the estimations and judgements made to value the inventory as at 31 December 2017.

Other Information than the annual accounts and consolidated accounts

This document also contains other Information than the annual accounts and consolidated accounts which can be found on pages 1–5 and pages 47–58. The Board of Directors and CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU and the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Board's Audit Committee shall, without affecting the other tasks and responsibilities of the Board, monitor the company's financial reporting, among other things.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Bufab AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration and consolidated accounts is available on the Swedish Inspectorate of Auditors' website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Öhrlings PricewaterhouseCoopers AB, 113 21 Stockholm, Sweden was appointed Bufab AB (publ)'s auditor at the Annual General Meeting on 04 May 2017, and has been the company's auditor since 12 September 2005. Bufab AB (publ) has been a public interest company since 21 February 2014.

Värnamo, 21 March 2018
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorised Public Accountant
Auditor-in-charge

Frida Wengbrand
Authorised Public Accountant

CORPORATE GOVERNANCE REPORT

Bufab Holding AB (publ) is a Swedish public limited liability company. Bufab has been listed on Nasdaq Stockholm since 21 February 2014. Bufab applies the Swedish Corporate Governance Code (the “Code”) and hereby submits its Corporate Governance Report for the 2017 financial year in accordance with the provisions of the Swedish Annual Accounts Act and the Code. The Corporate Governance Report was reviewed by the company’s auditors.

The Code guidelines are available on the website of the Swedish Corporate Governance Board (www.corporategovernanceboard.se). The Code is based on the principle of “comply or explain,” which means that companies applying the Code do not always have to comply with every rule on condition that an explanation is provided. Bufab did not make any such deviations in 2017.

Delegation of responsibility

The purpose of Bufab’s corporate governance is to create a clear delegation of roles and responsibilities between owners, the Board, the Board’s Committees and senior management. Corporate governance at Bufab is based on applicable legislation, primarily the Swedish Companies Act, Nasdaq Stockholm’s rules and regulations, the Code and internal guidelines and rules.

Share capital and shareholders

At year-end 2017, the company’s share capital totaled SEK 547,189, represented by a total of 38,110,533 shares. All shares carry equal voting rights and there are no limitations governing how many votes each shareholder may cast at a general meeting. At year-end, Bufab had 6,946 shareholders (3,785). Of the total number of shares, 22 percent were held by foreign shareholders. The ten largest shareholders owned a combined total of 62 percent of the shares.

For more information about the share and shareholders, see page 57.

Nomination Committee

Revised principles for how the Nomination Committee is appointed was resolved at the 2017 Annual General Meeting (“AGM”), which essentially correspond to previous principles. Bufab is to have a Nomination Committee comprising one representative for each of the four largest shareholders in terms of number of votes in the share register maintained by Euroclear Sweden AB

as per 31 August of the year before the AGM, who on being asked expressed a wish to participate in the nomination work, as well as the Chairman of the company. The names of the four owner representatives and the shareholders they represent must be announced not later than six months prior to the AGM. The Nomination Committee’s mandate is valid until a new Nomination Committee is appointed. If the group of the largest shareholders changes during the nomination process, the composition of the Nomination Committee may change. The Nomination Committee’s task is to prepare proposals on the following issues:

- Chairman of the Meeting,
- Board members,
- Chairman of the Board,
- remuneration of the Board,
- auditor,
- auditor’s fees, and
- any changes to the Nomination Committee’s instructions.

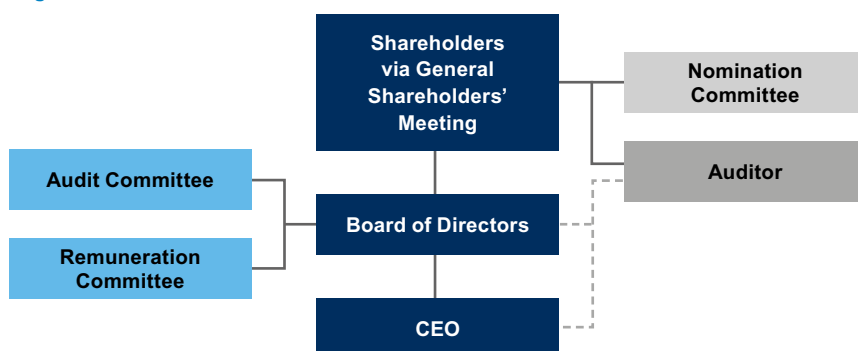
The Nomination Committee for the 2017 AGM consisted of Adam Nyström (Didner & Gerge Funds), Bengt Liljedahl (Liljedahl Group), Viktor Henriksson (Carnegie funds), Johan Ståhl (Lannebo funds) and the Chairman of the Board Sven-Olof Kulldorff.

The reasoned statement to the AGM 2017 show that the Nomination Committee has applied Section 4.1 of the Swedish Corporate Governance Code as diversity policy when making its proposal. With regards to the company’s operations, development stages and conditions in general, the goal of the policy is that the Board should have an appropriate composition characterised by versatility and width of expertise, experience and background as well as an even gender distribution.

The AGM 2017 decided to appoint members of the Board in accordance with the Nomination Committee proposal, resulting in the current Board of Directors with seven members, of whom two women and five men (corresponding to approximately 29 percent female representation). As regards to gender balance of the Board, the Nomination Committee notes that 29 percent female representation is in line with the level of ambition pronounced by the Swedish Corporate Governance Board, but falls below the Nomination Committee’s long-term goal concerning gender balance.

The names of the Nomination Committee’s representatives and the shareholders that they represent ahead of the 2018 AGM were published on 17 October 2017:

Organisation



- Adam Gerge (Chairman), Didner & Gerge fonder,
- Bengt Liljedahl, Liljedahl Group,
- Viktor Henriksson, Carnegie fonder,
- Johan Ståhl, Lannebo fonder and
- Sven-Olof Kulldorff, Chairman of the Board.

General Shareholders' Meeting

The general shareholders' meeting is the company's highest decision-making body. At the general shareholders' meeting, the shareholders exercise their voting rights on key issues, such as the adoption of income statements and balance sheets, appropriation of the company's results, discharge from liability of Board members and the CEO, election of the Chairman, Board members and auditors and remuneration of the Board of Directors and the auditors. There are no provisions contained in the Articles of Association concerning the appointment or dismissal of Board members, or regarding changes to the Articles of Association. Further information about AGMs, the minutes of the meetings, and Bufab's Articles of Association are available on www.bufab.com.

2017 AGM

The AGM was held in Värnamo on 4 May 2017. 70 shareholders attended the Meeting, in person or by proxy, representing 57 percent of the company's voting rights. The Meeting was also attended by the Board of Directors, Group management and the auditor.

The following key resolutions were made:

- Adoption of the income statement and balance sheets for 2016, appropriation of the company's results, and discharge from liability of Board members and the CEO.
- The re-election of Sven-Olof Kulldorff, Hans Björstrand, Johanna Hagelberg, Bengt Liljedahl, Eva Nilsagård, Adam Samuelsson and Gunnar Tindberg. Johan Sjö declined re-election. Sven-Olof Kulldorff was elected Chairman of the Board.
- Guidelines for remuneration of senior executives.
- A long-term share incentive program for 2017 was adopted.

The 2018 AGM will be held on 26 April 2018 in Värnamo, Sweden. The notice convening the meeting is available at www.bufab.com.

Board of Directors

Composition

According to Bufab's Articles of Association, the Board of Directors is to be comprised of not less than three and not more than ten AGM-elected members, with not more than three deputy members.

Bufab applies section 4.1. in the Code relating to the composition of the Board. The Board should therefore be characterised by versatility and width of expertise, experience and background of the members elected by the AGM. An even gender distribution should be pursued.

Since the 2017 AGM, the Board has comprised seven AGM-elected members; Sven-Olof Kulldorff (Chairman), Hans Björstrand, Johanna Hagelberg, Bengt Liljedahl, Eva Nilsagård, Adam Samuelsson and Gunnar Tindberg. All Board members are independent in relation to the company and company management. All Board members, except for Bengt Liljedahl, are independent in relation to the company's largest shareholders. Accordingly, the Board meets the requirement that at least two

Board members who are independent in relation to the company and company management are also independent in relation to the largest shareholders.

Further information regarding the Board members is presented on page 54 of the Annual Report and on www.bufab.com.

Work of the Board

The Board is responsible for the organisation of the company and for managing the company's operations. The Board is also to issue guidelines and instructions to the CEO. Furthermore, the Board is to ensure that the organisation of the company regarding accounting, management of funds and financial position are controlled in a satisfactory manner. The Board of Directors applies written rules of procedure, which are revised annually and adopted by the statutory Board meeting every year. Among other aspects, the rules of procedure govern the practice of the Board of Directors, functions and the division of work between the Board of Directors and the CEO. At the statutory Board meeting, the Board of Directors also adopts instructions for the CEO, including instructions for financial reporting. The Board of Directors meets according to an annual predetermined schedule. In addition to these meetings, additional Board meetings can be convened to address issues which cannot be postponed until the next ordinary Board meeting. The Chairman of the Board and the CEO also engage in an ongoing dialogue concerning the management of the company.

The Board's obligations are partly performed by the Audit Committee and Remuneration Committee and the Board has also adopted rules of procedure for these Committees.

Evaluation of Board work

The Chairman of the Board is responsible for evaluating the Board's work, including assessing the performance of each Board member. This is performed on an annual basis according to an established process. The assessment focuses on such factors as availability of and requirement for specific expertise in the Board, commitment, the quality of the Board material and the time required for reading such material. The evaluation is reported to the Nomination Committee and comprises the basis of the Nomination Committee's proposal for Board members and fees to be paid to the Board.

Work of the Board in 2017

The Board regularly addresses strategic matters that affect Bufab's operations and orientation, potential divestments and acquisitions, as well as major investments. The company's financial statements and Annual Report are addressed at the beginning of the year, as are matters to be presented at the AGM. At the end of the year, the Board deals with the budget for the forthcoming year as well as the Group's long-term strategic plan, in addition to which it also reviews the quarterly results after each quarter. The work of the Board's two Committees is also presented at each scheduled Board meeting.

The agenda is approved by the Chairman and sent to each Board member, along with the relevant material, approximately one week before each meeting. At each meeting, the CEO presents the Group's sales and earnings, the current business situation and important external factors that may have bearing on the Group's earnings. Each Board meeting includes a discussion that is not attended by the CEO. When appropriate, other senior executives may attend and present plans and

Board meetings in 2017

February, telephone meeting

- Approval of press release for 2016 Year-end Report
- Proposed dividends

March, Värnamo

- Report from the company's auditors
- Approval of Annual Report
- Approval of notice of AGM

April, telephone meeting

- Approval of press release about interim report for the first quarter 2017

May, Värnamo (statutory Board meeting in Värnamo directly following AGM)

- Adoption of the Board's rules of procedure and instructions for the CEO
- Election of Chairman and member of the Board Committees and adoption of rules of procedure of the Committees

June, Rugby, UK

- Discussions on strategy

July, telephone meeting

- Approval of press release about interim report for the second quarter 2017

September, Lyon, France

- Business follow-up

October, Täby

- Approval of press release about interim report for the third quarter 2017
- Adoption of strategic and financial plan

December, Värnamo

- Approval of budget for 2018
- Report on Board evaluation
- Evaluation of CEO's work

Attendance and remuneration of the Board 2017

Group	Attendance			Remuneration			
	Board meetings	Audit Committee	Remuneration Committee	Board fee/ Basic salary, SEK million	Variable remuneration	Other benefits	Pension
Board of Directors							
Sven-Olof Kulldorff ¹	9/9	4/4	3/3	0.4			
Hans Björstrand	9/9			0.2			
Eva Nilsagård	9/9	7/7		0.2			
Bengt Liljedahl	9/9		3/3	0.2			
Johanna Hagelberg	9/9			0.2			
Adam Samuelsson	9/9	7/7	3/3	0.2			
Johan Sjö ²	3/3	1/3		0.1			
Gunnar Tindberg	9/9			0.2			
CEO							
Jörgen Rosengren				3.5	0.7	0.1	0.9
Other senior executives (five people)							
				6.0	1.2	0.6	2.0

¹ Sven-Olof Kulldorff replaced Jojan Sjö in the Audit Committee after the 2017 AGM.

² Johan Sjö declined re-election for the Board and the Audit Committee at the 2017 AGM.

proposals. The company's auditor participates in meetings when necessary, and participates once a year without the presence of management.

In addition to the information presented in connection with Board meetings, the CEO issues a monthly report to Board members and maintains regular contact with the Chairman of the Board.

Audit Committee and Remuneration Committee

The Board has two Committees: an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee is, without it affecting the responsibilities and tasks of the Board of Directors, to monitor the company's financial reporting, monitor the efficiency of the company's internal control, internal auditing and risk management, keep informed of the auditing of the annual report and the consolidated financial statements, review and monitor the impartiality and independence of the auditors and pay close attention to whether the auditors are providing other non-audit services for the company, and assist the Nomination Committee in the preparation of proposals for the general shareholders' meeting's decision on election of auditors.

The Audit Committee is to comprise three members. The Board appoints Committee members every year at the statutory Board meeting or when a Committee member needs to be replaced. The Board also adopts an instruction for the Committee's work at the statutory meeting. The Committee members appointed in May 2017 were Adam Samuelsson (Chairman), Sven-Olof Kulldorff and Eva Nilsagård.

The Audit Committee convened seven times in 2017.

Remuneration Committee

The Remuneration Committee is to prepare matters concerning remuneration principles, and remuneration and other employment terms for the CEO and senior executives.

The Remuneration Committee is to comprise three members. The Board appoints Committee members every year at the statutory Board meeting or when a Committee member needs to be replaced. The Board also adopts an instruction for the Committee's work at the statutory meeting. The Committee members appointed in May 2017 were Sven-Olof Kulldorff (Chairman), Bengt Liljedahl and Adam Samuelsson.

The Remuneration Committee convened three times in 2017.

Remuneration of Board members

Fees and other remuneration to Board members, including the Chairman, are resolved on by the AGM. At the AGM held on 4 May 2017, it was resolved that the Chairman be paid SEK 410,000 and that the other non-executive members be paid SEK 205,000. The three members of the Audit Committee were paid a further fee of SEK 25,000 each.

Board members are not entitled to any benefits after leaving their position on the Board.

CEO

The CEO is Jörgen Rosengren, and a presentation can be found on page 55 of the Annual Report and on www.bufab.com.

The CEO is subordinate to the Board of Directors and is responsible for the everyday management and operations of the company. The division of work between the Board of Directors and the CEO is set out in the rules of procedure for the Board of Directors and the CEO's instructions, which are adopted every year at the statutory Board meeting. The CEO is also responsible for the preparation of reports and compiling information from management prior to the Board meetings and for presenting such material at the Board meetings. According to the instructions for financial reporting, the CEO is responsible for the financial reporting in the company and consequently must ensure that the Board of Directors receives information adequate to enable evaluation of the company's financial position.

Remuneration guidelines for the CEO and other senior executives

The below remuneration guidelines for the CEO and other senior executives were adopted at the AGM on 4 May 2017.

Bufab strives to offer total remuneration that will attract and retain qualified employees. The total remuneration may comprise the components stated below.

Fixed salary is to be market-based and must reflect the responsibility that the work involves. The fixed salary is to be revised annually. Normally, variable salary is not to exceed 50 percent of the fixed salary. The variable salary is to be based on established goals connected to Bufab's financial development and is to be revised annually.

The Board is to annually evaluate whether or not a long-term share-based incentive programme for senior executives and any other employees is to be proposed to the AGM.

Senior executives may be offered individual pension solutions. The pensions are, as far as possible, to be defined contribution.

Other benefits may be provided but are not to constitute a significant portion of the total remuneration.

The notice of termination between the company and the CEO is a maximum of 18 months. Other senior executives are to have a shorter notice of termination period.

The Board is entitled, in individual cases and if there are specific reasons, to deviate from the above guidelines for remuneration. Should such deviation occur, information about this and the reason must be reported at the next AGM.

Long-term share-based incentive programme

The 2017 Annual General Meeting resolved to adopt a long-term share-based incentive programme based on call options, comprising the CEO, senior executives and other key employees within the Group. The programme comprises a maximum of 350,000 call options, corresponding to approximately 0.9 percent of the total number of shares in the company. The purchase price for the call options has been set at SEK 10.01, corresponding to the market value of the options at the date of transfer. Each call option entitles the holder to acquire one share in Bufab during the period 15 May 2020–15 November 2020. The purchase price per share is SEK 120.40, corresponding to 115 percent of the volume-weighted average price paid for the company's share on Nasdaq Stockholm during the period 8 May 2017–12 May 2017. See Note 37 at page 36 in the Annual Report for a detailed description of the share-based incentive programme.

Current employment agreements for the CEO and other senior executives

Decisions as to the current remuneration levels and other conditions for employment for the CEO and other senior executives have been resolved on in accordance with the existing guidelines for remuneration adopted by the AGM. All decisions on individual remuneration to senior executives have been made within these guidelines. Agreements concerning pensions are, wherever possible, to be based on fixed premiums and must correspond with the levels, practices and collective bargaining agreements applicable in the country where said senior executive is employed.

For senior executives resident in Sweden, six months' notice applies when resigning and a maximum of 12 months' notice when dismissed by the company. The CEO is to receive severance pay of up to 12 months' salary during the notice period, in addition to the salary stated above, when dismissed by the company. See Note 7 on page 25 in the Annual Report for further information.

Auditing

The auditor is to review the company's annual reports and accounting, as well as the management of the company by the Board of Directors and the CEO. Following each financial year, the auditor is to submit an audit report and a consolidated audit report to the AGM. Pursuant to Bufab's Articles of Association, the company is to have no less than one and no more than two auditors and no more than two deputy auditors. The company's auditor until the conclusion of the 2018 AGM is Öhrlings PricewaterhouseCoopers AB, with Fredrik Göransson as Auditor in Charge. The company's auditor is presented in more detail in "Group management and auditors." Fees to auditors are to be paid in accordance with approved invoices. In 2017, the company's auditor was paid a total of SEK 5 million.

Internal control over the financial reporting

The objective of the internal financial control at Bufab is to create an efficient decision process in which requirements, targets and frameworks are clearly defined. The company and management use internal control systems to monitor the operation and the Group's financial position.

Control environment

The basis for the internal control over the financial reporting is the overall control environment. Bufab's control environment consists of sound core values, expertise, management philosophy, organisational structure, responsibility and authority. Bufab's internal instructions, policies, guidelines and manuals serve as guides for employees. The control environment also includes laws and external rules and regulations.

At Bufab, there is a distinct division between role and responsibility to efficiently handle the risks of the operations, including rules of procedure for the Board and Committees, as well as instructions for the CEO. In the operating activities, the CEO is also responsible for the system of internal controls required to generate a control environment for significant risks. Bufab also has guidelines and policies for financial control and monitoring, communication issues and business ethics. Most of the companies in the Group have the same financial system with the same accounting systems.

The Board has appointed an Audit Committee tasked to ensure compliance with established policies for financial reporting and for maintaining the internal control.

Internal audit

The company's size combined with the work of the Audit Committee and established and implemented solid control procedures mean that the Board does not believe that it need establish a separate internal audit function. However, the matter of a separate internal audit function is addressed annually.

Risk assessment and control activities

Risks of material misstatement in the annual accounts may occur in connection with accounting and the evaluation of assets, liabilities, income and expenses or deviation from disclosure requirements. Bufab's accounting function performs a risk analysis every year regarding items in the consolidated balance sheets and income statements based on qualitative and quantitative risks.

Normal control activities include reconciliation of accounts and support controls. The purpose of all control activities is to prevent, detect and correct any errors or deviations in the financial reporting. In the Group's work with internal control, the mate-

rial risks identified in the financial reporting are handled through control structures, which, in all material respects, are based on deviation reporting from established goals or norms.

Information

Accurate internal and external information entails that all sections of the operations will be able to efficiently exchange and report relevant material information. In addition to managers' information responsibility, Bufab has a well-functioning intranet for exchanging information. Bufab has established a policy document to inform employees and other relevant personnel at Bufab about the applicable regulations and instructions for disclosing company information and the special requirements that apply for inside information.

For communication with external parties, there is a policy that states the guidelines for how such communication is to take place. The aim of this is to ensure compliance with information obligations and to ensure that investors receive the right information in time.

The Group has a whistle-blower function. Employees can anonymously contact a third party to report behaviour or actions that constitute breaches or suspected breaches of laws and guidelines, etc. All contact is logged and a summary about the calls and measures taken is regularly reported to the Board.

Monitoring

The Group applied IFRS as defined in Bufab's accounting manual. This manual includes accounting and valuation rules that must be adhered to by all companies within the Group, and reporting instructions. Financial data is reported from all legal entities every month.

Reporting takes place in accordance with standardised reporting procedures documented in the Group's accounting manual. This reporting comprises the basis of the Group's consolidated financial reporting. Consolidation takes place based on a legal and operating perspective, which results in quarterly statutory reports containing complete income statements and balance sheets for every company and consolidated for the Group, and monthly operating reports.

Every Board member receives a monthly report containing consolidated income statements and balance sheets for the Group, income statements for the subsidiaries and comments. In addition to this monthly information, similar information is received in connection with Board meetings and a report that includes monitoring of tax obligations, disputes, compliance with policies, whistle-blower summaries, environment and internal audit.

Värnamo, 21 March 2018

Sven-Olof Kulldorff
Chairman of the Board

Hans Björstrand

Johanna Hagelberg

Bengt Liljedahl

Eva Nilsagård

Adam Samuelsson

Gunnar Tindberg

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the Annual General Meeting of Bufab AB (publ), Corporate Registration Number 556685-6240

Engagement and responsibility

The Board of Directors is responsible for the Corporate Governance Report for 2017 on pages 48–52 and that it has been prepared in accordance with the Swedish Annual Accounts Act.

Focus and scope of the audit

The audit was conducted in accordance with FAR's auditing standard RevU16, "The auditor's examination of the Corporate Governance Statement". This means that our examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that our audit provides a reasonable basis for our opinion as given below.

Opinion

A Corporate Governance Report has been prepared. Information in accordance with Chapter 6, Section 6, second paragraph, items 2–6 of the Annual Accounts Act and Chapter 7, Section 31, second paragraph of the same Act are consistent with the annual report and the consolidated statements and comply with the Annual Accounts Act.

Värnamo, 21 March 2018
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson
Authorised Public Accountant

BOARD OF DIRECTORS

**Sven-Olof Kulldorff**

Chairman of the board since 2006.

Born: 1954.

Education: MSc in Industrial Engineering and Management from Institute of Technology at Linköping University.

Previous assignments: Executive positions at IKEA (1978–2004, during which he served as purchasing manager of the IKEA Group in 1995–2004), and Executive Vice President of ICA.

Other board assignments: Chairman of Mestro AB and Pierce AB. Board member of K Hautwall OY and Sonat AB.

Shareholding: Total of 336,676 shares, of which 281,238 shares through an endowment policy and 54,138 shares through company.

**Hans Björstrand**

Board member since 2006.

Born: 1950.

Education: Upper secondary school economics programme.

Previous assignments: President and CEO of Bufab.

Other board assignments: Board member of Värnamo Energi AB, Stacke Hydraulik AB, Värnamo Elnät AB, Entreprenörinvest Sverige AB, LMT Group AB, Värnamo Näringsliv AB, Ekeborg Kapital AB and Axelent AB.

Shareholding: 50,000 shares.

**Johanna Hagelberg**

Board member since 2015.

Born: 1972.

Education: MSc Industrial Engineering & Management from Institute of Technology at Linköping University and Cranfield University.

Present assignment: EVP Sourcing and Logistics Stora Enso Oyj.

Previous assignments: Chief Procurement Officer at Vattenfall, RSA Scandinavia and NCC AB and senior positions within procurement in the automotive industry.

Shareholding: 0

**Bengt Liljedahl**

Board member since 2016.

Born: 1947.

Education: MSc in Economics and Business Administration from School of Business, Economic and Law in Gothenburg

Present assignments: President, CEO and founder of Liljedahl Group. Previously CEO of Skånebil and regional manager at AB Volvo Sverige.

Other Board assignments: Chairman of Liljedahl Group AB, Elcowire Group AB, LWW Group AB, Hörle Wire Group AB and Finnvedens Lastvagnar AB. Board member of LMT Group AB, Finnvedens Bil AB and Liljedahl Group Fastighets AB.

Shareholding: 9,432,500 shares through company.

**Eva Nilsagård**

Board member since 2015.

Born: 1964.

Education: MSc in accounting and financial management and Executive MBA from School of Business, Economics and Law at the University of Gothenburg.

Present assignment: Founder and CEO Nilsagård consulting.

Previous assignments: CFO Plastal Group, SVP Strategy & Business development within sales and marketing, EMEA at Volvo Trucks, CFO Vitrolife (publ). Different senior positions within Volvo, AstraZeneca Group and SKF.

Other board assignments: AddLife (publ).

Shareholding: 0

**Adam Samuelsson**

Board member since 2006.

Born: 1972.

Education: MSc in accounting and financial management from Stockholm School of Economics and an MBA from Harvard Business School.

Present assignment: CEO and founder of Idun Handel & Industri AB.

Other board assignments: Chairman of the Board of Ekab Elkraftservice AB, Intermercato AB, Pamaco Totalservice AB, Täby Airmaintenance AB and PreCont AB.

Shareholding: 250,000 shares through company.

**Gunnar Tindberg**

Board member since 2007.

Born: 1938.

Education: Qualified engineer.

Previous assignments: President and CEO of Indutrade AB from 1978 to 2004 and board member from 1980 to 2007.

Other board assignments: Chairman of Idun Handel & Industri AB.

Shareholding: 100,000 shares.

GROUP MANAGEMENT



Jörgen Rosengren

Board member and CEO since 2012.

Born: 1967.

Education: MSc in Electrical Engineering from Lund University.

Previous assignments: Positions at Husqvarna, Electrolux, McKinsey and Philips.

Shareholding: 330,000 shares.

Stock options: 39,000 call options.



Jesper Blomquist

COO since 2013.

Born: 1965.

Education: Master of Mechanical Engineering at the Institute of Technology at Linköping University.

Previous assignments: Positions at Swisslog, VSM Group, Sanmina-SCI Enclosure Systems AB.

Shareholding: 53,200 shares.

Stock options: 19,500 call options.



Urban Bülow

Director Global Business Development since 2014.

Born: 1965.

Education: MSc in Electrical Engineering from University of Chalmers.

Previous assignments: Positions at Latour Group, Kapsch TrafficCom, SAAB and Electrolux.

Shareholding: 0

Stock options: 15,000 call options.



Markus Andersson

CFO since November 2017 (employed since 2014).

Born: 1983.

Education: Bachelor in Economics from the University of Växjö.

Previous assignments: Bufab Sweden and Ernst & Young (EY).

Shareholding: 2,850 shares, of which 450 shares through company.

Stock options: 9,750 call options.



Mona Jeppsson

Director Human Resource since 2013 (employed since 2012).

Born: 1961.

Education: Master Social Studies.

Previous assignments: Positions at Alfa Laval, Föreningsparbanken, Proton Group.

Shareholding: 200 shares.

Stock options: 0 call options.



Johan Lindqvist

Regional Director, Region Sweden since 2015 (employed since 1998).

Born: 1969.

Education: Qualified Engineer.

Previous assignments: Positions at Skanska, Primo AB.

Shareholding: 112,000 shares.

Stock options: 15,000 call options.

The information regarding Board members' and Group Management's holding of shares and other financial instruments in Bufab refers to the conditions as per 28 February 2018 and includes own and closely associated natural persons' holdings, as well as holdings by legal persons that are directly or indirectly controlled by the person or its closely associated persons. The information for the CEO also includes any significant shareholdings and partnership in companies which Bufab has significant business relations with.

Auditors

Öhrlings PricewaterhouseCoopers AB has been the company's auditor since 2005 and was re-elected at the 2017 AGM until the end of the 2018 AGM. Fredrik Göransson (born 1973) is the Auditor in Charge. Fredrik Göransson is an Authorised Public Accountant and a member of FAR (professional institute for authorised public accountants). Öhrlings PricewaterhouseCoopers AB's office address is Skånegatan 1, SE-405 32 Gothenburg, Sweden. Öhrlings PricewaterhouseCoopers AB was the company's auditor throughout period covered by the historic financial information in this Annual Report.

FIVE YEAR SUMMARY

SEK million	2017	2016	2015	2014	2013
EARNINGS					
Order intake	3,256	2,887	2,463	2,195	2,072
Net sales	3,201	2,847	2,458	2,198	2,031
Sweden	1,057	968	937	982	970
International	2,144	1,880	1,521	1,217	1,061
Gross profit	917	828	677	641	596
Operating profit (EBITA)	311	277	198	174	201
Sweden	139	131	108	144	145
International	203	179	120	75	84
Adjusted operating profit (EBITA)	311	277	198	192	203
Sweden	139	131	108	144	143
International	203	179	120	75	83
Depreciation and amortisation of acquired intangible assets	-7	-5	-1	—	—
Net financial items	-26	-21	-26	-23	-27
Profit after financial items	278	251	171	151	174
Tax on profit for the year	-65	-88	-46	-39	-43
Profit for the year	213	163	125	112	131
MARGINS					
Gross margin, %	28.6%	29.1%	27.5%	29.2%	29.3%
Operating margin, %	9.7%	9.7%	8.0%	7.9%	9.9%
Sweden	13.2	13.5	11.5	14.7	14.7
International	9.5	9.5	7.9	6.2	7.9
Adjusted operating margin, %	9.7%	9.7%	8.1%	8.7%	10.0%
Sweden	13.2	13.5	11.5	14.7	14.7
International	9.5	9.5	7.9	6.2	7.8
CAPITAL STRUCTURE					
Net debt	1,015	839	884	543	608
Equity	1,416	1,297	1,183	1,147	1,012
Debt/equity ratio, %	72%	65%	75%	47%	60%
Equity/assets ratio, %	43%	45%	45%	52%	49%
Average working capital in relation to net sales, %	35.4%	36.5%	36.3%	36.6%	35.5%
CASH FLOW					
Operating cash flow	183	267	194	117	199
KEY FIGURES PER SHARE					
Earnings per share	5.61	4.29	3.27	2.94	3.43
Dividend per share	2.25*	2.00	1.70	1.50	N/A
EMPLOYEES					
Average number of employees	1,058	973	834	805	771

* Proposed by Board of Directors.

BUFAB ON THE STOCK EXCHANGE

Listing and turnover

The Bufab share has been listed on Nasdaq Stockholm since 21 February 2014. The total turnover of Bufab shares in 2017 was 21.4 million shares for a total amount of SEK 2.0 billion and the average turnover was 85,321 shares.

Dividend and dividend policy

The Board's proposal is a dividend of SEK 2.25 per share (2.00) for 2017, which corresponds to 40 percent of net profit. The objective is to pay 30–60 percent of the yearly net profit, taking into account the company's financial position, cash flow, acquisition opportunities and future outlook.

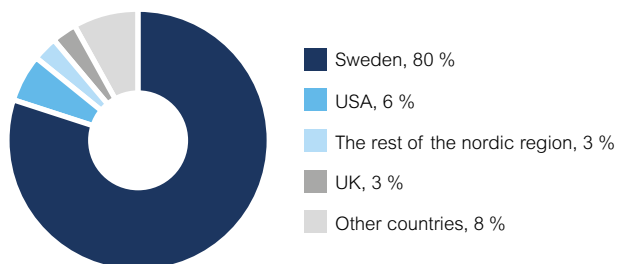
Brief facts

Listing: Nasdaq Stockholm
 Number of shares: 38,110,533
 Ticker: BUFAB
 ISIN code: SE 0005677135

More information

For share-price and up-to-date information, visit www.bufab.com/investors

Ownership distribution by country on 28 February 2018



Share data	2017	2016
Earnings per share, SEK	5.61	4.29
Earnings per share after dilution, SEK	5.61	4.29
Adjusted earnings per share, SEK	5.61	4.92
Dividend per share, SEK	2.25 ¹⁾	2.00
Yield ²⁾ , %	2.1 %	2.6 %
Share of dividend ³⁾ , %	40 %	47 %
Share price at year-end, SEK	106.25	77.75
Highest share price, SEK	115.25	77.75
Lowest share price, SEK	73.50	48.60
Number of shareholders at year-end	6,946	3,785
Market capitalisation at year-end, SEK million	4,014	2,963

¹⁾ The dividend pertains to the Board's proposal.

²⁾ The dividend in relation to the share price at year-end.

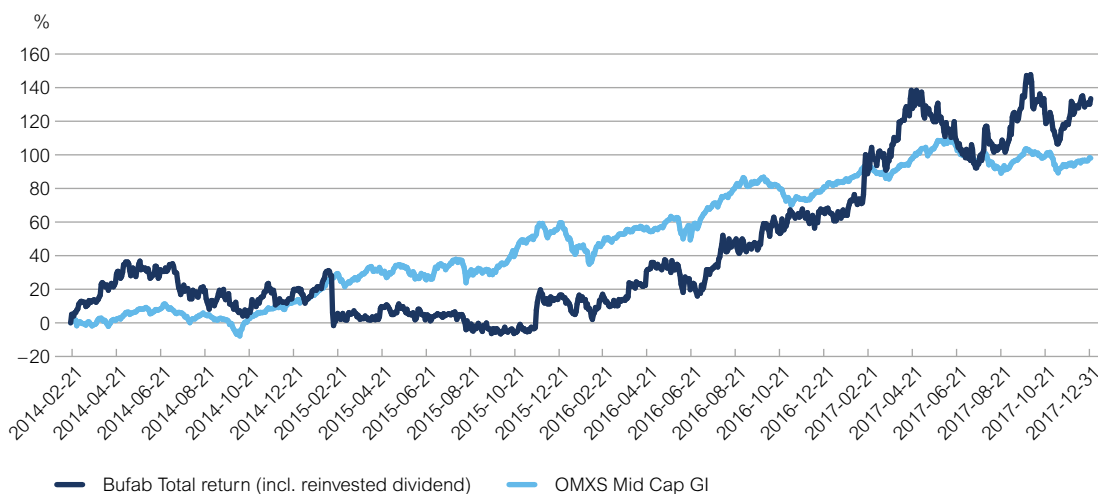
³⁾ The dividend for the financial year in relation to profit for the year per share.

Largest shareholders on 28 February 2018

Share of capital and votes, %

Liljedahl Group	24.8 %
Didner & Gerge fonder	9.3 %
Lannebo fonder	7.3 %
Carnegie fonder	4.9 %
Handelsbanken fonder	3.7 %
Nordea Investment Funds	3.2 %
Spiltan Fonder	3.1 %
Livförsäkringsbolaget Skandia	2.7 %
Fondita Nordic Micro Cap SR	2.6 %
Avanza Pension	1.7 %
Total, ten largest shareholders	63.3 %
Other shareholders	36.7 %
Total	100 %

Bufab Total return since IPO



DEFINITIONS OF KEY FIGURES

Gross margin, %

Gross profit as a percentage of net sales for the period.

Adjusted gross profit

Gross profit adjusted for items affecting comparability.

Adjusted gross margin, %

Adjusted gross profit as a percentage of net sales for the period.

EBITDA

Operating profit before depreciation, amortisation and Impairment.

Adjusted EBITDA

Adjusted operating profit before depreciation, amortisation and Impairment.

Operating profit (EBITA)

Gross profit less operating expenses.

Adjusted operating profit (EBITA)

Adjusted gross profit less operating expenses.

Operating margin, %

Operating profit as a percentage of net sales for the period.

Adjusted operating margin, %

Adjusted operating profit (EBITA) as a percentage of net sales for the period.

Adjusted profit after tax

Profit after tax adjusted for items affecting comparability.

Adjusted net margin, %

Adjusted profit after tax as a percentage of net sales during the period.

Net debt

Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets, calculated at the end of the period.

Operating expenses

Total distribution costs, administrative expenses, other operating income and other operating expenses excluding depreciation, amortisation and impairment of acquisition-related intangible assets.

Debt/equity ratio, %

Net debt divided by equity, calculated at the end of the period.

Net indebtedness/adjusted EBITDA, multiple

Net debt at the end of the period divided by adjusted EBITDA in the last twelve months.

Working capital

Total current assets less cash and cash equivalents less current non-interest-bearing liabilities, excluding liabilities for additional purchase prices, calculated at the end of the period.

Average working capital

Average working capital calculated as the average of the past four quarters.

Working capital/net sales, %

Average working capital as a percentage of net sales in the last twelve months.

Equity/assets ratio, %

Equity as a percentage of total assets, calculated at the end of the period.

Operating cash flow

Operating profit adjusted for depreciation/amortisation, impairment and other non-cash items less changes in working capital and investments.

Earnings per share

Profit for the period divided by the average number of ordinary shares adjusted for the set-off issue and 80:1 split conducted in the first quarter of 2014.

Adjusted earnings per share

Adjusted profit for the period after tax divided by the average number of ordinary shares adjusted for the set-off issue and 80:1 split conducted in the first quarter of 2014.

Items affecting comparability

Non-recurring items with a significant impact on the results which are important for understanding the underlying development of the business.

PERFORMANCE MEASURES NOT DEFINED IN ACCORDANCE WITH IFRS

Operating cash flow

In order to improve its total cash flow, Bufab continuously measures the cash flow generated by operations in all its companies. This is expressed as Operating cash flow and defined below.

SEK millions	2017	2016
EBITDA	347	315
Other non-cash items	2	1
Changes in inventory	-142	-35
Changes in operating receivables	-79	-32
Changes in operating liabilities	116	49
Cash flow from operations	244	298
Investments excluding acquisitions	-61	-31
Operating cash flow	183	267

Working capital

Because Bufab is a trading company, working capital represents a large share of the balance sheet's value. In order to optimise the company's cash generation, management focuses on the local company's development, and thereby the entire Group's development, of working capital as it is defined below.

SEK millions	2017	2016
Current assets	1,953	1,663
Less: cash and cash equivalents	-120	-122
Less: current non-interest-bearing liabilities excluding liabilities for additional purchase prices	-621	-468
Working capital on balance-sheet date	1,212	1,055

Organic growth

Because Bufab has operations in many countries with different currencies, it is essential to provide an understanding of the company's performance without current effects when translating foreign subsidiaries. In addition, Bufab has an important strategic objective in carrying out value-generating acquisitions.

	2017			2016		
	Group	Sweden	International	Group	Sweden	International
Organic growth	8	9	7	4	1	5
Currency translation effects	0	0	1	0	0	0
Acquisitions	4	0	6	12	2	19
Recognised growth	12	9	14	16	3	24

Net debt

Net debt is an expression of how large the financial borrowing is in the company in absolute figures after deductions for cash and cash equivalents. The key figure is defined below.

SEK millions	2017	2016
Non-current interest-bearing liabilities	1,080	884
Current interest-bearing liabilities	55	76
Less: cash and cash equivalents	-120	-122
Less: other interest-bearing receivables	0	0
Net debt on balance-sheet date	1,015	839

Adjusted profit after tax and adjusted net margin

In order to show Bufab's profit after tax adjusted for items affecting comparability, the adjusted profit after tax and adjusted net margin are reported in the calculation below.

SEK millions	2017	2016
Net sales (A)	3,201	2,847
Profit after tax (B)	213	163
Items affecting comparability	—	24
Adjusted profit after tax (C)	213	187
Net margin, % (B/A)	6,7%	5,7%
Adjusted net margin, % (C/A)	6,7%	6,6%

Adjusted earnings per share

In order to show Bufab's earnings per share adjusted for items affecting comparability, the adjusted earnings per share is reported in the calculation below.

	2017	2016
Weighted number of shares outstanding, thousands (A)	37,978.7	38,110.5
Profit after tax, SEK millions (B)	213	163
Adjusted profit after tax, SEK millions (C)	213	187
Earnings per share, SEK (B/A)	5,61	4,29
Adjusted earnings per share, SEK (C/A)	5,61	4,92

For these reasons, growth is also recognised excluding currency effects when translating foreign subsidiaries and excluding acquired operations within the term Organic growth. This performance measure is expressed in percentage points of last year's net sales.

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