

Sustainability Report **2016**



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About the Sustainability Report

This is Bufab's first Sustainability Report and constitutes the company's Communication on Progress in accordance with the UN Global Compact. In autumn 2016, Bufab conducted a materiality analysis in accordance with the guidelines of the Global Reporting Initiative (GRI). The materiality analysis forms the basis for the Sustainability Report. Bufab aims to continue developing its sustainability agenda and reporting and its ambition is that the 2017 Sustainability Report will meet the requirements of GRI Standards' 'Core' option.

Bufab's sustainability work is integrated into the company's strategic and operational activities. The Sustainability Report is separate from the Annual Report to meet the information needs of our stakeholders in terms of background, approach, challenges and ambitions for the sustainability agenda.

If you have questions or comments concerning the Sustainability Report, please contact Jörgen Rosengren, CEO, +46 370-69 69 01, jorgen.rosengren@bufab.com

For a sustainable Bufab

Bufab is a global Supply Chain Partner with 33 subsidiaries in 24 countries. Our approximately 1,000 employees offer the company's customers in the global manufacturing industry a full-service solution for sourcing, quality assurance and logistics for C-Parts; everything from fasteners to assembled and processed components in various materials.

Bufab is aiming for a leading market position by continuously enhancing our offering to our customers, our partnership with suppliers and our internal working methods and organisation. A key part in this is our ambition to meet the increasing market demands for sustainable and responsible conduct regarding business, people and the environment. For us and our customers, suppliers and employees, sustainability is about balancing financial success, environmental management and social development, which benefits all of our stakeholders.

Succeeding with this is particularly challenging for C-Parts. There are many items, with unique specifications and quality demands, that are ordered from many suppliers worldwide, and each item has a low value. It is therefore often difficult for our customers to guarantee that the entire supply chain has

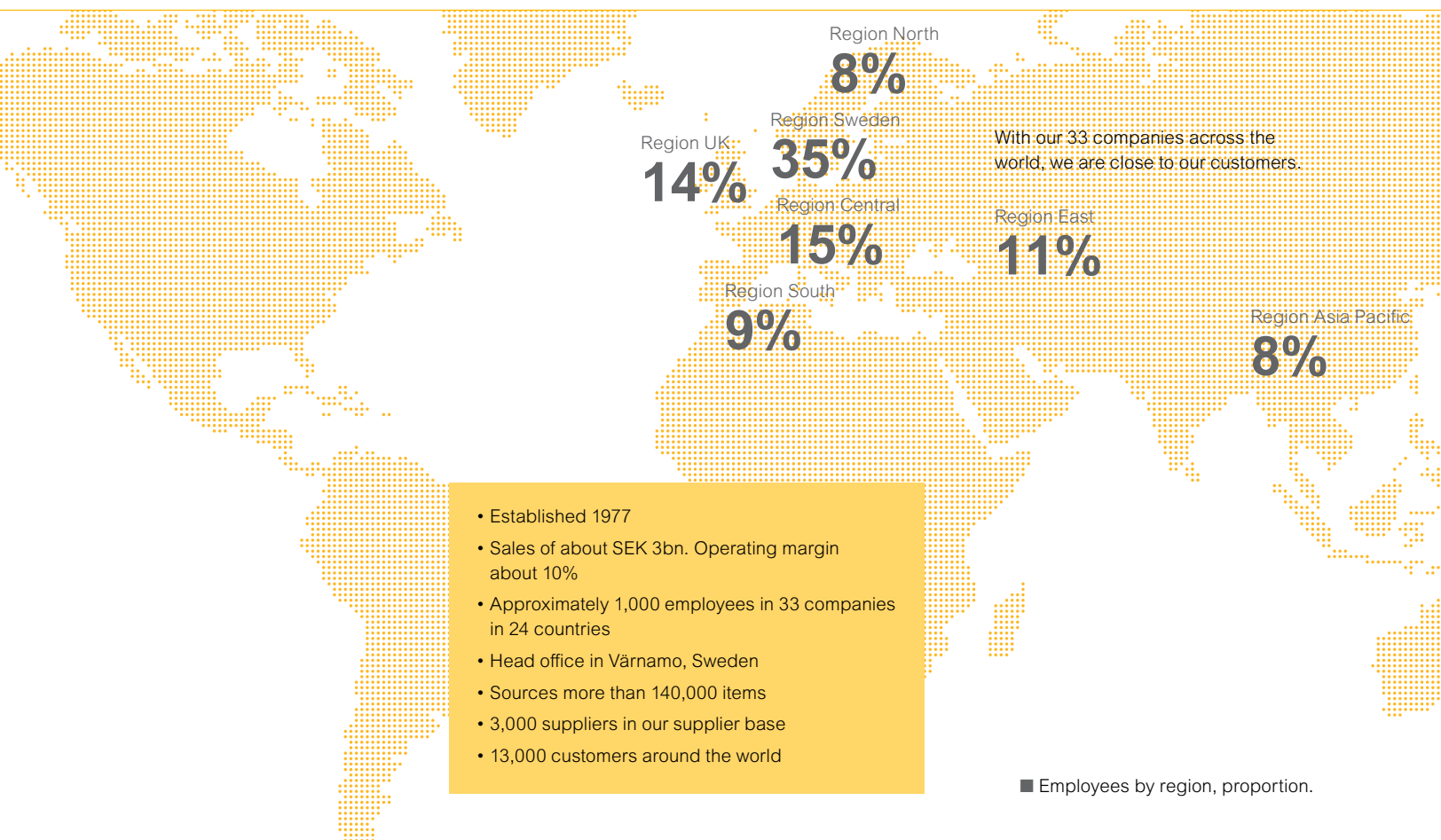
been handled in a way that is sustainable and ethically sound. This is where Bufab comes in. As customers gradually increase demands on themselves and their suppliers, it will become more important to have a responsible partner supplying C-Parts.

The sustainability perspective is therefore present in every aspect of Bufab's operations – from how we formulate and conduct our business, to how we assess risks. But also in how we act in the communities where we operate and how we behave toward each other. We seek to maintain the health, security and safety of our employees, suppliers and others who are affected by our operations.

Bufab's sustainability agenda is primarily governed by our Code of Conduct and our policies for employees, the environment, quality, and anti-corruption. Bufab has signed the UN Global Compact and follows its principles.

By systematically improving sustainability in our business, we hope to become a more relevant partner for increasingly demanding customers. Commercial viability sense and sustainability are not, therefore, in conflict at Bufab. They support each other.

Bufab's global presence



Systematic sustainability work has been a part of Bufab's business for years. We are now taking the next step by presenting our initiatives, and also our challenges, in a sustainability report.

Systematic sustainability work

As we are now presenting Bufab's first Sustainability Report, we are ready to describe how we create value and about our focused work to increase sustainability at Bufab. We are ready to meet the future.

The cornerstones of Bufab's sustainability work have been part of the company for many years. Examples include sourcing that achieves favourable commercial conditions but without compromising on responsibility for the environment and ethics, efficient logistics with a minimum of environmental impact, ethically responsible relationships within and outside the company, zero tolerance policy on bribes and fraud as well as the perception of the key role played by employees and of the equal value of all human beings and freedom with responsibility. In 2011, we signed the UN Global Compact and Bufab continues to support the Ten Principles for working conditions, human rights, the environment and anti-corruption. Over the past four years, Bufab's work on these issues has gradually become more structured, which was confirmed when the Board of Directors drew up and adopted our main policies in the area in 2013.

But we also respect the field's complexity and difficulty. C-Parts is a particularly demanding field for these issues. Bufab has thousands of customers and suppliers worldwide, and annually manages billions of components with more than 140,000 different specifications. So, we are obviously not perfect. And we cannot guarantee that we will be perfect tomorrow, either.

What we can guarantee, however, is that we take this matter very seriously, and that we are working methodically to constantly improve. This is what this report is about. We can clearly see the

major challenge facing us in the work ahead, but are at the same time proud to present our working method and ambitious plan to handle this challenge.

We also hope that by communicating Bufab's sustainability work externally we strengthen our relationships with both customers and suppliers, employees and owners and also in the communities where we operate. In this report, we want to describe the type of business partner and employer Bufab is and wants to be.

For me, it is clear that responsible business with respect to both people and the environment strengthens Bufab and our offering. Bufab's business is based on delivering a solution to the customer – we solve the problem with the components that the customer is not capable of managing in the most effective way. Today, it is equally important that this solution meets the customers', and their customers', expectations for ethical business and consideration for people and the environment as it is to deliver high-quality and affordable products.

This part of our offering will become more important in the future. The market for C-Parts is in the middle of a critical consolidation phase. Looking forward, we see a market with fewer, larger suppliers. Increasing demands on sustainability in the supply chain will become decisive – only those who can deliver at a global top level will survive this consolidation phase. Through active and systematic sustainability work, we strengthen our position in the market as a responsible and more attractive supplier. We believe the fact that we have integrated a sustainability perspective into our operations will offer us an

advantage compared to our competitors when we are appraised by existing and potential customers.

Entrepreneurship is one of our most valuable assets. We call our 1,000 employees Solutionists. The core of our offering is problem solving and the management teams at our 33 subsidiaries, or sister companies as we prefer to call them, have an independent position. They run and develop their own businesses with a large degree of freedom and personal responsibility, which has always been key to Bufab's success. When we acquire a company, we are therefore cautious in forcing it to wear a "Bufab suit".

Nevertheless, we must guarantee that work in all of our sister companies takes place in accordance with our overall policies and according to our value proposition. We have therefore developed a global management system that we call Bufab Best Practice. Through this, Bufab's approach and requirements on matters related to sustainability are communicated to all companies and employees in the Group. This makes it easier for our sister companies to run their business in an entrepreneurial manner, without compromising on our fundamental requirements and values.

In 2016, Bufab's sustainability work has focused in particular on Bufab Best Practice and its implementation in our sister companies. We believe we have made good progress. But there is still much more to achieve. Bufab always puts the customer and quality first and aims to expand through organic growth, efficiency and value-adding acquisitions. In order for our operations to develop in a sustainable manner in the future, we have identified four focus areas for how we can achieve sustainable growth. These are:

- Long-term, systematic sustainability work
- Responsible growth
- Sustainable global business
- People and relationships

Each and every one of these areas will be discussed individually in the report. Together, they form an ambitious plan. But also a plan that we will implement.

Värnamo, March 2017

Jörgen Rosengren
President and CEO



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.

Bufab's business model

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. Our customers make stringent demands on sustainability in the supply chain and choose supplier based on an overall assessment of both direct and indirect costs. Bufab's deliveries are to meet increasing market demands in terms of quality and responsible production – the costs of potential deficiencies in C-Part quality and delivery precision can also be significant.

A changing market

The driver for our customers is to reduce costs and to increase productivity through an efficient management of C-parts that meets the market's stringent demands on price and quality and consideration for people and the environment. Bufab takes an overall responsibility for our customers' management of C-parts. This gives our customers time and energy to focus on their core business. Demands on C-Parts suppliers are increasing and only those who can deliver at a global top level will survive the current consolidation phase in the market. We view these increasing demands as a challenge and aim to become market leader.

Non-financial value creation

As sourcing, quality assurance and logistics for C-Parts forms the core of Bufab's business model, we are in a better position

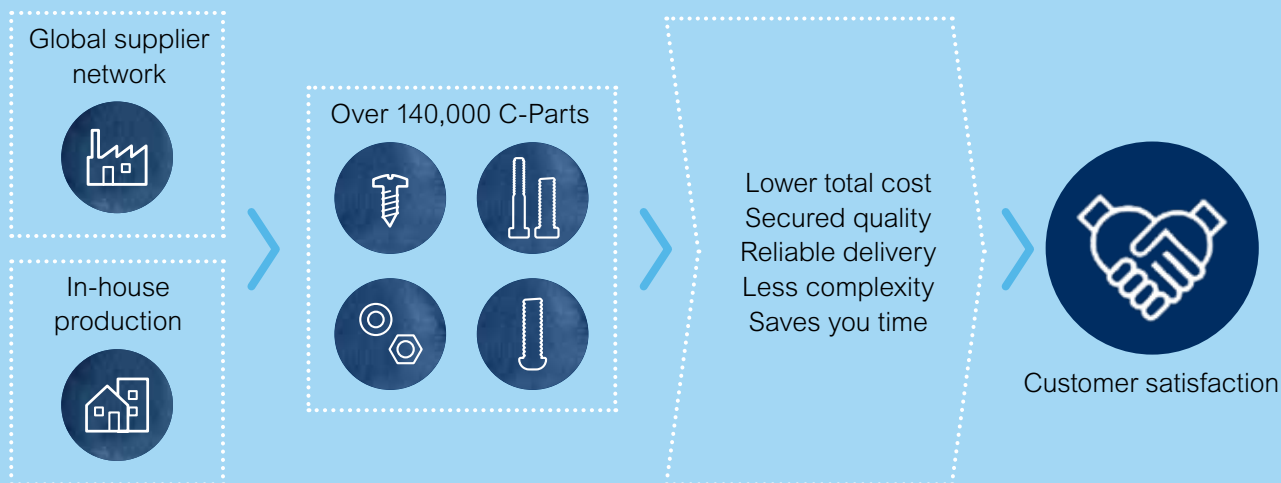
than our customers to manage sustainability issues for C-Parts. For example, we can often reduce environmental impact through the use of more efficient transportation compared with if customers had purchased this themselves. We also have a greater opportunity to impose demands that ensure that our suppliers follow our Code of Conduct and comply with our requirements for environmental consideration, health and safety, human rights and other social conditions in production.

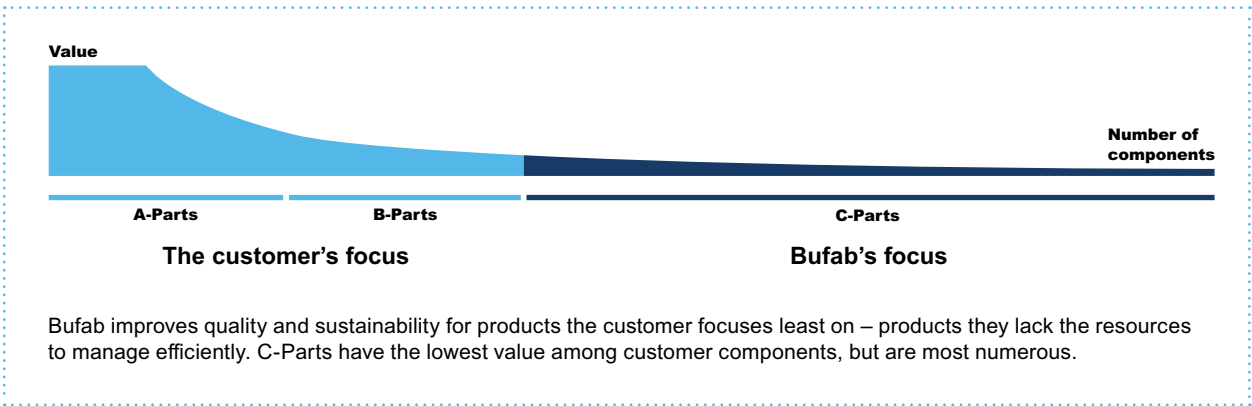
What are C-Parts?

C-Parts often form a large share of the part numbers on a material list. They are components such as fasteners in metal or plastic (screws, bolts, nuts, rivets, cotters, washers, etc.), other small metal, rubber or plastic parts, such as wires, springs and electronic fasteners. C-Parts have typically a low unit cost, wide product variation, large volumes and many suppliers within the segment.

C-Parts are unique as only a small proportion of the total cost of the component is from the purchase price, often as little as 20 per cent. The remaining 80 per cent of total costs are indirect costs, in the form of costs for logistics, sourcing and quality.

Bufab offers more than 140,000 items that we stock at our warehouses worldwide.





Bufab's absolute focus is the customer and quality. We would not be where we are today if we had not prioritised the needs of our customers and quality at all levels. That is our history and our future.

Strategy

Bufab Best Practice

In recent years, we have worked methodically in adapting our operations to sustainability as a strategic tool. In this spirit, we created Bufab Best Practice (BBP) and began work to implement the framework in operations. With BBP, we have created a platform for sustainable growth and efficiency. BBP is based on the ISO 9001 management system and supports management in our regional operations. By collecting good examples, we can develop our business and meet the rising demands in the market by learning from the experiences of each other. However, it is even more important to use the good examples to standardise working methods, processes, tools and systems within the framework of a management system. This is highly ambitious, but we believe that we have made excellent progress in this work over the past years.

When we acquire new sister companies, we want to integrate these operations into our management system so that they also meet the increasing demands of our customers for sustainability. However, both for acquisitions and when setting up our own new operations, we are careful when adding new business units to our management system. Instead, we want them to ask to become involved in our systematic and efficient working approach. Our overall policies, including the participation in the Global Compact, apply to all companies in the Group.

Quality and customer needs first

Using a systematic stakeholder dialog, we are well aware of the demands of our customers. Customers expect good service and products that provide the pledged functionality and with delivery on time. They also want a secure and sustainable supply chain, that we report on the use of conflict minerals and use a Code of Conduct for suppliers, and that we are certified as specified in ISO 9001 and ISO 14001. Customers are our most important stakeholder group and their wishes form the foundation for our governance and improvement efforts.

Bufab's customer offering, Global Parts Productivity™, aims to improve productivity in the customers' value chain for C-Parts. We help our customers reduce total costs, free up capital, achieve a consistent quality and stable deliveries.

Our value proposition states: Bufab is "The Solutionist". We meet customer needs for C-Parts – small components far down in the customer value chain. When we solve this task for the customer, we also take a global responsibility – by joint sourcing and transportation, we have a better negotiating position and can apply stricter demands for sustainability in the supply chain.

Helping our customers to improve sustainability in C-Parts is an increasingly important part of our value proposition. Many of our competitors are not strong in sustainability; small competitors often lack the resources and some major competitors have not yet taken the subject seriously. Bufab sees an opening here.

Bufab's strategy for growth



The Bufab employee: The Solutionist

Bufab's employees do not see problems, we see solutions. Our reliability forms the basis for the long-term, trusting customer relationships that the company's 40-year growth is founded on. Quality is always our first priority. Our Swedish heritage stands for honesty, transparency and strong ethics.

We are dedicated – the goal is to be our customers' long-term partner. We are proud to find the best solution for our customers. Our partnerships are based on good relations around the world. Our customers know that we deliver with passion and care.

Bufab comes from the entrepreneurial heart of Sweden. We believe in being close and flexible.

As a trading company, Bufab undoubtedly has a significant impact on sustainability issues, through its own activities but primarily through the actions of our suppliers.

Sustainability journey

Almost half of Bufab's economic activity is through suppliers in Eastern Europe and Asia – which are areas with substantial sustainability risks, but it is also here we have the greatest opportunity to make a difference by raising demands on suppliers.

Bufab has opted to use ISO 26000 as a framework for the company's sustainability agenda. In recent years, Bufab has made important steps towards more sustainable business activities. This work has been in three stages:

2013–2014

Lays the foundation for sustainability work

When we begin to work on the basis of our new growth strategy, refer to page 6, we understand that Bufab's growth requires good quality and that we can guarantee that, for example, sourcing has been carried out responsibly. This is underlined by the stricter requirements in these areas that we meet from our largest and most important customers. This realisation resulted in the implementation of a new management system for both quality and sourcing. These activities are necessary for the success of Bufab's business, but are also critical in our sustainability efforts – a large share of Bufab's impact on people and the environment occurs in the operations of our suppliers, often in Eastern Europe and Asia. We formulated a Code of Conduct with guidelines for ethical business, human rights, the environment and quality as well as regulatory compliance. The principles of the Code of Conduct apply to the whole Group and our business partners and provide us with a tool to begin systematic work on sustainability issues. During the period, we also drew up policies and manuals on anti-corruption, the environment, quality and whistleblowing.

We increasingly adapt our operations to sustainability, using this as a strategic tool. By collecting and learning from good examples, everyone in the Group has a platform upon which they can base their actions. These good examples have then been generalised and systematised into a comprehensive management system that we call Bufab Best Practice (BBP). We have then used this to create the tools and systems needed to work in accordance with BBP. In turn, these are linked with the Group's new common IT system, Bufab Trading System, which was specified and rolled-out to most subsidiaries during this period.

We were highly active in developing the Group's employees. Through Bufab Academy, employees are provided with knowledge about the Group's operations, working methods and tools as well as opportunities for networking. It is important in an environment like ours which is built on entrepreneurial freedom and personal responsibility. In 2015–2016, we also improved the Group's whistleblowing function. It guarantees that you are always able to point out improprieties anonymously and risk-free.

2015–2016

From separate actions to a systematic working approach

2017

Aiming to become world-class player

Using the framework as a foundation, we feel we are ready to set our sights higher. Already today, Bufab meets market demands for sustainability and is often "Preferred Supplier" to our major customers, which is a significant competitive advantage over smaller companies in particular. This is a position we have earned because of our efforts to work in a sustainable manner.

But the world is not standing still. What is good today is only average tomorrow and not good enough the day after. This is why we must constantly improve to remain relevant to our customers. If we can achieve this, we can further strengthen our edge.

The action programme in this report should be viewed against this backdrop.

Bufab has identified four focus areas for the company's sustainability efforts in the future. Focus areas provide us with different perspectives on how we can achieve sustainable growth.

Focus areas for strategic sustainability work

Long-term, systematic sustainability work

Bufab's sustainability agenda is governed by our Code of Conduct and our policies for employees, the environment, quality and anti-corruption. We also have a Code of Conduct for our suppliers. Bufab is a participant of the UN Global Compact and follows its principles. Bufab's aim is that all sister companies will gradually transfer to the Bufab Best Practice (BBP) management system. This is governed by our Best Practice Board forum and we conduct regular audits to ensure compliance and improvements. Moving forward, we will focus more on sustainability aspects in BBP. Supported by ISO 9001, 14001 and 26000, we will create an industry-leading Best Practice for sustainability governance.

Read more on page 9.

Sustainable global business

Bufab's largest impact on sustainability is in relation to our global network of 3,000 suppliers. Suppliers are chosen, assessed and developed using Bufab's global supplier process. Bufab promotes environmental responsibility by encouraging our suppliers, contractors and customers to adopt international environmental principles.

Read more on pages 11–13.

Responsible growth

Bufab has the ambition to grow. Growth is important to offer favourable returns to our owners, which are an important stakeholder group. However, responsible growth also benefits our other stakeholders: our employees, society at large and our suppliers. And most important: we achieve responsible growth for Bufab by improving sustainability in our customers' sourcing, logistics and quality assurance of C-Parts.

Read more on page 10.

People and relationships

By providing clear values and a strong leadership, we want to be the most attractive employer in the C-Parts industry. The Bufab Academy offers a toolkit to develop the skills we need to meet the rising demands in the market. Our approximately 1,000 employees are independent, systematic problem-solvers who play an active role in our environmental efforts and believe greater diversity will strengthen Bufab.

Read more on pages 14–15.

We call our employees Solutionists and Bufab's value creation arises in the dynamics between the solution-oriented entrepreneur and the systematic engineer – we need both characteristics to meet the expectations of our stakeholders.

Long-term, systematic sustainability agenda

Bufab's Code of Conduct

A significant part of our sustainability work is to establish and maintain suitable processes to identify suppliers that meet the demands of our Code of Conduct and our policies. Bufab's Code of Conduct is based on the International Labour Organization's (ILO), declaration on fundamental principles and rights in working life, the OECD's guidelines for multinational companies and the UN Declaration of Human Rights. The Code of Conduct is available at www.bufab.com. Bufab has signed the UN Global Compact and follows ISO 26000 – Guidelines for social responsibility. Bufab encourages its business partners to make continuous improvements in the areas of the Code of Conduct, which include business principles, principles on human rights and social justice including freedom of association and collective bargaining agreements where applicable, principles regarding the environment such as applying the precautionary approach, quality and compliance with regulations.

Bufab Best Practice with greater focus on sustainability

Bufab Best Practice (BBP) is our Group-wide management system. The system is based on ISO 9001 and uses the idea that we should learn from the experiences of each other by sharing good examples of improvements, problem-solving and smart working methods that are in use across the Group. The management system aims to increase our efficiency and growth, but is also a tool for integration of both employees and acquired companies.

In 2016, BBP's operations manual was published providing our employees around the world with support and guidance by describing good examples of measures that have the best impact on our results.

Bufab's aim is that all companies will gradually transfer to BBP. Moving forward, we will increase our focus on sustainability considerations in BBP and have initiated a project to meet the demands of ISO 14001 globally. By applying ISO 9001, ISO 14001 and using guidelines in ISO 26000, we will create a leading Best Practice for sustainability management in the supply chain for C-Parts. Using systematic sustainability management, we can establish routines for continuous improvements and achieve the requirements of external audits. Today, 14 subsidiaries have locally certified management systems for quality in accordance with ISO 9001, and eight companies have an environmental management system in accordance with ISO 14001.

Operational work with Bufab Best Practice

BBP covers most activities in our operations and forms the foundation of our operational sustainability work. Work with BBP

is conducted by comparing a desired situation with the current situation. Deviations are identified, analysed and adjusted. During 2016, most of our subsidiaries underwent a "gap analysis" compared with BBP and action plans have been drawn up for how we can manage the deviations identified. We have created a new management forum, Best Practice Board, which comprises Bufab's CEO and parts of Group management, and which regularly meets to review status and action plans.

Audits of suppliers

A significant part of Bufab's sustainability agenda is to carry out audits of our suppliers. Our quality inspectors have conducted a large number of audits at our suppliers. Supplier audits include issues such as quality, capacity, capability, organisation, human rights, workplace issues and the environment.

Global sustainability management

Bufab's policies apply to all companies in the Group and compliance is regulated in the terms of reference issued to all managing directors. By promoting awareness, arranging training programmes and allowing more space for sustainability issues in our global management system, we will strengthen sustainability management at subsidiary level in the future.

Bufab's global policies

- Code of Conduct Policy
- Anti-corruption Policy
- Finance Policy
- Finance Policy for Subsidiaries
- Communication Policy
- Environmental Policy
- HR Policy
- IT Policy
- Quality Policy
- Whistleblower Policy

To support implementation and compliance, all of our policies are accompanied by a policy manual.

Activities in 2017

- Improve the handling of sustainability aspects in BBP under the leadership of the Best Practice Board
- Draw up key performance indicators (KPIs) for sustainability work
- Implement BBP according to plan
- Renew the external audit of sustainability work
- Publish Bufab's first Sustainability Report

Our growth is to take place both organically and through acquisitions. Growth enables us to offer returns to our owners. But responsible growth is also important to increase sustainability and our contribution to other stakeholders: employees, society at large, suppliers and customers.

Responsible growth

With Bufab Best Practice, we have created a platform for sustainable growth. It forms the basis of our work for responsible growth, both for acquisitions, our own production and in collaborations with our suppliers. Bufab has the ambition to grow. Growth is important in order to offer favourable returns to our owners, which are an important stakeholder group. However, responsible growth also benefits our other stakeholders. Our employees profit through salary, pension and other benefits, and also by receiving opportunities for personal development with an employer that emphasises a large degree of personal freedom and personal responsibility. Communities in the countries where we operate benefit from the growth through direct and indirect tax revenue, for example. Our suppliers, which are chosen for their ability to contribute to responsible growth can grow in their own right. And finally, and perhaps most importantly, our customers receive help in improving sustainability in sourcing, logistics and quality assurance of C-Parts.

Acquisitions

Since 2014, Bufab has acquired four companies and begun integrating Bufab Best Practice for three of these. The integration in Bufab's management system allows recent acquisitions to highlight their sustainability activities and meet customer expectations. Bufab wants to be an attractive Supply Chain Partner – for both customers and recent acquisitions.

Suppliers

Our operations create jobs both within Bufab and for our sub-suppliers. With our large purchasing volumes, we can make demands on our sub-suppliers in terms of both social and economic conditions for their employees. We work hard to ensure that everyone working in Bufab's supply chain is treated fairly and has a safe workplace. Bufab's Code of Conduct for suppliers is an important tool in this work.

Customers

Responsible growth for Bufab often occurs when we take over a larger share of C-Parts handling from a customer. As part of this work, poorer suppliers are often replaced by better alternatives, inefficient logistics by efficient logistics, in addition to improvements in both delivery precision and quality. Overall, this increases customer productivity. At the same time, the customer obtains better control over sustainability in its business. The latter is an increasingly important reason for why customers choose to grow with Bufab.

Activities in 2017

- Raised growth ambitions
- Integration of completed acquisitions
- Better communication to customers, suppliers and employees about sustainability

Acquisition of the C-Parts supplier FLOS

Discussions with the Netherlands-based company FLOS began in spring 2015 – we discovered substantial similarities in strategy, how we do business and how we market ourselves. The corporate culture in both companies also had many common denominators – both companies focus on the customer, are flexible and pragmatic. We could quickly see that there were also Solutionists at FLOS. Less than a year later we acquired FLOS. The company had a responsible attitude to employees, quality and the environment and could comply with the requirements in our Code of Conduct from the outset.

Bufab's acquisition strategy is based on a soft takeover of acquired companies. We take good care of entrepreneurial capital in the acquired company. If we force acquired companies to wear a "Bufab suit", we risk losing

the initiative and independence that drives the company's value creation.

Therefore, we did not force FLOS into our business system, instead it came to us and asked to be integrated into the system, as it saw the business potential. Through the acquisition, we have achieved synergies in sourcing and logistics and in pooling resources and expertise, but see further potential in the future through better use of bargaining power in joint sourcing and by sharing FLOS's expertise in subassemblies with other Bufab customers and thereby create more value for the customer.

Today, FLOS is a profitable and independent sister company in the Group and is performing well. The successful acquisition process has strengthened our conviction that our method for integrating acquisitions works.

As a global company, with a large number of parts, suppliers and customers, we have a substantial opportunity to exert an influence in terms of sustainability.

Sustainable global business

To identify where our operations have most impact, and which factors are important to the company and its continued success, we conducted a materiality analysis during the year. The assessment was conducted in collaboration with Bufab's key stakeholders, using both qualitative and quantitative review methods and a benchmark of information needs. The key areas identified were:

- Anti-corruption
- Sourcing routines
- Assessment of suppliers from a social perspective
- Assessment of suppliers with regard to the environment
- Emissions from transport activities
- Qualifications
- Diversity and non-discrimination

In 2017, we will conduct a GAP analysis regarding current governance of key areas and further develop routines for follow-up. By formulating targets and measuring, prioritising, assessing and improving our work in these key areas, we can reduce our negative impact and take advantage of our opportunities to make a positive impact. Through this governance for greater sustainability, we are building a stronger Bufab, ready to meet the future.

Anti-corruption

Bufab's approach to ethical business is described in the company's Code of Conduct. We also have an anti-corruption policy, with an accompanying manual. With a transparent business system, where all transactions are open for everyone, we obtain good self-regulation and thereby reduce the risk for corrupt transactions. The fact that our whistleblower policy has an anonymity protection via a third-party process has resulted in an increase in reports of suspected improprieties. The terms of reference issued to managing directors in all Group companies clarifies that the managing director has a responsibility to ensure that routines exist to ensure compliance with Group policies.

Environmental considerations

Transport and suppliers are responsible for our largest environmental impact in the form of emissions from the transport of goods, and also emissions from manufacturing by suppliers. Bufab promotes environmental responsibility by encouraging our suppliers, contractors and customers to adopt international environmental principles. The environment is impacted during raw material extraction, by subsuppliers, in manufacturing and in transport to warehouses and from warehouses to customers.

Sourcing

Bufab's largest impact on sustainability is within our global network of 3,000 suppliers. Suppliers are chosen, assessed and developed by using Bufab's global supplier process, supported

by our global product managers, and by our purchasing offices in China, India, Taiwan, the UK and Sweden.

Our Code of Conduct for suppliers is signed by all of the main suppliers and all new suppliers since 2016. Some of our largest suppliers, in terms of sales, are in the highest supplier category, Preferred Supplier, the others are in the Qualified Supplier category. The difference between the various categories is the level of commitment. Our target for 2017 is a significant increase in the number of Preferred Suppliers, which have the highest level of commitment, also for sustainability issues.

Certain close supplier relationships, with suppliers where Bufab makes continuous purchases, develop into a partnership. The aim of the partnership is to achieve better productivity and precision and higher quality, but also to create favourable conditions to focus on sustainability aspects at the supplier. Our target for 2017 is to continue increasing the number of suppliers with partnership status.

With know-how and larger sourcing volumes, Bufab can control C-Parts suppliers from a sustainability perspective more easily than our customers. In efforts to develop our supplier relationships, we prioritise our largest suppliers where we see that this work has the greatest impact. Suppliers that fail to meet our requirements are rejected.

Supplier categories

Bufab works with the following supplier categories:

- **Preferred:** Has both signed a sourcing agreement and Bufab's Code of Conduct for suppliers. This group includes our partners.
- **Qualified:** Has conducted a self-assessment and signed the Code of Conduct for suppliers.
- **Pending:** Suppliers that are yet to undergo our approval process.
- **Blocked:** Suppliers we do not work with or are being phased out.

Supplier audits

Bufab has quality engineers employed who, during a supplier audit, examine conditions in areas including employees and sustainability, training, health and safety, accident reporting, work with safety inspections, child labour, environmental issues, waste and emissions, control of conflict minerals and compliance with REACH and RoHS. During an audit, we also check production capacity. In 2016, certain audits used external consultants.

An audit may be initiated when a purchaser requests a review following a visit to a supplier, though it could also be triggered by deviations in production. Most audits follow a predefined plan, but in some cases the audit is requested by a customer.

Reduced risk with good relationships

Adopting a long-term approach and having good relations can reduce the risk in the supply chain – closer relationships benefit both price and lead times, which influence profit, efficiency and customer satisfaction. During supplier audits, we obtain information about a supplier's production capacity in our supplier management system, and thereby can discover new suppliers and reduce the risk level in our production. For certain sourcing, we have instead a "designated" supplier, which entails that our customer has chosen and evaluated the supplier and is also responsible for sustainability aspects in the supplier relationship.

The fact that Bufab has a broad customer base with many good relationships with both large and small customers in different industries and market segments is important from a risk perspective. Today, no Bufab customer accounts for more than 5 per cent of Bufab's sales.

Transport

The environmental impact of Bufab's operations is decreasing as consolidated transport produces lower emissions and less environmental impact than if customers handle sourcing of C-Parts themselves.

Deliveries from Asia to primarily Europe use maritime transport from Bufab's warehouses in Taiwan, China and Vietnam or are directly from a supplier. Good capacity levels guarantee the lowest possible level of carbon dioxide emissions from maritime transport. Bufab's large sourcing volume in Europe is for reasons of both delivery speed and quality and entails shorter transport distances with lower emissions due to the proximity to market.

We only use air cargo if there is a risk of delays or for last-minute orders. In 2017, we will assess how we can further

reduce the proportion of air cargo, and create suitable KPIs to guide developments in the desired direction.

Quality assurance

Comprehensive quality efforts are required as a supplier to demanding customers worldwide. Quality in Bufab is fully integrated into our management system, Bufab Best Practice, and is based on the quality management system ISO 9001:2015. We have a process to identify, handle and follow-up quality deviations. When a quality deviation has been rectified and investigated, the case is presented for analysis for internal learning and then to Bufab Best Practice.

Sustainability governance of the supply chain

Bufab's sustainability governance of the supply chain is based on the Code of Conduct and our policies for the environment, quality, whistleblowing and anti-corruption. We have established a global organisation for supplier governance and developed and established the necessary infrastructure in the form of the Supplier Management Module (SMM), with tools such as self-assessments, capability audits as a Scorecard for suppliers.

We want to develop the world's best supplier base for sustainable C-Parts and to achieve this, we will continue our work with audits and contracting. We need to increase the proportion of sourcing from suppliers in the Preferred Supplier category and improve our sourcing in Asia. Last, but not least, we must take advantage of opportunities offered by increased digitisation in the supply chain.

Activities in 2017

- Continue consolidation towards our best suppliers, commercially and from a sustainability perspective
- Establish deeper partnerships with suppliers
- Increase quality and intensity in our programme for supplier audits

Stronger together

Bufab has begun using category-driven sourcing for certain product groups. With this working method, a Commodity Manager at Bufab is responsible for a product group and utilises the Group's entire volume in negotiations to obtain better negotiating power.

This working method is already used by many large companies and Bufab was helped by a business partner to gain an insight into how the company worked. We then conducted our own process, adapted to our business, and tested a few cases, says Mikael.

Using this working method, Bufab can make stricter demands on suppliers, we have become much more attractive in the market using a total volume, which means we can impose higher demands in terms of price, quality and delivery and also in sustainability aspects.

Moving forward, this working method will be used in more categories. We will be able to raise standards when our suppliers see that we keep our promises and that our volumes are distributed as agreed.



Mikael, Sourcing Manager, Bufab.

Ajay, Managing Director,
Bufab India



What do Bufab's customers, suppliers and employees say about the company's ambitions in sustainability?

Most of Bufab's customers in India are large, multi-national corporations with broad experience of sustainability issues and they welcome our ambitions in sustainability. Our suppliers are already aware of our ethical way of doing business as we are transparent in our business relations. However, they need more training about how sustainability work is conducted in practice. We have created an awareness about sustainability and ethical business among our employees and are available to answer any questions they have about the subject.

Ekaterina, Logistics Manager,
Bufab Russia



You are responsible for logistics, which is an important area for both profitability and the environment, isn't that so?

Yes, that's true. In our business, logistics has a decisive role – efficiently managed it contributes to both profitability and to reduce environmental impact. We are working systematically to consolidate transport from more customers and collaborate with sister companies to handle maritime transport more efficiently.

Can you see any results from your efforts?

Yes, in 2016 we reduced the number of maritime transports by 10 per cent, cargo capacity utilization on trucks increased by 25 per cent and in containers by 50 per cent. With increased cargo capacity utilization, the transports are both cheaper and more environmentally friendly. In addition to lower costs for both us and our customers, this reduced our environmental impact significantly.

Using clear values and strong leadership, Bufab wants to be the most attractive employer in the C-Parts industry.

People and relationships

Corporate culture and recruitment

With our approximately 1,000 employees and 33 subsidiaries worldwide, Bufab possesses valuable entrepreneurial capital. Our subsidiaries and their management teams are highly independent and take a large degree of individual responsibility. Following acquisitions, we take a long-term approach when integrating the recently acquired company to preserve the entrepreneurship we have acquired.

When we recruit new employees, we look for committed and flexible team-players irrespective of position. They should be able to handle, and appreciate a large degree of freedom with responsibility. We have an open attitude towards our employees, as well as to new methods and solutions. Freedom requires the ability to prioritise, but as we work close to management, support and guidance is always at hand.

There are significant development opportunities at Bufab, both globally and locally. We are happy to recruit internally – there is less risk associated with choosing an employee who has already been shown to possess the personal characteristics required at Bufab. People who are driven by an opportunity to make a difference enjoy working for us.

Stakeholder dialogue

During 2016, we conducted in-depth interviews with about ten employees. The two most important areas for Bufab's continuing success are, according to our employees, that we work for greater diversity in terms of age, gender and cultural background to strengthen Bufab, and that we reduce the company's environmental impact from transport activities. The result forms the basis for the materiality analysis that will develop into targets for Bufab's sustainability efforts. And our agenda already includes work to draft a diversity policy.

In addition to daily contacts, communication with our employees is mainly conducted via our intranet. Group-wide communication is in English. Policies etc. established for the companies are translated into local languages where necessary.

The staff magazine, Bufab News, is published four times per year in both Swedish and English. Bufab News includes a letter from the CEO, a presentation of new employees, examples of strategic activities for growth and efficiency, comments on the quarter's financial results and news. We highlight good examples among both employees and business transactions.

Anonymity in work to combat corruption

The whistleblower policy was updated in 2016 so that sources can now use a third-party agent. One important part of Bufab's anti-corruption efforts is our transparent business system that is open to all employees. Transactions that do not feel sound are questioned. This transparency is, together with anonymity

in the whistleblower policy, our strongest internal tool against corruption.

Development and the Bufab Academy

Bufab Academy, which provides training in sales, leadership, supply chain and technology, was launched in 2014. Through Bufab Academy, CEOs at all of our sister companies have access to a toolkit to support their operational leadership.

The Bufab Academy also presents an introduction programme. This introduction programme is for all employees who, in their work, require knowledge about the Group as a whole, such as salespeople and strategic purchasers etc.

All employees have an annual performance review with their line manager.

All of Bufab's supplier auditors receive an ambitious training course in social sustainability. We see significant potential in the future to use all of our communication channels, such as the web-site, intranet, sales material, training and introductions to spread the message about the value of Bufab's sustainability work.

Sustainability governance

Work with people and relationships is based on our Code of Conduct and Group-wide policies. The terms of reference issued to managing directors of our subsidiaries is updated each year to reflect the Group-wide policies. Each year, the managing directors submit a report on compliance with the policies in their subsidiaries' operations.

Act Local – Think Global

Bufab is a significant player in locations where we operate and has a good reputation as an employer. We are proud to offer stimulating jobs in the regions. With employees around the world, we take advantage of the opportunities offered by video-conferencing/Skype to minimise our staff travel. To reduce the number of journeys, most monthly meetings for Group management and other management teams are held via Skype.

Activities in 2017

- Launch KPIs for follow-up and governance of HR
- Bufab Academy to be strengthened in sustainability issues
- Work to draft and communicate Bufab's core values.
- Special training for management and managing directors of all sister companies in sustainability
- Focus on sustainability at the Managing Directors' Conference
- Renewed information about the process for whistleblowing

**Sheron, HR Manager,
Bufab Region APAC**

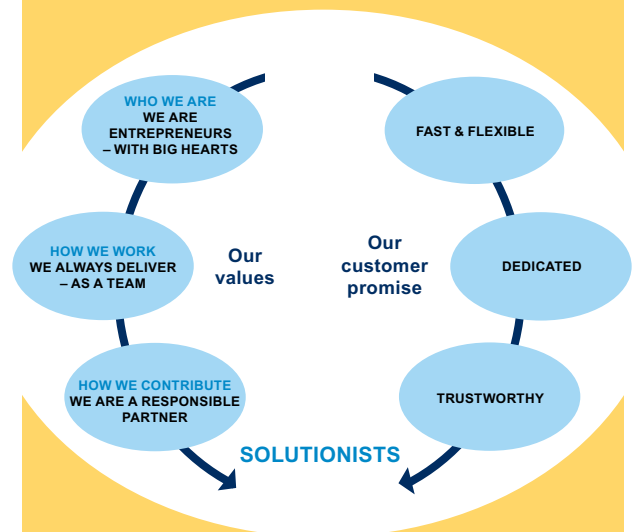
You have worked at Bufab for three years, what can you say about Bufab and our employees from an HR perspective?

For me, Bufab is a dynamic and warm family where I am offered an opportunity to work with many outstanding people! Bufab promotes those employees who produce good results, often to management positions, and I am very happy for them. For me, working in the HR department, it is important to support these employees through leadership development so they can be as successful as possible in their new role and contribute to Bufab's success in the best possible way.



Bufab's values

Our values act as a compass for our conduct towards each other and our business partners, but also towards society at large. Drawing up our values is important to be able to grow while maintaining our corporate culture. Our values play an important role in work introducing new employees and recently acquired companies.



We are entrepreneurs – with big hearts

To succeed in business, you need to have a big heart – and that is just what we have. Despite our size, we have succeeded in keeping the feeling of a family business. We work together and treat each other with respect.

We are responsive to the needs of our customers and find creative solutions for them. Our passion is finding solutions – we are entrepreneurs.

We always deliver – as a team

We provide professional, cost-efficient, sustainable business and manage our customers' resources as responsibly as if they were our own.

We believe in personal initiative to drive the business forward, and teamwork for success. Always considering what is best for our customer.

We are a responsible partner

We want to help our customers with their C-Parts requirements, which involves taking complete responsibility for sourcing, logistics and quality. Our desire to become market leader means we want to create increased value for customers, suppliers and employees and always guarantee quality, customer focus and sustainability.

We are a responsible player.

This is our first Sustainability Report, but we have an ongoing dialogue with many of our stakeholders concerning our sustainability work. The following are a few common questions and answers.

Questions and answers

Customers

What is the value of Bufab's sustainability work for us as customers? Why shouldn't we choose a supplier that offers lower prices?

A sustainable supply chain entails less risk in terms of quality, delivery and brand. The market for C-Parts is based on the fact that customers need help with the responsible supply of small components. Bufab's offering meets the market's demands and raises standards at the same time, which benefits both customers and customers' customers. In this way we can, in addition to improved sustainability, also offer a significantly lower total cost.

How does Bufab work with sustainability? Can we be sure that you and your suppliers follow Bufab's Code of Conduct?

Bufab's sustainability governance of the supply chain is based on the Code of Conduct and our policies for the environment, quality, whistleblowing and anti-corruption. Bufab has opted to use ISO 26000 as a framework for the company's sustainability efforts. With know-how and larger sourcing volumes, Bufab can control C-Parts suppliers more easily than our customers from a sustainability perspective.

Employees

Why should we spend time on sustainability?

Responsible business with respect to both people and the environment strengthens Bufab. The guarantee of a sustainable supply chain is a requirement for many of our customers and our working methods offer us an edge in the market. Even our owners expect that we can meet rising demands for responsible business. Through a sustainable approach, we can strengthen our operations by showing respect and by utilising our stakeholder's interests – both today and in the future.

How can we influence our suppliers for fairer working conditions?

We can influence working conditions at our suppliers by demanding that they comply with our Code of Conduct which regulates areas such as business principles, principles on human rights and social justice, principles regarding the environment and quality and compliance with regulations. To ensure that suppliers follow the agreed rules on social conditions at the workplace, we conduct regular audits of our suppliers.

Suppliers

What is required to become a supplier to Bufab?

To become a supplier, the company must have an attractive offering in terms of price, quality and delivery capacity and comply with the requirements in Bufab's Code of Conduct.

How can we work together, Bufab and suppliers, to be as efficient as possible?

Through cooperation in shared processes and risk assessments, we ensure compliance with Bufab's Code of Conduct and that our partners achieve our requirements, which include work against corruption, handling conflict minerals and so on.

Owners

How do you stand in relation to your competitors?

We are in a good position in relation to our competitors. We have good relations with our customers; we are knowledgeable, responsive and flexible. Our global presence means we are close to our customers. By offering high-quality products and services and guaranteeing a sustainable supply chain, we are not exposed to price competition but can compete with added value.

Increasing demands for sustainability in the supply chain will become decisive in the C-Parts market moving forward – only those who can deliver at a global top level will survive the consolidation phase the market is currently experiencing. Through active and systematic sustainability work, we strengthen our position in the market.

How do you work with information and training and follow-up and review of Bufab's Code of Conduct?

During their introduction training, new employees receive the Code of Conduct and we are planning to increase training initiatives in sustainability and integrate sustainability considerations into Bufab Best Practice. During supplier audits, our quality engineers examine conditions in areas that include employees and sustainability, training, health and safety, accident reporting, work with safety inspections, child labour, environmental issues, waste and emissions, control of conflict minerals and compliance with REACH and RoHS.

Support for local activities

Bufab has a family-like corporate culture. We have always been a part of the local communities where we operate. We have no major sponsorship agreements at Group level, but we encourage and support local activities and projects that aim to strengthen the social situation in communities where we operate.

This includes the sponsorship in Poland of the Lechia Gdańsk's U9 football team. Bufab's contribution has been used to buy training clothes and boots for the young footballers.



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