

SCANFIL



Scanfil Plc
Non-Financial Information Statement 2017

This report has been prepared in accordance with requirements set in the Accounting Act for information other than financial information. It is based on the international framework permitted by the act, i.e. a division into financial, social and environmental responsibilities. First, key factors, operating methods and principles related to Scanfil's operations are presented, including activities against corruption and bribery. This report presents all available key figures or describes the development of specific areas to the extent required by the legislation, unless they are considered to be business secrets of the company. In addition, this report presents non-financial risks and their management.

Scanfil Plc

Scanfil plc is an international listed (NASDAQ Helsinki, SCANFL) contract manufacturer and system supplier for the electronics industry with over 40 years of experience in demanding contract manufacturing. Company's strength is its extensive service offering covering from product design and production planning to prototype and pre-serial production, the volume manufacturing of products and after-sales services, such as maintenance and spare parts services.

The core of our customer offering is a vertically integrated production including overall service offering and supply chain management during the whole life-cycle of customer's product. These provide a solid foundation for Scanfil's competitive advantages: speed, flexibility and reliability. The company's customers include international operators in the automation, energy, data transmission and health technology sectors, and companies operating in fields related to urbanisation.

Focus points of corporate responsibility

Scanfil helps its customers to succeed by providing effective and innovative solutions throughout the product life cycle. Taking care of responsible operations and their development is vital for Scanfil's success. Monitoring and continuous development of corporate responsibility serves the needs of Scanfil's all stakeholders.

Scanfil has determined the key factors for its corporate responsibility and divided them into operational, financial, social and environmental responsibilities. Operational responsibility focuses on product quality, delivery reliability, continuous development and cooperation with

customers and suppliers. The aim of financial responsibility is to examine profitability, risk management and operational transparency. The focus points of environmental responsibility are the effective use of raw material, the management and reduction of energy consumption, environmentally friendly procurement activities, and management and reduction of the use of hazardous substances. Finally, social responsibility focuses on competence development, occupational safety and health, and the development of leadership and supervisory work. The Board of Directors and members of the management level of Scanfil are responsible for the management of corporate responsibility. In practical work, responsibility is guided by the Group's Code of Conduct.

Operational responsibility

Product quality, delivery reliability and continuous development

High-quality and cost-efficient production is one of Scanfil's key competitive factors. The monitoring and continuous development of quality covers the entire production and supply chain. Effective and measurable processes offer standardized operating methods for Scanfil's global plant network. Each Scanfil plant has a certified ISO 9001-compliant quality management system. In addition, selected plants have more detailed certified quality management systems aimed at specific industrial fields. For example, plants that serve medical customers have a certified ISO 13485-compliant quality management system. All Scanfil plants follow the internationally recognized Lean Six Sigma process development methodology and the failure mode and effects analysis (FMEA) that identifies any risks in production. When developing operational processes, the aim is to optimize production resources and create opportunities for stable and

high-quality production. The identification of risks helps to intervene in any problems in production at an early stage.



Scanfil supplies products for the production chains of its customers. Therefore, staying on the agreed schedule is a critical factor for its customers. Product delivery periods range from a few weeks to several months. However, selected products can also be supplied with a delivery time of one day. Scanfil ensures its delivery reliability by means of correctly timed production and resource planning and material procurement. Schedule risks are presented, for example, by unexpected peaks in demand that require a rapid increase in personnel resources and the good delivery capacity of material suppliers.

The efficiency of the production process and the high quality of products allow Scanfil to set competitive prices. The continuous development of production processes and the use of correct technologies play a key part in maintaining cost efficiency. What is more, the use of Scanfil's global position and volume in procurement activities allows it to set competitive prices for its customers.

In 2017, Scanfil carried out several measures that support its competitiveness. Scanfil reorganized its global plant network by closing its plants in Vantaa, Finland and in Biatorbagy, Hungary, and by expanding its plant in Poland. In addition, projects were launched at all plants to improve quality and productivity. These measures significantly increased the company's profitability and halved the number of quality errors in relation to deliveries from the 2016 level. In addition, Scanfil developed the measurement of results by defining more detailed key

performance indicators (KPIs). In 2018, Scanfil will continue its measures under the global quality management system and its plant-specific development programs for quality, delivery reliability and productivity.

Cooperation with customers

Scanfil's success is based on satisfied long-term customers. Scanfil has nearly 100 customers from different industrial fields. The four largest segments consist of manufacturers or products and solutions for the fields of energy and automation, treatment and climate technology, IT and urbanization. Other industrial customers form the fifth segment. The majority of Scanfil's customers are Europe-based major corporations that have either fully or partly outsourced their production to Scanfil. Customer relationships are often based on long-term agreements, even though the products manufactured may change. Several customer relationships have continued for more than 10 years, and the most long-standing ones started more than 30 years ago.



Scanfil works very closely with its customers. Dedicated account managers and plant-specific teams have been appointed for each customer. Scanfil measures customer satisfaction by means of quarterly surveys and an annual in-depth analysis based on interviews. If specific customer feedback falls below a predefined target level, an action plan will be drafted to correct the situation. Customers also audit Scanfil's plants, some more regularly than others. This means that Scanfil's production conditions must be ready to be audited at all times.

Compliance with corporate responsibility is raised more often than before in talks with customers. Scanfil has defined responsible operating

principles that cover, for example, the equal treatment of people and prohibit corruption and bribery. The Group's operating methods, such as transparent and cost-based pricing, reduce the possibility of non-compliant activities. During 2017, there were no incidents related to unequal treatment, corruption or bribery.

In 2017, Scanfil succeeded in its work with its customers. This was seen in the form of new customers and larger orders placed by existing customers. Customer-specific development programs selected on the basis of customer satisfaction results also produced good results. Similar development programs will also be continued in 2018.

Cooperation with suppliers



Scanfil has a broad network of more than 4,000 local, regional and international suppliers and partners. As the procurement of raw material and other material, components, modules and electronics makes up more than half of net sales, effective procurement activities provide Scanfil a competitive edge. Some suppliers are defined on the basis of customer agreements, while some are selected by Scanfil. Scanfil sets high quality, delivery reliability and cost-efficiency requirements for its suppliers. In addition, Scanfil ensures that its suppliers fulfill their financial and administrative obligations. Scanfil closely reviews the viewpoints of corporate responsibility with its suppliers. In addition, all suppliers need to sign an agreement, requiring compliance with corporate responsibility. Scanfil monitors that the terms and conditions of the agreement are fulfilled. Any

misuse is prevented by means of existing operating methods, such as order inspections, training and job rotation.

In 2017, Scanfil aimed to reduce its oversized supplier network by focusing on a few select suppliers. In addition, Scanfil carried out a number of development measures in terms of supplier quality, delivery reliability and cost efficiency. In 2018, the aim is to continue these measures, focusing particularly on the reduction of the supplier network.

Financial responsibility

Scanfil fulfills its social responsibility by seeing to its profitability, controlling its risks and communicating openly and transparently. Scanfil's aim is to be a good corporate citizen and distribute its financial success between all of its stakeholders. Financial development is evaluated by comparing it with goals that are set on an annual level and in the long term.

Scanfil ensures its profitability by means of the continuous development of key competence and production and effective procurement activities. Taking care of the efficiency of Scanfil's own operations and resources is also important in terms of productivity. Group-level decisions ensure benefits of scale and the optimal use of resources. Moreover, Scanfil's plants are independent units responsible for their own results and they use individual processes and quality management systems.



Scanfil's success depends heavily on the development of the global economy, as this has a direct impact on its customers' business

operations. The most significant business risks are associated with strategic selections, business development and exchange rate fluctuations, as well as compliance with rules and regulations.

Scanfil monitors, identifies and analyses its risks closely. Scanfil's risk report is revised twice a year, extensively using experts in Scanfil's different competence areas in the collection and evaluation of the reported information. In addition to the management team, the risk report is reviewed by the audit committee and the Board of Directors. The report evaluates the probability of different risks and their impact on results and defines actions to be carried out. Shared processes and principles followed in all activities facilitate the management of risks. All plants use a standard set of Key Performance Indicators (KPIs) that are monitored continuously. Reliable individuals are responsible for monitoring activities. In addition, Scanfil conducts internal audits.

The development of profitability and risk management require that any changes in the operating environment are monitored actively. Goals can be reached by being close to the customer, being proactive, making sound decisions at the right time and communicating them clearly and openly.

In 2017, Scanfil defined new goals and a new strategy for the next three years. The improvement of job satisfaction at plants where it is below the target level was defined as a development area for 2018. In addition, Scanfil will focus on closer co-operation with its customers and expand its footprint in Central Europe.

Social responsibility and Personnel

At the end of 2017, the Group employed 3,337 (3,294) people, of whom 3,119 (3,554) worked abroad and 318 (325) worked in Finland. During the financial period, the Group's average number of personnel was 3,253 (3,483) people. At the end of the year, the distribution of the personnel by country was as follows: China: 993 employees; Poland: 941 employees; Sweden: 335 employees; Germany: 82 employees; Finland: 318 employees;

Hungary: 2 employees; the USA: 92 employees; and Estonia: 574 employees. In addition to the number of personnel, Scanfil monitors job satisfaction and the number of occupational accidents, and reports these in writing.



In terms of its social responsibility, Scanfil focuses on competence development, occupational safety and health, and the development of leadership and supervisory work. Scanfil ensures the fulfillment of its social responsibility through its Code of Conduct, lawful working conditions and practices. Scanfil's aim is to be a reliable employer and an encouraging working community where every individual has the opportunity to develop their personal skills and abilities. Human rights and equal treatment are basic values in Scanfil's operations, over which no compromises can ever be made. During 2017, there were no violations of human rights.

Scanfil's key competence areas are customers, manufacturing, procurement and logistics processes. These competence areas are developed continuously both at corporate and individual levels. A significant part of training takes place in the form of internal training, on-the-job training and different training programs, but Scanfil also uses external training channels when necessary.

Scanfil has plants in several countries on several continents. The company's employer image and the general availability of employees are high on average. The majority of people working at Scanfil are employed by the company, whereas external employees are only used to balance peaks in demand. Recruitment has not been a

challenge and all vacancies have been filled. Between countries, there is high variation in the duration of employment relationships. In Finland and Sweden, employees are easily available and employment relationships are long. For example in China, however, employee turnover is high, even though it is lower than on average in the local labor market.

An annual job satisfaction survey is conducted among the personnel. Its results are used when defining development activities. In 2017, the response rate of the survey, the third of its kind in its current format, was high. On the basis of the average value of all responses, job satisfaction at Scanfil is high, but there is also high variation between countries. Last year, there were challenges at Scanfil's plants in Poland and Germany, in particular, while job satisfaction was high in China. Overall, the survey indicates that the measures carried out have succeeded, as the values of all responses have increased year after year. Employees take part in planning the company's development activities.

Scanfil monitors any changes in occupational safety and health using specific indicators. The number of sick leave is at a good level, as is the number of occupational accidents, even though there is variation between countries. There were no serious occupational accidents in 2017. Working conditions involve various loading factors. Different presses, tools and vacuums are used in production that poses safety risks if used incorrectly. To prevent these risks from materializing, Scanfil develops safety guidelines and looks for safer machines and models. In assembly and office work, postures and work done sitting down present a challenge. Their negative impact is avoided by means of high ergonomics. All employees are encouraged to move around and take care of their ability to work.

In 2017, the focus areas of personnel management varied by plant, but overall the company made good progress. This was reflected both in improved job satisfaction and in higher profitability. On the basis of the most recent job satisfaction survey, development activities should be directed at communication and at supervisory work at certain plants. A group-level

management training program has already been started with the aim of developing supervisory skills.

Environmental responsibility

Scanfil promotes sustainable development by identifying, measuring and reporting the environmental impact caused by its activities and by attempting to minimize such impact. The focus points of environmental responsibility are the effective use of raw material, the management and reduction of energy consumption, environmentally friendly procurement activities and the management and reduction of the use of hazardous substances. The aim is to consider environmental impact throughout the value chain, ranging from the procurement of raw material to production and distribution, including the impact caused by the use of products and solutions by their end users and any recycling options.



The environmental policy is based on Scanfil's values. All of Scanfil's plants have a certified ISO 14001-compliant environmental management system. In addition, they fulfill the legal requirements of the countries in which they are based. Communicating the environmental program, fulfilling the employee training program and monitoring their results are prerequisites for reaching environmental goals, to which Scanfil's management is strongly committed.

In its production, Scanfil uses various metals, and it aims to continuously improve their usage rate. Steel is the most important raw material used by Scanfil. Its effective use is monitored closely in the production process. In addition to optimized

use, Scanfil monitors the recycling of metals closely. Energy is consumed in production and distribution, and its amount is to be reduced, for example, by means of energy-efficient equipment and highly controlled logistics. The goal is to prefer renewable energy forms in place of fossil sources. In its procurement activities, Scanfil uses recycled material and prefers eco-friendly products. Scanfil's plant in Pärnu uses sodium

zincate, a hazardous substance, in its aluminum and copper surface treatment line. Its safe handling, storage and disposal are always ensured in a way that is environmentally sustainable. During 2017, there were no notable non-conformities regarding compliance with the environmental programme.

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