

Communication on Progress UN Global Compact (COP) 2015



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Statement of continued support by the Chief Executive Officer (CEO)

To our stakeholders:

Over more than 80 years SFS has evolved from a family-owned Swiss company into an international group. However the strong roots are still in the St. Gall Rhine valley and the SFS values are transferred to all sites within the group by an appropriate management model. Sustainability in its actions has been the core driver of SFS since its foundation. For SFS sustainability means partnership with

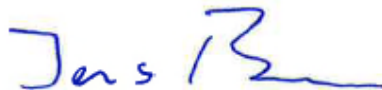
- customer
- employees
- community
- supplier

Therefore the Ten Principles of the United Nations Global Compact have been implicitly part of the SFS business model since its first days and have a tradition of decades.

I am pleased to confirm that SFS reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labor, Environment and Anti-Corruption.

In this annual Communication on Progress, we describe our actions and achievements to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. This year SFS for the first time published a separate Sustainability Report as a part of the Annual Report 2015 (available on the SFS Group website annualreport.sfs.biz). This Sustainability Report was exactly structured based on the Ten Principles of the United Nations Global Compact, which is why the Sustainability Report is directly used for this annual Communication on Progress as well. Thereby a consistent information towards our shareholders and stakeholders shall be achieved.

Sincerely yours,



Jens Breu
CEO SFS Group AG

Sustainability report

We value sustainable development.

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Partnership with our employees and business associates, acceptance of social responsibility and respect for the environment are integral elements of our culture and strategy.

Reporting structure based on ten principles of UN Global Compact

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Sustainable development as we understand it includes environmental sustainability and social responsibility, and has been rooted in our company since the founding of SFS Group. Our corporate culture and business strategy are governed by a long-term outlook and a holistic, integrative approach that is based on partnership and trust.

SFS is a UN Global Compact member and pledges to adhere to its ten principles. We use these these principles as the basis for a comprehensive presentation of our current and planned activities in the areas of human rights, labor, environment and anti-corruption.

SFS had not previously published a sustainable development report other than the annual Communication on Progress (COP) provided by UN Global Compact members. The reason is that, despite a host of local initiatives over the years, there was no globally consistent approach to reporting in the SFS Group. Following the establishment of a suitable set of guidelines in 2014, a sustainable development report is now set to become an integral part of our annual report. In many cases, the topics and actions do not fit neatly into one specific UN Global Compact principle. To keep things straightforward and easy to understand, we have structured the content according to relevance and logic, and avoided any repetitions.

Areas of UN Global Compact

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Human rights

Labor

Environment

Anti-corruption




Human rights

Shared values are set forth in our Corporate Principles

Our Corporate Principles are the common basis for approximately 8,000 employees and the linchpin of SFS culture. The common values derived from our Corporate Principles shape the way we work together and are key elements of our success. The Corporate Principles also contain a clear commitment to social responsibility and environmental sustainability. The Principles were introduced more than 20 years ago and are as valid and important now as ever. Our Corporate Principles are now available in eleven languages.

Our Corporate Principles are designed to be as precise and concise as possible. The document is composed of five key principles, each of which comes with a brief commentary. An explanatory document is available for more in-depth discussion.

 [More information on the Corporate Principles](#)

Communication of our Corporate Principles is a key element in the onboarding process for newcomers to SFS. Workshops and presentations highlighting the themes are hosted to raise employee awareness.

At SFS, we put our Corporate Principles into practice.

SFS Corporate Principles

- We seek partnership.
- We need commitment!
- We respect the community!
- We seek success.
- We want positive change.

The Code of Conduct sets out guidelines for responsible business practices

SFS has grown steadily into an international corporation through selective investment in markets, technologies and businesses, and as a result of globalization. We therefore often work today with people from different cultures and countries. Expectations and sensitivity related to ethical and fair business dealings have also increased. Ethical business conduct on the part of the company implies ethical conduct on the part of each and every employee. This Code of Conduct, which complements our Corporate Principles, has been drawn up in order to provide a set of guidelines to work by. The Code of Conduct is based on principles of integrity and fair and ethical behavior. Each SFS employee must assume responsibility for his or her day-to-day actions in the business environment, and be familiar with and adhere to the Code of Conduct.

The Code of Conduct is modeled on the SFS Corporate Principles. While the Principles set forth the ideal approach to business, the Code of Conduct provides a set of guidelines for SFS employees to put to use in their work on a daily basis. Again with the emphasis on clear and concise wording, the Code of Conduct similarly consists of five straightforward principles. A more detailed presentation is given in the explanatory document, along with practical examples. The explanatory document is updated regularly, but, like the Corporate Principles, the basic wording of the five principles is designed to remain valid for a long time to come.

 [More information on the Code of Conduct](#)

The Code of Conduct is binding for every SFS Group employee regardless of their responsibilities or position. It is an important element for the sustained positive development of SFS in a constantly changing international environment. Responsibility for consistent compliance with this Code of Conduct lies with each and every employee. The notion of personal responsibility of each individual is conveyed and emphasized through the use of the first person singular.

The Code of Conduct was passed by the Board of Directors in the summer of 2014 and subsequently implemented worldwide. Training has been provided in presentations, workshops and in an e-learning format.

SFS Code of Conduct

- I undertake to comply with laws and regulations.
- I act in accordance with ethical standards.
- I communicate openly; I protect confidential information.
- I am committed to fair competition and do not tolerate any form of corruption.
- I am responsible for compliance with the Code of Conduct.

Decentralization ensures effectiveness

Employees carry personal responsibility for compliance with the Code of Conduct in their own sphere of responsibility. The segments and divisions are responsible for compliance in operations. A local Compliance Officer has been appointed for this purpose at every SFS Group site.

Overall organizational responsibility for compliance lies with the Group Compliance Officer. The latter is responsible for the content of the Code of Conduct and related documents, coordinates onboarding and further training in this area, and is in charge of centralized reporting to the Board of Directors of the SFS Group.

The Group Compliance Officer also acts as a central point of contact for reporting of compliance incidents. He or she is bound to secrecy and also accepts anonymous notifications (T +41 71 727 63 73, compliance@sfs.biz). SFS ensures that any person who reports possible violations of the Code of Conduct suffers no reprisals.

Violations of the Code of Conduct are systematically penalized and may attract disciplinary consequences up to and including termination. They may also result in criminal proceedings or compensation claims against the perpetrator(s).

The Code of Conduct applies in conjunction with the International Quality Manual and other internal regulations, compliance with which is investigated in management reviews and internal and external audits.



SFS complies with the most demanding workplace safety and environmental standards by utilizing modern machinery and equipment and raising employee awareness of these issues.

Process for effective reporting established

Most violations are dealt with by local Compliance Officers. Notification of the Group Compliance Officer is provided for and warranted only in serious cases. Nonetheless, the SFS Group has a standardized reporting process in place to enable centralized risk analysis once a year. By 30 September of a given year, the Group Compliance Officer receives the standardized reporting form from each local Compliance Officer itemizing all compliance incidents at the respective site. These local reporting results combine to give a full picture of the compliance situation within the SFS Group and enable comprehensive risk assessment. Centralized reporting was conducted in 2015 for the first time following implementation of the Code of Conduct in 2014.

The Board of Directors accepted the Compliance Report 2015 and drew up an action plan for 2016.

Involvement in relevant industry initiatives

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In addition to its commitment to the UN Global Compact, SFS is also involved in key industry initiatives including EICC (Electronic Industry Citizenship Coalition) and BSCI (Business Social Compliance Initiative).

The electrical and electronics industries are crucial markets for SFS. EICC plays a very important role in the global electronics industry. Its main objective is to support the rights and wellbeing of workers and communities worldwide affected by the global electronics supply chain. We are committed to, and are held accountable to, the common Code of Conduct, and hence pledge to ensure continuous improvement in areas pertaining to our social, environmental and ethical responsibility.

 <http://www.eiccoalition.org/>

The Business Social Compliance Initiative (BSCI) is a leading business initiative to improve working conditions and practices in global supply chains. The initiative was launched by the textile industry and continues to enjoy the support of major retailers. With a global membership of 1,600 businesses, BSCI represents purchasing volumes in excess of EUR 700 billion. SFS is a member for its specialty retailing operations (Distribution & Logistics segment). Our main suppliers underwent audits in accordance with BSCI specifications in 2015. These efforts will continue in 2016.

 <http://bsci-ch.org/>

Substance of UN Global Compact also implemented by suppliers

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It has been our policy in the past to conclude contracts with strategic suppliers that address aspects of sustainability, such as environmental compatibility and workers' welfare.

In 2015, we revised our purchasing terms and integrated the 10 principles of the UN Global Compact. By accepting the revised purchasing terms and quality management agreement, our suppliers commit to implementing a Code of Conduct of their own that reflects the substance and content of the UN Global Compact. These new provisions will be continuously implemented in all segments with all suppliers.



Constant striving for improvement, and in particular in environmental matters, is an important factor for compliance with the principles of the UN Global Compact.

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Labor

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Employee rights respected in full

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Our employees are at liberty to join trade unions or similar organizations in compliance with the core labor standards of the ILO (International Labor Organization). Membership has no negative consequences for workers on the part of the SFS Group. Worker representation bodies or works councils have been created in numerous SFS organizations worldwide and are engaged in continuous constructive dialogue with management. The Employees' Representative Committee Switzerland participated actively in drawing up a package of measures in 2015 designed to mitigate the impact of the Swiss franc's appreciation and supported the package in its communications with the workforce in Switzerland.

Collective agreements such as national collective bargaining agreements and wage agreements exist in countries including Germany, Austria and France, where such instruments are the norm. The SFS Group is not a party to any collective bargaining agreement in Switzerland.

The SFS Group Code of Conduct explicitly prohibits forced labor and child labor. Similarly, the Code of Conduct calls for the equal treatment of all workers and business partners irrespective of their gender, religion or other attributes. Workers are employed and promoted by virtue of their skills and experience.

SFS is committed to equal pay for equal work for male and female employees. The proportion of women in the SFS Group as of end of 2015 was 21% (not including Asia).

All our workers are at liberty at any time to consult the central point of contact for compliance; i.e. the Group Compliance Officer. In some countries, workers also have the option to contact external advisory bodies free of charge. The agencies can also provide support in the event of personal or family issues. In Switzerland, SFS works with Movis (<http://www.movis.ch/>) to this end.

Investing in young people

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SFS has always invested heavily in the development of young talents within its own ranks. The main thrust of these efforts is vocational training in the form of apprenticeships. The dual education system has a long tradition in Switzerland. SFS trains approximately 160 apprentices in ten professions, corresponding to about 7% of the entire Swiss workforce. The proportion of apprentices in the SFS Group worldwide is about 2.5%, which is notably high compared to other companies in the sector.

The co-founder and honorary president of the SFS Group, Hans Huber, started his own career as an apprentice. The Hans Huber Foundation, which is co-funded by the SFS Group, assists and awards individuals and organizations for outstanding services in vocational training.



The successful Swiss model of dual education pathways is increasingly being introduced at company locations outside Switzerland; for example, in Germany and the US.

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SFS is active in its efforts to promote vocational training outside Switzerland, particularly in the US and Germany. The trainee program in our Medina, Ohio site is certified by the US Department of Labor. Promotion of vocational training is a priority at the other two major SFS production sites in the US. Last year a delegation of US officials visited SFS in Switzerland on a fact-finding mission about dual education and SFS's concepts.

The importance of vocational training at SFS can be seen from the fact that seven of the eight members of the Group Executive Board emerged from the dual education system, and earned their qualifications and credentials by means of suitable further education and training.

Commitment to promoting young talent

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SFS aims to fill 80% of management positions by promoting of employees through the ranks. We look on the development of our employees as a key instrument in protecting, securing and developing SFS culture and the values we embody. Our Structured Employee Development Program (SEDP) is a key element in the process. SEDP provides the framework for annual assessment of the development potential of all workers in Switzerland and the provision of suitable qualification measures. SEDP is also being implemented step by step at locations outside Switzerland.

Our management development strategy rests on a three-tier management training program: Team Leader, Advanced Leadership Program and International Leadership Development Program. The training programs are designed and hosted in collaboration with internal organizations and experts. Alongside management training, similar programs are available for specialist training in the various disciplines. For example in Switzerland, we invest about four days per year in the education of each employee.

SFS demonstrated the effectiveness of employee development in the course of the extensive reorganization in 2014, which resulted in a significantly larger Group Executive Board: suitable internal candidates were available to fill all the positions. The new Chief Executive Officer (CEO) was appointed according to the same principle. Jens Breu, who succeeded long-standing CEO Heinrich Spoerry on 1 January 2016, has worked for SFS for 20 years, most recently as Chief Operating Officer (COO).

Sharing knowledge to learn from each other

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SFS is organized in market-oriented segments, divisions, business units and key account teams, ensuring that we understand our customers' needs from the ground up. To enable the best possible use of synergies nonetheless, efficient and effective exchange of knowledge and expertise is crucial. Company management defined 10 focus areas for that purpose. Each focus area is dealt with by a peer group comprising representatives of all the involved segments and divisions, plus a coach. The peer group concept was formally established in 2014 and has already reaped great rewards. Another tool for knowledge transfer and talent development is job rotation, which is being stepped up on an international scale.

High employee satisfaction enhances stability

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SFS is proud to be able to count on a very loyal workforce. The average employee has been with the company for almost 12 years (not including Asia), with no more than minimal differences between sites. We see this as evidence of our attractiveness as a workplace and high employee satisfaction.

Employee satisfaction trends are important to us and are measured objectively in periodic surveys. The results are analyzed on a departmental or team level and appropriate corrective action is identified on that basis. SFS Group last participated in the Swiss Employer Awards in 2014, taking 4th place in the Large Corporations category.

Environment

Commitment to sustainable development

Environmental responsibility is an integral part of SFS culture. Commitments and obligations to the environment are expressed in our Corporate Principles, Code of Conduct as well as in the Quality, Environmental and Safety Policy. Systematic monitoring is implemented with the support of a business management system which addresses and documents compliance with the applicable laws and regulations. A host of activities attest to our adherence to these principles in practice. The SFS Group's largest plant (Heerbrugg, Switzerland) was issued ISO 14001 certification in environmental management as long ago as 1996 – the very year the concept of environmental auditing was introduced. Another 12 manufacturing sites have received ISO 14001 certification since then. Our plant in Turnov (Czech Republic) was issued ISO 14001 certification in 2014, followed by our Nansha (China) site in 2015.

Substantial reduction in emissions through cold forming

Cold forming is not only a highly productive technology for the manufacture of large quantities of standardized products, it is also a very green technology thanks to its very high material efficiency.

In addition to high productive output, cold forming features an extremely high level of material efficiency. Unlike alternative, machining technologies (e.g. milling or turning), no material is removed in cold forming processes. Instead, the simple blanks are shaped into the desired final form in two to six successive forming stations with virtually no loss of material. The amount of material saved compared to metal-cutting techniques varies depending on the shape of the final piece, but it is usually significant. Based on the entire spectrum of parts manufactured by SFS, the amount of material saved compared to conventional processes is about 67%.

Based on our annual consumption of raw material and the emissions associated with producing steel and with machining operations, the use of cold forming technology compared to metal-cutting techniques avoids approximately 300,000 tons of CO₂ emissions.

Investment in efficient solutions and alternative energies

Constant striving for improvement is firmly anchored in SFS's corporate culture. Alongside our achievements in customer projects, notable examples include our efforts in lean management, the quest for more energy-efficient solutions and the use of renewable energy. At our site in Heerbrugg, for example, more than 60 suggestions for improving energy efficiency are submitted every year.

One of these resulted in a project to mount an approximately 7,400 m² photovoltaic system on the roof of a factory building. The project was carried out in two stages in 2014 and 2015. The 4,600-panel system has an output capacity of 1.2 GWh, which is enough to provide electricity for about 300 households. In addition, most of the installation was completed by SFS apprentices as part of a work project.

The third stage of expansion is scheduled for 2016. Another example of our efforts to improve energy efficiency in Heerbrugg is the recovery of waste heat from air compressors. This is then used to heat all the office buildings at the site as well as for other purposes. The resulting carbon emission savings amount to approximately 250 tons.

Harmonized energy consumption reporting

Energy consumption has been measured at the relevant sites for quite some time. To obtain more meaningful information and a better basis for comparing sites and their data, a harmonized reporting system was implemented in 2015. The following parameters are now measured at the relevant sites:

- Energy consumption
- Process gas consumption
- Water consumption
- Waste volumes
- CO₂ emissions

Robust, comparable data will be available for the first time on completion of the 2016 reporting period.

All the major sites already prepare a standardized report on quality, environment and safety. Progress is monitored in annual management reviews, which include the identification of action items.

Helping our customers to make more efficient products

SFS generates more than 50% of its sales in the Engineered Components segment, where we act as a development partner for our customers to design and produce customer-specific solutions. As SFS's value proposition is leveraged most effectively in the context of innovation projects, SFS's advances in technology and innovation are mainly driven in collaboration with leading customers in the relevant markets. In alliance with our customers, we develop products that contribute to sustainable development in a variety of ways. Examples include helping to produce more energy-efficient systems, weight reduction, greater safety and added convenience.

One specific example are the fastening systems for the cabin interior panels in the latest Airbus models, A380 and A350. The new systems are lighter than previous fastening solutions, enable quicker installation and removal for maintenance, and reduce vibration, which lowers noise levels in the interior of the aircraft and gives passengers a more comfortable flight.

Another example is the high lift follower. This is a precision-formed part that can now be produced for the first time by cold forming, thanks to SFS's engineering excellence. The product is used in valve control systems of internal combustion engines, resulting in substantially reduced fuel consumption versus traditional systems.

In the Fastening Systems segment, in which SFS typically designs dedicated fastening systems for selected applications, various products have recently been launched primarily for use in the construction of energy-efficient buildings. These include systems for more efficient insulation attachment. Another product innovation enables safe and rapid installation of windows in energy-efficient buildings, which pose new challenges for window installation due to the thick insulation layers.

SFS also seeks to improve energy efficiency in its own manufacturing processes and monitors each innovation closely. In the plastic moulding business, for instance, the company has consistently pursued a policy of investment in all-electric plastic injection moulding machines for the past number of years. These machines use up to 40% less energy and already account for 25% of the injection moulding machine pool.



Engaging employees in decision-making processes within their organizational units and providing timely and swift information are important aspects of SFS Group's lean management policy.

Anti-corruption

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Committed to fair competition

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We are committed to fair competition. The SFS Group Code of Conduct prohibits active and passive corruption of any kind whatsoever. SFS is consistent in penalizing offenders.

An anti-corruption guideline document was drawn up in 2015 to complement the Code of Conduct and entered into force on 1 January 2016. The aim is to put the spotlight on corruption and raise the awareness of the workforce of this important issue. The guidelines are intended as a tool to help employees comply safely with the rules in day-to-day business operations.

The guidelines also contain information on the measures and procedures implemented to provide SFS Group with the best protection from corruption. These measures and procedures apply throughout the corporation, but the individual actions taken are adapted to address local laws and requirements.

The introduction of the anti-corruption guideline was supported by an e-learning program to be completed by all management personnel and employees in sales, purchasing and finance/controlling units. The objective is to ensure that employees who might be exposed to corruption issues in the course of their job are sufficiently aware and know the dangers. Like the Code of Conduct e-learning course, anti-corruption e-learning is repeated periodically.



Sustainable power generation technology is an important aspect of infrastructure investment projects. A solar PV system was installed on the roof of a factory building in Heerbrugg, for example, and SFS apprentices performed most of the installation work.

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Extensive sustainable development activities scheduled for 2016

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Efforts to promote sustainable development in the larger sense are to continue in 2016. Here is a short update on the main activities planned in the course of the year.

Human rights

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The main focus in this area is to consolidate the still-young processes and organizational procedures, related to reporting violations of the Code of Conduct. Following revision of the purchasing terms and conditions requiring suppliers to comply with the UN Global Compact, we plan to roll out the relevant contract terms and provisions on a continuing basis. Various supplier audits are planned in connection with our BSCI commitment.

Labor

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Expansion and intensification of vocational training at our international sites in the US and Germany is a priority. The newly revised International Leadership Development Program (ILDP) for internal training is set for launch. This program is pitched at management talents within the SFS Group. An important aspect of the course is the promotion of intercultural cooperation within SFS. SFS plans to continue its participation in the Swiss Employer Awards. Employee responses provide valuable information on employee satisfaction and ways to improve it.

Environment

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The Medina, Ohio plant is scheduled for ISO 14001 certification. All relevant sites will provide a quality, environment and safety report containing the environmental key performance indicators. Progress monitoring and definition of objectives will take place in annual management reviews. When the consolidated report is available, the Group Executive Board will conduct an assessment to review the efforts so far and take any corrective action that may be warranted.

We plan to continue developing and producing a host of innovative products in 2016 to add value for our customers and their customers; for example, by improving energy efficiency, increasing comfort and convenience, and enhancing safety.

Anti-corruption

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Our anti-corruption guideline is to be implemented worldwide. The launch will be supported by various training measures, including an e-learning course.