

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

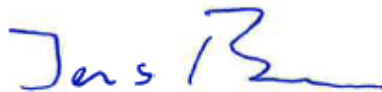
- customer
- employees
- community
- supplier

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. Since the SFS Group Sustainability Report as a part of the Annual Report 2016 (available on the SFS Group website annualreport.sfs.biz) is structured based on the Ten Principles of the United Nations Global Compact, it 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

Key topics identified

—

We identified the headline topics for SFS Group's sustainable development by engaging in an active dialog with our stakeholders and outlined them in the materiality assessment.

Adoption of GRI G4 Guidelines

—

Sustainability as we understand it comprises both environmental sustainability and social responsibility, and it has been part of our corporate DNA from the very beginning. 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.

Sustainability became an integral part of our annual reporting with the publication of the 2015 annual report. The sustainability report for that year was based on the principles of the UN Global Compact, to which SFS has been a signatory since 2010. These principles are human rights, labor, environment and anti-corruption.

This year's sustainability report covers these topics and a review of the latest developments in each area is given in the first section of this report.

In future reporting periods, however, this report will follow the G4 Sustainability Reporting Guidelines issued by GRI (Global Reporting Initiative). A materiality assessment forms the basis of GRI G4-compliant sustainability reporting. Within the scope of this assessment, the topics that matter the most with respect to SFS's sustainable development were identified by engaging in an intensive dialog with key stakeholders. The materiality assessment is presented in the second section of this report.

Human rights

—

Compliance processes and organization strengthened

—

The Corporate Principles and the Code of Conduct are two key documents on the subject of sustainability at SFS. The Corporate Principles sets out our common values, while the Code of Conduct defines the basic rules by which we abide in our business activities. The necessary compliance processes and organizational structures were also instituted with the adoption of the Code of Conduct in 2014. In 2016, considerable attention was devoted to strengthening those early-stage structures. This goal was reached, evidenced not least by the successful completion of our compliance-reporting during the past year. SFS has established effective structures for reporting suspected breaches of the Code of Conduct. In 2017, the employee training program in support of the Code of Conduct, including the program's e-learning tools, will be updated and rolled out worldwide.

Based on the compliance testing results reported as of 30 September 2016, there is no need to take immediate action within the area of human rights; no cases of discrimination, for example, were identified. We are an internationally active company that employs people of different nationalities, religious faiths and ethnicities. This workforce diversity offers many advantages, such as the opportunity to work on heterogeneous teams, to gain exposure to a diverse range of standpoints, and to learn from colleagues of different backgrounds. It furthers the company's development in a very meaningful way. Building on the importance of diversity, a diversity initiative will be launched in 2017 with the objective of increasing the awareness and appreciation of workforce diversity. This program will serve to directly counteract the risk of discrimination.

UN Global Compact supported by suppliers

—

SFS Group updated its procurement terms and conditions in 2015. All suppliers to the Group are now required to have adopted their own codes of conduct, based in essence on the standards contained in the UN Global Compact. In 2016, considerable progress was made in rolling out the updated procurement terms and conditions.

As mentioned in the 2015 sustainability report, several audits of our suppliers were conducted within the scope of our participation in BSCI (Business Social Compliance Initiative).

Labor

Vocational education programs made even more attractive

As announced in the previous year, various measures were taken during the year under review to expand and intensify vocational training activities at our international sites in the US and Germany. For the first time, a group of our apprentices had the opportunity to spend several weeks at the Medina, US, factory as part of their vocational training. This allowed them to gather valuable international experience and the attractiveness of our vocational education programs will be further enhanced. In 2017, other apprentices will be given the opportunity to spend eight weeks at the Medina factory during the summer holidays, act as ambassadors and demonstrate the advantages of the vocational training within the SFS Group.

With respect to internal training and development, a new International Leadership Development Program (ILDP) was launched. Line and site managers and specialists are the addressees of this program. Fostering intercultural cooperation within SFS Group is an important aspect of the ILDP. This multi-module program is being conducted in China, Germany and Switzerland.

In the 16th Swiss Employer Award, the largest survey of its kind in Switzerland, SFS achieved a strong second place in the Distribution & Logistics segment and Services. The last time SFS participated in the survey, in 2014, it was placed

fourth in its category. Employees were asked to rate various aspects related to their job, including the work they do, work structures and processes, collaboration, change management, supervisory leadership, employee development opportunities, and pay. These good rankings are all the more remarkable considering that various short-term measures had been taken before the survey was conducted to counter the sudden appreciation of the Swiss franc that demanded significant concessions from employees, including working longer hours and cuts in holiday entitlement. SFS is pleased with the good results of this survey. We will now engage in a dialog with employees to explore measures for improvement. Interaction with employees, the constant pursuit of improvement and the advancement of an attractive workplace environment are important to us.



The positive experiences with the dual system of vocational education and training in Switzerland are now being transferred to Medina (US). An exchange program has been set up so apprentices from Switzerland can gather valuable international work experience in the US.

Selected employee key figures of SFS in Switzerland

Education and training, in particular the vocational training, are crucial to secure the required social and professional competencies in the long run.

	Unit	31.12.2016	31.12.2015	31.12.2014
Number of employees	Number (headcount)	2,321	2,292	2,337
Whereof female employees	Number (headcount)	446	437	459
	Share in %	19.2	19.1	19.6
Whereof apprentices	Number (headcount)	153	152	157
	Share in %	6.6	6.6	6.7
Fluctuation	Share in %	6.0	5.1	6.0
Training and education per employee	Days	4.2	3.8	4.3

Environment

All sites in the Automotive division now ISO 14001 certified

Our goal of ISO 14001 certification for our plant in Medina (USA) as announced in 2015 was achieved according to plan. All the operating sites in the Automotive division are now ISO 14001 certified. Our next goal is to have the operating sites at other divisions certified. In addition, a quality, environment and safety report containing the environmental key performance indicators was issued by every relevant site for the first time. Progress monitoring and the definition of objectives are performed during the annual management reviews.

The production or procurement of energy from renewable sources is a key criterion of infrastructure projects. A solar PV system was installed on the roof of a factory building in Heerbrugg in recent years, for example, and most of the installation work was performed by SFS apprentices. During the year under review, the third and final stage was completed, adding an additional 691 MWh in renewable energy generation capacity. Total capacity of the photovoltaic system now stands at 1.9 GWh, which is enough to provide electricity for about 400 households.

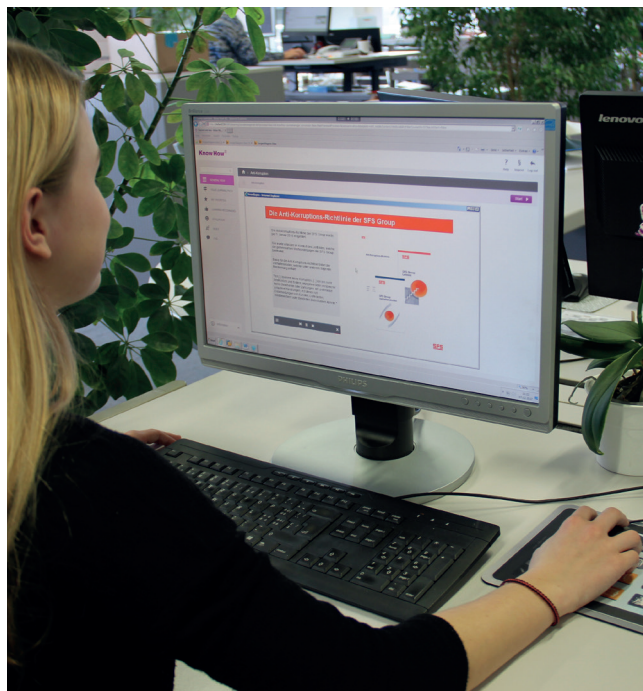
It is also noted that, in keeping with SFS Group's commitment to value creation, numerous innovative products were developed and manufactured in 2016 that created value for our customers and end-users by improving energy efficiency or enhancing comfort and convenience or safety, for example.

Anti-corruption

Anti-corruption policies implemented

An anti-corruption policy has been drawn up alongside the Code of Conduct to raise awareness of corruption and encourage employees to prevent and report acts of corruption. Implementation of the policy with effect from 1 January 2016 was supported by an e-learning program that had to be completed by all staff working in or for management, sales/marketing, procurement and finance/controlling units. This action ensures that all employees who are likely to be confronted with corruption or bribery have been suitably informed and are aware of the risks.

All these employees completed the e-learning program by 30 September 2016. The related discussions on "gifts" and "invitations" drew special interest. Newcomers to the company in the areas concerned will also be asked to complete the training program, and there are plans to incorporate the issue into a standardized international HR process for onboarding new employees.



A relevant group of employees were briefed on our anti-corruption policies through an e-learning program.

Materiality assessment

Intensifying our dialog with stakeholders

SFS traditionally maintains a close dialog with its various stakeholders. To push forward with sustainability reporting along GRI G4 lines, we have intensified the dialog. The main goal this year was to develop the materiality assessment outlined above, as it is a key GRI requirement. The matrix compares the business perspective, represented by the Group Executive Board, with the perspectives of other internal and external stakeholders, which then provides the basis for identifying the sustainability issues the most relevant to the organization as well as potential measures.

The first step was a situational assessment to identify the most important stakeholder groups for SFS. These stakeholder groups are:

- Customers
- Suppliers
- Employees
- Investors
- Board of Directors
- Educational institutions
- Media

The business's perspective was defined by interviewing every member of the Group Executive Board. SFS Group employees were represented by the employees representative committee, which represents the interests of the Group's employees in Switzerland.

Out of the total 56 GRI G4 themes, we have selected 14 relevant topics. Subsequently, in twenty-six interviews the six most relevant topics for a sustainable development at SFS were identified. This dialog with our stakeholders will continue and will be expanded in the years to come, which will help to broaden the foundation of the materiality assessment process and facilitate its further development.

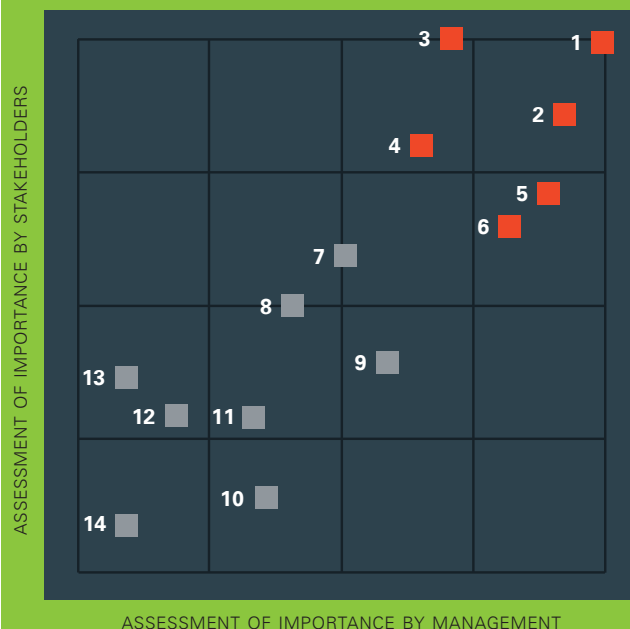
In a first step designed to ensure that the information collected in 2016 would be as relevant as possible, conversations took place with key customers and suppliers of the Engineered Components segment (Automotive, Industrial and Electronics divisions). This segment accounted for more than 50% of sales and more than two-thirds of the Group's operating profit in 2015.

The perspectives of the various stakeholder groups were then consolidated and compared with the perspective of SFS's Group Executive Board (see page 38).

Discussions with various stakeholders clarified the most important themes regarding sustainability.



Materiality matrix of the SFS Group



Most important topics for a sustainable development of SFS

- 1 Customer satisfaction
- 2 Economic value creation and distribution to stakeholders
- 3 Occupational health and safety
- 4 Regular performance and career development reviews
- 5 Programs for skill management and lifelong learning
- 6 Training and education

Further relevant topics

- 7 Ensuring non-discrimination
- 8 Anti-corruption measures
- 9 Compliance with environmental laws and regulations
- 10 Effluents
- 11 Emissions
- 12 Overall environmental protection expenditures and investment
- 13 Energy consumption by company, suppliers and customers
- 14 Complaints and litigations about environmental impact

The materiality matrix shown here was adopted by the Group Executive Board of SFS on 7 December 2016. There is a striking and very welcome similarity in how the areas are seen by the Group Executive Board and by the various stakeholders, with near-diagonal matrix entries.

These six red marked topics positioned in the top right of the diagram are the most important ones for sustainable development at SFS:

■ 1 Customer satisfaction

Our top priority is to add value for our customers. Confirmation of goal achievement is an indicator of customer satisfaction.

■ 2 Value creation and distribution to stakeholders for example, in the payment of salary, dividends to shareholders, taxes to the public sector, etc.

This measure essentially describes the partnership between the company and society and the different stakeholders. The commitment to fair partnerships is part of the SFS DNA and is at the same time an integral part of our Corporate Principles.

■ 3 Occupational health and safety

Occupational health and safety is crucial to the success of a manufacturing company where the performance and prosperity rely entirely on a highly motivated workforce. SFS Group has already achieved a high level with respect to occupational health and safety. However, the high priority that is assigned to this topic is also an inspiration to seek further improvement.

■ 4 Regular performance and career development reviews

5 Programs for skill management and lifelong learning

6 Training and education

As already mentioned, the company's employees are mainly responsible for the sustainable, successful development of SFS. Accordingly, tools for regular employee assessment and career development are rated very highly by the Group Executive Board and the majority of the stakeholder groups. SFS already invests heavily in education (see page 34), and it views the positive rating as an incentive to continue resolutely along that path.

Priorities for future reporting defined

Management and stakeholders consider ecological aspects as relevant, but attach noticeably less importance compared with other featured areas. This has to do with the characteristics of the products, which tend to be small, and the existing implementation of efficient manufacturing processes (cold forming in particular).

The focus in future will be on the six topics assessed in the materiality assessment. Specific objectives are to be defined and action plans developed for each area in 2017.



The various instruments used for regular performance reviews and career development purposes are of central importance in our extensive efforts to develop our employees' social and professional skills.