

Communication on Progress UN Global Compact (COP) 2017



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

To our stakeholders:

Within almost 90 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

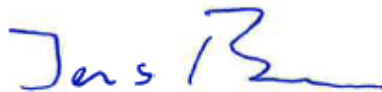
- customer
- employees
- community
- supplier

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 2017 (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

Clear objectives

After identifying the key themes that have a bearing on SFS's sustainable development, clear objectives and actions have now been drawn up.

Human rights

Structures established

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 conduct our business activities. Both these documents remain applicable. Compliance-relevant processes and organizational units have been continually strengthened following the adoption of the Code of Conduct in 2014. SFS now has effective structures in place that sensitize employees about critical issues and which they can use to report suspected violations of the Code of Conduct.

Based on the group-wide compliance testing results reported as of 30 September 2017, there is no specific need to take action within the area of human rights. Nevertheless, as an internationally active company that employs people of different nationalities, religious faiths and ethnicities, there is a latent risk that human rights might be violated. As a preventive measure, everyone on the SFS workforce completed an e-learning module or other appropriate training on the Code of Conduct in 2017. The training content raised employee awareness of ethical behavior, which includes respecting human rights, and also informed employees of their obligation to report known or suspected violations of workplace ethics.

Considerable importance is attached to the Corporate Principles and the Code of Conduct during the onboarding of new employees and in our vocational training programs by means of a training right after joining SFS. This ensures that the contents of these documents are understood by new SFS employees early on and then reflected back into the organization on a continual basis.

Compliance as a managerial responsibility recognized

Compliance structures and awareness-raising measures in the broader workforce can come into full force and effect only with an unconditional and authentic management commitment to compliance issues. Tangible leadership from management is particularly important with respect to human rights. During the reporting period, a number of managers underwent 360-degree feedback reviews in a pilot project that also covered issues relating to integrity and role model of managers in their interaction with employees and the company in ethical behavior. Use of the 360-degree feedback tool will be intensified during coming years in all divisions.

Anti-corruption efforts

Commitment to fighting corruption reinforced

SFS's anti-corruption policy came into effect in 2016 and corresponding training on issues that are particularly exposed to this risk, were provided via an e-learning program. This training concept is now firmly established and part of the onboarding process for new employees in sales, procurement, finance and accounting roles. In 2017, employees throughout SFS Group frequently contacted the Compliance Officer with ethics-related questions regarding invitations to certain events and the offering or accepting of gifts and hospitality. The increase in the number of such queries is a clear indication that employee awareness of corruption issues has risen and this is regarded as a positive development.

Labor standards

Diversity seen as an opportunity

SFS Group has been committed to the principles of the UN Global Compact since joining in 2010. SFS strongly condemns forced labor and child labor of any kind whatsoever and upholds the right to freedom of association and collective bargaining throughout the organization. Due to the inclusion of these principles in its conditions of purchase, SFS Group demands its business partners to share these values.

Given the international presence and size of SFS, a distinctive diversity is a natural outcome that is embraced as positive and enriching. The internships of several weeks that SFS apprentices are offered in other cultural and language regions, and the international training programs for management, which SFS has successfully conducted for the past several years to promote intercultural collaboration, are examples of how SFS champions diversity. It follows that discrimination of any kind whatsoever will not be tolerated during the recruitment process or anywhere in the workplace.

It is a matter of concern to SFS that diversity is maximized in the organization's administration, management, supervisory bodies and interdisciplinary teams in terms of age, gender, educational and professional background. However, in the materiality assessment passed by the Group Executive Board on December 7, 2016 this topic was not accorded priority by any of the participating stakeholder groups. As we want to focus our efforts on the most important goals and measures (see page 34), there are currently no specific concepts being developed or implemented to foster diversity.



Every year, apprentices from the US and Switzerland are offered the opportunity of an internship of several weeks in other cultural and language regions.

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	31.12.2017	31.12.2016	31.12.2015
Number of employees	Number (headcount)	2,415	2,321	2,292
Female employees	Number (headcount)	465	446	437
	Share in %	19	19	19
Fluctuation of employees	Share in %	5.0	6.0	5.1
Apprentices	Number (headcount)	156	153	152
Workplace injuries	Number	105	109	131
Rate of injuries	per 1000 employees	44	47	57
Absence rate, work-related and non-work related	Number	20,203	19,725	19,259
	Share in % of total working days	3.5	3.5	3.4

*without Stamm AG

Environment

Environmental management system certified

Since 2016 all Automotive division sites have been ISO 14001-certified. Every manufacturing site of the Electronics division and a number of the Industrial and Riveting divisions' sites have since received ISO 14001 certification, and improved their environmental performance. Certification of further sites is planned.

ISO 14001 certification commits a site to set specific environmental objectives each year and define environmental policies on that basis. ISO 14001 requirements are now a firm part of SFS Group's quality management system and both systems form an overarching business management system.

Compliance with environmental legislation is assessed every year. In addition, SFS Group collects information on environmental and safety indicators for its databases, and it plans to train experts for ISO 14001 certification.

In 2017, all 15 commissioners of the Environmental and Safety teams at the Heerbrugg site participated in a two-day course on selected environmental issues. These commissioners are responsible for the compliance and implementation of these guidelines in their respective organizational unit. Moreover, they ensure communication between employees, line managers and the responsables for environmental issues and contribute to prevent workplace injuries as well as to improve environmental protection. An e-learning program on quality, environment and safety policies was also rolled out worldwide.

Solutions to meet environmental goals established

SFS seeks and supports solutions that preserve the environment during the course of the business operations at all our sites worldwide. As representative examples, this report takes a closer look at our efforts in Switzerland and India.



All ISO14001-certified sites define specific environmental objectives each year. Moreover, SFS plans to train experts for ISO 14001 certification at the sites.

Switzerland

A range of measures implemented in Heerbrugg in 2017 have significantly reduced the site's environmental impact. Modernization of ventilation systems in a section of the production operations is saving energy and improving air quality at the same time. New LED-based lighting with state-of-the-art control systems has significantly reduced energy consumption and, additionally, the new system is easier to maintain. Relocating the offices of SFS intec and SFS unimarket employees to a single, shared site has produced energy savings of about 20% and reduced traffic. Similarly, the switch from pneumatics to servomechanisms for certain metal-forming processes in assembly operations has cut energy consumption by a factor of 50. This technology is currently being tested in a pilot project. Generated heat is also being better utilized in Heerbrugg, thanks to the modification of the hydraulics of its heating supply system. And a new heat treatment system, the first to be deployed with low-emission flameless oxidation (FLOX) burners, has reduced CO₂ and other exhaust emissions.

A mobility concept called "mobility@SFS" was launched in Switzerland during the reporting period. The aim of the concept is to improve commuter behavior of SFS employees and thereby increase motivation, satisfaction and health. Moreover, it protects the environment and makes more efficient use of company cars and parking facilities. Following an analysis of commuter flows and the needs of employees in Switzerland, these employees were offered the opportunity

to buy an electric bicycle for half the usual price. SFS and bicycle specialists involved in the scheme pay the other half. The campaign drew a huge response – about 40% of employees took advantage of the opportunity and about 1,000 e-bikes were ordered. An incentive system to promote more ecological commuter behavior on a general level will be launched in 2018.

India

In India, Indo Schöttle, that was acquired by SFS in 2014, received a "Best Overall Sustainable Performance Award" from Mahindra, India's largest vehicle manufacturer. This important award was presented in recognition of achievements in the utilization of alternative energies, energy conservation and corporate social responsibility. Mahindra singled out Indo Schöttle's outstanding sustainability initiatives, which included new solar and hybrid power generation installations at the Pune site, a rain water harvesting system at Belgaum, an investment in four high-volume ventilators and a campaign to plant some 500 trees.



The new heat treatment system, now equipped with low-emission flameless oxidation (FLOX) burners, reduces CO₂ emissions.

Materiality assessment

Progress through greater focus

SFS elaborated a materiality matrix in accordance with the widely recognized GRI Standards. This matrix compares the company's perspective, represented by the Group Executive Board, with those of other internal and external stakeholders. The results of this matrix showed us which sustainability issues were the most important ones. The dialogue with the stakeholders will be continued and the materiality assessment updated over the coming years.

To ensure that we achieve measurable progress in each of the six priority topics identified in the matrix, specific goals and action plans according to GRI were drawn up for each topic and approved by the Group Executive Board. These goals and action plans are outlined in the following section.

1

Customer satisfaction

Our primary objective is to collaborate closely with customers to achieve mutual success – according to our claim “Inventing success together” – and to create sustainable value for our customers. Close partnerships presuppose a spirit of mutual trust. Customer trust is earned by maintaining high levels of customer satisfaction with our products and by engaging in a continual dialog.

We periodically measure the satisfaction of our key accounts and identify potential for further improvement. In 2018, we intend to consolidate the existing divisional approaches and to harmonize the efforts.

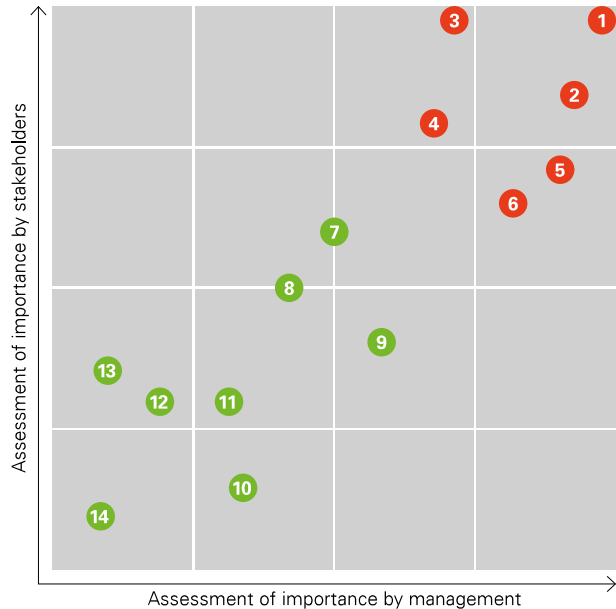
2

Economic value creation and distribution to stakeholders

This criterion essentially mirrors the fair partnerships between SFS and its various stakeholder groups. SFS's commitment to fair partnership is part of its corporate DNA and is anchored in its Corporate Principles. Stakeholder value is created in various ways, in the form of the wages the company pays to its employees, for example, or through the dividends that shareholders receive or the taxes that the company pays into the public purse. We refrain from aggressive tax avoidance practices.

Besides maintaining a balanced distribution of value among the various stakeholder groups, we want to expand the aggregate amount of value created. Doing so will increase the various stakeholder groups' share of value in absolute terms.

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 expenditure and investment
- 13 Energy consumption by company, suppliers and customers
- 14 Complaints and litigation about environmental impact

SFS's future financial goals will be defined in the mid-term plan 2020 to 2025 that will be prepared in 2018/2019. We will also analyze the share of value distributed to each of the various stakeholder groups during the past several years. The results of this analysis will provide reference points for the distribution of value going forward.

3

Occupational health and safety

At a manufacturing company like SFS where performance and success are largely attributable to its highly motivated workforce, employee safety and health is a top priority. We promote employee well-being by endorsing a healthy work-life balance and by seeking to avoid workplace injuries.

In 2018, we will take action to further improve safety at all sites currently certified to ISO 14001, among other measures. Quantitative goals will be verified and new goals formulated.

Furthermore, other initiatives stemming from SUVA, Switzerland's national occupational accident insurance agency, will be implemented at Heerbrugg, Switzerland, the largest SFS site, along with an improved absence management program. Absence management will help to draw a supervisor's attention to potential health problems and encourage a proactive dialog with the employee. The employee satisfaction surveys we conduct on a periodic basis also give us valuable feedback on employee safety, health and satisfaction. The results of these surveys lay the cornerstone for further improvements in (workplace) conditions.

4

Regular performance and career development reviews

SFS's sustained success is largely the work of its employees. Considerable importance is therefore attached to continual performance evaluations and talent development activities.

Every employee is invited to a performance review at least once or twice a year, at which straightforward professional development and performance goals are defined for the coming year.

We aim to fill 70% of all open managerial positions with internal candidates. Besides the aforementioned performance reviews, the implementation of a structured employee development program helps us to achieve this ambitious target.

5

Programs for skill management and lifelong learning

We want to make sure that our employees are capable of performing their jobs correctly. In addition to individual new employee onboarding plans, every employee can take advantage of an increasing range of professional development opportunities.

Peer groups are also an important platform where knowledge can be exchanged on a continual, internal basis. There are 11 such peer groups, consisting of one representative from each division. They meet at regular intervals physically or virtually to discuss new developments, crucial information and the latest news pertaining to specific topics (such as social media or procurement matters). These groups are a very useful and efficient means of sharing knowledge within SFS Group and leveraging that knowledge selectively in the various divisions to bring about improvements.

Employee satisfaction surveys are also conducted on a regular basis to obtain feedback on the professional employee education and training programs and on how they can be improved.

6

Training and education

SFS is already actively involved in professional development activities. The importance attached to this topic by the stakeholder groups fosters our resolve to continue on the path we have taken. In Switzerland, every employee is entitled to invest on average four days a year in training and development. The range of training programs offered will continue to be expanded. Besides more e-learning units, i. e. a new "Sales Excellence Training" will be introduced for selected employees.

The "International Leadership Development Program" (ILDLP) for SFS executives and specialists will be continued as well. Fostering intercultural cooperation within SFS Group is an important aspect of the ILDP.

The dual education and training system is vital to our efforts to develop young talents. We would like 5–7% of the worldwide workforce to be apprentices enrolled in such programs. To reach this target, we will intensify our efforts to promote dual education programs internationally.