

Communication on Progress

SFS remains active in other areas as well. It is a signatory to the UN Global Compact and has upheld these principles and contributed to the realization of the Sustainable Development Goals (SDGs) since 2010. SFS is currently prioritizing six goals: SDG 3 – Good health and well-being, SDG 4 – Quality education, SDG 8 – Decent work and economic growth, SDG 9 – Industry, innovation and infrastructure, SDG 12 – Responsible consumption and production, and SDG 13 – Climate action. This prioritization reflects the material topics as determined in the materiality assessment conducted in 2021: economic performance, occupational health and safety, education and training, emission reduction and socioeconomic compliance. The issue of human rights is a new addition. SFS reports annually on the goals, measures and progress of the individual topics within the framework of the Communication on Progress report (UN Global Compact) and the GRI report (Core option). In the current year under review, the focus was on initiating further measures in order to move ever closer to meeting the ambitious, long-term targets up to 2030 and 2040, respectively, with the overarching goal of being able to make an important contribution to the global SDGs.

The progress during the year under review is described below:



Human rights

Existing initiatives continued

The SFS Corporate Principles and the SFS Code of Conduct are key documents that shape SFS's sustainability policies and ensure that all its business dealings respect and protect human rights. The Corporate Principles set out the common values, while the Code of Conduct defines the basic rules by which SFS conducts business activities. Both documents remain binding. The Code of Conduct is based on robust and effective compliance processes. The contents of the Corporate Principles and Code of Conduct are imparted to all new employees and apprentices through formal instruction or e-learning units when they join the company. Awareness of these themes is part of the basic skillset every SFS employee must have, and this awareness should guide and shape them from the start (see GRI 102-16 →). SFS strives to introduce the Code of Conduct as quickly as possible to all new employees who join SFS Group. The Code of Conduct is therefore an integral element

of the integration process. SFS also demands unconditional respect for basic human rights from its suppliers. When screening potential business partners, this requirement is a mandatory criterion, as it is an integral part of SFS's general purchasing conditions (see GRI 102-9 →) and no business is conducted with a supplier that does not sign and comply with them.

The Supplier Quality Agreement was updated in 2021. Compliance and sustainability issues are an integral part of this standard contract, and this update is intended to ensure compliance with the relevant standards throughout the supply chain. In order to strengthen awareness of the principles of the Code of Conduct among new employees, the topic is repeated in in-depth onboarding training courses in Switzerland, which take place around 100 days after the start of their employment, and specific topics are examined in more detail.

The topic of human rights → is now also dealt with as a key topic in the GRI section of the report.

Priorities for 2022

A repeat of the e-learning course on the Code of Conduct is planned for all employees of the SFS Group in 2022. Following the entry into force of the EU Whistleblower Directive on 1 January 2022, the topic of compliance notifications will also be given a prominent place in the e-learning course. Workshops with the local compliance officers, which will also be held in 2022, are intended to raise awareness of compliance, particularly at the sites outside Switzerland/away from the headquarters.



Labor standards

Promoting conflict-free collaboration

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. As these principles are an integral part of the Group's general conditions of purchase, compliance with which is mandatory in order to qualify as a supplier, SFS suppliers are similarly required to uphold these values (see GRI 102-9 →).

The diversity of SFS's workforce is a natural outcome of the company's international presence and size and this diversity is regarded as positive and enriching. Recurring multi-week internships completed by SFS apprentices at different sites and international management training programs that promote intercultural collaboration are examples of how SFS champions diversity.

In the year under review, the topic of breaches of integrity was once again addressed in order to keep the level of awareness in this area high. All employees of the SFS Group completed the second edition of the e-learning course entitled "Infringement of personal integrity". The e-learning program was offered in all languages in which the Code of Conduct is available and was completed by 90% of employees by the end of the year. One exception to this is the US sites, which use their own training material owing to country-specific circumstances.

Priorities for 2022

Infringement of personal integrity is an important topic in the SFS Code of Conduct. The e-learning course on the Code of Conduct, which will be relaunched in 2022, will help to raise awareness even further.



Environmental protection

Focus on emissions

Sustainability as a strategic priority has further gained in significance. This underscores what will be important in the future: sustainable business and action for a stable and prosperous society that can exist in harmony with the environment now and in the future. In addition to economic and social objectives, the protection of the environment is also of particular importance. Processes are therefore designed to be energy-efficient, environmentally friendly and resource-conserving so that the environmental impact and, in particular, GHG emissions are reduced to the lowest possible level. The goal is to cut Scope 1 and 2 emissions by more than 90% by 2030 in comparison with 2020. In Scope 3, the target is a 90% reduction by 2040 (both in terms of emissions in tonnes of CO₂e per Swiss franc of value added; the base year for the Scope 3 target has yet to be determined).

The strategy focuses on optimizing resource consumption and using renewable energy in order to reduce Scope 1 and 2 emissions. The share of renewable energy will initially represent the greatest point of leverage as a result of the procurement of renewable electricity and the in-house generation of renewable electricity. Around 70% of Scope 3 emissions, i.e. across the entire value chain, stem from the purchase of products from suppliers. Cooperation with suppliers will play a major role here.

First steps have been taken

In 2021, Scope 1 and 2 emissions were reduced by -4.5% in absolute terms year on year (total emissions of CO₂e in terms

of Swiss francs of value added). The purchase of renewable electricity increased from 6% to 36%. Investments in photovoltaic installations at the sites in Switzerland, Sweden, Malaysia, China and India also made a positive contribution. As a result, the share of electricity produced in-house rose to 2.5%, up from 1.4% in the previous year. The overall result did not improve as the data collection process was being completed at the same time (Scope 1). In Scope 3, the focus continued to be on completing the data collection process, meaning that it will be possible to show the reference year by 2023 at the latest.

Initiatives to protect the environment

In addition to purchasing renewable electricity and investing in photovoltaic installations at various locations, many small and medium-sized projects are underway. These include:

- replacing heating systems with heat pumps – in India, the water for the washing facilities is heated efficiently in this way.
- treating water with reverse osmosis systems – this has already reduced water consumption by more than 4% in China and Malaysia.
- projects for detecting compressed air losses – a global project that, for example, will save more than 20 MWh at the site in Heerbrugg, Switzerland, in the future.
- replacing conventional lighting with efficient LED lighting systems – in Hungary, this has saved more than 70% of the electricity consumption for lighting. This corresponds to around 43 t CO₂e per year.
- oil preparation by centrifuges – trials are currently underway at the site in Heerbrugg, Switzerland.
- replacing specially used parchment paper with reusable plastic mats in the drying process – at the US site in Wyomissing this led to around 18 m³ of waste being avoided.
- Initiatives have also been launched to reduce emissions from the vehicle fleet. This will steadily increase the share of electric vehicles and reduce the average WLTP (Worldwide Harmonised Light-Duty Vehicles Test Procedure) consumption in the fleet.

Operational life cycle assessment drawn up

SFS aims to reduce not only emissions but also environmental impact in a holistic manner and has therefore drawn up an operational life cycle assessment for the entire Group using the ecological scarcity assessment method. This compares and weights various environmental impacts and their effects on human health, the climate or ecosystems and is measured in so-called environmental impact points (EIP). In the reporting year, SFS succeeded in reducing the environmental impact of electricity, heating energy and water throughout the Group. In addition, the "disposal and waste" area in particular developed positively (-53%). This is primarily due to the increased recycling rate. The increase in the categories "Auxiliary materials and supplies" (2,858%), "Fuels" (99%) and "Process fuels" (98%) is justified by the extensive expansion of data recording.

Priorities for 2022

In 2022, the priority will remain optimizing the resources used and further expanding the use of alternative energy sources, e.g. through photovoltaic systems. Renewable electricity is deli-

berately procured at the sites with the greatest potential in terms of their environmental impact.



Corruption prevention

No cases of corruption during the year under review

The anti-corruption policy in force at SFS since 2016 and imparted to staff in high-risk positions via mandatory e-learning courses was again communicated to all new employees in management positions and in the sales, procurement and finance units during the year under review.

There was one suspected case in 2021. The case was escalated in accordance with the usual guidelines and in-depth investigations were initiated with an external partner. At the time of this report, the detailed result of these investigations is still pending. No other cases of corruption or suspected cases were reported within the SFS Group. Numerous requests from staff seeking guidance on specific, potentially critical situations are an indication that awareness of corruption, including blackmail, has continued to grow. The internal Code of Conduct is also increasingly referred to in dealings with business partners; for example, refusal of certain invitations to certain events. SFS also expects third-party business partners, and their sales agents in particular, to take a zero-tolerance approach to all forms of corruption. A standard clause to this effect is included in cooperation agreements with sales agents. SFS's general purchasing conditions also require suppliers to take action against corruption and bribery (see also GRI 102-9 →).

Corruption is a topic that is highlighted time and again in SFS's day-to-day work. This may be in specific cases when assistance is requested with regard to accepting gifts or invitations or in internal communications such as the compliance newsletter, which is published four times a year. This repeatedly calls for caution and reports on specific cases of corruption in order to make employees aware of the issue.

Priorities for 2022

A great deal of attention will continue to be paid to the topic of anti-corruption in 2022. As in previous years, critical questions about gifts, invitations and events will be addressed in the newsletter and by other means, especially before public holidays. This should constantly raise awareness of the issue among employees and other stakeholders, as well as enabling them to contribute to the implementation of fair competitive conditions. From 2022, explicit compliance checks will be integrated into the internal audits of the SFS Group. This will increase the visibility of the topic of anti-corruption in particular, but also that of other compliance issues.

Communication on Progress UN Global Compact (COP) 2021: Statement of continued support by the Chief Executive Officer (CEO)

To our stakeholder

Within more than 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:

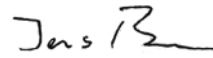
- Customer
- Employees
- Community/ local authorities
- Supplier

Therefore the Ten Principles of the UN 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. We also commit to share this information with our stakeholders using our primary channels of communication.

Sincerely yours,



Jens Breu
CEO