

Sustainability

Improvements achieved

Sustainability is a key aspect of SFS’ daily business activities. Continuous dialogue with our partners is the basis of our mutual progress and success. SFS Group intensified its dialogue with its stakeholders during the year under review.

Progress was made in the six key themes that were identified within the scope of the materiality assessment. These topics are most crucial to SFS’ sustainable development and are listed below:

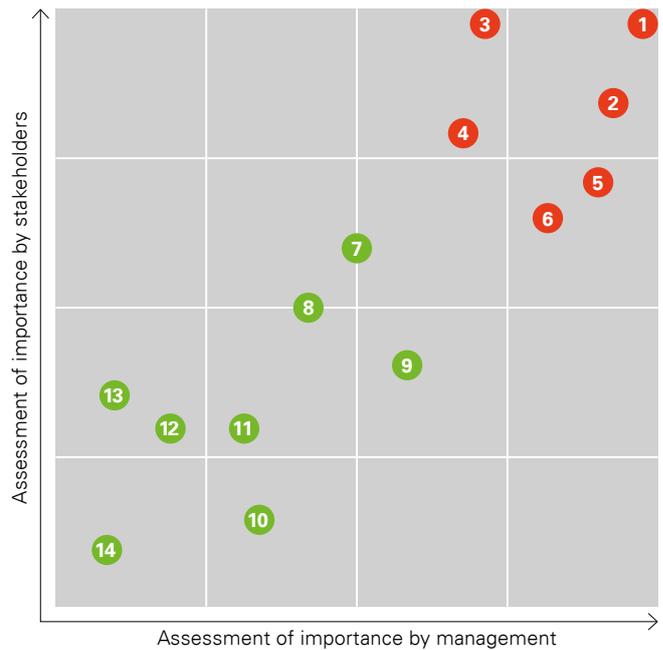
- 1 Customer satisfaction
- 2 Economic value creation and distribution to stakeholders
- 3 Occupational health and safety
- 4 Regular performance and career development reviews
- 5 Programs for skill management and lifelong learning
- 6 Training and education

Focus on implementation

SFS elaborated the materiality matrix (right) in 2016 in accordance with the widely recognized GRI Standards. During the year under review, efforts were focused primarily on the improvement of the sustainable performance of the six priority topics and on establishing and further strengthening the pertinent management structures.

Our dialogue with all stakeholders will be expanded in 2019 and will ensure that SFS Group’s materiality matrix is continuously updated and improved.

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 litigations about environmental impact

1 Customer satisfaction

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

We measure the satisfaction of our key accounts periodically and identify potential for improvement. In view of the heterogeneous target industries, there are considerable differences in the defining characteristics of each division’s business activities and customers. The objective in the year under review was to consolidate the various divisional methods for measuring customer satisfaction and to harmonize them wherever possible. To this end – and in order to draw even greater attention to this issue – a group guideline for measuring customer satisfaction was formulated and was approved by the Group Executive Board in 2018. The process owner is the CEO of SFS Group.

Concept to measure customer satisfaction formulated

Every division has reviewed its existing methods of measuring customer satisfaction with reference to the newly implemented group guideline and has elaborated a concept

to measure that will be implemented in the next reporting period. In view of the different target customer groups, the divisional concepts vary. Measurement methods range from a scorecard, used in the Automotive division, to online surveys, used by the Electronics division.

Customer relationships built on trust

The awards that SFS won during the year under review are also an expression of customer satisfaction. For example, SFS was pleased to receive the Robert Bosch GmbH “Crazy for SuCCess” award at the end of 2018. This was the second time that SFS has received this prestigious award in the short history of the prize. With it, Bosch honors the six most valuable and reliable suppliers, from a total of more than 1,000 suppliers to the Chassis Systems Control Division. New project acquisitions are another proof of the close, partnership-oriented relationships that SFS maintains with its customers, since a high level of trust is a prerequisite for early integration into its customers’ new product development projects. It takes a high level of service excellence, reliability and quality to build that kind of trust.

Priorities set for 2019

The focus for 2019 is on implementation of the divisional concepts with the objective of evaluating customer satisfaction and formulating the right corrective measures based on the findings.

2 Economic value creation and distribution to stakeholders

This criterion essentially mirrors the fair partnerships between SFS and its various stakeholder groups. Stakeholder value is created in various ways, in the form of the salaries 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. SFS refrains from aggressive tax practices and structures, and pays taxes where the economic value is generated. Since 2017, SFS Group has reported the required tax payment per country to the federal tax administration as part of country-by-country reporting.

Overall economic value creation increased

SFS strives to maintain fair partnerships – with its customers, suppliers, employees and shareholders. Therefore, it attaches

great importance to maintaining a fair and balanced distribution of value among the various stakeholder groups. During the period 2014–2018, SFS increased its value added (gross) by 27.7% in total. The value created for the various stakeholder groups increased by the significant amount of 33.4% during the same period. The percentage shares of each stakeholder group remained relatively stable. After the initial public offering of SFS Group in the spring of 2014 and in response to market expectations, the dividend payout was increased. This payout to shareholders has shown a stable development since then.

Priorities set for 2019

In conjunction with the preparation of the medium-term business plan, we will set target ranges for the future distribution of economic value added in 2019. Profitable growth should allow SFS Group to continue to increase the distribution of value among its stakeholders.

Development and distribution of value added

in CHF million

	2018	2017	2016	2015	2014
Value added gross	853.0	814.4	721.2	641.8	668.0
As a % of net sales	49.1%	49.8%	50.2%	46.8%	48.3%
Depreciation/amortization	-89.7	-125.8	-146.4	-142.3	-134.9
As a % of net sales	-10.5%	-15.4%	-20.3%	-22.2%	-20.2%
Value added net	763.3	688.6	574.8	499.5	533.1
As a % of net sales	43.9%	42.1%	40.0%	36.4%	38.6%

Distribution of value added net

Employees	68.0%	69.8%	71.6%	75.6%	72.8%
Personal expenses	519.3	480.6	411.8	377.5	387.9
Government	6.0%	6.4%	6.1%	5.8%	5.0%
Income taxes, fees	45.8	44.0	35.2	29.0	26.7
Capital provider	10.4%	11.0%	12.0%	11.9%	12.8%
Dividends to shareholders	75.0	71.3	65.6	56.3	56.3
Interest expenses	4.3	4.9	3.0	3.2	12.2
Company	15.6%	12.8%	10.3%	6.7%	9.4%
Retained earnings	118.9	87.8	59.2	33.5	50.0

3 Occupational health and safety

In an industrial company such as SFS where performance and success depend essentially on a highly motivated workforce, occupational health and safety are high-priority issues. SFS promotes employee health by encouraging a healthy work-life balance and taking steps to prevent work-related injuries.

Introduction of ISO 45001

It was decided in 2018 to launch preparations for ISO 45001 certification, the management system for occupational health and safety. The plan is to develop the SFS processes at the Heerbrugg (Switzerland) headquarters, followed by a successive global roll-out and certification at production sites.

Strengthening the ranks of the GQES team

An EHS (Environment, Health and Safety) manager is to strengthen the ranks of GQES team (Global Quality, Environment, Safety) in 2019. This was decided during the reporting year in recognition of the fact that prevention of work-related injuries, development and improvement of the SFS system, mitigation of emissions and reduction of waste continue to present challenging goals. The new organization, including the group-level EHS manager, will be developed further in 2019 and the first measures to achieve these goals implemented.

Work safety improvements implemented

The regular employee survey helps to monitor how employees rate occupational safety and health on an individual level. This in turn provides a basis for identifying and implementing improvements in the workplace.

An anonymous survey conducted at all German sites of the Riveting division with external support investigated the risk impact of mental stress at work. Workshops based on the results were held and improvements were developed that are now entering the implementation stage.

We have various initiatives in place in Switzerland to promote occupational health and safety. SFS also collaborates closely in this area with external partners, such as health and accident insurance providers and the social counselling services provided free of charge for our employees. The program includes measures in the areas of prevention, maintenance of health and performance, and assistance and support if problems arise.

Occupational safety is also an important issue in Asia. Unisteel in Malaysia took part in a one-year program designed to improve workplace health organized by the Malaysian government. The aim was to support participating companies in complying with applicable workplace health regulations, particularly in chemicals management, ergonomics and hearing protection. Unisteel implemented the measures on a continuous basis to improve occupational safety in areas such as noise, chemicals and ergonomics. Unisteel was audited several times in 2018, culminating in a "Chemical Best Practice" award in July 2018.

Absence management tool implemented

A software-based absence management process was introduced in Switzerland at the start of 2018. The system helps management to detect employee health issues based on absenteeism patterns, to engage in a proactive dialogue with employees, and to jointly develop timely corrective actions. The objective is clear: healthy and productive employees. Management feedback on the tool has been positive, but the structured approach adds to management workload.

EcoPoints successfully launched

As part of the "mobility@SFS" concept, SFS supports employee efforts to green their commute. With the new EcoPoints bonus and incentive system, anyone who cycles, walks, or uses public transport or car sharing to get to work collects points that they can cash in for attractive bonuses or donate to a good cause. Since the launch in early September 2018, 950 SFS employees – about 40% of the Swiss workforce – have commuted a distance of more than 116,000 km on a bicycle, 10,200 km on foot, 61,000 km by public transport and 29,000 in car pools. This adds up to a carbon reduction of almost 40,000 kg and a saving of approximately CHF 100,000 from non-use of the car.

Priorities set for 2019

SFS has set its sights on a further 10% reduction in work-related injuries in 2019. Moreover, an SFS Group Occupational Health & Safety roadmap and SFS Group Safety Rules are in preparation for approval by the Group Executive Board.

4 Regular performance and career development reviews

SFS' continued positive development depends mainly on its employees. Consequently, regular employee performance review and employee development tools are another high priority.

Performance goals updated regularly

One example is performance assessment, with reviews taking place at least once a year for every employee. Clear development and performance targets for the coming year should be defined in these meetings and two questions in the Swiss Employer Award (see box p. 40) show that this is the case, with 88% of employees answering in the affirmative (My goals for the current year were discussed with me / My performance was assessed on the basis of the agreed goals at my last performance review). The ratings indicate 0% difference in comparison with the last survey and are 9% higher than the average industry score for 2018.

Management positions filled in-house

We aim to fill approximately 70% of management and key personnel vacancies with in-house candidates. We achieve this ambitious goal with the aid of a Structured Employee Development Program (SEDP). The objective is to identify employees with the potential for additional tasks and responsibilities and prepare them for their new roles with medium and long-term training and further education. Divisional lead-

ers identify the areas where successors will need to be found in the next few years. Suitable candidates who have both the will and the potential are identified, then specific measures are defined and integrated in the individual performance review process.

In the reporting year, this method enabled replacements to be nominated for 66% of vacancies in key positions (head of division as well as site managers).

Endorsement in Swiss Employer Award

Of respondents in the Swiss Employer Award survey, 70% answered the career development question in the affirmative (I have good opportunities for career development in my division). This represents 0% difference in comparison with the last survey and is 5% higher than the average industry score for 2018.

Priorities set for 2019

Efforts in the current year will focus on maintaining the pleasing high standard. A number of approaches are planned in order to achieve this goal: first, the employee survey will be extended to include the Automotive, Riveting and Construction divisions. Second, departmental career development projects (technical specialists and executive management career paths) and group guidelines for high employee retention will be established. The current average employee retention period on an international scale is about 12 years.



An important aspect of the training in the "International Leadership Development Program" (ILDLP) is the promotion of intercultural collaboration.

5 Skills management and continuous learning processes

The value proposition “Inventing success together” applies both internally and externally. It is a commitment to a continuous quest for improvement. In addition to an individual onboarding plan for new employees, every employee has access to a comprehensive further training program. That’s because we want to ensure that our employees have the capability to meet their tasks as best as they can and are able to fulfil their potential.

Enabling cross-divisional exchange

Internal PeerGroups (PeG) are an important platform for exchanging knowledge on a continuous basis. A total of 13 internal PeGs have been set up consisting of representatives from the divisions to which their respective topics are relevant. They meet at regular intervals either in person or virtually to discuss new developments, crucial information and the latest news pertaining to specific topics (such as finance and control or digitization). These groups are very useful and efficient in terms of sharing knowledge within the SFS Group and selectively leveraging that knowledge in the various divisions to bring about improvements. Four new PeGs were created during the year under review. There are very limited plans to expand the number of PeGs in 2019. Rather, the focus will be more on exploring topics in greater depth in the existing PeGs. The success of the PeGs is evident in the fact that several intradivisional exchange groups have been set up under that umbrella, facilitating dialogue and improvements on current topics. This shows that the PeG concept is workable as an integral part of the daily business.



SFS is heavily involved in the training of young talents and has the goal that 5-7% of all employees worldwide are apprentices.

Qualification and skills matrix piloted

A pilot project is in progress at the Heerbrugg, Switzerland site with the aim of enabling structured and effective monitoring of existing and newly acquired employee qualifications via a skills matrix. The main focus is on the production employees. This skills matrix will support effective use and planning of human resources.

Priorities set for 2019

Various improvement projects are planned for 2019. The onboarding process is to be restructured and re-established. This process creates the coherence necessary to ensure that newcomers globally all receive the same information relevant to the corporate Group. Continuous expansion of the e-learning program is one measure being implemented to facilitate access to the course content.

6 Training and education

SFS is already actively involved in professional development and educational activities. The importance attached to this topic by the stakeholder groups supports our resolve to continue on our path.

In Switzerland, every employee attends four days of training every year. Outside Switzerland, the average employee attends about two days of training every year.

Further training program expanded

The training and further education program is improved and updated on a continuous basis to meet the needs of the divisions. Thus, content and conceptual changes will be implemented in 2019. The aim is to achieve more consistency in the international implementation of further training opportunities. The number of e-learning modules on offer, which can be completed at any time and anywhere by employees, will also be increased to support smaller sites in their further training activities.

In Switzerland, an online tool enabling qualitative feedback and evaluation based on various criteria for selected employee training and development courses was launched during the year under review. Initial experience is being gathered. An extended usage of the tool is scheduled in 2019. An example of further training for sales staff in the Automotive and Industrial divisions is the “Aiming for Sales Excellence” program. The first modules have been rolled out to consistently positive feedback.

Periodic employee satisfaction surveys elicit feedback on training and further education opportunities in order to facilitate their systematic improvement. This is demonstrated by an affirmative reply of 77% rate to the relevant question in the Swiss Employer Award poll (I can attend the internal and external training and further education courses I need for my work). This corresponds to the value in the 2016 survey and is 6% better than the industry average in 2018.

Talent promotion

The “International Leadership Development Program” (ILDP) for leaders and specialists continued in the year under review. Fostering intercultural collaboration within SFS Group is an important aspect of the ILDP. SFS invests heavily in dual education of younger talents and has set a global target for apprentices to have 5%–7% of all employees (in 2018 the share was at 5.8%). We will strengthen our commitment to the promoting of dual education schemes on a global scale and advance these efforts by means of an international PeG.

Exchange program a proven success

A trainee exchange program between the site of Medina, US and Heerbrugg, Switzerland has been flourishing for years. The program gives two to four apprentices the opportunity to experience work in a foreign country. Apprentices receive extensive mentoring during the exchange in addition to thorough preparation beforehand including language training and general cultural exploration. To be able to improve and increase the benefit of the program on a continuous basis, we stay in touch with the apprentices after the program and elicit specific qualitative feedback. The participants also act as “ambassadors” for the next group.

Priorities set for 2019

In 2019, the aim will continue to ensure that apprentices comprise 5%–7% of all employees, or increase that proportion depending on the needs of an individual site. KPIs will be established and used to measure the successful development of the apprentices.

The scholarship program, which enables young members of the workforce to gain work experience abroad for a period of six months within the first few years after completing their apprenticeship, has also been expanded. Three young people at the start of their professional careers will have the opportunity to take part in this program in 2019.

In addition to further improvements of the educational program, international cooperation will be intensified via PeG, creating additional opportunities for exchange.

Dialogue with employees continued

Intensive dialogue with employees is important to SFS. Employee feedback serves as a basis for analysis of the status quo and definition and implementation of appropriate corrective action. In addition to individual employee performance review meetings, employee surveys are conducted regularly throughout SFS Group and discussed with the workforce.

In 2018, the Distribution & Logistics segment, the Industrial division and the Services units (more than 1,200 SFS workers in total) participated in the Swiss Employer Award. The 46,130 employees from 140 enterprises in Switzerland and Liechtenstein who took part in the survey rated their employer on key workplace issues, job satisfaction and commitment. SFS Group took third place in the large company category (1,000 or more employees), retaining its top three position since the company’s last participation in 2016.

In 2019, using the methods underlying the Swiss Employer Award, we plan to conduct an employee survey for another 2,600 SFS workers at the largest plants in the Automotive and Riveting divisions and the Construction division in Switzerland.

Clear roles and responsibilities

Sustainable development of SFS is very important to us. The CEO and the entire Group Executive Board devote their attention to the issue of sustainable development on a regular basis, set priorities and review the progress made. On behalf of the Group Executive Board, an interdisciplinary team of environment and safety, compliance, HR and communications representatives coordinates and consolidates the various sustainability activities. To address the diverse factors involved and maximize effectiveness, the job of implementing the activities falls to the respective divisional management teams. Wherever possible, sustainability is integrated into the regular management processes and reports using standardized performance indicators (for example, work safety).

UN Global Compact Communication on Progress

SFS continues to remain engaged in other areas as well. For instance, it is a signatory to the UN Global Compact and has upheld the ten principles embodied in this corporate sustainability initiative since 2010. Progress on this front is described below.

Human rights

Previous initiatives continued

The Corporate Principles (see → dna) and the Code of Conduct (see → compliance) are two key documents on the subject of sustainability at SFS and in terms of business practices that uphold human rights. The Corporate Principles set out our common values, while the Code of Conduct defines the basic rules by which we conduct our business activities. Both documents continue to apply. Robust and effective compliance processes are in place to ensure enforcement of the Code of Conduct. The information contained in our Corporate Principles and Code of Conduct is imparted to all new employees and apprentices as soon as they join the company through formal instruction or e-learning. Awareness of these themes is part of the basic skill-set that every SFS employee must have, and this awareness should guide them shape their development from the start.

SFS strives to introduce the Code of Conduct as quickly as possible to any new enterprise integrated into SFS Group. During the year under review, for example, it was done at all the Medical division's operating sites, the most recent addition to the Group. Even the Group's suppliers must respect basic human rights unconditionally. Respect for human rights is a mandatory criterion when screening potential business partners, since it is an integral part of SFS' general procurement terms and conditions. World trade relationships during the year under review were marked in particular by trade sanctions, embargoes and massively increased customs tariffs. SFS plays its part in international legal order by fully complying with such sanctions and informing its employees about their scope and repercussions.

Establishing compliance at leadership levels

The conviction that a compliance system can be effective only if management lives the values and complies with them unconditionally prompted SFS to highlight this issue in targeted management team workshops in 2018. A survey conducted in the same year showed that employees expect their managers to be role models on compliance issues, in particular observation of human rights, and that their expectations are being met. To ensure that future managers receive proper training in this area, a workshop on integrity and compliance is now an integral part of the ILDP.

Priorities set for 2019

In 2019, an online course on the topic of "personal integrity violations" will be launched for all employees. Respectful interaction at every level of the organization is demanded and promoted throughout SFS Group and this message will be emphasized in this online course.

Anti-corruption efforts

The anti-corruption policy taught to employees with the greatest potential exposure in a mandatory e-learning module was delivered as usual to all new employees in our sales, procurement and finance units in the reporting year.

We are glad to report that no corruption cases occurred in SFS Group in the year under review. The fact that more and more people are requesting advice when doubtful situations arise indicates an increasing awareness of corruption as an issue. Another sign is that the internal Code of Conduct is increasingly cited and referred to: for example, refusal of invitations from business partners to certain events. SFS also expects unconditional rejection of corruption in any form from third parties, in particular on the part of SFS (external) sales consultants. A standard clause to this effect is included in cooperation agreements with these consultants.

Priorities set for 2019

A new edition of the e-learning module for anti-corruption training is planned for 2019 to keep pace with the latest developments in this area. This e-learning is mandatory for management as well as all employees in the sales, procurement and finance units.

Labor standards

Highlighting the value of diversity

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 SFS' general conditions of purchase, SFS suppliers are similarly required to uphold these values.

SFS Group's international presence and size make diversity a natural feature of the workforce and it is viewed as positive and enriching. The regular internships that SFS apprentices complete at different sites and the international training programs for management to promote intercultural collaboration are examples of how SFS champions diversity. All forms of discrimination during the recruitment process or in employment are expressly prohibited.

Priorities set for 2019

Although the topic of diversity was not given the highest priority in the materiality analysis in 2016, SFS views diversity in the workforce as a key factor in its success. For this reason, diversity and the advantages it brings were selectively addressed in internal communication during the year under review. They will be pursued in more detail through specific initiatives in 2019. The aim will be to counter and prevent all forms of discrimination and highlight the tangible value of diversity.

Environmental protection

ISO14001 certification for more sites

All the audits conducted during the reporting year at the 16 certified sites were completed without any meaningful discrepancies identified by the certification organizations. Although the company has already achieved full environmental compliance with all applicable laws and guidelines, all sites are still encouraged and committed to engaging in continuous improvement of their environmental performance. A dedicated program for each site with individual targets will be drawn up for this purpose. It is hoped this will meet the increasing expectations of customers of every division for compliance with ever tougher environmental requirements (e.g. life-cycle environmental impact, conflict minerals, REACH).

Targeted measures to reduce environmental impact introduced

Effective measures to boost environmental protection were implemented in 2018 at various sites. Here are two selected examples:

Heerbrugg, Switzerland

Two mobility initiatives with the dual goals of reducing environmental impact and promoting health were implemented at the Swiss sites in 2017 and 2018. More than 1,000 e-bikes were sold at half price to employees. In addition, employees who greened their commute were able to collect bonus points, which they could then convert into vouchers or donate to a good cause.

A groundwater cooling system was launched at the Heerbrugg site, which has boosted energy efficiency significantly. The groundwater cooling system is now being used

Selected employee key figures (international) of SFS Group

Given the international presence and size of SFS, a distinctive diversity is a natural outcome that is embraced as positive and enriching. The dual education and therefore share of apprentices among the SFS family are of particular interest to SFS. With a share of 5.8% of the total workforce being apprentices in 2018, we are within the targeted range of 5%–7%.

In an industrial company such as SFS where performance and success depend essentially on a highly motivated workforce, occupational health and safety are high-priority issues. We have set the target to reduce the number of work accidents in 2019 by 10% compared to the 2018 numbers.

	Unit	31.12.2018
Employees	Number	9,550
Of which female employees*	Share in %	26.5*
Of which apprentices*	Share in %	5.8*
Workplace injuries*	Number	140*
Rate of injuries*	Number of days	1,942*
Absence rate*	Number of days	0.3*

* Data covers approximately 75% of employees

instead of an environmentally harmful coolant to cool machinery in three production facilities, thus reducing the use of electricity. These measures led to a 30% increase in overall energy efficiency.

Other energy conservation gains have been achieved from the conversion of outdoor lighting to LED technology with corresponding control systems. The new systems require less maintenance. Improved waste separation, specifically the recovery of useful metals, is another example of our ongoing environmental protection efforts.

Moreover, SFS invested in the improvement of internal communication. By using more often state of the art (lifesize) video conferencing, a reduction in travel costs and environmental impacts have been achieved.

Korneuburg, Austria

A switch to a greener dry ice blasting system to clean tools not only reduced the use of chemical cleaning agents, secondary waste and rejection rates, but also proved to be gentler on the tools. The new method is also more economical: it reduces production downtimes and enables on-site cleaning without the requirement to dismantle the machine tools.

Following modernization of the primary power supply system (process water from manufacturing operations) and heat recovery, Korneuburg now uses fresh air to cool the process water (air blast cooler) and as a result has cut its electricity usage. Moreover, the heat generated in production processes is now used to heat the building, which has lowered the site's gas consumption and carbon emissions.

The entire lighting system in the production areas has been switched to LED technology, which not only saves electricity but also reduces the generation of hazardous waste (neon tubes).

Priorities set for 2019

In the Riveting division, the Walldorf, Olpe and Thal plants in Germany, Keighley in the UK and Nansha in China are set to receive ISO14001 certification in 2019. The groundwork began in 2018.