



Creating sustainable value

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Annual report 2015



Our resolve to generate added value for our customers fuels our innovative drive and is a fundamental aspect of our corporate culture.

This basic philosophy is predicated on five core values

- to know**
- to understand**
- to create**
- to move**
- to trust**

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Annual report 2015

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Financial overview

Income statement in CHF million	2015	2014	2013	2012	2011
Gross sales	1,376.3	1,383.0	1,330.6	1,193.3	1,068.1
Change to previous year (%)					
At actual exchange rates	-0.5	3.9	11.5	11.7	-2.3
At constant exchange rates	4.6	4.8	11.1	12.5	5.5
EBITDA	267.4	271.4	269.8	207.8	186.5
As a % of net sales	19.5	19.6	20.3	17.4	17.3
EBITA	186.6	195.4	195.4	140.7	123.7
As a % of net sales	13.6	14.1	14.7	11.8	11.5
EBITA adjusted ¹	171.7	195.4	177.1	136.1	123.7
As a % of net sales	12.5	14.1	13.3	11.5	11.5
Operating profit (EBIT)	129.1	141.5	142.3	110.7	111.9
As a % of net sales	9.4	10.2	10.7	9.3	10.4
Net income	105.0	110.2	86.5	73.5	82.9
As a % of net sales	7.7	8.0	6.5	6.2	7.7
Cash net income ²	151.1	154.6	128.2	96.6	92.1
As a % of net sales	11.0	11.2	9.6	8.1	8.6

Balance sheet in CHF million

Assets	2,169.7	2,246.1	2,133.0	2,298.3	1,525.5
Net operating assets (NOA)	1,763.1	1,822.2	1,664.2	1,766.1	905.4
Net cash/debt	127.5	87.7	-248.5	-424.2	333.0
Equity	1,792.6	1,805.0	1,336.4	1,256.2	1,167.3
As a % of assets	82.6	80.4	62.7	54.7	76.5

Cash flow statement in CHF million

Cash flow from operating activities	211.3	199.8	216.0	132.1	146.9
Purchase of property, plant, equipment and software	-90.4	-97.6	-76.6	-67.7	-56.7
Proceeds from sale of assets	2.1	2.7	18.0	13.2	1.7
Acquisitions of subsidiaries, net of cash	-7.2	-37.9	-10.6	-706.8	-2.8

Employees

Headcount	7,991	8,293	7,110	7,125	4,224
Full-time equivalents (FTE)	8,330	8,688	7,000	7,000	4,117

Financial key ratios

Return on equity (%) ³	5.8	8.2	6.9	6.3	7.2
RONOA (%) ⁴	10.6	10.7	11.7	10.2	13.7

Share key ratios

Earnings per share in CHF	2.78	3.07	2.67	2.29	2.58
Dividend per share in CHF	1.50 ⁵	1.50	1.00	0.63	0.70
Dividend payment CHF million	56.3	56.3	32.4	20.4	22.4
Payout ratio (%)	53.6	51.0	37.5	27.8	27.0

¹ adjusted for special impact due to IAS 19r (2015: CHF 14.9 million) and for book gains on the disposal of non-core assets (2013: CHF 18.3 million / 2012: CHF 4.6 million)

² net income before amortization of intangible assets net of deferred taxes

³ net income as a % of equity as of beginning of the year

⁴ return on net operating assets: EBITA in % of net operating assets

⁵ proposed dividend to the Annual General Meeting of SFS Group AG on 20 April 2016

Highlights of SFS Group

Capital expenditure in PPE and software

CHF 90.4 million

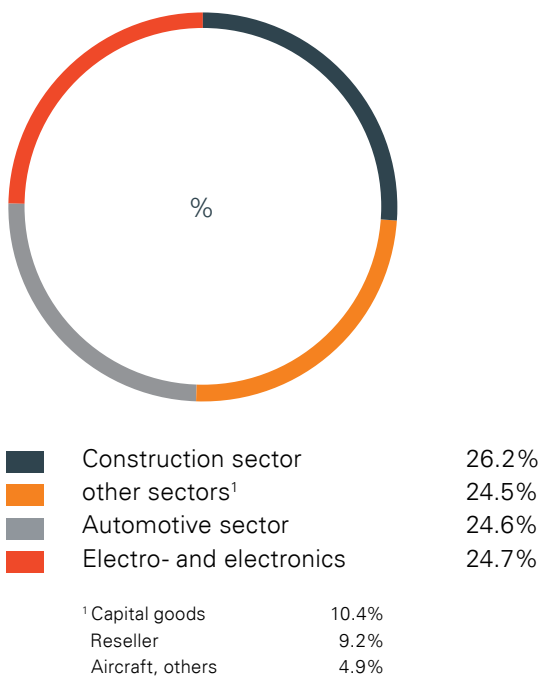
Capital expenditure and research and development activity were maintained at high levels to create a solid platform for the realization of various innovation projects.

Emissions avoided through cold forming

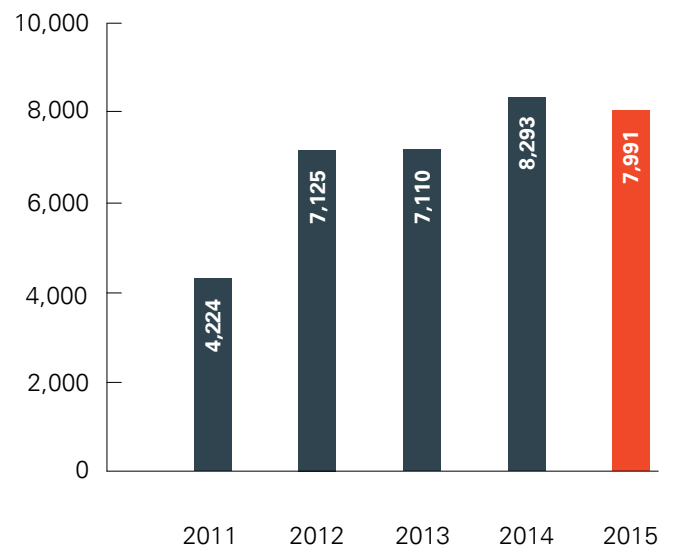
-300,000t CO₂

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.

Share of sales by end market 2015 in %



Number of employees at year-end



In 2015, SFS achieved solid local sales growth of 4.6%. Reported sales declined by 0.5% to CHF 1,376 million due to negative currency effects.

Exchange rate movements reduced operating profitability (EBITA, adjusted) to 12.5% (previous year: 14.1%). However, the EBITA margin steadily improved as the year progressed and stood at 14.3% for the second half.

To our shareholders

Solid operating performance despite overvalued Swiss franc

Dear shareholders,

We started the 2015 financial year with optimism and confidence. According to our plan and budget at the time, we were aiming to increase sales by 5–7% and improve the operating margin.

After the Swiss National Bank decided to stop its defense of the minimum EUR/CHF exchange rate of CHF 1.20, the Swiss franc soared in value against the euro and almost every other currency of relevance to SFS. Consequently, the financial targets we had originally set for 2015 were pushed out of reach right at the beginning of the year.

Our calculations and estimates indicate that the appreciation in the value of the Swiss franc compared to the average exchange rates from the previous year diminished our reported operating profit for 2015 by approximately CHF 47 million.

SFS Group's Swiss-based activities were affected by the adverse exchange rate movements. These operations generate high added value in Switzerland, which is also where their cost base is located. SFS intec AG, for example, exports more than 95% of its output and almost all of this is invoiced in euros. As SFS is competing with companies that do not have their cost base located in Switzerland and which therefore operate with a different currency exposure profile, we were able to increase our selling prices in only a few exceptional cases.

Swift reaction, effective measures, dedicated employees

Faced with the further significant appreciation of the Swiss franc, a large number of measures were taken in Switzerland. Immediate measures included an increase in weekly working hours with no change in pay, a reduction in paid annual leave, and cuts in compensation for senior executives. As for action plans with a medium-term impact, we



decided to focus the Swiss sites even more sharply on innovative, cutting-edge tasks, technically highly demanding production tasks, and capital-intensive manufacturing processes.

Activities that do not meet these criteria will gradually be transferred to sites within the Group that are not handicapped by the overvaluation of the Swiss franc. The adopted measures were implemented quickly and well supported by our dedicated employees. Once again, we thank them for their loyalty and hard work.

Maintaining a high rate of utilization at the Swiss sites and achieving significant productivity gains were also key targets. Thanks to the good order flow and the initiative displayed by all employees, we were able to achieve all these goals. The necessary structural adjustments were made without laying off any employees. The significant improvement in results witnessed in the second half of the year is testimony to the effectiveness of the measures and programs we have initiated. We remain confident in our ability to compete effectively in the world market from our base in Switzerland.

Engineered Components segment

The Engineered Components segment generated sales growth of 6.1% in local currency. Its sales growth was mainly fueled by the Automotive division, thanks to important new orders and the ramp-up of projects that had been won in earlier reporting periods. Divisional profitability declined due to the unfavorable currency movements. Sales increased by 1.8% in Swiss francs.

The Electronics and Industrial divisions also performed well. Thanks to good productivity gains and lower levels of currency exposure, these two divisions were able to hold their margins at a good level despite intense pricing competition.

Fastening Systems segment

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The Fastening Systems segment achieved pleasing growth of 4.9% in local currency, to which both divisions contributed. In Swiss francs, however, sales were down 2.9%. Although the Riveting division (no sites in Switzerland) profited from the weak euro, the Construction division was clearly disadvantaged by the adverse currency situation. Structural adjustments included the relocation of an important logistics hub from Switzerland to the Czech Republic. This project was concluded before the end of 2015 without any disruption to ongoing operations and will contribute to the anticipated improvement in results. A cooperation agreement was signed with Ludwig Hettich Holding GmbH & Co. KG (HECO Group), Schramberg, Germany, in the structural timberwork market in the autumn of 2015, and a minority interest in the company was also acquired.

Distribution & Logistics segment

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Although the Distribution & Logistics segment is almost exclusively active in Switzerland, the surge in the Swiss franc's value also had an impact on its sales and profits. Despite the acquisition of major new customers in 2015, segment sales declined by 3.1%. Due to the price and competitive dynamics that set in after 15 January 2015, SFS unimarket was obliged to offer price concessions to customers. This occurred before the division was able to benefit from lower sourcing costs. Significantly lower demand from industrial customers also had a negative impact on the course of business.

One-time effect in the income statement

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Adjustments to the pension plan contributions and benefits of SFS in Switzerland resulted in a one-time positive effect on operating profit (EBITA) of CHF 15 million related to other reporting periods. Provisions recognized in the income statements for previous years were reversed in the year under review due to the application of IAS 19r and the aforementioned adjustments. This effect is reported in the presentation of segment results under the column "Other".

Changes in the Group Executive Board

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Effective 1 January 2016, Jens Breu assumed the position of CEO from Heinrich Spoerry. Heinrich Spoerry will now concentrate on his duties as Chairman of the Board. With this change, SFS Group's management structure meets the recommended standards for corporate governance in Switzerland.

A word of thanks

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Employee performance during the past financial year was outstanding. The creativity, can-do attitude and know-how of employees throughout SFS Group were pivotal factors in the progress and results we achieved last year. We are grateful to the people who make SFS what it is and thank them all for their commitment and professional work. Special thanks are extended to all employees in Switzerland for their willingness to help us offset the currency-induced competitive disadvantage that faces us by working longer hours for the same pay and accepting cuts in vacation entitlement.

We appreciate the steady and strong support of our shareholders, which reinforces the stability and sustainability of our company. We thank our customers for their trust and for engaging us in their projects as partners.

Dividend payment for shareholders

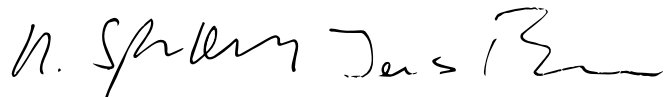
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In light of the company's operating results, good cash position and solid balance sheet, the Board of Directors will submit a motion at the Annual General Meeting to pay out an unchanged dividend of CHF 1.50 per share from capital contribution reserves. This payment is not subject to withholding or income tax for natural persons whose tax domicile is in Switzerland.

Outlook for the 2016 financial year

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The many measures introduced during the course of 2015, which are now gaining more traction, can offset some of the unfavorable effects of the Swiss franc's appreciation. For the current financial year, we do not expect any major change for the better or worse in the currency situation. Based on the same exchange rates as last year, we forecast consolidated sales will increase by 2–4% in 2016 with an improvement in the adjusted EBITA margin from 12.5% to 13–14%.



Heinrich Spoerry
Chairman of the Board
CEO until 31.12.2015

Jens Breu
CEO from 1.1.2016

Strategy

Customer focus creates value

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We create added value with our products and services – for our customers, our employees and our shareholders. This value can be traced to our detailed application know-how, outstanding technical expertise and our creativity. A thorough understanding of the customer and close customer relationships are vital in all three respects.

Surrounded by SFS products every day

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People come into contact with SFS products every day. Most times unknowingly because many of the often success-critical components we make are embedded within the products of our customers and are rarely visible from the outside. SFS products are used in a vast range of applications.

Contact with SFS products begins at home, where SFS fastening systems serve a number of important functions in doors, windows and kitchens, for example. SFS know-how is also used to make electric shavers and high-quality coffee machines. In a car, people are surrounded by scores of SFS products: in the automotive interior, the vehicle structure, and in numerous safety systems, ranging from seatbelts and airbags to brake systems, where our products help to save lives in the event of an emergency. And when passengers on board a modern airplane notice how quiet the plane is, SFS fastening solutions that reduce vibration in the aircraft cabin are partly the reason. SFS products also perform vital functions in smartphones and hard disk drives, or in adventure cameras used to capture thrilling action shots.

Our customers put their trust in us when they choose SFS as their development partner, solution provider or C-parts supplier.

SFS in brief

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SFS is a leading global provider of mechanical fastening systems and precision formed components. The company operates in the three segments Engineered Components, Fastening Systems and Distribution & Logistics, which represent the company's differing business models.

In the Engineered Components segment, SFS partners with customers to develop and manufacture customer-specific precision formed components, fastening solutions and assemblies. This segment operates in the Automotive, Electronics and Industrial divisions, and sells its products under the SFS intec (Automotive, Industrial) and Unisteel (Electronics) brands.

In the Fastening Systems segment, which consists of the Construction and the Riveting divisions, SFS develops, manufactures and markets application-specific mechanical fastening systems under the SFS intec (Construction) and GESIPA® (Riveting) brands.

In the Distribution & Logistics segment with the SFS unimarket brand, SFS is a leading supplier and logistics partner for manufacturers and skilled crafts and trades in Switzerland. Its product range consists of fastening systems, tools and architectural hardware. The segment also offers customized logistics solutions that play a key role in making customers more competitive.

SFS Group is a global player with manufacturing sites and distribution companies at more than 70 locations in 25 countries around the world. Sales in business year 2015 amounted to CHF 1.376 billion and the workforce numbered approximately 8,300 (FTE).

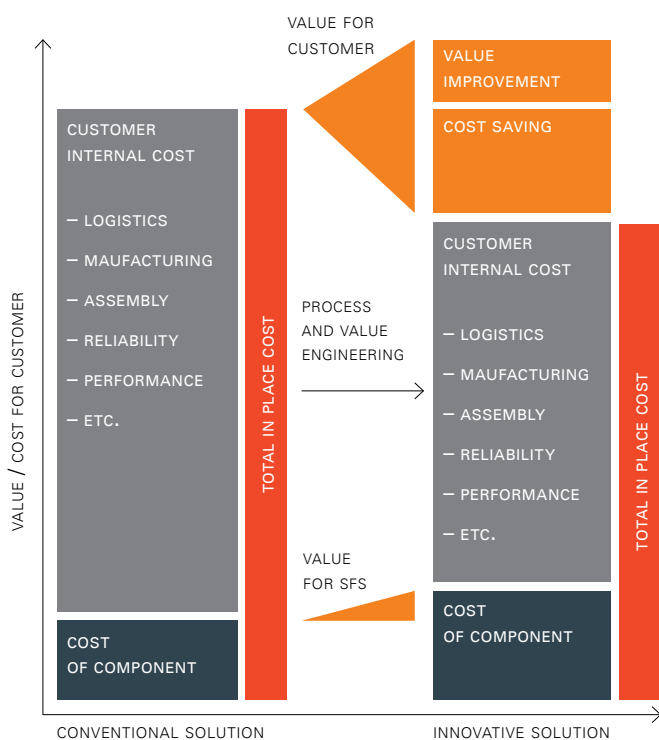
Creating value for customers

The direct costs of SFS products are relatively low compared to the overall end product costs, but the related costs for the customer are several times higher. These additional costs can be traced to factors such as administrative sourcing activities, logistics costs and to the variety of parts required.

We always try to put ourselves in the shoes of the customer. That means keeping an eye on the cost of each specific part and, in particular, optimizing overall costs (see value proposition). This perspective helps us to identify cost-savings potential and create sustainable added value. The advantage for us: These custom-tailored products and solutions give us a more distinct profile and strengthen the partnerships we have with our customers.

Our resolve to generate added value fuels our innovative drive and is a fundamental aspect of our corporate culture. This basic philosophy is predicated on five core values: know, understand, create, move and trust.

Value proposition of the SFS Group



KNOW what makes customers more competitive

A focus on specific core technologies and core competencies enables us to constantly improve what we do, often by pushing the limits of technology, and claim a leadership position. We also support our customers by offering end-to-end logistics solutions that help them to achieve significant efficiency gains and cost optimization, and thus sharpen their competitive edge.

UNDERSTAND the issues market partners are facing

Listen attentively, exchange ideas, set goals, ensure smooth and efficient execution: these are the guiding principles that SFS employees have followed for years when collaborating with customers around the globe. Focused business units and dedicated key account teams that possess the relevant applications knowledge give us a deep understanding of each customer's needs and challenges. Diversification across various end markets engenders stability and helps to avoid excessive exposure to a particular target market.

CREATE fascinating solutions for customers

Connecting customer needs and desires to our highly sophisticated technology and process expertise creates a pipeline for exceptional ideas. In their constant search for new solutions, SFS people often push the limits of technology and create convincing products that add value for the customer and set us apart from the competition.

In each of the three segments, the role of innovator is interpreted differently. In the Engineered Components segment SFS, acts as a development partner in creating solutions that meet specific customer requirements. Value is manifested in the resulting customer-specific solutions. In the Fastening Systems segment, SFS is a solutions partner and offers mechanical fastening systems for selected applications. Value is added through functionality add-ons or by improving ergonomics, reliability or efficiency within the fastening process. In the Distribution & Logistics segment, SFS is a leading supplier and logistics partner in Switzerland. Added value is created for customers by combining attractive product ranges with clever, technologically superior logistics systems. Customers use these systems to lower their process costs, optimize their supply of stock and increase supply availability of products.

MOVE to get customers ahead

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The ability to quickly develop a concept into actual products and services has become an increasingly critical success factor. Being able to scale up a project from the prototype stage to series production with millions of units in just a few short weeks is a key differentiating factor, especially in markets with short product life cycles. Meanwhile, very demanding process and quality standards must also be met. Having total control over the entire value creation chain is a major advantage that clearly boosts execution speed.

SFS has a manufacturing platform that spans the globe and allows it to serve its customers as a local supplier. This means multinational customers, for example, can profit from the same set of skills and competencies in America, Europe and Asia, and have their global needs addressed by one partner. Compared to competitors that in many cases are only local players, this global footprint has given SFS a significant competitive edge.

TRUST to build strong customer relationships

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Successful solutions beget trust. Trust is the basis on which close and stable partnerships are built – and a precondition for early engagement in customers' innovative projects, which is crucial for a successful positioning as a development partner and innovator. We pride ourselves on having built close partnerships with leading players across a wide range of industries and appreciate the growth that we have achieved together with them over the years. The many awards of distinction we have received as a supplier serve as an important confirmation that we are on the right track, and they also strengthen our resolve to maintain our superior performance in the future.

Innovation and acquisition-driven growth

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Our positioning in growth markets, our leadership in selected market niches and our focus on megatrends such as health protection and demand for greater efficiency give us many opportunities to demonstrate our capabilities and strengths with a steady flow of innovation. Meanwhile, our international production platform will help us to enter new markets. The significant appreciation of the Swiss franc posed major challenges to the Swiss production sites. Implementation of a wide range of measures brought short-term relief from the negative currency situation. Looking ahead, the factories in Switzerland will focus even more on knowledge and capital-intensive products and processes.

In addition to organic growth, acquisitions have long been part of SFS's growth strategy. Selective acquisitions will be made to capture new markets and address new customer groups and application areas, and thereby create new opportunities for organic growth. Rather than make large acquisitions, we are seeking to strengthen our overall performance by acquiring well-positioned small and mid-sized companies. In light of our positioning in growth markets, our strong partnerships with the leading players in these markets, and our innovation capabilities, we are targeting 5–7% annual sales growth over the medium term (3–5 years), well above the projected rate of global economic growth.

Achieve attractive profitability

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SFS operates with good margins. We see this as confirmation that we are pursuing the right market strategy and successfully delivering on our value proposition and unwavering commitment to generate added value for every SFS customer. Good profitability is also the cornerstone of a solid balance sheet and a guarantee of our long-term entrepreneurial freedom.

In the medium term, we are aiming to increase SFS Group's EBITA margin to more than 15%. The targeted improvement in profitability will be achieved through above-average growth in profitable business areas, the ongoing improvement in our operating efficiency, and the launch of innovative products.

Strategic priorities for 2016

- Strengthen our position with existing customers by focusing on the generation of added value
- Selectively widen the customer base and enter new application areas
- Intensify business activities in the aerospace and medical components sectors
- Continue the globalization of SFS activities
- Accelerate the pace of innovation
- Achieve further progress in standardization and efficiency gains in C-part logistics



Continuous dialog and the sharing of knowledge and experience are crucial for an understanding of demanding customer specifications and creation of the appropriate application-optimized solutions.

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Markets

Technological expertise – applied in a wide range of markets and countries

Close relationships with customers are paramount for us. Being as close as possible to the customer allows us to truly understand what they need and want. A well-developed production and sales network across Europe, Asia and America provides a sound platform for close customer contact, and the two latter regions offer particularly strong growth potential.

The leader in selected markets

To effectively deliver on SFS’s high performance promise and generate added value, we address markets and customers that fit a certain profile. The fundamental preconditions are innovation and high production volumes, as the benefits of SFS technology are most tangible when production quantities are high. It is also vital that there are opportunities for us to put innovation into practice. After all, innovation has long been the cornerstone of our business activities and profitable growth, and it ensures our standing as a strong creator of value for our customers.

We focus our activities in our respective markets on the major innovation-driven trends and strive to establish close partnerships with the leading players in every market. Examples of today’s major innovation drivers include safety, comfort, ergonomics, energy and process efficiency, as well as digitalization. SFS’s innovative product range helps customers to strengthen their market position. Our objective is and will always be to serve our customers as a top-tier supplier and partner by delivering outstanding solutions and services.

Supplying global players from local sources

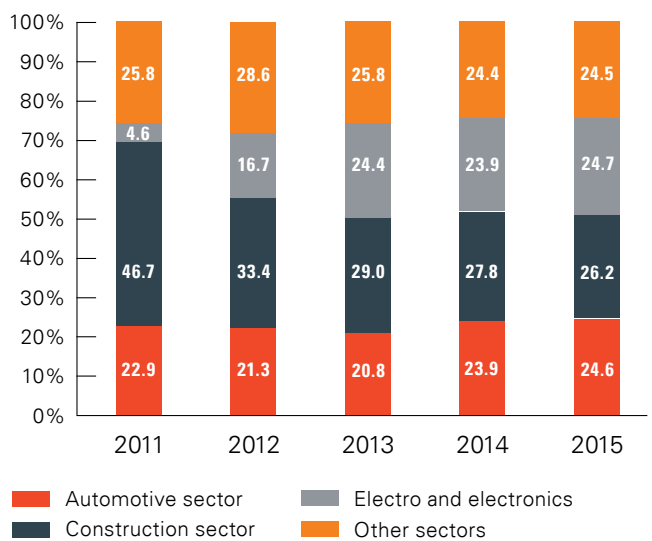
Knowing exactly what the customer needs and wants is another precondition for creating value. This necessitates a focus on selected markets and applications. We want to put ourselves in the position of the customer or end user, to expand our understanding of what we can do to improve their performance. We achieve these objectives by operating in compact business units and with key account teams that

possess the relevant applications knowledge. A well-developed distribution and production network across North America, Europe and Asia enables us to serve our customers locally from one of more than 70 sites worldwide (see map page 14). Our global presence is increasingly valued by customers as it allows them to collaborate closely with just one partner. This worldwide distribution and production network is a powerful tool of differentiation that sets us apart from the competition, which often operates only locally.

Good momentum in the automotive industry

Although we are highly focused in terms of core technologies, we are more broadly diversified in terms of end markets and applications. This reduces our vulnerability to cyclical downturns in any one industry, yet also necessitates the focused and systematic exploitation of business opportunities in these same markets by applications specialists.

Share of sales by end markets 2011–2015 in %



Some marked changes in the share of sales generated in the various markets arose during the period from 2011 to 2015. The proportion of sales in the electro and electronics industry increased from 4.6% to 24.7% after the acquisition of Unisteel Technology.

Good growth momentum has been achieved in the automobile industry, where SFS has significantly increased its business volumes by introducing innovative products that address trends toward greater efficiency and increased safety and comfort. The corresponding share of sales in this industry in 2015 was 24.6%. Average annual sales growth in the automobile business during the period 2011–2015 was 8.6%.

The percentage of sales in the construction industry showed a sharp decline to 26.2% in 2015. Business here was damaged by both a negative currency effect and slowing construction activity, as most of these sales are generated in Europe. The decline of the share of construction industry can further be traced to the disposal of activities in the field of reinforcement systems.

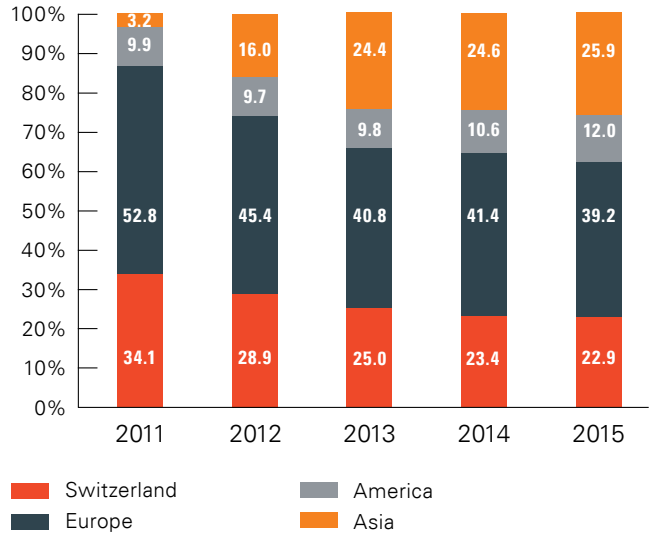
The proportion of sales in all other sectors was relatively stable, and some industries, such as aerospace or medical technology, showed very pleasing developments.

Greater diversification thanks to growth in America and Asia

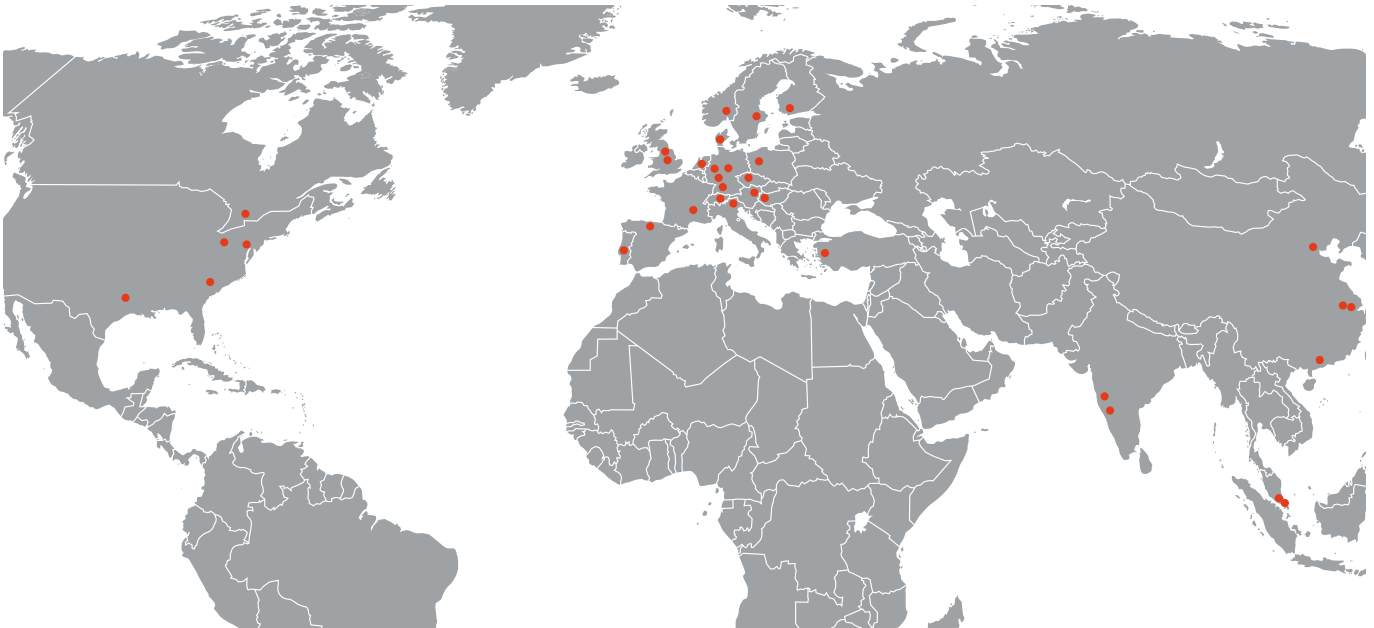
Just as we have a wide footprint in terms of targeted end markets, we are well diversified in terms of our market geographies. An extensive on-the-ground presence allows us to respond in a flexible manner to regional developments with targeted measures.

Thanks to the persisting positive economic environment in the US and the progressive, scheduled launch of new projects, America’s share of sales increased once again and accounted for 12% of total 2015 sales. After stagnating in the previous year, sales in Asia showed a pleasing development and accounted for 25.9% of total sales. As sales in Asia are mainly driven by innovation projects and end products made in Asia to satisfy demand from around the world, the often discussed slowdown in China’s economic growth had little impact on SFS. Europe’s share of Group sales fell below the 40% mark. This reflects subdued construction activity and a highly adverse currency translation effect. The turmoil on foreign currency markets also left a mark on sales in Switzerland in 2015. Currency-induced price markdowns and subdued demand from manufacturing customers reduced Switzerland’s share of total sales to 22.9%.

Share of sales by region 2011–2015 in %



Worldwide sales offices and production sites



Good growth momentum in Engineered Components

Sales in the Engineered Components segments, where we partner with customers to develop customer-specific precision formed components and assemblies, are showing good growth momentum. The segment’s share of sales has climbed to 53.8% in 2015. Growth has been driven in particular by successful product launches in the Automotive division, which were also largely to credit for the aforementioned increase in America’s share of total sales.

We expect the Engineered Components segment to grow at a faster than average pace over a medium-term horizon. This forecast is predicated on innovation-driven projects at all three divisions, and which should lead to proportionately higher growth in America and Asia. Whereas sales in the Fastening Systems segment should grow more or less in line with overall Group sales, the Distribution & Logistics segment is expected to lag the Group’s growth rate. This can be traced to the projected slow growth of the Swiss economy, particularly in export-oriented industries.



“Local for Local”: An increasing number of customers are demanding this from SFS Group. This is why, for example, identical torsion bars are manufactured to uniform standards at our plants in Heerbrugg (CH), Medina (USA) and Tianjin (CN).

Technology

High level of technology competence – a precondition for innovative solutions.

Thanks to our focus on core technologies, we are constantly pushing the envelope on these specific fronts. Our acknowledged technology and process expertise is the seedbed for innovative solutions.

Cold forming: high productivity and material efficiency

Ever since its production activities began in 1960, SFS has opted for the beneficial properties of cold forming. Starting with a blank – usually a wire cut-off – a formed part is produced in two to six forming stages, during which the metal workpiece takes the shape of the die into which it is pressed.

The advantages offered by cold forming are many. In light of the constant volumes in the forming process, material loss is extremely low compared to alternative manufacturing methods (e.g. machining processes). The high productive capacity of up to 600 workpieces per minute also makes the cold forming process very cost-effective for high-volume production runs.

[More information on cold forming \(video\)](#)

Deep drawing technology: ideal complement to cold forming technology

Deep drawing is a technique that is used to produce very thin-walled precision parts that cannot be produced through cold forming. Flat blanks serve as the starting material for deep-drawn parts. They are shaped into hollow bodies with diverse functions, undergoing as many as 22 different forming and shaping operations in the process.

[More information on deep drawing \(video\)](#)

Precision machining: the stepping stone to ready-to-fit components

With its comprehensive knowledge of precision machining, SFS is well equipped to meet client demand for ready-to-fit components. A wide range of products are made using modern machines and systems for machining components.

[More information on precision machining \(video\)](#)

Plastic injection moulding technology: manufacturing composite parts

SFS has extensive experience and comprehensive production expertise in plastic injection moulding technology and can offer its customers comprehensive solutions, from the initial idea all the way through to the production-ready solution. Thermoplastics are used in a wide range of solutions



Thanks to its comprehensive technology competence and its ability to develop automated assembly lines, SFS Group has achieved impressive project wins in the promising market for modern brake systems.

that would not be possible with formed metal parts, or only with certain limitations. Superior solutions often result from the realization of components made of metal and plastic.

[More information on plastic injection moulding \(video\)](#)

Mechanical fastening technology: fastener and installation device as one system

Fasteners are subject to diverse requirements, so variety of aspects must be taken into consideration, such as mechanical properties, corrosion resistance and aesthetic characteristics. As we strive to generate added value for customers, we focus on optimizing the entire fastening process. We do so by enhancing ergonomics, reliability and efficiency in the development of new application-specific installation devices and tools, and by offering customers comprehensive systems solutions.

Rivets are often the right alternative when screws do not meet or only partially meet application specifications. GESIPA® has extensive know-how in blind rivet technology. Blind rivets and blind rivet nuts widen the range of mechanical fastening applications. Minimal wear, high installation quality, short processing cycles and a long service life are the hallmarks of these cost-effective installation machines and tools.

[More information on fastening technology \(video\)](#)

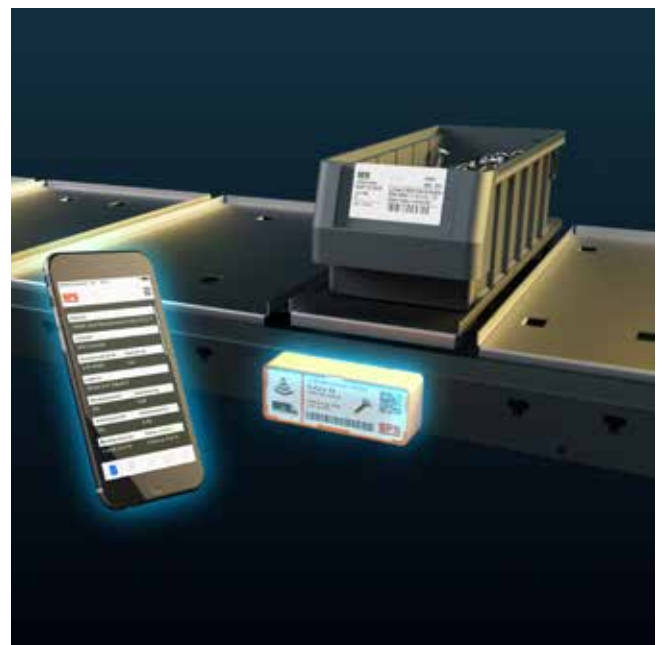
[More information on riveting technology \(video\)](#)

Logistics solutions: significant reductions in the cost of C class logistics

Sourcing costs associated with C parts are often higher than the actual cost of the parts themselves. This can usually be attributed to administrative tasks, intricate flows of information and complex movements of goods. In light of this, SFS has developed and implemented a series of solutions for optimizing C class inventory management processes. Working closely with customers, our logistics specialists have developed customized logistics concepts that offer significant cost advantages.

“M2M by SFS”, a new generation of logistics solutions introduced in the spring of 2015, underscores SFS’s technology leadership in the field of logistics. A range of new tools such as smartphone, tablet and smartwatch connectivity and delivery status updates are just a few of the advantages offered by this new logistics system. SFS logistics solutions also feature state-of-the-art sensor technology and wireless communications functionality. The systems further allow the integration of third-party suppliers.

[More information on logistic solutions \(video\)](#)



SFS Group has offered “M2M”, a new innovative solution for automated inventory management processes, since the spring of 2015.

Engineered Components

Innovation projects as growth drivers

Engineered Components delivered solid growth on the back of innovation projects. The segment was able to recoup much of the margin erosion caused by unfavorable exchange rates in the second half of the year.

Key figures Engineered Components

in CHF million

	2015	±	2014	2013
Third party sales	740.1	1.8%	727.2	672.9
Sales growth comparable*		4.3%		
Net sales	756.1	1.7%	743.5	686.8
EBITDA	185.3	-2.8%	190.7	175.0
As a % of net sales	24.5		25.7	25.5
EBITA	134.1	-6.2%	143.0	129.9
As a % of net sales	17.7		19.2	18.9
Net operating assets	1,290.6	-2.7%	1,326.1	1,182.0
Investments	70.3	12.3%	62.6	45.8
Employees (FTE)	5,635	-6.7%	6,038	4,488

* at constant exchange rates and on the same scope of consolidation

Solid growth in local currency achieved

The Engineered Components segment achieved solid growth of 6.1% in local currency. On a reported basis, growth amounted to 1.8%, which represents sales of CHF 740 million. Growth was primarily fueled by the production ramp-up of numerous new products and the continuing market success of key customers' end products. Robust demand for automobiles, a major market segment, also contributed to the good sales performance. The slowdown in growth momentum compared to the first half of the year can be traced to comparison base effects. In absolute terms, sales were higher in the second half of 2015 than in the first half of the year, but lower than in the very strong second half of the previous year.

Significant productivity gains were achieved through greater use of automated production solutions. That and the divestment of a non-core company in Asia led to a reduction in the number of employees to 5,635 (FTEs).



In addition modern machinery and equipment, the people who work for SFS Group also play a critical role in ensuring compliance with demanding quality specifications.

Significant margin recovery achieved

Engineered Components, the segment with the highest profitability, attained another high EBITA margin of 17.7% in 2015 (previous year: 19.2%). The margin contraction compared to the previous year is directly attributable to the strong appreciation of the Swiss franc. The Automotive and Industrial divisions supply their European customers primarily from their three factories located in Switzerland. Prices for these customers are quoted almost exclusively in euros, whereas most of the operating expenses are incurred in Swiss francs. Foreign-exchange transaction effects and one-time effects were accordingly negative. The full-year margin contraction was ultimately confined to 150 basis points as the measures taken in Switzerland during the spring gained traction and good results were achieved outside Switzerland. At the mid-year mark, the segment margin was still 300 basis points lower year-on-year. If the effect of exchange-rate movements were excluded, profitability would have been clearly higher than in the previous year.

High performance substantiated by new projects and customer awards

High customer satisfaction, and, consequently, a sense of trust in a supplier’s capabilities, are key preconditions that must be met for suppliers to be involved in projects as development partners at an early stage. Early integration in development processes is also an ideal opportunity to deploy the full potential that technology offers and to generate value for the customer.

Our reliability and capabilities were proven on the one hand by the various large projects that were acquired during the period under review and which will support growth in the coming years, and, on the other hand, by the numerous awards of excellence SFS received from various customers, including Bosch and Continental.



Parts-specific assembly lines are designed and built in-house by SFS Group specialists. This capability is often a key differentiating factor when bidding for and winning groundbreaking projects.

Engineered Components segment

In the Engineered Components segment, SFS partners with customers to develop and manufacture customized precision components, fastening solutions and assemblies. Tailor-made solutions create added value for customers by enhancing overall system performance, for example, or by reducing the complexity of the parts and components required. Besides the applications knowledge, technical expertise on the manufacturing side is also imperative. The Engineered Components segment consists of three divisions, each focused on its particular markets.

Automotive division

SFS has established long-standing partnerships with leading customers of the automotive industry and their suppliers. The services and products offered under the SFS intec brand focus on applications that improve safety and comfort, or which reduce the fuel consumption and exhaust emissions of internal combustion engines.

Electronics division

A leading supplier of precision components and miniature screws, this division boasts a large presence in Asia. Its products, sold under the Unisteel brand, can be found in smartphones, tablets, game consoles and hard disk drives.

Industrial division

In the Industrial division, SFS sells market leaders with diverse needs operating in attractive niches a wide range of products under the SFS intec brand. The companies that profit from the division’s vast know-how operate in industries ranging from aerospace, electrical engineering, architectural hardware and metal cutting to medical components industry.

Automotive division

Growing in the wake of new project ramp-ups

– Measured in local currency, the Automotive division posted high growth again. This growth was mainly driven by new project ramp-ups, which is why the slight downturn in growth momentum in the global automobile market had little impact on SFS's top line. The trend towards autonomous driving is the number one growth driver for this division - and will probably remain so for the coming years. SFS is developing and manufacturing actuators for electric brake systems for this particular market segment. The ramp-up phase for these products is proceeding as planned. Additional project wins underscore the competitive abilities of SFS as a development partner, as well as high levels of customer satisfaction with SFS products and services. A global production platform is a significant competitive advantage in an industry characterized by a large number of smaller sized players that often operate on only a local scale.

Infrastructure at Indo Schöttle (India) and Sunil SFS intec (China) was expanded to lay the groundwork for the subsequent realization of growth projects. Sunil SFS intec, a joint venture not included in the scope of consolidation, has good access to well-known western firms, as well as Korean and, increasingly, Chinese customers.

The Automotive division expects its positive business trends to be sustained during the course of 2016. It should also receive some tailwind from the slightly higher rate of growth projected for the automobile market.

Electronics division

Strong market position achieved

– Sales at the Electronics division were slightly higher than the good previous year levels, thanks to the continuing market success of major end products. Demand for hard disk drives, a demanding application field, has declined as notebooks are increasingly supplanted by tablets. Uni-steel's performance advantages and innovation skills were, however, able to offset these negative factors to some extent. Various new projects were successfully completed – for example, with leading Chinese manufacturers of smartphones – and had a positive effect. The Electronics division has successfully positioned itself in the still young market segment of wearable electronics (e.g. smartwatches) and it sees good opportunities to capture some of the anticipated growth.


Key priorities in 2016 are continuing and expanding the development partnerships with customers on the basis of its powerful, advanced technologies. In this very dynamic and volatile business, growth is heavily dependent on the product launch schedules of customers.

Industrial division

Good results in the aircraft manufacturing and medical components industries

– The major growth driver in the Industrial division remains the ramp-up of production for the Airbus A350, for which SFS supplies fastening solutions for the cabin interior. Compared to the previous year, sales of these products nearly doubled.

Growing cost pressure in the medical components sector is making companies more amenable to collaboration with highly capable partners that offer proven skills in the industrialization of manufacturing processes. With its vast know-how in the field of titanium cold forming processes and in plastic injection moulding, SFS is well positioned to participate in this trend. This still small division showed positive developments during the period under review. By creating structures tailored to the needs of medtech customers, SFS can further strengthen the division's positioning and improve opportunities for future growth.



Position as competent partner in growth segment of smartwatches established

Thanks to its strong innovation skills and competence in the field of miniature components, SFS has successfully established itself as a partner of leading manufacturers in the young and growing smartwatch product segment. SFS offers precision formed components, miniature screws and assemblies. This also includes high-quality aesthetic coatings and surface treatments.

Creating value for customers and end users through product innovation

The launch of the Airbus A350XWB is an important growth driver for the coming years. SFS developed systems for fastening the cabin interior panels used in this and other aircraft. These systems offer added value in the form of simple and quick assembly and disassembly, a lightweight design, and noise-reducing features since SFS fastening solutions play a significant function in vibration control.

Fascinating customers with our enthusiasm and superior performance

SFS was the sole supplier in Switzerland to be honored with the “Bosch Global Supplier Award 2015” from Robert Bosch GmbH. SFS received this award in the “Mechanics” category. Bosch is a long-standing key customer that sources primarily ready-to-fit parts for ABS systems from the Automotive division. The current award covers the years 2013 and 2014 and this is the seventh time that SFS has been honored by Bosch as an outstanding supplier.

Bosch also presented SFS with the “Crazy for suCCess Award”, one of only five suppliers to receive this inaugural award. This new Bosch award acknowledges superior services rendered related to cost reduction, innovation and global presence. The many awards of excellence that SFS has received as a supplier serve as an important confirmation that it is on the right track and strengthen its resolve to maintain its superior performance in the future.

Fastening Systems

Growth in a mixed market environment

Clear focus on innovation and efficiency gains in the supply chain are the recipe for success in today's challenging markets.

Key figures Fastening Systems

in CHF million

	2015	±	2014	2013
Third party sales	326.9	-2.9%	336.7	330.0
Sales growth comparable*		4.9%		
Net sales	341.4	-3.3%	353.1	344.7
EBITDA	38.9	-10.4%	43.4	42.1
As a % of net sales	11.4		12.3	
EBITA	23.2	-13.6%	26.9	25.7
As a % of net sales	6.8		7.6	7.5
Net operating assets	289.1	-9.0%	317.6	311.0
Investments	16.3	-21.6%	20.8	23.6
Employees (FTE)	1,758	1.4%	1,733	1,608

* at constant exchange rates and on the same scope of consolidation

Good growth achieved with industrial customers and in North America

Fastening Systems achieved solid growth of 4.9% in local currency, which is faster than the rate reported for both the previous year and the first half of 2015. The general business environment remains mixed. Markets in northern Europe and, especially, North America were again buoyant. Demand from industrial buyers of the segment's products was similarly firm. Due to negative currency effects, sales amounted to CHF 327 million, which corresponds to a reduction of 2.9% compared to the previous year.

Projects to improve performance realized

Unfavorable currency effects diminished the profitability of the Fastening Systems segment, bringing the EBITA margin to 6.8% (previous year: 7.6%). Various projects to improve operational performance, which had been taken independently of the currency-related measures, made an important contribution to the improvement in underlying results. If the effect of exchange-rate movements were excluded, segment profitability would have slightly increased compared to the previous year.

Fastening Systems segment

SFS offers customers proprietary mechanical fastening solutions under the SFS intec and GESIPA® brands in its Fastening Systems segment. The segment creates added value for customers with its application-specific fasteners and specially designed installation tools, by making the fastening process faster, safer and more ergonomic. Fastening Systems consists of the Construction and Riveting divisions.

Construction division

Under the SFS intec brand, SFS develops, manufactures and markets application-specific fastening systems, hinge technology and assembly systems for the construction and building materials industries. The products made by this division are used in the construction of building envelopes (roof and walls) and timber construction, as well as in doors, windows and other areas.

Riveting division

The Riveting division specializes in fastening solutions based on blind riveting technology. As a dependable partner for trade and industry, the Riveting division offers customers premium quality GESIPA® brand fastening systems (blind rivets, blind rivet nuts and the corresponding installation tools).

Construction division

Slight growth achieved in a mixed market environment

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The Construction division continues to operate in a challenging market environment and there has been no fundamental change in the overall picture since the previous year. Markets in North America continued to show positive developments. Europe's southern markets displayed signs of a recovery, but this has not yet substantially carried through to reported sales. Market share was captured in various applications on flat roofs and the construction of building envelopes.

Further improvement in performance achieved

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The action plans conceived to improve operational performance cover many areas. Besides a narrowing of the product range, projects are in planning or already in execution throughout the value chain. For example, the relocation of finishing operations from Switzerland to the Czech Republic was successfully concluded.

The production site in Torbali (Turkey) was expanded during the summer. Both production capacity and the range of production capabilities that this highly competitive site offers were increased significantly, clearing the way for future productivity gains.

Construction division customers have profited from the further optimization of the C class logistics solutions, which have been a specialty of the Distribution & Logistics segment.

Major potential is seen in the partnership with HECO (Ludwig Hettich Holding GmbH & Co. KG), a leading provider of innovative fastening solutions, especially in the expanding field of timber construction. As part of the partnership agreement, SFS acquired a 30% interest in HECO via a capital increase. The additional capital will be spent on projects to improve competitiveness and accelerate growth. Thanks to their largely complementary product ranges and sales channels, HECO and SFS can offer customers better services while strengthening their respective market positions. Close collaboration will enable the two companies to take advantage of manufacturing synergies and further improve their competitive profile.

In the coming year the Construction division will intensify its product innovation efforts and implement further performance-enhancing measures. A key aspect here will be the sharpening of production strategy.



Installation tool and fastening element are often designed as an integral system in fastening solutions for lightweight manufacturing applications.

Riveting division

Growth momentum increased over the year

– After a subdued start, demand for GESIPA® products turned increasingly positive as the year progressed. Dynamic growth in North America and Asia was particularly pleasing and confirmed the value of the preparatory work done in preceding years. This growth was supported by the growing order volumes from existing customers and the launch of key new products.

Product innovation and new customers fuel divisional growth

– The most important new product launched last year was AccuBird® Pro, which was introduced in the spring of 2015 and well received by the market. This new generation of battery-powered blind rivet installation tool offers significantly faster setting speed, up to four times faster than that of comparable tools offered by competitors.

The Riveting division managed to increase order volumes from various US and European car manufacturers and thus improve its position as supplier. The acquisition of initial orders for riveting systems from a US pioneer in the field of electromobility was also a gratifying achievement.

Considerable progress was made in the market for electronics applications by acquiring Asian leaders in this field as new customers. Significant potential is seen here in the use of automated GESIPA® solutions, particularly for assembly of electronic devices.

Next year the Riveting division will continue its innovation drive to differentiate itself better from the competition. Its focus will be on the automation of setting processes through the use of high-performance installation tools and premium-quality fasteners. Migration of the division’s IT architecture to SAP, the platform already in use at four of the SFS divisions, will generate additional synergies.



The AccuBird® Pro is just one example of our many novel developments for rationalizing riveting processes. Robot-controlled systems in particular can offer significant benefits.

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AccuBird®Pro: Productivity increased with a pioneering spirit

GESIPA® has been a leader in battery-powered blind riveting tools for more than 20 years. AccuBird® Pro is in a class of its own, offering a setting speed up to four times faster than competitors' products. It was also designed with improved ergonomics. Other advantages for users include its light weight, rapid recharge time and improved illumination of the fastening point.

Operating efficiency increased

Close contact with customers and continuous operational improvement have always been the driving forces behind the internationalization of our business activities. The relocation of finishing operations to the Czech Republic is a case in point. Thanks to the new logistics hub located at a major transport network junction, we are able to respond much more quickly to customer queries and reduce costs at the same time. The 45 employees in Switzerland who were affected by the relocation have been assigned other duties within SFS. SFS's production plants in Switzerland are focusing even more on knowledge and capital-intensive processes.

Better efficiency with better fastening systems

"Creating added value" is SFS's credo. At our fastening systems operations, this means developing faster fastening techniques while making the fastening process more reliable and ergonomic. Success in this business depends on the perfect interplay between the fastening elements and the fastening devices, and the integration of the fastening systems wherever they may be used – in construction or manufacturing, for example. By offering 100% riveting quality control, we make the fastening process more efficient and reliable.

Distribution & Logistics

Acquisition of new customers through our technical expertise

Technology leadership and a high level of dependability helped us to win new, prestigious customers in a challenging environment.

Key figures Distribution & Logistics

in CHF million

	2015	±	2014	2013
Third party sales	309.3	-3.1%	319.1	327.7
Sales growth comparable*		-4.0%		
Net sales	314.8	-3.4%	326.0	333.6
EBITDA	26.5	-21.4%	33.7	37.6
As a % of net sales	8.4		10.3	11.3
EBITA	18.8	-27.7%	26.0	29.2
As a % of net sales	6.0		8.0	8.8
Net operating assets	151.9	3.6%	146.6	145.7
Investments	1.6	-60.0%	4.0	2.7
Employees (FTE)	643	2.7%	626	608

* at constant exchange rates and on the same scope of consolidation

Cost savings passed on to customers

The significant appreciation of the Swiss franc had a big impact on the Distribution & Logistics segment, which does almost all its business in Switzerland. Distribution & Logistics reacted quickly to the new forex situation and adjusted its prices accordingly. Price concessions given immediately after the sudden shift in exchange rates were only partly offset in the second half of the year. The positive effect of lower sourcing prices due to the stronger franc was noticeable only after a time lag; that is, after all the goods purchased at the higher EUR/CHF rates had been depleted. Nevertheless, demand remained subdued, especially from customers in industrial sectors, growing only hesitantly as the year progressed. Sales amounted to CHF 309 million in the 2015 business year, which corresponds to a decline of 3.1% from the previous year. The first-time consolidation of Thomas Minder Holding AG had a positive effect, contributing 5.0% to segment sales.

Profitability stabilized during the second half

After the decline in the EBITA margin to 5.0% in the first half of 2015 due to exchange-rate turmoil and one-time effects (previous year: 8.6%), profitability stabilized during the course of the second half. With an EBITA margin of 6.0% (previous year: 8.0%) for the 2015 financial year as a whole, the segment's operating margin is satisfying for its sector considering the difficult market environment.



Dependable employees and modern, centralized distribution points ensure that customer orders in Switzerland can be delivered within one working day.

Distribution & Logistics segment

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Distribution & Logistics offers market-oriented product ranges (fastening technology, tools and architectural hardware) and innovative logistics solutions with significant customer benefit under the motto “fast, simple, reliable”. Under the SFS unimarket brand, Distribution & Logistics is a leading supplier and services partner for manufacturers, the skilled trades, construction companies, specialty retailers, wholesalers, and hardware & home improvement stores in Switzerland.

With its international procurement expertise and competent sales and service teams, SFS unimarket helps make every day a success for its customers. Customized logistics solutions can lower process costs significantly and thus play a key role in making customers more competitive.

SFS unimarket’s modern, economic logistics infrastructure allows it to deliver products quickly, reliably and efficiently.

Market position as a partner for specialized retailers strengthened

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In March of 2015, SFS acquired Thomas Minder Holding AG in a transaction that strengthened its position in the Swiss hardware wholesale and specialty retail markets. The centerpiece of the acquisition was Allchemet AG, a subsidiary that continues to operate independently within the SFS Group.

Allchemet is the leading provider of specialized hardware and tools for demanding professionals. Its products are sold through specialty retailers, suppliers of construction materials, and hardware and home improvement stores under well-known brands such as Technocraft, Alduro, Tedura, Tomworker and Tompower.

Technology leadership expanded with “M2M by SFS”

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In the spring of 2015, SFS presented its latest developments in the field of automated inventory management systems. These highly innovative solutions named “M2M by SFS”, are the result of several years of research and development. The acronym “M2M” stands for “machine to machine” and refers to the automated exchange of information between machines and handheld devices – in the case of “M2M by SFS”, to the flow of information between warehouse infrastructure, mobile devices and ERP systems.

The “M2M” product family includes the systematically refined and improved range of internationally acclaimed turnLOG[®] storage container solutions and other complementary systems, as well as three entirely new solutions introduced last year by SFS: reachLOG[®], dropLOG[®] and toolLOG[®]. These products all share an impressive array of new features, such as smartphone, tablet and smartwatch connectivity as well as tracking and delivery notifications.

SFS has succeeded in lowering system costs with the launch of its latest generation of “M2M” products. Thanks to the low entry barriers, new target customer groups can profit from the advantages of its C class supply logistics system, which creates corresponding growth opportunities for SFS.

Thanks to the use of the logistics solutions, customers can further streamline their order processes, significantly reduce the processing cost of total merchandise management and increase the availability of products. This increases the competitiveness of customers.



Network of HandwerkStadt increased

Besides the comprehensive product range and technology leadership in the field of C class logistics, the segment's sales channels are tailored to differing customer needs, which is an important differentiator that sets it apart from the competition.

With the recent opening of new HandwerkStadt locations in Kriessern (SG) and Hinwil (ZH), the network of HandwerkStadt retail stores has increased to 27 in total. HandwerkStadt is positioned for impromptu demand and as a 24-hour pick-up point for professional customers from the skilled crafts and trade sectors, who are offered a wide range of professional tools, machines, fastening systems, architectural tools, personal protective equipment and chemotechnical products.

Exploitation of future potential

The focus in 2016 will be on the successful realization of the projects won, the acquisition of new customers and the further development of the opportunities offered by "M2M".

Experienced specialists provide competent advice and services at our 27 HandwerkStadt locations in direct communication with customers.



Technology leadership in the field of C class logistics sustained

The innovative “M2M solutions” are at the cutting edge in terms of sensor technology and wireless communication. The systems further allow the integration of third-party suppliers. This means customers can reap the proven benefits offered by SFS logistics systems, even with products sourced from third-party suppliers. This logical argument will allow SFS to set up alliances with partner companies to market these same processes and systems to strategic customers around the world.

Position in specialized retail and hardware and home improvement channels strengthened

In March 2015 SFS Group acquired Thomas Minder Holding AG. This transaction clearly strengthened SFS’s profile and product range, and its offering for specialized retailers as well as hardware and home improvement stores in Switzerland. The premium quality tools continue to be marketed to hardware specialty stores, suppliers of construction materials as well as hardware and home improvement stores by Allchemet AG. Integration is proceeding on schedule; Allchemet’s location in Hinwil has already been transformed into an attractive HandwerkStadt retail store.

Top performance of SFS unimarket acknowledged by customers

Georg Fischer Machining Solutions (GF) named SFS unimarket as one of its best supplier partners worldwide. SFS unimarket was recognized as one of the “Top 10 Suppliers 2015” out of the approximately 1,100 suppliers that were evaluated by the company. SFS is a long-standing partner of GF and offers supply chain solutions for C class items. SFS unimarket has implemented innovative logistics concepts at GF’s main manufacturing sites in Luterbach, Nidau, Langnau, Losone and Meyrin, all located in Switzerland. These logistics solutions have reduced process costs, optimized inventory levels and increased process reliability.

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

- **Human rights**
- Labor**
- Environment**
- Anti-corruption**



Human rights

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Shared values are set forth in our Corporate Principles

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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

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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

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

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.

Labor

Employee rights respected in full

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

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.

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

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

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

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 (ILDLP) 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.

Corporate Governance

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The Board of Directors and Group Executive Board attach very great importance to good Corporate Governance. In the interest of shareholders, customers, business partners and employees, the principles of Corporate Governance ensure the necessary transparency and a healthy balance of management and control.

The structure of the following Corporate Governance report follows the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange AG (DCG). All figures apply to 31 December 2015, unless otherwise stated.

1 Group structure and shareholders

1.1 Group structure

SFS Group is organized in three segments: Engineered Components, Fastening Systems and Distribution & Logistics.

Engineered Components develops, manufactures and sells precision components and special screws in three divisions. Fastening Systems combines the principles of threaded fastening and riveting technologies and consists of two divisions. Distribution & Logistics is a leading national supply partner for fasteners, tools and architectural hardware in Switzerland and in neighboring countries.

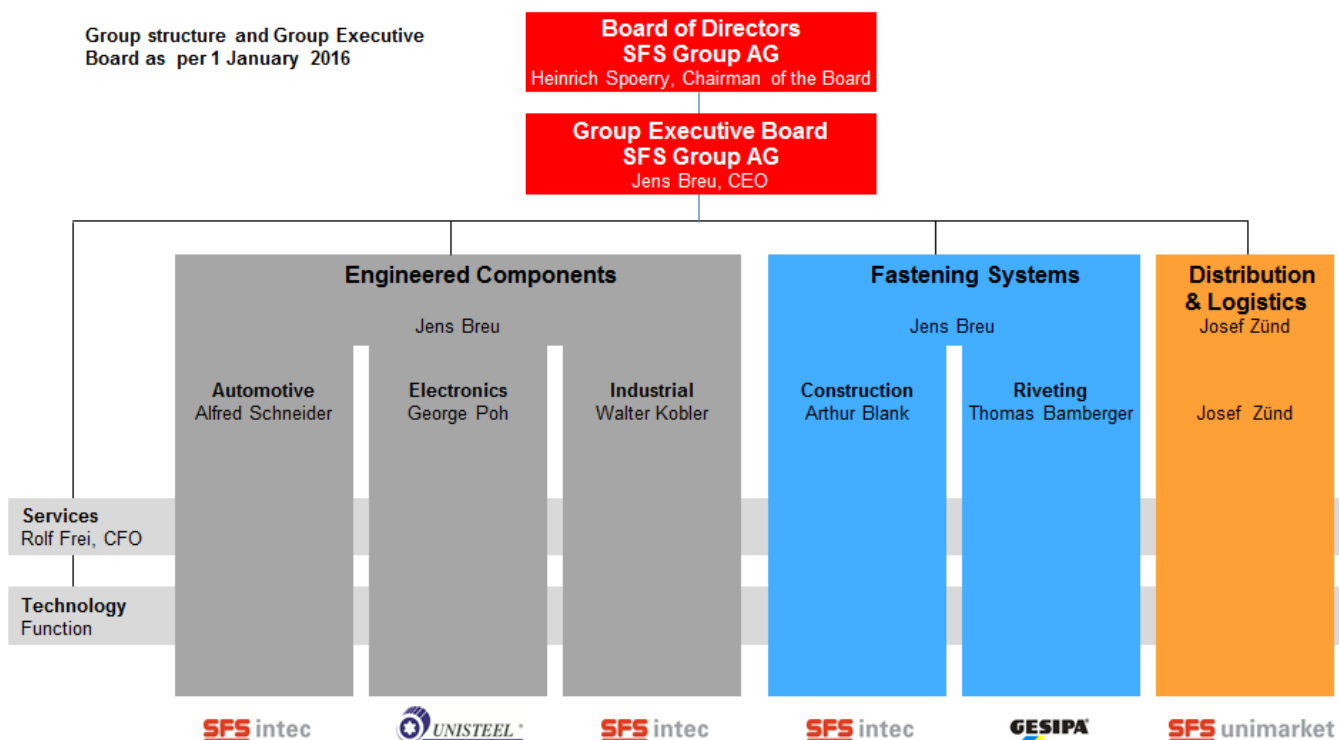
The Board of Directors and Group Executive Board are supported in their management and supervisory functions by the corporate cross-functions Technology (technology- and know-how-transfer, operations, business development) and Services (information technology, finance, controlling, human resources, communication).

The parent company of SFS Group is SFS Group AG, domiciled in Heerbrugg, municipality of Au/SG, Switzerland. It is incorporated under Swiss law and listed in the main segment of SIX Swiss Exchange AG (security number 23.922.930, ISIN CH 023 922 930 2). Its share capital is CHF 3,750,000 (PY 3,750,000) and its market capitalization was CHF 2,625.0 million (PY 2,966.3) as per 31 December 2015.

An overview of all affiliated companies in the scope of consolidation can be found in the appendix of the Financial Report, note 32. The scope of consolidation does not contain any other listed companies besides SFS Group AG.

1.2 Significant shareholders

The founding families of SFS Group AG, Huber and Stadler/Tschan, form an organized group according to Art. 10 of the Ordinance of the Swiss Financial Supervisory Authority on Stock Exchanges and Securities Trading (SESTO-FINMA).



Share capital and voting rights

	31.12.2015	31.12.2014
Founding families	55.10%	55.04%

Both families have defined their principles of cooperation and partnership in a pool agreement. It is their intention to retain a majority of more than 50% of the capital and the voting rights in the long run. They agree with each other on important decisions and always put the successful development of the SFS Group in front of the particular interests of the families.

The Board of Directors is not aware of any other shareholders listed in the share register or shareholder groups holding more than 3% of the share capital or voting rights as per 31 December 2015 (PY none).

SFS Group AG does not hold any treasury shares. Disclosure notifications pertaining to shareholdings are published on the electronic publication platform of SIX Swiss Exchange AG. The notifications can be assessed via the following weblink to the database search page of the disclosure office:

<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>

1.3 Cross-shareholdings

There are no cross-shareholdings of capital or voting rights with any other company.

2 Capital structure

2.1 Capital

SFS Group AG's share capital amounts to CHF 3,750,000 and is divided into 37,500,000 registered shares each with a par value of CHF 0.10.

2.2 Authorized and conditional capital

With regard to the initial public offering (IPO) and the official admission of the shares at SIX Swiss Exchange AG, the Annual General Meeting of 4 April 2014 resolved an authorized capital increase of max. CHF 555,750 which should be exclusively used for the purpose of the IPO (Art. 3a of the Articles of Association).

With the IPO of 7 May 2014 an actual capital increase of CHF 505,750 from CHF 3,244,250 to CHF 3,750,000 was effected.

The remaining authorized capital referred to in Art. 3a of the Articles of Association in the amount of CHF 50,000, valid until 4 April 2016, is irrelevant as it would have been available only for the IPO.

Conditional capital does not exist in SFS Group AG.

2.3 Changes in capital

In the reporting year 2015 no changes in capital occurred. Due to the IPO in 2014 share capital increased from CHF 3,244,250 to CHF 3,750,000. For this purpose existing shareholders were excluded from subscription rights in favor of third parties. There were no additional changes in capital in the last three reporting years.

2.4 Shares and participation certificates/Dividend right certificates

The share capital of SFS Group AG is divided into 37,500,000 registered shares with a nominal value of CHF 0.10 each. The share capital is fully paid in and entitled to dividend. Each share represents one voting right at the Annual General Meeting. SFS Group AG has issued neither participation certificates nor dividend right certificates.

2.5 Limitations on transferability and nominee listings

Persons acquiring registered shares of SFS Group AG shall be entered in the share register without limitation as shareholders with voting rights, provided they expressly declare themselves to have acquired the said shares in their own name and for their own account and comply with the disclosure requirement stipulated by the Stock Exchange Act.

Persons not expressly declaring themselves to be holding shares for their own account in their application for entry in the share register or upon request by the Company ("nominees") shall be entered in the share register with voting rights without further inquiry up to a maximum of 2.0% of the share capital outstanding at that time.

Above this limit registered shares held by nominees shall be entered in the share register with voting rights only if the nominee declares the names, addresses and shareholdings of the persons for whose account he is holding 0.3% or more of the share capital outstanding at that time and provided that the disclosure requirement stipulated by the Stock Exchange Act is complied with. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements.

The above mentioned limit of registration also applies to the subscription for or acquisition of registered shares by exercising preemptive, option or convertible rights arising from shares or any other securities issued by the Company or third parties.

Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities and partnerships (especially syndicates) which act in concert with the intent to avoid the entry restriction are considered as one shareholder or nominee.

The Company may in special cases approve exceptions to the above restrictions. After due consultation with the persons concerned, the Company is further authorized to delete entries in the share register as shareholder with voting rights with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information requested. The concerned person has to be informed about the deletion.

In the reporting year no exceptions were granted and no deletions were executed (PY none).

Cancellation or easing of the restrictions on the transferability of registered shares requires a resolution of the General Meeting passed by at least two-thirds of the shares represented and an absolute majority of the par value of the shares represented.

2.6 Convertible bonds and options

There are no outstanding convertible bonds and SFS Group has issued no options (including employee options).

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors of SFS Group AG consists of a minimum of five and a maximum of nine members. At the end of the reporting year it consisted of six members.

During the last three years, the non-executive members of the Board of Directors did - with one exception in 2013 - not have any material business relationship with SFS Group.

Increasing the focus on the core business, SFS Group disposed of investments in associated and other assets in 2013. A member of the Board of Directors or his affiliated companies purchased these assets for a total of CHF 62.0 million. The named assets are composed of:

- the investment in INHAUS and stürmsfs;
- all shares in the subsidiary SFS Locher AG and
- a property.

The purchase price has been determined based on business and property valuations which have been validated by independent experts performing a "second or fairness opinion".

3.2 Other activities and vested interests

The profiles of the members of the Board of Directors give an overview over other activities and vested interests. Beyond that, no member of the Board of Directors belongs to any important body, is permanent head of or consultant to important interest groups, has public functions or holds public office.

3.3 Permitted additional activities

The members of the Board of Directors may have other functions in the executive management or administrative bodies. The number of functions for third parties and legal units which are not controlled by SFS Group is limited to:

- five mandates in publicly traded companies (Art. 727 para. 1 num. 1 OR); and, in addition;
- ten mandates in companies which exceeded, in two successive reporting years, CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees in average (Art. 727 para. 1 num. 2 OR); and, in addition;
- twenty mandates in legal entities that do not meet the above mentioned criteria; and, in addition;
- ten mandates in associations, charity foundations and employee assistance foundations.

Mandates in companies that are under uniform control or the same beneficial ownership are deemed to be one mandate.

3.4 Election and terms of office

The terms of office of each member of the Board of Directors correspond to the legally permitted maximum term of one year. The members of the Board of Directors, the Chairman and the members of the Nomination and Compensation Committee are elected by the Annual General Meeting. Every member is elected individually.

The term of office ends at the end of the next Annual General Meeting. Re-election is possible as long as the relevant member has not completed the age of 70.

If the office of the Chairman of the Board of Directors is vacant, the Nomination and Compensation Committee is not complete or the company does not have an Independent Proxy, the Board of Directors shall appoint a substitute

for the time period until the conclusion of the next Annual General Meeting that must be – with the exception of the Independent Proxy – a member of the Board of Directors.

Board of Directors

1 Heinrich Spoerry

- Chairman of the Board of Directors since 1999
- Chief Executive Officer from 1999 to 31 December 2015
- Member of the Board of Directors (BoD) of several SFS Group companies
- With SFS from 1981 to 1986 and since 1998
- Swiss citizen, born 1951

Other activities

- Mikron Holding AG, Chairman of the BoD since 2010
- Bucher Industries AG, member of the BoD since 2006
- Frutiger AG, member of the BoD since 2008

Qualifications

- MBA, Massachusetts Institute of Technology 1979
- Master's degree in economics, University of St. Gallen 1976

2 Ruedi Huber

- Member since 1999
- Non-executive member since 1 July 2014
- With SFS from 1983 to 30 June 2014 in various management positions in Switzerland, the US and other locations
- Represents the Huber family shareholders
- Swiss citizen, born 1960

Other activities

- HUWA Finanz- und Beteiligungs AG, Vice Chairman of the BoD since 1997
- Locher Bewehrungen AG, Chairman of the BoD since 2013
- Schlatter Industries AG, member of the BoD since 2010
- Fisba Optik AG, member of the BoD since 2005
- DGS Druckguss Systeme AG, member of the BoD since 2003

Qualifications

- Matura Type C in mathematics and natural science 1980
- SKU Advanced management Program, Switzerland 2001

3 Urs Kaufmann

- Independent, external member since 2012
- Lead Director since 2014
- Chairman of the Nomination and Compensation Committee since 2014
- Swiss citizen, born 1962

Other activities/professional background

- HUBER + SUHNER AG, delegate of the BoD and Chief Executive Officer since 2002
- University of St. Gallen, ITEM, Chairman of the Executive Committee since 2014
- SWISSMEM, member of the Executive Committee since 2012
- Technorama Winterthur, member of the Foundation Board since 2010
- Müller Martini Holding AG, member of the BoD since 2009
- Gurit Holding AG, member of the BoD since 2006

Qualifications

- Senior Executive Program IMD Lausanne 1995
- Master's degree in engineering, Swiss Federal Institute of Technology (ETH) Zurich 1987

4 Thomas Oetterli

- Independent, external member since 2011
- Chairman of the Audit Committee since 2014
- Swiss citizen, born 1969

Other activities/professional background

- Schindler Group, member of the Executive Management Committee since 2010
- Schindler Group, designated Chief Executive Officer as of 1 April 2016
- Schindler Group, Head of China 2013 – 2016
- Schindler Group, Head of Europe North & East 2010 – 2013
- Schindler Group, Head of Switzerland 2006 – 2009
- With Schindler Group since 1994

Qualifications

- Master's degree in economics, University of Zurich 1996



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5 Karl Stadler

- Non-executive member since 1993
- With SFS 1967 – 1993 in various managing positions
- Represents the Stadler/Tschan family shareholders
- Swiss citizen, born 1946

Other activities/professional background

- POLYGENA AG, majority shareholder and Chairman of the BoD since 1992
- icotec ag, founder, majority shareholder and Chairman of the BoD since 2000
- Suprem SA, co-founder, majority shareholder and Chairman of the BoD since 2006
- Frauenhof Immobilien AG, Owner and Chairman of the BoD since 1986
- WISTAMA Finanz- und Beteiligungs AG, founder and Chairman of the BoD since 1985

Qualifications

- PhD in economics, University of St. Gallen 1976
- Master's degree in economics, University of St. Gallen 1970

6 Jörg Walther

- Independent, external member since 2014
- Swiss citizen, born 1961

Other activities/professional background

- Partner at Schärer Attorneys at law since 2010
- Sika AG, Chairman of the Special Expert Committee of Sika AG since 2015
- AEW Energie AG, member of the BoD since 2014
- Proderma AG, Chairman of the BoD since 2014
- Kraftwerk Augst AG, member of the BoD since 2015
- Immobilien AEW AG, member of the BoD since 2015
- Resun AG, General Counsel und Head Corporate Services, member of the Executive Committee 2010 – 2012
- Novartis International AG, Global Head Legal M&A and Antitrust, member of the Group Legal Executive Committee 2001 – 2009
- ABB Asea Brown Boveri AG, Group Vice President M&A 1999–2001
- ABB Schweiz AG, Senior Legal Counsel 1995 – 1998
- Danzas Management AG, Senior Legal Counsel and Head Legal Services 1991 – 1995

Qualifications

- MBA University of Chicago 1999
- Postgraduate certificate in European Economic Law, University of St. Gallen 1993
- Admitted to the bar (Attorney at Law) 1990
- MLaw, University of Zurich 1989

7 Hans Huber

- Honorary Chairman (outside of the Board of Directors) since 1999
- Chairman of the Board of Directors until 1999
- Pioneer/co-founder of the SFS Group
- Swiss citizen, born 1927



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3.5 Internal organizational structure

The Board of Directors is responsible for the ultimate direction, supervision and control of the Group Executive Board.

In support of its directive and supervisory capacity, the Board of Directors has nominated an independent Lead Director and has formed two standing committees, the Nomination and Compensation Committee and the Audit Committee

Board of Directors' procedures

A meeting of the Board of Directors is held whenever the business of the Company requires but at least six times per annum. The meetings are usually spread in a regular interval over the first and second half-year. The chairman, or in his absence the Lead Director, or in the absence of both the aforementioned, another member of the Board of Directors, chairs the meeting. He convenes Board meetings and sets meeting agendas. Additionally, he makes sure that the meeting agenda and supporting material are sent to Board members no later than ten days prior to the meeting date. The Chief Executive Officer, the Chief Operating Officer (until 31 December 2015) and the Chief Financial Officer and other members of the Group Executive Board regarding specific agenda items attend Board meetings with advisory vote.

Eight ordinary Board meetings took place in the reporting year. Two meetings lasted less than two hours, five meetings lasted for one day and a strategy workshop lasted for one and a half days. The meetings were held in a regular frequency of one or two months during the reporting year.

The Chairman of the Board of Directors maintains continuous contact with the members of the Board of Directors and keeps them updated in a regular and timely fashion. Decisions are made by the Board of Directors as a whole. A quorum of the Board of Directors is constituted when a majority of the members attend the meeting in person. In exceptional cases, the presence can take place by telephone or electronic media. The Board of Directors passes its resolutions with the majority of the votes cast. In case of a tie of votes, the Chairman has the casting vote. Voting by proxy is not allowed. All resolutions and deliberations are recorded. The minutes are signed by the Chairman and the secretary and must be approved by the Board of Directors.

Lead Director

The Board of Directors has elected Urs Kaufmann as Lead Director until the end of the next Annual General Meeting. In his function, he takes the chair of Board meetings if the Chairman is indisposed. In particular, the Lead Director

chairs Board meetings if the Chairman is required to abstain from the deliberation and decision-taking in case the following items are on the agenda:

- assessment of the work of the Chairman;
- decision of the Board of Directors on the request to the general meeting for the re-election or not of the Chairman;
- decision about the compensation of the Chairman.

Committee's constitution and procedures

The committee's areas of authority and responsibility are defined in Section 5 of the Organizational Regulations of SFS Group. Available on the SFS Group website: http://www.sfs.biz/en/web/investoren/corporate_governance/corporate_governance_1.html

They support the Board of Directors in its supervisory and control capacities and act mainly as consulting, assessing and preparation bodies. The Nomination and Compensation Committee only has final decision competence concerning the approval of agreements and employment contracts of the Chairman of the Board of Directors, the Chief Executive Officer and the other members of the Group Executive Board as well as concerning the approval of the acceptance of external mandates by members of the Board of Directors and the Group Executive Board. The Audit Committee approves with final competence additional services of the external auditor that are not related to the actual audit.

At the end of the reporting period, the committees were set up as follows like in the previous year:

Nomination and Compensation Committee

Urs Kaufmann	Chairman
Karl Stadler	Member

Audit Committee

Thomas Oetterli	Chairman
Ruedi Huber	Member
Jörg Walther	Member

The committees meet as often as the business of the company requires. The Nomination and Compensation Committee usually meets in February and December before the Board meeting. Due to the change in the function of the Chief Executive Officer, the Nomination and Compensation Committee met one additional time in September 2015. The Audit Committee typically meets in January, February and September. Since internal audits have been performed by an external partner for the first time, an extraordinary meeting of the Audit Committee was necessary in June

2015. A record is kept of every meeting and the meetings' participants and the Board of Directors are provided with the minutes. The Chairmen of the committees report about the committees' activities at the next meeting of the Board of Directors and prepare formal requests to the Board of Directors in whole.

The term of office of the committee members is one year and corresponds to their term of office as members of the Board of Directors.

Nomination and Compensation Committee

The committee consists of a Chairman and at least one additional member with a maximum of four members of the Board of Directors. The committee members are elected by the General Meeting on a yearly basis upon request of the Board of Directors. The Nomination and Compensation Committee constitutes itself. The committee prepares all relevant decisions with regard to the nomination and compensation of the members of the Board of Directors and the Group Executive Board. The Nomination and Compensation Committee only has a consulting and preparing function and no decision-making authority with few exceptions.

The Chief Executive Officer and the Chief Human Resources Officer attend the meetings of the committee unless their own nomination or compensation is being discussed. In the reporting period, the committee held three meetings, each of them lasting about three hours.

In particular, the Nomination and Compensation Committee has the following duties:

- requests regarding the compensation system of the Group;
- requests regarding the setting of compensation-related targets for the Group Executive Board;
- requests regarding the approval of the individual compensation of the Chairman and the members of the Board of Directors, the Chief Executive Officer and the other members of the Group Executive Board;
- requests regarding amendments to the Articles of Association in respect of the compensation system;
- proposals regarding a balanced composition of the Board of Directors and determination of the criteria of independence;
- selection process for new members of the Board of Directors, the Chief Executive Officer and the members of the Group Executive Board;
- evaluation of proposals of the Chief Executive Officer regarding the appointment or removal from office of members of the Group Executive Board;
- approval of agreements and employment contracts with the Chairman of the Board of Directors, the Chief Execu-

– tive Officer and the other members of the Group Executive Board;

- approval of the acceptance of external mandates by members of the Board of Directors and the Group Executive Board.

The motions of the committee are proposed to the Board of Directors as a whole. Further functions of the Nomination and Compensation Committee are defined in Section 5.3 of the Organizational Regulations.

Audit Committee

The Audit Committee has a minimum of three members, elected by the Board of Directors among themselves. The Audit Committee constitutes itself and supports the Board of Directors in its ultimate supervisory function, regarding the completeness of the financial statements, the compliance with the legal requirements, the aptitude of the external auditor and the performance of the internal and external auditors. The Audit Committee assesses the appropriateness of the financial reporting, the internal control system and the general control of business risks.

The Chief Financial Officer, the Chief Executive Officer, the Head of Corporate Controlling, the Head of Accounting as well as the external auditor attend the meetings of the Audit Committee. If necessary, the Audit Committee discusses certain agenda items separately with the external Auditor. In the reporting period, the committee held four meetings, each of them lasting about two hours.

In particular, the Audit Committee has the following duties and competences:

- evaluation of the external auditor and proposal to the Board of Directors regarding the appointment of the external auditor at the General Meeting;
- assessment of the performance of the current external auditor and approval of the budget for auditing and other fees by the external auditor;
- organization of the internal audit, appointment of the internal auditors and assessment of their performance;
- review and approval of the audit plans of both the internal and external auditors;
- approval of any non-audit related services of the external auditor;
- request of information from the Group Executive Board and the internal and external auditors regarding major risks, contingent liabilities and other liabilities of the Group as well as assessment of the measures taken to their minimization;
- review and discussion of the annual and interim financial statements as well as other published financial information;

- discussion of the results of the annual audit with the external auditor and the reports of the internal audit as well as submissions or proposals to the Board of Directors;
- assessment and ensuring of the collaboration between external and internal auditors.

Further functions of the Audit Committee are defined in Section 5.2.2 of the Organizational Regulations.

3.6 Definition of areas of responsibility

The functions and responsibilities of the various bodies are set out in detail in Section 2 ff. of the Organizational Regulations. The Board of Directors is responsible for the ultimate direction, supervision and control of the Group Executive Board.

The Board of Directors deals with all matters which are not delegated to the General Meeting or another body of the Company either by law, its Articles of Associations or the Organizational Regulations.

Pursuant to the Articles of Association and the Organizational Regulations, the Board of Directors has delegated corporate management responsibility to the Group Executive Board.

The Board of Directors particularly approves the business strategy and organization as proposed by the Group Executive Board, as well as the budgets, medium-term plans and any other business which, by its nature or financial importance, is considered strategically significant. For any projects requiring a Board of Directors' decision written requests are prepared.

3.7 Information and control instruments vis-à-vis Group Executive Management

During the Board of Directors' meeting, the Chief Executive Officer, the Chief Operating Officer (until 31 December 2015) and the Chief Financial Officer inform about the current state of business, the most important business transactions of the segments, the divisions and the subsidiaries (management units) as well as about the execution of the functions delegated to the Group Executive Board.

The management-information-system of SFS Group works as follows: quarterly, half-yearly and yearly, the balance sheet, income statement, cash flow statement and key figures of the management units are set up and consolidated, comparing them to the previous year's figures and the budget. The budget is reviewed based on the quarterly financials in the form of a latest best estimate about the reachability of each unit and on a consolidated basis. The

Board of Directors is provided with a monthly overview of the development of the group sales and a quarterly estimate of financial results for the whole reporting year.

The Board of Directors approves the budget of SFS Group, the segments and the divisions. Once a year the Board of Directors is provided with the results of the mid-term planning for the following three to five years. Usually, the Board of Directors deals with strategic questions with regard to the group, the segments and the divisions in a one and a half to two-day workshop.

The Chief Executive Officer, the Group Executive Board and the Chairman of the Board of Directors are provided with condensed financial reporting about the business development on a monthly basis. Substantial discrepancies and developments are brought to the attention of the whole Board of Directors immediately in written form.

The internal audit is executed by the Corporate Controlling team and since 2015 in cooperation with an external partner. Although the Head of Corporate Controlling is subordinate to the Chief Financial Officer, he reports directly to the Audit Committee with regard to these activities. The internal audit of SFS Group is aligned with the size of the group. Based on financial risk considerations approved by the Audit Committee, the group companies are audited every two to four years depending on the risk assessment. The written internal audit report is discussed with the management of the companies concerned and the most significant measures are agreed upon. Material findings of the internal audit and the Audit Reports are presented to and discussed in the Audit Committee. Internal audit attends the meetings of the Audit Committee. In the reporting period, twelve internal audits took place within the group, two of them performed by the external partner.

The external auditor annually assesses the internal control system (ICS) in a comprehensive report to the Audit Committee and confirms its existence.

The Group Executive Board annually selects and assesses the substantial financial, operational and strategic risks together with the ICS managers. Based on its own assessment (top-down) and on information provided by the Segments and Divisions (bottom-up), risks are categorized depending on their probability of occurrence and their potential financial impact. For each listed risk, mitigation measures are defined. The risks assessed as well as the actions defined are submitted in the "Risk Analysis of the SFS Group" to the Board of Directors' meeting in December for discussion and approval. In the reporting period, the following potential risks with possible countermeasures were discussed in particular:

- investment risks in large-scale projects;
- currency risks;
- risks with acquired corporations;
- dependency on global economic developments;
- compliance risks.

For further information we refer to note 5 "financial risk management" of the appendix of the Financial Report.

4 Group Executive Board

4.1 Members of the Group Executive Board

The Chief Executive Officer, together with the Group Executive Board, is responsible for the management of the SFS Group. Under his leadership, the Group Executive Board addresses all issues of relevance to the Group, takes decisions within its remit and submits proposals to the

Board of Directors. The Heads of the Segments, Divisions and corporate cross-functions are responsible for outlining and achieving their business objectives and for managing their units autonomously.

As per 1 January 2016, Jens Breu, former Chief Operation Officer, took over the function of the Chief Executive Officer from Heinrich Spoerry. Heinrich Spoerry remains within the SFS Group as Chairman of the Board of Directors. Herewith the change at the top of the management and the personal separation of the Chairman of the Board of Directors from the Chief Executive Officer function, which was already announced prior to the IPO, was implemented.

The Group Executive Board had eight members as per 1 January 2016:

Group Executive Board

Heinrich Spoerry

- Chief Executive Officer 1999 to 31 December 2015
- Further comments in section 3 Board of Directors (BoD)

Jens Breu

- Chief Executive Officer from 1 January 2016
- Head of Segment Engineered Components since October 2014
- Head of Segment Fastening Systems since 2014
- With SFS since 1995
- Swiss citizen, born 1972

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Chief Operating Officer from 2014 to 31 December 2015
- Head of Division Industrial 2012 – 2013
- Technical Director SFS intec 2008 – 2013
- Vice President of manufacturing SFS intec Inc. (USA) 2000 – 2008
- Tool engineer 1995 – 2000

Qualifications

- MBA, Cleveland State University 2007
- Mechanical engineer, FHS St. Gallen 1996

Rolf Frei

- Chief Financial Officer since 2003
- With SFS since 1981
- Swiss citizen, born 1958

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Managing Director of SFS services AG since 2008
- Head of Corporate Controlling 1994 – 2003
- Corporate Controller 1981 – 1994

Further functions

- Chamber of Commerce and Industry St. Gallen – Appenzell, Member since 2015

Qualifications

- Stanford Executive Program, Stanford University 2010
- SKU advanced management program, Switzerland 1995
- Swiss certified Expert for Accounting and Controlling 1987
- Degree in Business Administration, FHS St. Gallen 1981

Thomas Bamberger

- Head of Division Riveting since 2014
- With SFS (GESIPA) since 1995
- German citizen, born 1961

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Head of GESIPA Group 2008 – 2013
- Managing Director GESIPA Germany 2006 – 2008

Qualifications

- Stanford Executive Program, Stanford University 2013
- Degree in Mechanical Engineering, University of Applied Sciences, Darmstadt 1989

Arthur Blank

- Head of Division Construction since 2014
- With SFS since 1983
- Swiss citizen, born 1959

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- General Manager Europe 2010 – 2013
- Head of various Business Units 2008 – 2010
- General Manager International Manufacturing 1998 – 2008

Qualifications

- SKU advanced management program, Switzerland 2000
- International management program with focus on managing manufacturing, IMD Lausanne 1994
- Bachelor of Science (B.Sc.), Buchs Institute of Technology (NTB) 1982

Walter Kobler

- Head of Division Industrial since 2014
- With SFS since 1987
- Swiss citizen, born 1963

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- General Manager of SFS intec's aerospace activities 2004 – 2014

Qualifications

- Stanford Executive Program, Stanford University 2012
- Sales manager at the Institute of Marketing, University of St. Gallen 1994
- Advanced courses in sales and leadership, Management Center St. Gallen 1992
- Federally certified marketing planner, Kaderschule St. Gallen 1990

George Poh

- Head of Division Electronics since October 2014
- With SFS (Unisteel) since 1995
- Singapore citizen, born 1963

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Chief Operating Officer Unisteel 2012 – 2014
- Chief Technology Officer Unisteel 2011 – 2012
- Managing Director Unisteel 2003 – 2011
- Various management positions within Unisteel 1995 – 2003

Qualifications

- MBA, University of Hull, United Kingdom 1998
- Bachelor of Engineering (B.Eng.), Mechanical Engineering, University of Sheffield, United Kingdom 1988
- Diploma Mechanical Engineering, Singapore Polytechnic 1983

Alfred Schneider

- Head of Division Automotive since 2014
- With SFS since 1987
- Swiss citizen, born 1959

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Member of the BoD of the joint venture in China, Sunil SFS intec since 2008
- General Manager Automotive Products 2008 – 2013

- General Manager Industrial Products 2002 – 2008

Qualifications

- SKU Advanced Management Program, Switzerland 1999
- Diploma in Sales Management, University of St. Gallen 1994
- Business Management, Swiss Engineering STV 1986
- Mechanical engineer, Buchs Institute of Technology (NTB) 1982

Josef Zünd

- Head of Segment Distribution & Logistics since 2014
- With SFS since 1971
- Swiss citizen, born 1955

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Chief Executive Officer SFS unimarket 2000 – 2013
- Various sales and management positions SFS unimarket

Further functions

- Member of the BoD of Locher Bewehrungen AG since 2013
- Management Board member of SWISSAVANT trades and household services association since 2013

Qualifications

- SKU advanced management program, Switzerland 1995
- Federally certified sales manager, Kaderschule St. Gallen 1986



From left to right: – George Poh, Head of Division Electronics – Rolf Frei, CFO – Walter Kobler, Head of Division Industrial – Josef Zünd, Head of Segment Distribution & Logistics – Alfred Schneider, Head of Division Automotive – Heinrich Spoerry, Chairman of the Board of Directors – Jens Breu, CEO – Thomas Bamberger, Head of Division Riveting – Arthur Blank, Head of Division Construction

4.2 Other activities and vested interests

The profiles of the members of the Group Executive Board in Section 4.1 give an overview over other activities and vested interests. Beyond that, no member of the Group Executive Board belongs to any important body, is permanent head of or consultant to important interest groups, has public functions or holds public office.

4.3 Permitted additional activities

The members of the Group Executive Board may have other functions in the executive management or administrative bodies if approved by the Nomination and Compensation Committee. The number of functions for third parties and legal units which are not controlled by SFS Group is limited to:

- two mandates in publicly traded companies (Art. 727 para. 1 num. 1 CO); and, in addition;
- three mandates in companies which exceeded, in two successive reporting years, CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees in average (Art. 727 para. 1 num. 2 CO); and, in addition;
- five mandates in legal entities that do not meet the above mentioned criteria.

Mandates in companies that are under uniform control or the same beneficial ownership are deemed one mandate.

4.4 Management contracts

No management contracts exist with companies or individuals outside SFS Group.

5 Compensation, shareholdings and loans

All information on this subject can be found in chapter 2 "Fundamental principals of the compensation system" of the Compensation Report of this Annual Report.

6 Shareholders' participation

6.1 Voting rights and representation restrictions

Shareholders' participation rights are detailed in the Articles of Association.

Each share entitles to one vote, subject to the provisions in Section 2.5 "Limitations on transferability and nominee listings". In the reporting year, no exceptions were granted (PY none).

The Board of Directors determines the requirements regarding proxies and voting instructions.

An easement or abolition of the restriction of the transferability of the registered shares can be resolved by the General Meeting. A resolution passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required.

The Articles of Association do not contain any regulations concerning the issuance of instructions to the Independent Proxy or the electronic participation at the Annual General Meeting.

6.2 Independent Proxy

Each shareholder may be represented by the Independent Proxy.

The term of office of the Independent Proxy ends at the next Annual General Meeting. Re-election is possible. His duties are governed by the relevant statutory provisions.

The Annual General Meeting of 7 May 2015 has elected bürki bolt németh Rechtsanwälte, 9435 Heerbrugg, as Independent Proxy until the next Annual General Meeting.

6.3 Statutory quorums

For:

- the cases listed in Art. 704 para. 1 CO and in Art. 18 and 64 of the Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act);
- the easement or abolition of the restrictions of the transferability of registered shares;
- any change to the provisions of Art. 13 of the Articles of Association;

a resolution of the General Meeting passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required.

6.4 Convocation of the Annual General Meeting

There are no regulations deviating from the relevant statutory provisions.

6.5 Inclusion of items on the agenda

The Board of Directors states the items on the agenda.

Registered shareholders with voting rights individually or jointly representing at least five percent of the share capital may demand that items are put on the agenda. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 days before the date of the Annual General Meeting and shall be in writing.

6.6 Registration in the share register

No registrations are made in the share register about ten days before and five days after the date of the Annual General Meeting. The exact dates are set in the invitation to the Annual General Meeting. In the reporting year the Board of Directors has granted no exceptions to this rule (PY none).

7 Changes of control and defense measures

7.1 Duty to make an offer

According to Art. 31 of the Articles of Association, the obligation to submit a public takeover offer pursuant to Art. 32 and 52 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA) has been waived in accordance with Art. 22 para. 2 SESTA (Opting out).

7.2 Clauses on changes of control

No contractual clauses governing changes in control exist in agreements or plans with the members of the Board of Directors. The employment contracts of the members of the Group Executive Board do not contain any provisions regarding a change of control either. The blocking period of shares continues to apply in the event of a change of control. There are no clauses regarding a change of control in the employment contracts of other key members of the management.

The contractual notice period for members of the Group Executive Board amounts to six months.

The agreed noncompetition clause of members of the Group Executive Board lasts two years after the termination of employment. The noncompetition clause is not applicable if employment is terminated due to a change of control.

8 Auditing body

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, St. Gallen, has been the independent auditor of SFS Group AG and several subsidiaries since 1993. The independent auditor is elected by the Annual General Meeting for a period of one year. The lead auditor in the present mandate, Beat Inauen, took office at the Annual General Meeting of 2009. According to the relevant statutory provisions in the Swiss Code of Obligations (Art. 730a CO) the term of the lead auditor is limited to a maximum of seven years. Herewith the term of Beat Inauen as lead auditor ends with the Annual General Meeting 2016.

Thomas Illi will take office as lead auditor after the Annual General Meeting 2016 if PricewaterhouseCoopers AG, St. Gallen is re-elected as independent auditor in the Annual General Meeting 2016.

8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.7 million (PY 0.8) for auditing SFS Group AG, the Group financial statements and several subsidiaries.

8.3 Additional fees

PricewaterhouseCoopers AG and affiliated companies did not raise any invoices for audit-related services in the reporting period (PY 0.2 million). For additional services with regard to tax compliance as well as other tax consulting services a total amount of CHF 0.2 million (PY 0.2) was paid to PricewaterhouseCoopers AG and affiliated companies in 2015.

8.4 Informational instruments pertaining to an external audit

The Audit Committee briefs the Board of Directors on the work done by and the working relation with the external auditor at least once a year. Each year, the external auditor submits an audit plan as well as a comprehensive report on the financials for the attention of the Board of Directors and the Audit Committee. The report contains conclusions on financial accounting, the internal control system and the process and results of the audit.

The Audit Committee evaluates the scope of the annual audit and the audit plans, and discusses audit results with the external auditor. In the reporting period, the external and internal auditors were present at three meetings of the Audit Committee.

The Audit Committee annually assesses the effectiveness, performance, independence and fees paid to the external auditor and provides the Board of Directors with a proposal regarding the election of the auditor by the General Meeting.

This evaluation is based on the reports and presentations provided by the external auditors, the discussions held in the meetings, their objectivity as well as their technical and operational competency.

The Audit Committee assesses the sustainability, the scope and the amount of the fees for the services rendered by the external auditor.

9 Information policy

Open and regular communication on all levels is an important part of the managerial responsibility. All information measures are based on a commitment to uphold the credibility of the group. Communication is carried out in an active, open and timely way with all stakeholders.

Numbers and figures about the group, presentations about important activities as well as dates of events that are important for shareholders, analysts or media are available on the website:

http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen_1/finanzpublikationen_1.html

As a company listed on the SIX Swiss Exchange AG, SFS Group AG is subject to the ad hoc publicity regulations, i.e. the obligation to report any information that is potentially relevant to the share price.

SFS Group maintains a dialog with investors and media on a regular basis including media and analyst conferences in March and in July/August, an investors' day in September, roadshows in spring and fall, a volume notification with sales numbers in January as well as investors' days from various banks.

Interested parties can subscribe to an email service free of charge under the following link:

http://sfs.biz/en/web/maillinglist/maillingliste_addon.html

All media releases, Annual Reports and Half-Year Reports, volume notifications, media and analyst conference, etc. go online at the same time as they are published on the following website:

http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/medienmitteilungen_1/newsoverview.html

Shareholders receive the short version of the Annual Report automatically with the invitation to the Annual General Meeting. The long version of the Annual Report is available electronically on the website:

http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen_1/finanzpublikationen_1.html

Other interested parties receive the reports upon request. Official announcements and company notices are published in the Swiss Commercial Gazette (SHAB).

The following information is available on the SFS Group website www.sfs.biz:

Investors' information

http://www.sfs.biz/en/web/investoren/investoren_1.html

Organizational regulations

http://www.sfs.biz/en/web/investoren/corporate_governance/corporate_governance_1.html

Articles of Association

http://www.sfs.biz/en/web/investoren/corporate_governance/corporate_governance_1.html

Company news and ad hoc announcements

http://www.sfs.ch/en/web/investoren/aktionaersinformation/en/medienmitteilungen_1/newsoverview.html

Financial reports

http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen_1/finanzpublikationen_1.html

Corporate Communications/Investor Relations

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10 Non-applicability/negative statement

It is explicitly declared that all statements that are not included or mentioned in this report are considered as either not applicable or negative statement (according to the Directive on Information relating to Corporate Governance published by SIX Swiss Exchange AG or the associated Commentary).

Compensation report

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1 Introduction

This Compensation Report provides information about the compensation system established by SFS Group and the compensation paid to SFS's Board of Directors and the Group Executive Board. SFS Group updated the compensation system for the Board of Directors and the Group Executive Board in conjunction with its IPO on 7 May 2014 and implemented the revised system in the 2014 financial year.

This Compensation Report satisfies the provisions of the Ordinance Against Excessive Compensation in Listed Companies (OAEC) in effect as of January 2014 and the pertinent provisions of the Swiss Code of Obligations in connection therewith. The structure of this report basically follows the recommendations given in the Swiss Code of Best Practice for Corporate Governance issued by *economiesuisse* and the provisions set forth in the Directive on Information relating to Corporate Governance (DCG) issued by SIX Swiss Exchange AG.

2 Fundamental principles of the compensation system

The success of SFS Group depends to a large extent on the quality, entrepreneurial mindset and motivation of its workforce. The aim of the compensation system is to attract well-qualified specialists and executives, and foster commitment to the company's long-term goals. The compensation policy of SFS Group satisfies the following criteria:

- performance-oriented with fixed and variable compensation components;
- based on clearly defined and measurable targets;
- clear and straightforward ;
- compensation is fair/market-based, ethical and justifiable in the public domain;
- predefined maximum and minimum thresholds.

The basic principles of the compensation program are set forth in Arts. 25 to 30 of SFS Group AG's Articles of Association.

The Articles of Association prohibit the Company from providing members of the Board of Directors or the Group Executive Board with any loans, credits, or pension benefits other than from occupational pension plans.

Responsibility for revising the compensation system and for proposing the amounts of compensation to be paid lies with the Nomination and Compensation Committee (NCC). It comprises a chairman and at least one other member of the Board of Directors. Members of the NCC are elected annually by the General Meeting. NCC proposals are submitted

to the entire Board of Directors. The composition, tasks and duties and working methods of the NCC are disclosed in the Corporate Governance Report.

2.1 Compensation of the Board of Directors

The members of the Board of Directors receive a fixed basic fee, fixed fees for membership of committees of the Board of Directors and a lump-sum compensation for expenses. The various amounts of compensation are determined annually by the Board of Directors based on a proposal submitted by the NCC. The amount of compensation paid will be subject to and within the limits of the aggregate amounts approved by the General Meeting. Compensation is paid in cash and in the form of a fixed number of shares of SFS Group AG. The SFS shares are awarded as a long-term incentive and are subject to a mandatory holding period of at least three years. The weighting of SFS shares as a component of overall compensation is reviewed on a regular basis by the NCC. Proposals for modification will be submitted to the Board of Directors if and when appropriate.

An additional bonus as specified in Art. 25 of the Articles of Association was not awarded during the year under review nor during the previous year. Compensation of the members of the Board of Directors is subject to approval by the General Meeting.

As the duties of the chairman of the board and the CEO were vested in the same individual during the 2014 and 2015 financial years, compensation was paid only for the individual's service as CEO. No additional compensation is paid to the CEO for his service as an executive director.

2.2 Compensation of the Group Executive Board

Members of the Group Executive Board receive a base salary in cash commensurate with their responsibilities and experience. In addition, a variable component of compensation based on individual performance and the operational results is paid in cash and in the form of SFS shares. The SFS shares awarded are blocked for a period of at least three years.

Compensation of the members of the Group Executive Board is subject to approval by the General Meeting. Members of the Group Executive Board also receive a lump-sum cash payment as reimbursement for business and representational expenses in accordance with the business and travel expense policy document approved by the competent cantonal tax authorities.

Below is an overview of the compensation program for the Group Executive Board:

	Base salary	Variable cash compensation	Variable SFS share compensation*	Salary cap
Chief Executive Officer	100%	50% of base salary	15 to 20% of base salary	2 x base salary
Floor value	100%	0%	0%	100%
Target value	100%	50%	20%	170%
Cap value	100%	75%	25 - 30%	approx. 200%
Group Executive Board	100%	25% of base salary	10 to 15% of base salary	1.6 x base salary
Floor value	100%	0%	0%	100%
Target value	100%	25%	10%	135%
Cap value	100%	37.5%	22.5 - 27.5%	approx. 160%

* With regard to the **variable compensation** in the form of **SFS shares**, a fixed amount of shares per member of the Group Executive Board is determined by the Board of Directors at the beginning of each period. It will represent approximately 20% of the Chief Executive Officer's base salary and approximately 10% of the base salary of the other members of the Group Executive Board. On conclusion of the General Meeting, these shares, provided shareholder approval was given, will be transferred to the Group Executive Board members at the closing price on the day of the General Meeting. Due to fluctuations in the share price between the date the number of shares was determined (start of the accounting period) and the grant date (day of the General Meeting, 15 to 16 months later), the maximum amount of compensation in SFS shares, which is capped at 25% of the Chief Executive Officer's base salary and at 22.5% of the base salary of the other members of the Group Executive Board, may be exceeded if the share price has increased significantly during this period, resulting in an overshooting of the overall salary cap. The number of shares per member of the Group Executive Board was initially determined based on the initial offering price of CHF 64. The number of shares to be granted will remain constant within the range of $\pm 25\%$ from the initial offering price (CHF 48 to CHF 80).

As a general rule, the **base salary** corresponds to the fixed salary as paid in 13 monthly installments.

The amount of **variable cash compensation** is governed by three criteria:

- a) the extent to which the financial targets have been achieved

The financial targets are set in advance for a one-year period of service. For the 2015 financial year the financial targets at Group level pertained to sales growth, the EBITA margin and operating free cash flow. At segment level, sales growth, EBITA margin and net working capital as a percentage of sales were set as the target parameters.

- b) the achievement of individual annual targets
These compensation-relevant targets for the Chief Executive Officer are defined and determined by the Board of Directors and; with respect to all other Group Executive Board members, they are defined and determined individually by the Chief Executive Officer. Ongoing projects, the established strategic targets and sustainable corporate development serve as guidelines in this process. A floor value is determined for each of the defined targets, below which there is no entitlement to compensation. A cap value determines the maximum amount of variable compensation for each target.
- c) discretionary judgment regarding leadership conduct
Leadership, values and conduct are also evaluated when determining entitlement to variable cash compensation. Performance in this respect will be evaluated through the sole and absolute discretion of the immediate line manager (in the case of the Chief Executive Board, the Board of Directors; for the other Group Executive Board members, the Chief Executive Officer).

The weighting of the variable cash compensation shall be determined by the Board of Directors based on a proposal submitted by the NCC. For the year under review and the previous year, these weightings were set as follows:

Target category	Financial targets SFS Group	Financial targets segments and divisional targets	Individual targets	Leadership Values Behaviors
CEO, COO, CFO	60%	-	20%	20%
Other board members	30%	30%	20%	20%

A second part of the variable compensation is paid out in the form of SFS shares. The Board of Directors determines a certain amount of SFS shares to be awarded to each member every year at the beginning of the performance period. The value of the shares at this time should correspond to between 15% and 20% of the base salary paid to the Chief Executive Officer and to between 10% and 15% of the base salary paid to the other members of the Group Executive Board. At the end of the performance period the Board of Directors will determine at its own discretion how many SFS shares shall be granted based on the proposal submitted by the NCC, taking into consideration the market environment (inflation, economic activity, industry developments, etc.), the execution of Company strategy, and the Company's financial situation. A factor of 0 to 150% may be applied. The SFS shares are transferred to the members at the end of the General Meeting affirming this compensation. These SFS shares are blocked for a period of at least three years. Shares awarded to a member of the Group Executive Board shall remain his or her property on separation from the Company.

2.3 Stock ownership plan

SFS Group can periodically sell company shares to key and long-standing employees at a price 5% to 10% below the volume-weighted average price on the stock market over a 30-day period. The members of the Board of Directors and the Group Executive Board may be allowed to participate in this plan. The SFS shares acquired through this plan will be blocked for at least three years.

2.4 Loans and credits

SFS Group shall not grant loans, credits, securities or pension benefits other than from occupational pension funds to the members of the Board of Directors and the Group Executive Board.

3 Process used to determine compensation

The NCC discusses the financial and individual targets to be set for the Group Executive Board for the coming financial year in December of every year. It submits its proposals to the entire Board of Directors for approval.

Compensation of the Board of Directors and the Group Executive Board is determined every year in February after the close of the financial year by the full Board of Directors based on the proposals of the NCC, subject to approval by the General Meeting.

When setting its own compensation, all members of the Board of Directors must be present and they all have decision-making authority.

When setting the aggregate compensation of the Board of Directors and the Group Executive Board, market data for Swiss industrial companies that have a similar geographic footprint and are similar in size is consulted, and the individual responsibilities and experience of the respective persons are also taken into consideration. This data will be reviewed on an annual basis.

Responsibility for determining variable compensation and aggregate compensation is depicted in the following table:

	Proposal	Decision	Approval
Board of Directors	NCC	Board	AGM
Chief Executive Officer	NCC	Board	AGM
Group Executive Board members	NCC	Board	AGM

As stated in the Articles of Association, each year the General Meeting will cast separate votes on the proposals of the Board of Directors regarding the aggregate amount of:

1. compensation of the Board of Directors for the term of office up to the next Annual General meeting;
2. any additional compensation of the Board of Directors for the preceding financial year;
3. the variable compensation of the Chief Executive Officer and the Group Executive Board based on the operational results and individual objectives achieved in the preceding financial year, to be paid immediately after approval;
4. the fixed compensation of the Chief Executive Officer and the Group Executive Board to be paid in the subsequent financial year.

If the General Meeting does not approve the proposed amount of the fixed compensation or the variable compensation, the Board of Directors may convene a new extraordinary General Meeting and submit new proposals or submit new proposals regarding compensation for approval at the next Annual General Meeting.

The respective amounts of aggregate compensation include all social and pension plan contributions due from the members of the Board of Directors and the Group Executive Board and of the Company (employee and employer contributions).

If new members are appointed to the Group Executive Board or existing members promoted and take up their position with the Company after the General Meeting has approved the maximum aggregate amount of fixed compensation for members of the Group Executive Board for the financial year in question, each of the newly appointed or promoted board members may be paid aggregate compensation for the period up to the next Annual General Meeting of no more than 25% of the aggregate compensation most recently approved for the Group Executive Board by the General Meeting.

This additional of compensation amount may be paid only if the aggregate amount of compensation for the Group Executive Board that has been approved by the General Meeting for the period up to the next General Meeting is not sufficient to compensate the newly appointed or promoted members of the Group Executive Board. The General Meeting does not vote on the additional compensation paid.

4 Compensation paid or granted in the year under review and in the previous year

This section is subject to inspection by the auditors.

4.1 Compensation of the Board of Directors 2015

in CHF except number of shares	Base salary, net ³	Number of SFS shares	Value of SFS shares ¹	Social and pension contributions ²	Total	Of which in cash
Heinrich Spoerry, Chairman	-	-	-	-	-	-
Ruedi Huber	74,667	500	32,800	15,817	123,284	74,667
Urs Kaufmann	74,667	500	32,800	15,817	123,284	74,667
Thomas Oetterli	74,667	500	32,800	15,817	123,284	74,667
Karl Stadler	74,667	500	32,800	11,237	118,704	74,667
Jörg Walther	74,667	500	32,800	15,817	123,284	74,667
Total Board of Directors	373,335	2,500	164,000	74,505	611,840	373,335

¹ The price per SFS share used by the Board of Directors at its meeting on 22 February 2016 to determine the number of SFS shares was CHF 65.60 (closing price).

² Employee and employer contributions to social security schemes and occupational pension plans.

³ The base salary was reduced by 10% during the period from 1 May 2015 to 30 April 2016 in response to exchange rate developments.

4.2 Compensation of the Board of Directors 2014

in CHF except number of shares	Base salary, net	Number of SFS shares	Value of SFS shares ¹	Social and pension contributions ²	Total	Of which in cash
Heinrich Spoerry, Chairman	-	-	-	-	-	-
Hans Brunhart (until 4.4.2014)	21,667	n/a	n/a	n/a	21,667	21,667
Christian Fiechter (until 4.4.2014)	20,845	n/a	n/a	1,917	22,762	20,845
Ruedi Huber ³	88,125	500	32,500	13'278	133,903	88,125
Urs Kaufmann	75,239	500	32,500	11,336	119,075	75,239
Thomas Oetterli	75,239	500	32,500	11,336	119,075	75,239
Karl Stadler	88,539	500	32,500	9,351	130,390	88,539
Jörg Walther (from 4.4.2014) ⁴	60,000	500	32,500	9,040	101,540	60,000
Total Board of Directors	429,654	2'500	162,500	56,258	648,412	429,654

¹ The price per SFS share used by the Board of Directors at its meeting on 20 February 2015 to determine the number of SFS shares was CHF 65 (closing price).

² Employee and employer contributions to social security schemes and occupational pension plans.

³ Ruedi Huber was engaged in operational business activities at SFS Group until 30 June 2014, for which he earned a net amount of CHF 54,098.

⁴ Jörg Walther was elected to the Board of Directors on 4 April 2014. Compensation for advisory services before his election to the board amounted to a net CHF 20,000.

4.3 Compensation of the Group Executive Board 2015

in CHF except number of shares	Base salary, net ⁵	Variable cash compensa- tion, net	Number of SFS shares ⁴	Value of SFS shares ¹	Stock ownership plan ²	Social and pension contribu- tions ³	Total	Of which in cash
Heinrich Spoerry, CEO	568,944	251,617	2'100	137,760	0	210,295	1,168,616	820,561
Other members of GEB	2,267,450	545,554	4'920	322,752	0	781,476	3,917,232	2,813'004
Total GEB	2,836,394	797,171	7'020	460,512	0	991,771	5,085,848	3'633'565

- ¹ The price per SFS share used by the Board of Directors at its meeting on 22 February 2016 to determine the number of SFS shares was CHF 65.60 (closing price).
- ² Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount of 10%.
- ³ Employee and employer contributions to social security schemes and occupational pension plans.
- ⁴ In the 2015 financial year there was no activity in the stock ownership plan. Therefore, the number of SFS shares corresponds to the number of shares granted as variable share compensation.
- ⁵ The base salary was reduced by 10% during the period from 1 February 2015 to 31 December 2015 in response to exchange rate developments.

4.4 Compensation of the Group Executive Board 2014

in CHF except number of shares	Base salary, net	Variable cash compensa- tion, net	Number of SFS shares	Value of SFS shares ¹	Stock ownership plan ²	Social and pension contribu- tions ³	Total	Of which in cash
Heinrich Spoerry, CEO	624,243	302,581	2,100	136,500	6,324	246,933	1,316,581	926,824
Other members of GEB ⁴	2,819,008	680,180	5,550	360,750	33,201	849,411	4,742,550	3,499,188
Total GEB	3,443,251	982,761	7,650	497,250	39,525	1,096,344	6,059,131	4,426,012

- ¹ The price per SFS share used by the Board of Directors at its meeting on 20 February 2015 to determine the number of SFS shares was CHF 65 (closing price).
- ² Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount of 10%.
- ³ Employee and employer contributions to social security schemes and occupational pension plans.
- ⁴ Bernard Toh ceased his activity as member of the GEB with effect of 1 October 2014.

4.5 Loans and credit facilities

SFS Group did not grant any loans, credits, securities or pension benefits other than from occupational pension funds to the members of the Board of Directors or the Group Executive Board.

5 Shares owned by the Board of Directors and by the Group Executive Board

5.1 Board of Directors

	Number of shares 31.12.2015	Number of shares 31.12.2014
Heinrich Spoerry, Chairman	-	-
Ruedi Huber, non-executive member	245,960	244,280
Urs Kaufmann, independent, external member	6,680	5,000
Thomas Oetterli, independent, external member	4,680	3,000
Karl Stadler ¹ , non-executive member	2,521,480	2,519,800
Jörg Walther, independent, external member	1,680	-
Total Board of Directors	2,780,480	2,772,080

¹ The numbers of shares of Karl Stadler include privately held shares and shares of Wistama Finanz- und Beteiligungs AG, which is under his control.

This information on the number of shares held by the Board of Directors does not replace the information disclosed in the notes to the financial report of this annual report pursuant to Art. 663c of the Swiss Code of Obligations.

5.2 Group Executive Board

	Number of shares 31.12.2015	Number of shares 31.12.2014
Heinrich Spoerry, Chief Executive Officer until 31.12.2015	190,280	188,180
Thomas Bamberger, Head of Division Riveting	1,170	670
Arthur Blank, Head of Division Construction	12,840	12,340
Jens Breu, Chief Operating Officer until 31.12.2015, Chief Executive Officer since 1.1.2016	6,330	5,680
Rolf Frei, Chief Financial Officer	61,530	60,680
Walter Kobler, Head of Division Industrial	19,500	19,000
George Poh, Head of Division Electronics	50,330	49,680
Alfred Schneider, Head of Division Automotive	14,080	13,580
Josef Zünd, Head of Segment Distribution & Logistics	18,190	17,340
Total Group Executive Board	374,250	367,150

This information on the number of shares held by the Group Executive Board does not replace the information disclosed in the notes to the financial report of this annual report pursuant to Art. 663c of the Swiss Code of Obligations.

Report of the statutory auditor on the compensation report

We have audited chapter 4 (pages 66 and 67) of the accompanying compensation report dated 3 March 2016 of SFS Group AG for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and Arts. 14 to 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 to 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of SFS Group AG for the year ended 31 December 2015 complies with Swiss law and articles 14 to 16 of the Ordinance.

PricewaterhouseCoopers AG



Beat Inauen
Audit expert
Auditor in charge



Martin Bettinaglio
Audit expert

St. Gallen, 3 March 2016

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Consolidated balance sheet

Assets in CHF million	Notes	31.12.2015		31.12.2014	
Cash and cash equivalents	7	157.0		138.3	
Trade receivables	8	243.9		268.3	
Other receivables	9	29.2		33.2	
Inventories	10	258.1		273.2	
Current assets		688.2	31.7%	713.0	31.7%
Property, plant and equipment	11	576.0		590.5	
Intangible assets	12	850.2		908.7	
Financial assets	13	10.1		0.7	
Investments in related entities	14	27.1		13.8	
Deferred income tax assets	17	18.1		19.4	
Non-current assets		1,481.5	68.3%	1,533.1	68.3%
Assets		2,169.7	100.0%	2,246.1	100.0%

Liabilities and Equity in CHF million	Notes	31.12.2015		31.12.2014	
Trade payables		77.0		118.4	
Current income tax liabilities		18.4		24.3	
Other payables	15	93.6		87.4	
Current borrowings	16	17.2		38.2	
Current liabilities		206.2	9.5%	268.3	11.9%
Non-current borrowings	16	12.3		12.4	
Deferred income tax liabilities	17	106.2		119.5	
Provisions	18	52.4		40.9	
Non-current liabilities		170.9	7.9%	172.8	7.7%
Liabilities		377.1	17.4%	441.1	19.6%
Share capital		3.8		3.8	
Reserves	19	1,780.5		1,789.9	
Equity attributable to SFS		1,784.3	82.2%	1,793.7	79.9%
Non-controlling interests		8.3		11.3	
Total equity		1,792.6	82.6%	1,805.0	80.4%
Liabilities and equity		2,169.7	100.0%	2,246.1	100.0%

The notes on pages 76 to 109 are an integral part of these consolidated financial statements.

Consolidated income statement

in CHF million	Notes	2015		2014	
Net sales	20	1,371.8	100.0%	1,381.8	100.0%
Change in work in progress and finished goods		-1.2		6.9	
Operating revenue		1,370.6		1,388.7	
Material expenses		-532.2		-523.5	
Other operating income	21	16.1		12.5	
Contribution margin		854.5	62.3%	877.7	63.5%
Personnel expenses	22	-377.5		-387.9	
Other operating expenses	23	-209.6		-218.4	
Depreciation	11	-80.8		-76.0	
Amortization of intangible assets	12	-57.5		-53.9	
Total operating expenses		-725.4	-52.9%	-736.2	-53.3%
Operating profit (EBIT)		129.1	9.4%	141.5	10.2%
Finance expense	24	-3.2		-12.2	
Finance income	24	3.4		4.4	
Share of profit /(loss) from related entities	14	1.6		0.4	
Earnings before tax		130.9		134.1	
Income taxes	25	-25.9		-23.9	
Net income		105.0	7.7%	110.2	8.0%
Attributable to owners of SFS Group AG		104.1		109.9	
Attributable to non-controlling interests		0.9		0.3	
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	26	2.78		3.07	

The notes on pages 76 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

in CHF million	Notes	2015	2014
Net income		105.0	110.2
Items that will not be reclassified to profit and loss			
Actuarial gains on defined benefit plans	19	-24.7	-20.7
Tax effect defined benefit plans	19	4.7	3.4
Items that may be subsequently reclassified to profit and loss			
Currency translation adjustments (CTA)	19	-36.3	86.7
Reversal of CTA from deconsolidation		-	5.0
Cash flow hedges	19	-2.4	-1.5
Tax effect on cash flow hedges		0.5	0.4
Comprehensive income		46.8	183.5
Attributable to owners of SFS Group AG		46.9	182.8
Attributable to non-controlling interests		-0.1	0.7

Consolidated statement of changes in equity

in CHF million	Notes	Share capital	Reserves	Attributable to owners of SFS Group	Non-controlling interests	Total
Balance at 1.1.2014	19	3.2	1,328.8	1,332.0	4.4	1,336.4
Comprehensive income 2014		-	182.8	182.8	0.7	183.5
Dividends for 2013		-	-32.4	-32.4	-	-32.4
Other changes		-	-	-	6.2	6.2
Capital increase		0.6	310.7	311.3	-	311.3
Balance at 31.12.2014	19	3.8	1,789.9	1,793.7	11.3	1,805.0
Comprehensive income 2015		-	46.9	46.9	-0.1	46.8
Dividends for 2014		-	-56.3	-56.3	-2.3	-58.6
Other changes	30	-	-	-	-0.6	-0.6
Balance at 31.12.2015	19	3.8	1,780.5	1,784.3	8.3	1,792.6

The notes on pages 76 to 109 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

in CHF million	Notes	2015	2014
Operating profit (EBIT)		129.1	141.5
Depreciation/amortization	11, 12	138.3	129.9
Interest paid	24	-3.1	-8.0
Income tax paid		-38.4	-35.3
Changes in provisions and valuation allowances		-8.5	-7.7
Cash flow before changes in net working capital		217.4	220.4
Changes in trade receivables		16.9	-31.6
Changes in other receivables		3.8	-
Changes in inventories		7.8	-21.1
Changes in current liabilities		-34.6	32.1
Changes in net working capital		-6.1	-20.6
Cash flow from operating activities		211.3	199.8
Purchases of property, plant and equipment	11	-88.7	-95.8
Purchases of software	12	-1.7	-1.8
Proceeds from sale of assets		2.1	2.7
Acquisition of subsidiary, net of cash acquired	30	-7.5	-38.6
Proceeds from sale of investments	30	0.3	0.7
Proceeds from sale of related entities		1.6	-
Acquisition of related entities		-10.1	-
Dividends from related entities	14	-	0.2
Proceeds from interest and securities	24	0.9	1.6
Proceeds from sale of marketable securities		-	0.3
Cash flow from investing activities		-103.1	-130.7
Capital increase net		-	311.3
Proceeds from current borrowings	16	12.9	21.6
Repayment of current borrowings	16	-29.0	-125.8
Repayment of non-current borrowings	16	-	-328.5
Change in financial assets		-9.9	0.5
Dividends paid to the shareholders		-58.6	-32.4
Cash flow from financing activities		-84.6	-153.3
Translation adjustment on cash and cash equivalents		-4.9	5.1
Changes in cash and cash equivalents		18.7	-79.1
Cash and cash equivalents at beginning of period	7	138.3	217.4
Cash and cash equivalents at end of period	7	157.0	138.3

The notes on pages 76 to 109 are an integral part of these consolidated financial statements.

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1 General information

SFS Group AG is a limited company according to Swiss law, incorporated and domiciled in Heerbrugg, municipality of Au/SG, Switzerland. It is the parent company of all SFS Group companies and consequently the ultimate holding company of the SFS Group.

The consolidated financial statements of the SFS Group have been approved by the Audit Committee and the Board of Directors on 3 March 2016 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 20 April 2016.

All amounts are in CHF million unless otherwise stated and refer to 31 December for balance sheet items and to the financial year from 1 January to 31 December for items of the income statement.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They give a true and fair view of the financial position of the SFS Group and of their financial performance and cash flows.

2.2 Changes in accounting policy and disclosures

2.2.1 Amended standards adopted

With effect of 1 January 2015, no new International Financial Reporting Standards (IFRS) have been adopted.

The annual specifications and minor adjustments in various standards and interpretations of cycles 2010 to 2012 as well as 2011 to 2013 do not have a significant impact on the consolidated financial statements.

2.2.2 Early adoption of IFRSs/IASs

In addition SFS Group adopted the following amendments which become compulsory for periods after 1 January 2016:

The published amendments to IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangement, IAS 28 Investments in associates and joint ventures as well as IAS 27 Separate financial statements. They have no impact on the Financial report 2015.

Amendments to IAS 16 Property plant and equipment and IAS 38 Intangible assets have no effect for SFS.

The annual specifications and minor adjustments in various standards and interpretations of the cycle 2012 to 2014 do not have a significant impact on the consolidated financial statements.

2.2.3 New standards not adopted

The new standard IFRS 9 Financial instruments addresses the classification and measurement of financial assets and financial liabilities. The Group does not expect a significant impact based on this standard.

IFRS 15 Revenue from Contracts with customers introduces a new principle specifying that revenue is recognized when a customer obtains control of a good or service. SFS does not expect a significant impact based on this standard except additional disclosures. The standards IFRS 9 and 15 become effective on 1 January 2018.

IAS 1 Presentation of financial statements will be implemented as of 1 January 2016.

2.3 Consolidation principles

The consolidated financial statements include the financial statements of SFS Group AG and all its Swiss and foreign subsidiaries. Using the full consolidation method, all assets and liabilities as well as the expenses and income of the subsidiaries are included in the consolidated financial statements. Equity and profit or loss attributable to third parties are presented as separate line items in the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income. The consolidated financial statements have been prepared based on the financial statements of the Group companies, which have been prepared in accordance with uniform Group accounting policies as of 31 December.

Inter-company transactions, balances, income and expenses between Group companies are eliminated on consolidation. Inter-company profits arising from inventories supplied within the Group and disposal of assets are eliminated.

The acquisition method is used to account for business combinations. Under this method, the acquiree's net assets and liabilities are measured at their fair values using uniform Group accounting policies. Any excess of consideration transferred over the fair value of the net assets acquired is recognized as goodwill and is tested for impairment annually. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the income statement subsequently.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Related entities are all entities over which the Group has significant influence but not control. These are divided in joint ventures and associates.

Joint control within the joint ventures is contractually agreed. Important decisions with regards to the financial and business policies as well as to management require mutual agreement. SFS is entitled to its proportionate share of the net assets.

Associates are all entities where the SFS Group has the possibility to participate in financial and business decisions without having control.

With respect to both types of investments the SFS Group has a shareholding of between 20% and 50% of the voting rights.

Associates and joint ventures are initially recognized at cost of acquisition, which includes the proportion of net assets acquired as well as a proportionate amount of goodwill (if any). Subsequent measurement is performed based on the equity method.

2.4 Foreign currency translation

Items included in the financial statements of each of the SFS Group's entities are measured using the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

The consolidated financial statements are presented in Swiss francs (CHF), which is the SFS Group's presentation currency. For consolidation purposes the results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. Income and expenses for each income statement are translated at average exchange rates. All resulting exchange differences are recognized in other comprehensive income.

Foreign exchange differences resulting from long-term inter-company loans in a foreign currency that form part of SFS Group's net investment in the subsidiary are charged to comprehensive income and reversed through profit and loss at disposal of the entity or upon repayment of the loan.

2.5 Fair value estimation

IFRS 13 improved consistency with regards to fair value measurement providing a precise valuation hierarchy. Level 1 means there are quoted prices available in active markets for identical assets or liabilities. Within level 2 inputs are used for valuation based on observable market data, either directly or indirectly, for the asset or liability. Level 3 uses valuation inputs for the asset or liability, which are not based on observable market data.

2.6 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments. Due to the short-term maturities of the cash equivalents the carrying amount is equal to the fair value of these assets. In order to qualify as a cash equivalent the original maturity of the instrument must be 90 days or less.

2.7 Financial assets

SFS Group classifies its financial assets in the categories described below. The classification depends on the purpose for which the financial assets were acquired.

At fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. This group includes cash and cash equivalents, securities and forward foreign exchange contracts. These are translated at the closing rate at the balance sheet date and re-measured through profit or loss, unless they are designated as cash flow hedges.

Loans and receivables

This group includes trade receivables and loans within the financial assets. Loans and receivables are recognized initially at nominal value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Financial assets are derecognized when the rights to receive cash flows have expired or transferred and the Group has transferred substantially all risks and rewards of ownership.

2.8 Hedge accounting

The SFS Group uses derivative financial instruments to reduce the risks from interest and foreign currency fluctuations on business and financial transactions. Hedge accounting is applied for selected hedging transactions within the meaning of IAS 39 in order to reduce the earnings volatility in the income statement. Changes in the fair value of derivative are recognized in other comprehensive income provided they are effective. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the income statement or is no longer expected to occur.

2.9 Other receivables

These include accrued assets, refundable VAT and withholding tax as well as other current assets. They are stated at the amortized cost.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of goods comprises raw materials, direct labor, other direct costs and related production overheads based on normal operating capacity utilization.

Necessary provisions are based on specific valuation of single items. The inventory quantity of each item is compared to annual consumption over the last twelve months. The first annual consumption on stock is assessed recoverable by 100%. If the stock is higher than an annual consumption the excess stock for the second annual consumption is written down to 50% of the value. All stock above two years annual consumption is completely written off. Items added to the product range during the last 18 months prior to the balance sheet date are defined as new products and are not revalued.

In addition the average sales price less distribution cost is compared to the cost of inventory. This valuation represent the net realizable value principle and any negative difference is included in the valuation allowance.

2.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Value-added expenditures, which lead to an extension of useful life or increase production capacity, are capitalized. Depreciation is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

	Years
Buildings	20 - 33
Infrastructure	10 - 15
Machinery	5 - 10
Furniture, fittings and equipment	5 - 10
Office machinery, computer equipment	3 - 5
Vehicles	3 - 8

Based on its infinite useful life, land is stated at cost and is not depreciated.

The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

2.12 Intangible assets

Goodwill and intangible assets with an infinite useful life are tested annually for impairment. Any impairment is recognized immediately in the income statement. Intangible assets with a finite useful life are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

	Years
Licences and patents	3 - 5
Software	3 - 10
Building lease	50
Other intangible assets	3 - 10

The intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

2.13 Provisions

A provision is recognized when SFS Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow will be required and the amount of outflows can be estimated reliably.

Provisions contain pension plans, severance payments, anniversaries, warranty claims, pending tax procedures and lawsuits.

2.14 Employee benefits

Pension plans

The SFS Group has a pension plan in Switzerland and various defined benefit plans abroad, which are not substantial.

The Swiss pension plan is measured annually by an independent actuarial expert based on the projected unit credit method. Pension plan assets are measured at fair value. Experience adjustments and changes in actuarial assumptions, collectively actuarial gains and losses, are recognized in other comprehensive income and remain within the reserves. A net obligation or a net asset in the balance sheet equals the pension plan deficit or surplus at the balance sheet date. Current and past service cost as well as gains or losses from plan curtailments and compensation are recognized as personnel expense. The net interest cost, which is recognized as such, is calculated as the product of the net benefit obligation and the discount rate.

Defined benefit plans, which are not substantial, are measured periodically based on statutory provisions and reported within provisions.

The employer's contributions related to defined contributions plans are recognized as expense in the income statement in the relevant reporting period.

Other employment benefits

These include primarily anniversaries and severance payments, which are recognized on an accrual basis as a provision in the balance sheet.

Share-based payments

The members of the Board of Directors and of the Group Executive Board receive a variable compensation in the form of shares of the SFS Group AG. The shares rewarded must be held for at least three years. The expenses of these shares represent the share price on the day they are granted and are charged to the income statement under the line item "personnel expenses".

Usually every second year, the Employer's Foundation sells shares of the SFS Group AG to key management members and specialists at a minor discount, which is charged to the income statement. The discount is granted under the condition that the shares be held for a defined period.

2.15 Tax liabilities

Current tax liabilities arising from the taxable profit of the reporting period are accrued for, irrespective of when they

are due for payment. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The deferred taxes are determined using local tax rates that have been enacted by the balance sheet date and are expected to apply when the deferred tax items are realized or settled. Deferred income tax liabilities arising from future distribution of retained earnings are not made where the Group is able to control the timing and a reversal of the temporary difference is unlikely.

2.16 Leases

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. They are amortized over the period of the lease. The related leasing obligations net of finance expenses are recognized as liabilities.

Lease payments from operating leases, which are characterized as rent, are recognized through profit or loss during the period of the lease. If a contract is terminated early, a provision is made for the full amount owed less realizable sublease.

2.17 Share capital

The share capital of SFS Group AG constitutes the share capital of the SFS Group. The consideration paid for treasury shares is deducted from the equity.

2.18 Earnings per share

The number of shares for the calculation of the earnings per share is determined based on the weighted average number of shares issued and outstanding during the year and the earnings attributable to owners of SFS Group AG.

2.19 Dividend

Dividend distribution or a withdrawal from a statutory capital reserve to the company's shareholders is recognized in the Group's financial statements in the period in which they are approved and paid out.

2.20 Contingent liabilities

These include warranty agreements, guarantees and pledges. Inter-company warranty agreements and guarantees are eliminated.

2.21 Revenue recognition

Sales of goods and services are recognized when the risks and rewards have been transferred to the customer, which is the point of shipping or billing or when services are rendered.

2.22 Research and development costs

Research costs are recognized as an expense as incurred. Development costs are capitalized only if the future economic benefits will be sufficient to recover the development cost and if the other criteria required according to IFRS are met (see note 23).

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in finance expense in the period in which they incurred.

3 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of income, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Therefore, the actual results may differ from these estimates.

All estimates and judgments are reviewed continually. They are based on historical experience and other factors that are believed to be reasonable under the circumstances. The most significant uncertainties concern the following items:

3.1 Recoverability of goodwill

Annually SFS is testing whether there is an impairment need for goodwill. Please refer to note 2.12 and 12.

3.2 Amount of tax liabilities

Dissenting assessments between SFS Group and tax authorities may result in additional tax liabilities. Please refer to note 2.15 and 17.

3.3 Assumptions for accounting of pension plans

The annual valuation of pension plans are based on several assumptions. Please refer to note 2.14 and 27.

4 Segment information

The SFS Group is divided into three segments Engineered Components, Fastening Systems and Distribution & Logistics.

The financial performance of the segments is monitored based on operating profit before amortization (EBITA) and before depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on usual market conditions.

Segment assets are all assets which are directly attributable to a segment, such as trade receivables, inventories, property, plant and equipment as well as intangible assets. Related entities are not allocated to a segment. The segment liabilities include directly attributable trade payables as well as deferred tax liabilities.

Segment assets less segment liabilities are the net operating assets (NOA). The net working capital includes trade receivables and inventories less trade payables. Intercompany transactions, balances, income and expenses between segments are eliminated and reported in the column "Other".

Engineered Components

The segment Engineered Components is a global developer, manufacturer and supplier of precision formed components, engineered fasteners and assemblies. As a specialist in the field of cold forming, deep drawing, injection molding, precision machining and mechanical fastening, they aim to be the preferred development partner for customer specific components and assemblies. By focusing on selected customer groups they ensure high application expertise and therefore operate in business units or key account structures. Within the applied technologies and industries, Engineered Components is seeking a leading position.

Fastening Systems

The segment Fastening Systems combines the principles of threaded fastening and riveting technologies. Cold forming, injection molding as well as the necessary secondary operations are applied in the proprietary production of application optimized products. By combining the basic fasteners with innovative and efficient installation tools and logistic solutions, they support a safe, economical and timely processing at the construction site. Having a worldwide network of sales locations, customer demands can be met through local consulting and delivery services.

Distribution & Logistics

The segment Distribution & Logistics is a leading national supply partner for fasteners, tools, architectural hardware and related products to industrial customers, professional trade, wholesalers and DIY centers. Through international alliances and sourcing Distribution & Logistics serves its customers with fast and reliable processes as well as at competitive cost levels. Furthermore, additional value is added by providing tailor made supply chain management solutions, which employ state of the art e-business, warehouse and IT technologies.

Other

In addition to the elimination of inter-company transactions, the column "Other" contains figures relating to the cross-functions Technology and Services.

Technology ensures the transfer of know-how among the segments and production sites. Methods, processes and

best practices are exchanged and enhanced. Standardized investment policies and engineering processes improve the efficiency of the SFS Group further.

Services provides added value across the Group in the fields of information technology, finance, controlling, human resources, communication as well as other business functions.

In 2015 the column "Other" includes a positive special impact of CHF 14.9 million within earnings from revaluation of post-employee benefits according to IAS 19r. Two main reasons cause this aperiodic change:

- a) the reduction of discount rate from 1.25% to 0.75% increased the service costs by CHF 3.3 million.
- b) the announced step-by-step decline of the conversion rate within the Swiss pension fund to 5.8% until 2020 reduced the service costs by CHF 18.2 million.

	Notes	Engineered Compo- nents	Fastening Systems	Distribution & Logistics	Total segments	Other	Total SFS Group
2015							
Third party sales	20	740.1	326.9	309.3	1,376.3	-	1,376.3
Inter-segment		20.5	15.5	4.1	40.1	-40.1	-
Gross sales		760.6	342.4	313.4	1,416.4	-40.1	1,376.3
Net sales	20	756.1	341.4	314.8	1,412.3	-40.5	1,371.8
EBITDA		185.3	38.9	26.5	250.7	16.7	267.4
- Depreciation		-51.2	-15.7	-7.7	-74.6	-6.2	-80.8
EBITA		134.1	23.2	18.8	176.1	10.5	186.6
- Amortization		-48.2	-6.0	-1.0	-55.2	-2.3	-57.5
Operating profit (EBIT)		85.9	17.2	17.8	120.9	8.2	129.1
Investments		70.3	16.3	1.6	88.2	2.2	90.4
Assets		1,402.8	320.2	172.5	1,895.5	50.8	1,946.3
Liabilities		112.2	31.1	20.6	163.9	19.3	183.2
Net operating assets		1,290.6	289.1	151.9	1,731.6	31.5	1,763.1
Of which net working capital		229.3	109.5	90.9	429.7	-4.8	424.9

2014

Third party sales	20	727.2	336.7	319.1	1,383.0	-	1,383.0
Inter-segment		18.7	16.7	5.7	41.1	-41.1	-
Gross sales		745.9	353.4	324.8	1,424.1	-41.1	1,383.0
Net sales	20	743.5	353.1	326.0	1,422.6	-40.8	1,381.8
EBITDA		190.7	43.4	33.7	267.8	3.6	271.4
- Depreciation		-47.7	-16.5	-7.7	-71.9	-4.1	-76.0
EBITA		143.0	26.9	26.0	195.9	-0.5	195.4
- Amortization		-44.0	-7.2	-	-51.2	-2.7	-53.9
Operating profit (EBIT)		99.0	19.7	26.0	144.7	-3.2	141.5
Investments		62.6	20.8	4.0	87.4	10.2	97.6
Assets		1,480.4	351.0	169.6	2,001.0	59.1	2,060.1
Liabilities		154.3	33.4	23.0	210.7	27.2	237.9
Net operating assets		1,326.1	317.6	146.6	1,790.3	31.9	1,822.2
Of which net working capital		234.7	114.0	84.9	433.6	-10.5	423.1

Customers with sales amounting to more than 10% of total gross sales to third parties

During the reporting period one customer (PY none) of the segment Engineered Components exceeded the reportable threshold of 10% with sales of CHF 150.9 million or 11.0% respectively.

Third party sales and assets by region

Gross sales to third parties	Notes	2015		2014	
Switzerland		315.3	22.9%	323.2	23.4%
Germany		219.6	16.0%	233.8	16.9%
Other Europe		318.9	23.2%	338.5	24.5%
America		164.8	12.0%	146.8	10.6%
China		232.9	16.9%	221.0	16.0%
Other Asia		120.5	8.7%	115.4	8.3%
Africa, Australia		4.3	0.3%	4.3	0.3%
Total	20	1,376.3	100.0%	1,383.0	100.0%

Gross sales to third parties are allocated to the countries of the receiving party.

Assets: Property, plant, equipment and intangible assets	Notes	2015		2014	
Switzerland		294.9	20.7%	318.0	21.2%
Europe		193.0	13.5%	220.3	14.7%
America		70.4	4.9%	56.4	3.8%
Asia		867.9	60.9%	904.5	60.3%
Total	11, 12	1,426.2	100.0%	1,499.2	100.0%

In Asia the reported assets are primarily intangible assets, that are not attributable to specific countries. There were no investments (PY none) in assets in the region "Africa, Australia".

Reconciliation of segment results to income statement and balance sheet

Income statement	Notes	2015	2014
Operating profit (EBIT)		129.1	141.5
Financial result	24	0.2	-7.8
Share of profit from related entities	14	1.6	0.4
Earnings before tax		130.9	134.1
Assets			
Operating assets		1,946.3	2,060.1
+ Cash and cash equivalents	7	157.0	138.3
+ Other receivables	9	29.2	33.2
+ Investments in related entities	14	27.1	13.8
+ Financial assets	13	10.1	0.7
Assets		2,169.7	2,246.1
Liabilities and equity			
Operating liabilities		183.2	237.9
+ Current income tax liabilities		18.4	24.3
+ Other payables	15	93.6	87.4
+ Current borrowings	16	17.2	38.2
+ Non-current borrowings	16	12.3	12.4
+ Provisions	18	52.4	40.9
Liabilities		377.1	441.1
Equity (Net assets)		1,792.6	1,805.0

5 Financial risk management

5.1 Risk policy

The SFS Group operates internationally and is exposed to financial risks, such as changes in foreign exchange rates and interest rates, credit, liquidity and funding risk. The Group's Treasury and Risk Committee monitors these risks continuously in order to minimize potential losses. The Group does not enter into any financial instruments for speculative purposes (e.g. short sales). Hedging transactions are entered into only to hedge corresponding financial assets and liabilities or underlying future operating transactions which are highly probable. Significant financial transactions are only concluded with selected banks that have a credit rating greater than or equal to "A".

5.2 Foreign exchange risk

The Group's financial statements are presented in Swiss francs (CHF) and are exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the EUR and the USD.

A large part of the costs in Europe are incurred in CHF, while a high portion of sales is billed in EUR. Consequently, the future EUR inflows are exposed to a foreign exchange risk, which may be hedged through EUR forward sales. The FX exposure between CNY and USD in Asia is managed actively and considered in our USD sensitivity.

Net investments in foreign Group entities are hedged selectively. Translations from monetary and non-monetary positions in foreign currencies are not hedged.

Based on risk evaluations, foreign exchange risks on cash receipts and disbursements (transaction risks) can be hedged by forward foreign exchange contracts, foreign exchange swaps or options.

Assuming the EUR had weakened by 10% for the purpose of the valuation of all balance sheet items presented in another currency than the functional currency with all other variables held constant, net income would have been CHF 4.1 million (PY 5.7) lower, and vice versa. Similarly, equity would have been CHF 1.5 million (PY 9.2) lower.

Had the USD weakened by 5%, net income would have been CHF 0.2 million lower (PY higher 0.8) due to hedges and equity would have increased by CHF 0.6 million (PY 0.2).

In the event of a strengthening of these currencies by the stated changes, the impact on the income statement and equity would be symmetrical.

5.3 Interest rate risk

The Group manages interest rate risk on borrowings by adjusting the balance between fixed and variable interest liabilities as well as by staggered terms of maturity. Derivative financial instruments, such as interest hedging transactions, are only concluded if considered necessary and approved by the Treasury and Risk Committee.

An interest rate increase of 0.5% as of 31 December 2015 would increase interest expenses by CHF 0.1 million (PY 1.1) and conversely a similar decrease in interest rates would reduce expenses by the same amount.

5.4 Credit risk

The essential short-term bank deposits are held with core banks with a credit rating greater than or equal to "A".

Trade receivables are due from a diversified customer base, which operates in different industries and geographical areas worldwide. The Group reviews customer's credit rating and payment history continuously and systematically. Past experience and other criteria are considered as well.

Bad debts on trade receivables incurred during the last five years have been very low relative to the Group's sales. The Group management does not expect fundamental changes in this long-term trend.

5.5 Funding risk

In the event the financial position and results of operations decline significantly a financial covenant might not be met. Consequently, the finance costs might rise substantially or the banks might require early repayment.

5.6 Liquidity risk

In order to cover future obligations and cash outflows sufficient liquidity reserves need to be available. The SFS Group monitors this liquidity risk by performing rolling liquidity planning, allocating a liquidity reserve and unused credit lines. As per the balance sheet date the available resources exceed the liquidity reserves considerably. The target liquidity reserve equals an average month's sales.

Liquidity overview	2015	2014
Cash and cash equivalents	157.0	138.3
Credit lines committed	230.2	244.8
Borrowings	-29.5	-50.6
Guarantees, other	-10.9	-3.0
Total liquidity available	346.8	329.5
Target liquidity reserve	115.0	115.0

The financial liabilities have the following maturities:

Financial year 2015	Total 31.12.2015	Cash-out-flows			
		in 3 months	in 4 - 12 months	in 13 - 24 months	later
Trade payables	77.0	77.0	-	-	-
Other payables	93.6	84.0	8.9	0.7	-
Borrowings	29.5	3.6	13.6	4.2	8.1
Interest payments	1.6	0.3	0.9	0.2	0.2
Total	201.7	164.9	23.4	5.1	8.3

Financial year 2014	Total 31.12.2014	Cash-out-flows			
		in 3 months	in 4 - 12 months	in 13 - 24 months	later
Trade payables	118.4	118.4	-	-	-
Other payables	87.4	79.0	7.9	0.3	0.2
Borrowings	50.6	0.5	37.7	11.3	1.1
Interest payments	2.0	0.5	1.4	0.1	-
Total	258.4	198.4	47.0	11.7	1.3

5.7 Capital management

With the management of the capital structure the SFS Group pursues the targets listed below:

- securing attractive returns on the average capital employed (ROCE)
- maintaining a significant degree of self-financing while ensuring a sustainable and attractive distribution policy
- preserving sufficient liquidity to cover all liabilities retaining an adequate debt capacity and creditworthiness at any time
- optimization of the finance expenses

In order to change the capital structure the following measures can be taken:

- raising and repaying financial liabilities
- adapting the distribution policy
- performing share buyback programs or capital increases

Additional measures for utilizing the capital employed as efficiently as possible to achieve an attractive return are:

- active management of net working capital
- strict requirements regarding the profitability of capital expenditures
- clearly structured process for mergers and acquisitions as well as for innovations

The key ratios are calculated and reported to the Group Executive Board on a regular basis in order to ensure the introduction of measures for the optimization of the capital structure in a timely manner:

Key ratios	2015	2014
Net financial assets in CHF million	127.5	87.7
Equity ratio (Equity/Total assets) in %	82.6	80.4
Ø Net working capital as a % of net sales	22.1	22.0
Investments in PPE and software as a % of net sales	6.6	7.1
Return (EBITA) on average capital employed in %	22.2	23.1

The capital employed and the net working capital are calculated as an average of the past four quarters. It includes the total of net working capital (trade receivables, other receivables and inventories less trade payables, current tax liabilities and other payables), the property, plant and equipment (PPE) less deferred tax liabilities (net) and provisions. The average for 2015 amounted to CHF 838.6 million (PY 844.4).

6 Financial instruments

The following table presents the Group's financial assets and liabilities. Note 2.5 defines the fair value levels.

Financial assets

At fair value through profit or loss	Fair value level	2015	2014
Cash and cash equivalents		157.0	138.3
Derivative financial instruments	2	0.3	-
Total		157.3	138.3

Financial assets

Receivables and loans	2015	2014
Trade receivables	243.9	268.3
Loans to third parties and related entities	10.0	0.7
Total	253.9	269.0

Financial liabilities	Fair value level	2015	2014
Trade payables		77.0	118.4
Current borrowings		17.2	38.2
Non-current borrowings		12.3	12.4
Derivative financial instruments	2	4.3	1.3
Total		110.8	170.3

7 Cash and cash equivalents

	2015	2014
Cash at bank and on hand	153.3	122.6
Current bank deposits	3.7	15.7
Total cash and cash equivalents	157.0	138.3

The return on cash and cash equivalents during the reporting period amounts to 0.6% (PY 0.7).

8 Trade receivables

	2015	2014
Receivables from third parties	245.7	270.0
Receivables from related entities	0.6	1.2
Valuation allowances	-2.4	-2.9
Total	243.9	268.3

Ageing analysis

Not yet due	192.3	219.7
Overdue 1 to 30 days	42.1	40.5
Overdue 31 to 90 days	11.6	9.9
Overdue more than 91 days	0.3	1.1
Trade receivables - gross	246.3	271.2
Valuation allowances	-2.4	-2.9
Trade receivables - net	243.9	268.3

Valuation allowances are established for unrecoverable receivables. Changes in the valuation allowances are recognized in "other operating expenses". The actual losses on receivables during each of the last five years have been below the level of 0.2% of net sales. This reflects the quality of the customer base and indicates that the credit management system is working effectively.

9 Other receivables

	2015	2014
	Fair value level	
VAT and withholding tax	6.5	10.9
Miscellaneous receivables	14.5	14.3
Accrued assets	7.9	8.0
Derivative financial instruments	0.3	-
Total	29.2	33.2

10 Inventories

	2015	2014
Raw materials and consumables	33.8	39.6
Work in progress	61.2	65.3
Finished goods	201.8	205.8
Valuation allowances	-38.7	-37.5
Total	258.1	273.2

In 2015 provisions made for obsolete or slow-moving inventories amounting to CHF 1.2 million are expensed to material costs (PY 2.5 reversed).

11 Property, plant and equipment

	Land	Buildings	Plant and machinery	Assets under construction	Total
Cost at 1.1.2014	74.4	520.4	782.3	27.0	1,404.1
Disposal of subsidiaries	-	-0.8	-2.5	-	-3.3
Acquisitions of subsidiaries	9.2	4.8	31.1	0.1	45.2
Additions	-	5.8	64.0	26.0	95.8
Disposals	-	-1.2	-32.6	-0.1	-33.9
Transfers	-	9.5	13.6	-23.6	-0.5
Exchange differences	0.6	3.1	14.5	0.9	19.1
Cost at 31.12.2014	84.2	541.6	870.4	30.3	1,526.5
Disposal of subsidiaries	-	-	-4.4	-	-4.4
Acquisitions of subsidiaries	-	0.3	1.0	-	1.3
Additions	-	5.6	54.2	28.9	88.7
Disposals	-0.6	-4.5	-42.8	-	-47.9
Transfers	-	4.7	20.3	-27.0	-2.0
Exchange differences	-2.7	-14.8	-20.2	-1.3	-39.0
Cost at 31.12.2015	80.9	532.9	878.5	30.9	1,523.2
Accumulated depreciation at 1.1.2014	-	-282.3	-587.6	-	-869.9
Disposal of subsidiaries	-	0.5	1.7	-	2.2
Acquisitions of subsidiaries	-	-0.8	-15.6	-	-16.4
Depreciation	-	-21.7	-54.3	-	-76.0
Disposals	-	1.1	31.8	-	32.9
Exchange differences	-	-1.1	-7.7	-	-8.8
Accumulated depreciation at 31.12.2014	-	-304.3	-631.7	-	-936.0
Disposal of subsidiaries	-	-	4.2	-	4.2
Acquisitions of subsidiaries	-	-0.1	-0.5	-	-0.6
Depreciation	-	-23.6	-57.2	-	-80.8
Disposals	-	2.7	41.4	-	44.1
Exchange differences	-	7.6	14.3	-	21.9
Accumulated depreciation at 31.12.2015	-	-317.7	-629.5	-	-947.2
Net book value as at 31.12.2014	84.2	237.3	238.7	30.3	590.5
Net book value as at 31.12.2015	80.9	215.2	249.0	30.9	576.0

In order to collateralize other current and non-current borrowings, assets amounting to CHF 21.6 million (PY 13.2) have been pledged with CHF 18.8 million (PY 16.4), of which CHF 15.1 million (PY 6.8) have been drawn.

The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 14.8 million (PY 29.3).

12 Intangible assets

	Goodwill	Customers, brands, technology	Building leases, patents, other	Software	Total
Cost at 1.1.2014	454.3	470.1	2.4	54.0	980.8
Acquisition of subsidiaries	11.6	28.0	-	0.5	40.1
Additions	-	-	-	1.8	1.8
Disposals	-	-	-	-0.3	-0.3
Transfers	-	-	-	0.5	0.5
Exchange differences	42.3	43.1	0.2	0.2	85.8
Cost at 31.12.2014	508.2	541.2	2.6	56.7	1,108.7
Acquisition of subsidiaries	-	6.2	-	0.5	6.7
Additions	-	-	-	1.7	1.7
Disposals	-	-3.2	-	-1.6	-4.8
Transfers	-	-	-	1.9	1.9
Exchange differences	-6.1	-7.7	-0.1	-0.5	-14.4
Cost at 31.12.2015	502.1	536.5	2.5	58.7	1,099.8
Accumulated amortization at 1.1.2014	-	-90.4	-0.3	-47.2	-137.9
Acquisition of subsidiaries	-	-	-	-0.2	-0.2
Additions	-	-50.4	-0.1	-3.4	-53.9
Disposals	-	-	-	0.2	0.2
Exchange differences	-	-8.1	-	-0.1	-8.2
Accumulated amortization at 31.12.2014	-	-148.9	-0.4	-50.7	-200.0
Acquisition of subsidiaries	-	-	-	-0.4	-0.4
Additions	-	-54.3	-0.2	-3.0	-57.5
Disposals	-	3.2	-	1.6	4.8
Exchange differences	-	3.2	-	0.3	3.5
Accumulated amortization at 31.12.2015	-	-196.8	-0.6	-52.2	-249.6
Net book value as at 31.12.2014	508.2	392.3	2.2	6.0	908.7
Net book value as at 31.12.2015	502.1	339.7	1.9	6.5	850.2

The purchased intangible assets in the column "customers, brands, technology" include exclusively assets with finite useful lives. The intangible assets from the acquisition of Unisteel Technology have a remaining useful life of 6.6 years (PY 7.6).

In 2015 the SFS Group has CHF 0.1 million (PY none) future commitments to purchase software or software related projects.

Goodwill impairment tests

Goodwill is tested for impairment annually considering the cash generating units to which goodwill has been allocated. For this purpose the expected future cash flows have been projected and discounted to arrive at a measure of value in use.

The assessment is based on projections for the next five years and also includes the terminal value. The projected sales, margins and expenses are determined by management on the basis of historical experience as well as the expected market development. Internal as well as external industry trends are taken into consideration. The weighted average cost of capital (discount rate) is based on pre-tax rates and reflects specific risks of the business. Growth rates after end of the five year planning periods are based on own assumptions regarding price and market development as well as on projections of the International Money Fund (IMF).

The carrying amounts of goodwill have been tested for impairment with the key factors listed below:

	Germany Engineered Components	Germany Fastening Systems	Malaysia / China Engineered Components	India Engineered Components
2015				
Carrying amount of goodwill	7.1	46.6	436.9	11.5
Growth rate after end of planning periode	1.0%	1.0%	2.0%	4.0%
Discount rate pre tax	9.0%	9.0%	8.8%	18.5%
Discount rate pre tax at excess value zero	47.1%	15.0%	14.1%	20.4%

	Germany Engineered Components	Germany Fastening Systems	Malaysia / China Engineered Components	India Engineered Components
2014				
Carrying amount of goodwill	7.9	51.9	436.5	11.9
Growth rate after end of planning periode	2.0%	2.0%	2.0%	4.0%
Discount rate pre tax	8.0%	7.9%	8.4%	14.1%
Discount rate pre tax at excess value zero	42.5%	15.9%	12.1%	15.8%

For sensitivity analysis a lower growth by 5%, but in minimum zero growth, have been used. After applying this assumption, no impairment was necessary.

13 Financial assets

	2015	2014
Loans to third parties	1.3	0.7
Loans to associated companies	8.7	-
Other financial assets	0.1	-
Total	10.1	0.7

14 Related entities

	2015		2014	
	CHF	Share	CHF	Share
Joint Ventures				
Sunil SFS intec Automotive Parts (Tianjin) Co., Ltd, Tianjin	13.0	50%	13.8	50%
Associates				
Hyflex Technology Co. Ltd, Changsha	-	-	0.0	35%
Ludwig Hettich Holding GmbH & Co. KG, Schramberg	14.1	30%	-	-
Total	27.1		13.8	

Income from the related entities in the reporting period amount to a total of CHF 3.1 million (PY Sunil 0.8).

Movements	2015	2014
Balance as at 1.1.	13.8	32.6
Aquisitions of related entities	14.3	-
Share of profit	0.0	0.4
Disposals	-	-20.8
Dividends	-	-0.2
Exchange differences Balance as at 31.12.	-1.0	1.8
Balance as at 31.12.	27.1	13.8

Transactions with related entities	2015	2014
Sales of goods and services	0.6	2.0
Sales of machines and tools	2.1	-
Receivables	0.6	1.2
Loans to related entities	8.7	-
Bank guaranties for related entities	10.9	3.0

2015

On 1 October 2015 SFS Group acquired 30% of HECO Group (Ludwig Hettich Holding GmbH & Co. KG). HECO achieved in 2015 with about 240 employees annual sales of € 35 million. In 2018 SFS Group may exercise a call option to increase its holding. The purchase price allocation is provisional as the final purchase price depends on the annual profit 2015.

In 2015 the SFS Group disposed their investment of 35% in Hyflex Technology Co. Ltd. From the disposal a book profit of CHF 1.6 million resulted, which is included in "Share of profit/(loss) from related entities".

15 Other liabilities

	Fair value level	2015	2014
VAT and other liabilities		25.4	18.6
Accrued liabilities		63.9	67.5
Derivative financial instruments	2	4.3	1.3
Total		93.6	87.4

16 Borrowings

The carrying amounts of the Group's borrowings correspond to their fair value. The borrowings are structured as follows:

	2015		2014	
	CHF	Interest	CHF	Interest
Bank borrowings	17.2	6.2%	38.1	4.2%
Other borrowings	-	-	0.1	2.0%
Current borrowings	17.2	6.2%	38.2	4.2%
Of which CHF	3.2	2.1%	-	-
Of which EUR	0.9	4.4%	21.2	3.3%
Of which USD	5.1	2.6%	10.3	2.1%
Of which TRY	6.5	12.3%	6.6	10.3%
Of which other currencies	1.5	1.5%	0.1	1.5%
Bank borrowings	12.1	2.1%	11.8	2.0%
Other borrowings	0.2	0.5%	0.6	0.3%
Non-current borrowings	12.3	2.0%	12.4	1.9%
Of which CHF	0.1	0.0%	0.1	0.0%
Of which EUR	9.5	1.6%	8.5	1.7%
Of which USD	2.7	3.9%	3.9	2.5%
Total borrowings	29.5	4.4%	50.6	3.6%

Syndicated loan in CHF

In order to secure the liquidity reserve a new loan contract was taken out with five banks in August 2014. The term of the syndicated loan in CHF is five years. Within the first 12 months of the term, the SFS Group can apply for an extension of the final maturity by 12 months. In 2015 SFS has applied for this option and all lenders have agreed to it. The new maturity of the syndicated loan is now 25 August 2020. The committed and uncollateralized revolving credit line amounts to CHF 150 million and can be increased by a maximum of additional CHF 150 million, provided the lenders agree to the application of the SFS Group. This option may be exercised until three months prior to the maturity.

The syndicated loan includes normal commercial terms and conditions. The variable interest yield is linked to the financial key ratio "leverage ratio". The smaller this key ratio, the lower the interest margin. The financial covenant has been met in all subsequent periods:

	Threshold
Leverage Ratio: net senior debt/EBITDA	maximum 2.50x

EUR credit facility

End of April 2015 the existing EUR loan has been repaid completely.

Other borrowings

In order to collateralize other current and non-current borrowings assets amounting to CHF 21.6 million (PY 13.2) have been pledged with CHF 18.8 million (PY 16.4) of which CHF 15.1 million (PY 6.8) has been drawn.

17 Deferred income tax

Deferred tax assets and liabilities result from temporary differences between the Group's carrying amount and the tax value of the following positions:

Deferred tax assets on:	2015	2014
Property, plant and equipment	4.9	6.6
Intangible assets	11.0	10.5
Inventories	2.9	3.1
Valuation allowances and provisions	11.3	7.5
Tax loss carry-forwards	1.2	4.0
Offsets	-13.2	-12.3
Total	18.1	19.4

Deferred tax liabilities on:		
Property, plant and equipment	38.4	41.6
Intangible assets	62.1	71.6
Inventories	10.3	9.9
Valuation allowances and provisions	8.6	8.7
Offsets	-13.2	-12.3
Total	106.2	119.5
Net	88.1	100.1

In accordance with the exemption of IAS 12 the Group abstains from recognizing a liability for deferred taxes on investments in Group companies. As per 31 December 2015 the temporary differences on investments in subsidiaries including equity loans amount to CHF 618.4 million (PY 646.0).

Movement in deferred tax balances	2015	2014
Balance at 1.1.	100.1	93.8
Acquisition of subsidiaries	1.2	12.7
Disposal of subsidiaries	0.2	-
Charged/(credited) to income statement	-7.1	-6.7
Charged/(credited) to other comprehensive income	-5.2	-3.8
Exchange differences	-1.1	4.1
Balance at 31.12.	88.1	100.1

Deferred taxes related to cash flow hedges as well as on actuarial gains and losses from the Swiss pension plan are recognized directly in other comprehensive income.

The status of existing tax loss carry-forwards is reviewed at the balance sheet date. If it is probable that future taxable income will be sufficient to utilize these losses, a deferred tax asset is recognized in the balance sheet. The table below shows the recognized as well as the unrecognized tax assets:

Tax loss carry-forwards	recognized		unrecognized	
	2015	2014	2015	2014
Expiry within 3 years	0.3	2.0	1.1	1.6
Expiry in 4 to 7 years	0.1	2.6	2.8	3.2
Expiry after 7 years	4.1	10.8	6.6	2.5
Total	4.5	15.4	10.5	7.3

The tax rates for the unrecognized tax loss carry-forwards are between 15 and 41%.

18 Provisions

	Swiss pension plan	Other pension plans	Anniversaries, severance payments	Other	Total
Balance at 1.1.2014	-	8.4	8.8	4.5	21.7
Acquisition of subsidiaries	-	-	0.2	-	0.2
Additions	19.3	2.3	1.1	0.3	23.0
Used amounts	-	-0.3	-0.3	-0.4	-1.0
Unused amounts reversed	-	-	-	-0.7	-0.7
Transfers	-2.9	-	0.3	-	-2.6
Exchange differences	-	0.3	-0.1	0.1	0.3
Balance at 31.12.2014	16.4	10.7	10.0	3.8	40.9
Acquisition of subsidiaries	-	-	-	0.8	0.8
Additions	13.6	-1.6	0.9	0.3	13.2
Used amounts	-	-0.3	-0.4	-0.2	-0.9
Unused amounts reversed	-	-	-	-0.2	-0.2
Exchange differences	-	-0.6	-0.7	-0.1	-1.4
Balance at 31.12.2015	30.0	8.2	9.8	4.4	52.4

The SFS Group has various defined benefit plans. The major plan exists in Switzerland and is described in note 27.

As of the end of 2015 defined benefit plans, which are not substantial for the SFS Group, exist in the USA, Germany, United Kingdom and Austria. These are measured with actuarial calculations. Necessary provisions are included in the column "Other pension plans".

Various countries have state pension plans or have to recognize provisions for the date of leaving of an employee (severance payments). These are classified as contribution-based and disclosed in the column "Anniversaries, severance payments".

The column "Other" contains provisions according to IAS 37 for warranty claims and business risks. Obligations arising from product liability are covered by the SFS Group's insurance policies. In addition to this, provisions are recognized for warranty claims based on historical experience and amount to CHF 2.9 million (PY 2.9). For other business risks CHF 1.5 million (PY 0.9) are deferred.

19 Reserves

The reserves in equity have this breakdown:

	Retained earnings	Exchange differences	Hedging	Pension plans	Total
Balance at 1.1.2014	1,447.6	-116.0	0.4	-3.2	1,328.8
Capital increase	310.7	-	-	-	310.7
Net income	109.9	-	-	-	109.9
Dividends 2013	-32.4	-	-	-	-32.4
Exchange differences	-	91.3	-	-	91.3
Recognized in other comprehensive income	-	-	-	-17.3	-17.3
Cash flow hedges	-	-	-1.1	-	-1.1
Balance at 31.12.2014	1,835.8	-24.7	-0.7	-20.5	1,789.9
Net income	104.1	-	-	-	104.1
Dividends 2014	-56.3	-	-	-	-56.3
Exchange differences	-	-35.3	-	-	-35.3
Recognized in other comprehensive income	-	-	-	-20.0	-20.0
Cash flow hedges	-	-	-1.9	-	-1.9
Balance at 31.12.2015	1,883.6	-60.0	-2.6	-40.5	1,780.5

20 Net sales

	2015	2014
Gross sales	1,376.3	1,383.0
Transportation charged	7.7	7.8
Hedged exchange differences	-5.2	-1.9
Discounts	-7.0	-7.1
Total	1,371.8	1,381.8

Gross sales decreased by 0.5% (PY 3.9 increase). The growth attributable to changes in the scope of consolidation is 2.1% (PY 0.0). When comparing on the same scope of consolidation and ignoring foreign currency effects, sales rose by 2.5% (PY 4.8). The currency translation effect amounts to -5.1% (PY -0.9).

Services constitute less than 1% of total sales. Sales do not include interest, compensation fees or dividends.

21 Other operating income

	2015	2014
Sales of services	8.0	6.0
Lease income	1.4	1.5
Miscellaneous income	4.1	3.0
Gain on disposals	2.3	2.0
Gain on disposal of net assets	0.3	-
Total	16.1	12.5

During the reporting period CHF 1.4 million (PY 1.6) have been reported as operating lease income in "other operating income". The future maturities are listed in the following table:

Future aggregate minimum lease income	2015	2014
No later than 1 year	1.2	1.2
Later than 1 year and no later than 5 years	1.5	1.3
Later than 5 years	0.1	-
Total	2.8	2.5

22 Personnel expenses

	2015	2014
Wages and salaries	310.5	307.3
Profit-sharing	5.5	5.3
Social security and pension costs	50.6	63.4
Other employment costs	10.9	11.9
Total	377.5	387.9

The pension plans in other countries are contribution-based and accounted for as defined contribution plans. These are run by insurance companies and state institutions. The premium payments amounting to CHF 8.5 million (PY 7.9) are included in personnel expenses.

In social security an aperiodic special impact according to IAS 19r is included. It reduces the expenses by CHF 14.9 million compared to prior year.

23 Other operating expenses

	2015	2014
Tools, energy, maintenance	106.6	112.3
Selling and distribution	68.9	73.6
Miscellaneous operating expenses	34.1	32.5
Total	209.6	218.4

"Other operating expenses" include operating lease expenses in the amount of CHF 7.7 million (PY 8.0).

Future minimum lease payments related to the operating leases (mainly for premises) are as follows:

Future aggregate minimum lease payments	2015	2014
No later than 1 year	7.8	7.4
Later than 1 year and no later than 5 years	17.8	15.0
Later than 5 years	4.6	4.6
Total	30.2	27.0

Research and development costs

The total costs for research and development recognized during the reporting period amount to CHF 30.5 million (PY 34.3). The expenses in the fields development, tools, sampling, preparation for large-lot production is compared to the previous year slightly lower. The research and development costs are recognized within different line items in the income statement and are not capitalized, as the corresponding requirements according to IFRS have not been met.

24 Finance result

	2015	2014
Interest paid	-3.1	-8.0
Change in accrued interest	-0.1	-4.2
Finance expenses	-3.2	-12.2
Realized gains	0.9	1.6
Exchange differences on financial investments	2.5	2.8
Finance income	3.4	4.4
Finance result	0.2	-7.8

25 Income taxes

	2015	2014
Current income tax	33.0	30.6
Deferred income tax	-7.1	-6.7
Income tax expense	25.9	23.9
Reconciliation:		
Earnings before tax	130.9	134.1
Expected tax rate	17.4%	17.4%
Expected income tax	22.8	23.3
Variance in tax rates	0.7	1.8
Impact of change in tax rate on deferred taxes	-	-0.2
Items not subject to tax	-2.5	-2.9
Changes in tax loss carry-forwards	1.9	1.8
Adjustment in respect of prior years and other items	3.0	0.1
Effective income tax	25.9	23.9
Effective tax rate	19.8%	17.8%

The current income tax includes the taxes which have been paid or accrued on the profits of the single entities. They are calculated based on the relevant tax laws in the different countries. The reconciliation summarizes the individual reconciliation calculations which have been prepared based on the applicable tax rates of the different tax jurisdictions.

Deferred taxes have been calculated based on the future expected tax rate. The expected tax rate corresponds to the maximum tax rate for legal entities in the canton of St. Gallen.

26 Earnings per SFS share

	2015	2014
Weighted average number of shares	37,500,000	35,814,167
Net income attributable to owners of SFS Group AG	104.1	109.9
Earnings per share (in CHF) basic and diluted	2.78	3.07

The earnings per share are the result of dividing net income entitled to the owners of SFS Group by the weighted average number of shares in issue and outstanding during the year.

As of 31 December 2015 37,500,000 shares at CHF 0.10 are issued and outstanding. There are no dilutive effects.

A dividend for the year ended 31 December 2015 of CHF 1.50 (PY 1.50) per registered share, amounting to a total dividend of CHF 56.3 million (PY 56.3), will be proposed at the Annual General Meeting.

27 Swiss pension plan

Employees of the SFS Group in Switzerland are insured against the risks of old age, death and disability with the SFS pension fund based on the Federal Law on Occupational Retirement, Survivor's and Disability Pension Plans (BVG).

The SFS pension fund is a foundation, which is legally separated from the SFS Group. The management body is equally composed of employee and employer representatives. Amongst others this management body determines the level of pension benefits as well as the investment strategy for plan assets based on a periodically performed asset-liability study. The statutory determined benefit obligations are the basis for this study.

The plan assets are invested in accordance with the investment policy, which is in line with the statutory investment regulations. The management body's investment committee is responsible for the implementation. The majority of plan assets are administered by external fund managers.

The pension benefits exceed the statutory minimum and are financed through the employer and employee contributions as well as an annual interest yield on the insured person's savings accounts. The contributions, which are payable by employer and employee, depend on the insured wage level and vary as last year between 2.5% and 7.25% depending on the employee's age.

In the event the fund does not hold sufficient assets on a statutory basis (BVG) the management body is legally obliged to take the correct measures in order to restore the plan's solvency. Amendments to the benefit plan or additional contribution payments from the company and the insured persons would be potential measures. As per 31 December 2015 the SFS pension fund's financial position shows a coverage ratio according to BVG of 115% (PY 118).

The present challenges consist of the sustainable financing of future retirement pensions, which is hard to meet due to an ongoing increase of life expectancy and a rather low interest environment. The trustees of SFS Pension Fund therefore decided to reduce the conversion rate step-by-step to 5.8% until 2020. As supporting measure the contributions are increased annually by 0.25% from 2016 onwards.

The following tables are showing the results of the actuarial calculations according to IAS 19r post-employment benefits:

Funding of benefit obligations	2015	2014	2013	2012	2011
Fair value of plan assets	490.3	478.0	433.8	400.4	366.5
Present value of benefit obligations	-520.3	-494.4	-430.9	-436.4	-425.8
Net asset/(obligation) in balance sheet	-30.0	-16.4	2.9	-36.0	-59.3

Movements in the benefit obligations	2015	2014
Present value of benefit obligations at 1.1.	-494.4	-430.9
Amendment conversion rate	18.2	-
Current service cost	-25.1	-21.8
Interest cost	-6.2	-9.8
Experience adjustments	1.5	4.9
Change in financial assumptions	-29.5	-52.0
Benefits paid	15.2	15.2
Present value of benefit obligations at 31.12.	-520.3	-494.4

Movements in fair value of plan assets	2015	2014
Fair value of plan assets at 1.1.	478.0	433.8
Employer's contributions	10.4	10.4
Employee's contributions	10.4	10.4
Interest income	6.0	9.8
Return on plan assets	1.1	29.2
Administration expense	-0.4	-0.4
Benefits paid	-15.2	-15.2
Fair value of plan assets at 31.12.	490.3	478.0

Pension costs	2015	2014
Employer's contributions	-10.4	-10.4
Additional current service cost employer	-4.3	-1.0
Amendment conversion rate	18.2	-
Interest cost net	-0.2	-
Administration expense	-0.4	-0.4
Recognized in the income statement	2.9	-11.8
Return on plan assets	1.1	29.2
Change in financial assumptions	-29.5	-52.0
Experience adjustments	1.5	4.9
Recognized in other comprehensive income	-26.9	-17.9

The actual return on plan assets for 2015 amounts to CHF 7.1 million (PY 39.0). The employer contributions for 2016 are estimated to be CHF 10.5 million (PY 10.4).

Considering the step-by-step decline of the conversion rate the service costs are reduced by CHF 18.2 million as one time effect.

Assumptions/parameters	2015	2014
Discount rate/return on plan assets	0.75%	1.25%
Future salary increases	1.00%	1.00%
Demographic assumptions	BVG 2010 GT	BVG 2010 GT
Average retirement age	64/63	64/63
Duration of benefit obligation	11.6 years	11.6 years

Sensitivity analysis

The discount rate and future salary increases are essential assumptions for the calculation of the pension obligation. The following sensitivity analysis displays potential changes in the pension obligation as of 31 December 2015:

- a decrease/increase of the discount rate by 25 basis points (PY 25) increases the pension obligation by CHF 20.5 million (PY 14.3) and decreases by CHF 19.2 million (PY 13.5)
- a salary increase/decrease by 50 basis points (PY 50) increases the pension obligation by CHF 2.8 million (PY 3.0) and decreases by CHF 2.7 million (PY 2.8) respectively.

Structure of insured persons

2015	Actives	Retirees	Total
Number	2,129	464	2,593
Present value of benefit obligation	348.1	172.2	520.3

2014

Number	2,173	438	2,611
Present value of benefit obligation	342.9	151.5	494.4

Categories of plan assets	2015	2014
Cash and cash equivalents	52.7	29.6
Bonds listed	145.2	146.2
Shares listed	156.6	179.9
Shares not listed	18.9	19.5
Real estate	116.3	101.8
Other assets	0.6	1.0
Plan assets at 31.12.	490.3	478.0

The investment policy defines the strategic asset allocation currently with 34% equity instruments, 42% fixed income instruments and 24% real estate investments. The plan assets include shares of the SFS Group AG amounting to CHF 2.4 million (PY 2.8). Consistent with previous years no owner-occupied properties are part of the plan assets.

28 Derivative financial instruments

Foreward foreign exchange contracts	Contract value					Market value CHF	Fair value level
	CHF	EUR	USD	CNY	MYR		
2015							
EUR sale/CHF purchase	63.3	-60.7	-	-	-	-2.2	2
USD sale/CHF purchase	10.0	-	-10.0	-	-	0.2	2
USD sale/EUR purchase	-	5.9	-8.0	-	-	-1.4	2
USD sale/CNY purchase	-	-	-21.3	135.3	-	-0.5	2
2014							
CHF sale (SWAP)/EUR purchase	-7.2	6.0	-	-	-	-	2
USD sale/EUR purchase	-	8.9	-12.0	-	-	-1.0	2
USD sale/MYR purchase	-	-	-1.5	-	5.2	-	2
USD sale/CNY purchase	-	-	-50.7	315.9	-	-0.3	2

29 Related-party transactions

The key management is composed of five (PY five) non-executive board members, nine (PY nine) executive board members and members of the Group Executive Board.

Key management compensation	2015	2014
Compensation	5.5	6.5
Pension benefits	0.2	0.2
Discount on share purchases	0.0	0.0
Total	5.7	6.7
Members of key management	14	14

The compensation, which was paid to members of the Board of Directors and of the Group Executive Board that resigned during the reporting year is included in the above figures proportionately. Compensation includes all expenses incurred by the SFS Group such as salary, variable remuneration in cash and in shares and social security contributions. There were no (PY none) payments for termination benefits or other benefits based on termination of employment to members of key management. Based on the articles of association the SFS Group companies have not granted loans to members of the key management.

Business transactions with members of key management

Business transactions with members of key management or related parties have been performed as listed below:

	2015	2014
Sales of goods and services	3.2	3.1
Purchases of goods and services	0.8	1.0
Receivables	0.2	0.2
Liabilities	-	0.1

Business transactions with pension funds

The SFS Group charges administration costs of CHF 0.6 million (PY 0.6) to the Swiss pension fund and Employer's Foundation for managing these institutions.

30 Changes in scope of consolidation

	2015	2014
Acquisition of subsidiaries		
Cash and cash equivalents	0.8	0.8
Trade receivables	1.9	5.8
Inventories	4.3	5.5
Other current assets	1.6	1.1
Property, plant and equipment	0.7	28.8
Intangible assets	6.2	28.3
Goodwill	-	11.6
Other non-current assets	-	1.7
Current liabilities	-1.5	-7.3
Borrowings	-3.7	-6.9
Deferred taxes net	-1.2	-12.7
Other provisions	-0.8	-
Non-controlling interests	-	-6.3
Formerly acquired shares	-	-26.9
Purchase price	8.3	23.5
Cash and cash equivalents	-0.8	-0.8
Contingent consideration	-	15.9
Consideration in cash flow statement	7.5	38.6

2015

On 6 March 2015 the SFS Group acquired 100% of the Thomas Minder Holding AG, located in Bäretswil (Switzerland) to strengthen the Distribution & Logistic segment. Thomas Minder Holding AG achieved in 2015 with 35 employees sales amounting to CHF 16 million. The company structure of Thomas Minder Holding AG has been simplified. Market presence and distribution is carried out via Allchemet AG (Bäretswil).

SPI Precision (Suzhou) Pte. Ltd in Singapore (a non-core business) has been disposed together with its subsidiary SPI Precision (Suzhou) Co., Ltd at the end of 2015. Both entities realized sales of CHF 6.0 million in 2015 and owned net assets of CHF 3.8 million at the date of disposal. The consideration was slightly above the net assets.

2014

As of 31 July 2014 the SFS Group increased its share in Indo Schöttle from 45% to 88.8%. More than 10% of the share capital remains with the founding family. The consolidation of Indo Schöttle within the SFS Group commenced on 1 July 2014. Indo Schöttle is based in Pune, India approximately 200 kilometers to the southeast of Mumbai. It supplies the Indian and international automotive industry from five production sites located in Pune and Belgaum. The financial year of Indo Schöttle runs from 1 April to 31 March. An interim financial closing is prepared as of 31 December each year. In 2014 Indo Schöttle achieved sales amounting to CHF 27.5 million with 1,065 employees (FTE). Compared to the provisional purchase price allocation (PPA) there are no changes.

In December 2014 the SFS Group disposed of Sonic Clean (Wuxi) Co. Ltd, China, which was not focused on the core business. This company was held completely by Sonic Clean Ptd Ltd, Singapore, of which the SFS Group holds a share of 63%. In 2014 Sonic Clean (Wuxi) Co. Ltd, China achieved sales of CHF 1.5 million with approximately 60 employees.

The contingent consideration of CHF 15.9 million is related to the acquisition of Unisteel Technology Group in 2012. It was the final payment.

31 Events after the reporting period

Beginning of 2016 SFS Group acquired 100% of the share capital of the Stamm AG, located in Hallau (Switzerland). Stamm AG produces high-precision plastic injection moulds in the technical small and micro range for a number of sophisticated applications. Stamm AG is a preferred developer and manufacturer in this field and pursues a very similar business model to the SFS Group. Stamm AG was founded in 1947 and, with a workforce of 60, achieved sales of approx. CHF 15 million in 2015. The company will be consolidated as of 1 January 2016.

SFS is not aware of other events that occurred after the balance sheet date that could have a material impact on the consolidated statements for the financial year ended 31 December 2015.

32 Group companies

Country	Legal seat	Name of the company	Participation rate in %		Share capital in local currency		Activities
			2015	2014		('000)	
China	Guangzhou	Guangzhou SFS intec Fastening & Precision Parts Co., Ltd	100.0	100.0	CNY	13'185	inactive
	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	100.0	100.0	CNY	93'959	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100'688	V, P
	Suzhou	SPI Precision (Suzhou) Co., Ltd	-	100.0	CNY	-	-
Unisteel Precision (Suzhou) Co., Ltd		100.0	100.0	CNY	89'095	V, P	
Denmark	Vejle	Unibolt A/S	100.0	100.0	DKK	13'000	V, P
Germany	Mörfelden-Walldorf	GESIPA Blindniettechnik GmbH	100.0	100.0	EUR	5'000	V, P
	Oberursel	SFS intec GmbH	99.0	99.0	EUR	5'000	V, P
		SFS intec Beteiligungen GmbH & Co. KG	100.0	100.0	EUR	4'000	H
	Olpe	W+O Niettechnik GmbH	100.0	100.0	EUR	1'000	V, P
Estonia	Tallinn	SFS intec Oy Eesti Filiaal	100.0	100.0	EUR	n/a	V
Finland	Nummela	SFS intec Oy	100.0	100.0	EUR	84	V
France	Valence	GESIPA SAS	100.0	100.0	EUR	150	V
		SFS intec SAS	100.0	100.0	EUR	3'078	V, P
		SFS unimarket SAS	100.0	100.0	EUR	500	inactive
United Kingdom	Keighley	GESIPA Blind Riveting Systems Ltd	100.0	100.0	GBP	840	V, P
	Leeds	QBM Distributors Ltd	100.0	100.0	GBP	100	V
		SFS intec Holdings Ltd	100.0	100.0	GBP	2'000	H
		SFS intec Ltd	100.0	100.0	GBP	2'500	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	88.8	88.8	INR	46'654	V, P
		Pusalkar Fluid Power Pvt. Ltd	88.8	88.8	INR	17'672	V, P
Italy	Pordenone	SFS intec Spa.	100.0	100.0	EUR	10'000	V, P
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4'000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1'372	V, P
	Labuan	Unisteel Technology International Limited	100.0	100.0	USD	379'850	V, H
Mauritius		Unisteel International Pte Ltd	100.0	100.0	USD	1	V
Netherlands	Helmond	Afast Holding B.V.	100.0	100.0	EUR	18	V, P
Norway	Lorenskog	SFS intec AS	100.0	100.0	NOK	2'500	V
Austria	Korneuburg	SFS intec GmbH	100.0	100.0	EUR	146	V, P
	Wien	GESIPA Blindnietvertriebs GmbH	100.0	100.0	EUR	365	V
Poland	Legionowo	GESIPA Polska Sp. z o.o.	100.0	100.0	PLN	1'000	V
	Poznan	SFS intec Sp. z o.o.	100.0	100.0	PLN	8'600	V
Portugal	Malveira	SFS Group Fastening Technology. (Iberica), S.A.U. Sucursal em Portugal	100.0	100.0	EUR	n/a	V
Sweden	Strängnäs	SFS intec AB	100.0	100.0	SEK	200	V, P

DL = Services

P = Production

V = Sales

H = Holding

Country	Legal seat	Name of the company	Participation rate in %		Share capital in local currency		Activities
			2015	2014		('000)	
Switzerland	Heerbrugg municipality of Au/SG	SFS intec Holding AG	100.0	100.0	CHF	5'400	H
		SFS intec AG	100.0	100.0	CHF	6'550	V, P
		SFS unimarket AG	100.0	100.0	CHF	12'550	V, P
		SFS services AG	100.0	100.0	CHF	100	DL
	Bäretswil	Allchemet AG	100.0	-	CHF	340	V
Singapore	Singapore	Unisteel Technology Limited	100.0	100.0	SGD	8'033	V
		Sonic Clean Pte. Ltd	63.0	63.0	SGD	2'020	V, H
		SPI Precision (Suzhou) Pte. Ltd	-	70.0	SGD	-	-
Spain	Arrigorriaga	SFS Group Fastening Technology (Iberica), S.A.U.	100.0	100.0	EUR	975	V
Czech Republic	Brno	GESIPA CZ s.r.o.	100.0	100.0	CZK	1'700	V
	Turnov	SFS intec s.r.o.	100.0	100.0	CZK	205'000	V, P
Turkey	Torbali-Izmir	SFS intec Bağlantı Teknolojileri Sanayi ve Ticaret A.Ş.	91.4	91.4	TRY	3'000	V, P
Hungary	Janossomorja	GESIPA Hungary Kft.	100.0	100.0	HUF	12'500	V
		SFS intec Kft.	100.0	100.0	HUF	400'000	V, P
USA	Mocksville	GESIPA Fasteners USA Inc.	100.0	100.0	USD	3'750	V, P
	Wyomissing	SFS intec Inc.	100.0	100.0	USD	34'400	V, P

DL = Services

P = Production

V = Sales

H = Holding

SPI Precision (Suzhou) Pte. Ltd in Singapore (a non-core business) has been disposed together with its subsidiary SPI Precision (Suzhou) Co., Ltd at the end of 2015. Business activities of SFS unimarket SAS are newly processed from Switzerland. This entity is now inactive and will be liquidated in 2016. W+O Niettechnik GmbH in Germany will be merged into GESIPA Blindniettechnik GmbH as of 1 January 2016.

33 Exchange rates

		Balance sheet		Income statement	
		2015	2014	2015	2014
China	CNY 100	15.250	16.170	15.317	15.010
Denmark	DKK 100	14.500	16.150	14.344	16.326
EU	EUR 1	1.082	1.203	1.068	1.216
United Kingdom	GBP 1	1.467	1.540	1.471	1.505
India	INR 100	1.500	1.560	1.495	1.536
Canada	CAD 1	0.712	0.853	0.753	0.830
Malaysia	MYR 100	23.050	28.270	24.460	28.057
Norway	NOK 100	11.240	13.320	11.957	14.591
Poland	PLN 100	25.420	28.060	25.538	29.062
Sweden	SEK 100	11.790	12.780	11.415	13.376
Singapore	SGD 1	0.701	0.748	0.701	0.723
Czech Republic	CZK 100	4.000	4.340	3.912	4.447
Turkey	TRY 100	33.850	42.480	34.806	41.872
Hungary	HUF 100	0.346	0.382	0.345	0.395
USA	USD 1	0.990	0.989	0.963	0.919

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of SFS Group AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes (pages 72 to 109), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control

system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Beat Inauen
Audit expert
Auditor in charge



Martin Bettinaglio
Audit expert

St. Gallen, 3 March 2016

Financial statements of SFS Group AG

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Balance sheet

Assets in CHF million	31.12.2015	31.12.2014
Cash and cash equivalents	19.3	24.8
Other current receivables	0.0	0.1
Other current receivables from related entities	52.5	11.9
Current assets	71.8	36.8
Financial assets	0.1	0.1
Financial assets from related entities	696.8	740.9
Shareholdings	90.8	82.5
Non-current assets	787.7	823.5
Assets	859.5	860.3

Liabilities and equity in CHF million		
Trade payables	0.0	0.0
Interest-bearing borrowings from related entities	21.6	28.3
Deferred income and accrued expenses	0.7	0.4
Current liabilities	22.3	28.7
Interest-bearing borrowings from related entities	14.2	19.5
Non-current liabilities	14.2	19.5
Share capital	3.8	3.8
Statutory capital reserves	266.9	323.2
Statutory retained earnings	1.9	1.6
Voluntary retained earnings	275.1	275.1
Retained earnings	275.3	208.4
Total equity	823.0	812.1
Liabilities and equity	859.5	860.3

Income statement

Income in CHF million	2015	2014
Investment income	63.0	33.0
Interest income	5.7	10.3
Total income	68.7	43.3
Expenses in CHF million		
Interest expense, financing costs capital increase	-0.5	-13.2
Currency loss financial assets (net)	-0.3	-3.7
Administration expenses	-0.4	-0.4
Total expenses	-1.2	-17.3
Net income before taxes	67.5	26.0
Direct taxes	-0.4	0.0
Net income	67.1	26.0

Notes

1 Accounting policies

The present financial statements have been prepared in accordance with the regulations on commercial accounting and reporting given in the Swiss Code of Obligations. Securities (marketable securities with a stock exchange price) are recognized at fair value. All other assets are stated at historical cost less necessary depreciation.

2 Number of employees

The company does not have employees.

3 Shareholdings

The SFS Group AG is incorporated and domiciled in Heerbrugg, municipality of Au/SG, Switzerland and held the following shareholdings:

	2015		2014	
	Share capital		Share capital	
SFS intec Holding AG, Heerbrugg, municipality of Au/SG, Switzerland	5.4	100%	5.4	100%
SFS unimarket AG, Heerbrugg, municipality of Au/SG, Switzerland	12.6	100%	12.6	100%
SFS services AG, Widnau, Switzerland	0.1	100%	0.1	100%

The significant indirect shareholdings are disclosed in note 32 of the consolidated financial report.

4 Share capital

The Annual General Meeting of shareholders approved on 4 April 2014 a share split (1 share of CHF 1.00 each to 10 shares of CHF 0.10 each), a capital increase and the initial public offering with the first trading day on 7 May 2014.

	31.12.2015	31.12.2014
Number of shares	37,500,000	37,500,000

No conversion and option rights have been issued.

5 Significant shareholders

The founding families of SFS Group AG, Huber and Stadler/Tschan, form an organized group according to Art. 10 of the Ordinance of the Swiss Financial Supervisory Authority on Stock Exchanges and Securities Trading (SESTO-FINMA).

Share capital and voting rights	31.12.2015	31.12.2014
Founding families	55.10%	55.04%

Both families have defined their principles of cooperation and partnership in a pool agreement. It is their intention to retain a majority of more than 50% of the capital and the voting rights in the long run. They agree with each other on important decisions and always put the successful development of the SFS Group in front of the particular interests of the families.

The Board of Directors is not aware of any other shareholders listed in the share register or shareholder groups holding more than 5% of the share capital or voting rights.

6 Board of Directors' and Group Executive Board's shareholding

The following tables provide information with regards to the shareholding of the Board members:

	Number of shares 31.12.2015	Number of shares 31.12.2014
Board of Directors		
Heinrich Spoerry, Chairman	n/a	n/a
Ruedi Huber, non-executive member	245,960	244,280
Urs Kaufmann, independent, external member	6,680	5,000
Thomas Oetterli, independent, external member	4,680	3,000
Karl Stadler, non-executive member	2,521,480	2,519,800
Jörg Walther, independent, external member	1,680	-
Total	2,780,480	2,772,080

The number of shares of Karl Stadler include privately held shares and shares of Wistama Finanz- und Beteiligungs AG, which is under his control.

Shares, granted during the reporting period, are disclosed in the compensation report.

	Number of shares 31.12.2015	Number of shares 31.12.2014
Group Executive Board		
Heinrich Spoerry, Chief Executive Officer until 31.12.2015	190,280	188,180
Thomas Bamberger, Head of Division Riveting	1,170	670
Arthur Blank, Head of Division Construction	12,840	12,340
Jens Breu, Chief Operating Officer until 31.12.2015, CEO from 1. 1.2016	6,330	5,680
Rolf Frei, Chief Financial Officer	61,530	60,680
Walter Kobler, Head of Division Industrial	19,500	19,000
George Poh, Head of Division Electronics	50,330	49,680
Alfred Schneider, Head of Division Automotive	14,080	13,580
Josef Zünd, Head of Segment Distribution & Logistics	18,190	17,340
Total	374,250	367,150

Shares, granted during the reporting period, are disclosed in the compensation report.

7 Statutory capital reserves

The disclosed statutory capital reserves amount to CHF 266,924,250 (PY 323,174,250) and result from the share premiums in connection with the share capital increase and the initial public offering. The statutory capital reserves of CHF 311,994,597.50 have been approved by the federal tax administration (ESTV) on 12 June 2015. As expected the ESTV did not accept the IPO and capital expenses of CHF 11,179,652.50 as statutory capital reserve. In this context the SFS Group AG is still of the opinion that the share premium before deduction of IPO and capital expenses qualify to the full extent for statutory capital reserves.

8 Contingent Liabilities

Apart from the warranty obligations there are no contingent liabilities.

Contingent liabilities	31.12.2015	31.12.2014
Warranty obligations to related entities	74.1	84.3
Warranty obligations to third parties	10.9	3.0
Of which used	21.2	31.7

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of shareholders on 20 April 2016 to approve the payment of a dividend from statutory capital reserves of CHF 1.50 (PY 1.50) per registered share with a nominal of CHF 0.10 per share.

Retained earnings in CHF million	31.12.2015	31.12.2014
Profit carry-forward	208.2	182.5
Net income	67.1	26.0
Withdrawal from statutory capital reserves	56.3	56.3
Earnings available for distribution	331.6	264.8

Board of Director's proposal in CHF million		
Dividend from statutory capital reserves	56.3	56.3
Allocation to statutory retained earnings	-	0.3
Profit carry-forward	275.3	208.2
Retained earnings	331.6	264.8

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of SFS Group AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes (pages 112 to 116), for the year ended 31 December 2015.

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Opinion

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We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Beat Inauen
Audit expert
Auditor in charge



Martin Bettinaglio
Audit expert

St. Gallen, 3 March 2016

Information for shareholders

The registered shares of the SFS Group AG of CHF 0.10 each are listed on the SIX Swiss Exchange AG (International Reporting Standard) since 7 May 2014.

	31.12.2015	31.12.2014
Number of registered shares	37,500,000	37,500,000
Number of shares ranking for dividend	37,500,000	37,500,000
Weighted average number of shares	37,500,000	35,814,167
Number of shareholders	6,941	6,778
Stock exchange quotation (in CHF)		
Year high	79.00	79.30
Year low	56.90	62.50
Year-end price at	70.00	79.10
Share key data		
Earnings per share in CHF	2.78	3.07
Cash earnings per share in CHF	4.03	4.32
Dividend per share in CHF	1.50	1.50
Payout ratio in % of consolidated net income	53.6	51.0
Price/earnings ratio (year-end price)	25.2	25.8
Cash price/earnings ratio (year-end price)	17.4	18.3
Market capitalization (year-end price x number of shares ranking for dividend)		
In CHF million	2,625.0	2,966.3
As a % of net sales	191.4	214.7
As a % of equity	146.4	164.3

Cash earnings per share is derived from the net income before amortization of intangible assets net of deferred taxes divided by the weighted average number of shares. Cash net income amounts to CHF 151.1 million (PY 154.6).

Agenda

Friday, 4 March 2016	Publication results business year 2015
Wednesday, 20 April 2016	23rd Annual General Meeting of SFS Group AG
Friday, 22 July 2016	Publication half year results 2016

Security-Nr.	23.922.930
ISIN	CH 023 922 930 2
SIX Swiss Exchange AG	SFSN
Reuters	SFSN.S
Bloomberg	SFSN SW
Fact Set:	SFSN-CH

Annual report 2015

The annual report is available in German and English. The German language version of the full annual report is the only legally binding version which is available online at <http://annualreport.sfs.biz/>.

Exclusion of liability

This annual report includes forward looking statements. These statements reflect the SFS Group's current assessment of market conditions and future events. The statements are therefore subject to risks, uncertainties and assumptions. Unforeseen events may lead to deviations of the actual results from the forecasts and estimates made in this presentation and in other published information. To this extent, all forward looking statements in this annual report are subject to such limitations.

Impressum

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