

Creating value – shaping the future

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Annual report 2016



***“Our world of tomorrow is shaped
by the decisions we make today.”***

In our constant endeavor to create sustainable value for the customer, we continuously look for solutions that meet tomorrow's needs today.

With their strong application and technology competencies and true willingness to embrace change, our employees aim at inventing success every day.



Annual report 2016

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Financial overview

Income statement in CHF million	2016	2015	2014	2013	2012
Gross sales	1,436.5	1,376.3	1,383.0	1,330.6	1,193.3
Change to previous year in %					
At actual exchange rates	4.4	-0.5	3.9	11.5	11.7
At constant exchange rates	3.5	4.6	4.8	11.1	12.5
EBITDA	300.5	267.4	271.4	269.8	207.8
As a % of net sales	20.9	19.5	19.6	20.3	17.4
EBITA	216.8	186.6	195.4	195.4	140.7
As a % of net sales	15.1	13.6	14.1	14.7	11.8
EBITA adjusted ¹	207.3	171.7	195.4	177.1	136.1
As a % of net sales	14.4	12.5	14.1	13.3	11.5
Operating profit (EBIT)	155.1	129.1	141.5	142.3	110.7
As a % of net sales	10.8	9.4	10.2	10.7	9.3
Net income	122.2	105.0	110.2	86.5	73.5
As a % of net sales	8.5	7.7	8.0	6.5	6.2
Cash net income ²	172.1	151.1	154.6	128.2	96.6
As a % of net sales	12.0	11.0	11.2	9.6	8.1

Balance sheet in CHF million

Assets	2,436.8	2,169.7	2,246.1	2,133.0	2,298.3
Net operating assets (NOA)	2,003.8	1,763.1	1,822.2	1,664.2	1,766.1
Net cash/debt	0.5	127.5	87.7	-248.5	-424.2
Equity	1,860.3	1,792.6	1,805.0	1,336.4	1,256.2
As a % of assets	76.3	82.6	80.4	62.7	54.7

Cash flow statement in CHF million

Cash flow from operating activities	241.5	211.3	199.8	216.0	132.1
Purchase of property, plant, equipment and software	-84.6	-90.4	-97.6	-76.6	-67.7
Proceeds from sale of assets	23.4	2.1	2.7	18.0	13.2
Acquisitions of subsidiaries, net of cash	-249.2	-7.2	-37.9	-10.6	-706.8

Employees

Headcount	8,662	7,991	8,293	7,110	7,125
Full-time equivalents (FTE)	9,021	8,330	8,688	7,000	7,000

Financial key ratios

ROE in % ³ (Return on equity)	6.8	5.8	8.2	6.9	6.3
RONOA in % ⁴ (Return on net operating assets)	12.1	10.6	10.7	11.7	10.2
ROCE in % ⁵ (Return on capital employed)	27.1	22.2	24.1	23.0	24.0

Share key ratios

Earnings per share in CHF	3.25	2.78	3.07	2.67	2.29
Payout per share in CHF	1.75 ⁶	1.50	1.50	1.00	0.63
Payout in CHF million	65.6	56.3	56.3	32.4	20.4
Payout ratio (%)	53.7	53.6	51.0	37.5	27.8

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 (2016: CHF 9.5 million / 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 EBITA in % of net operating assets both adjusted for acquisition of Tegra Medical as at 1 December 2016

⁵ EBITA in % of average capital employed without intangible assets

⁶ proposed payout to the Annual General Meeting of SFS Group on 26 April 2017

Highlights 2016

Solid organic growth in core business

+5.9%

SFS achieved solid organic growth of 5.9% in its core business in the 2016 financial year. All segments contributed to this growth. They maintained and expanded their market positions.

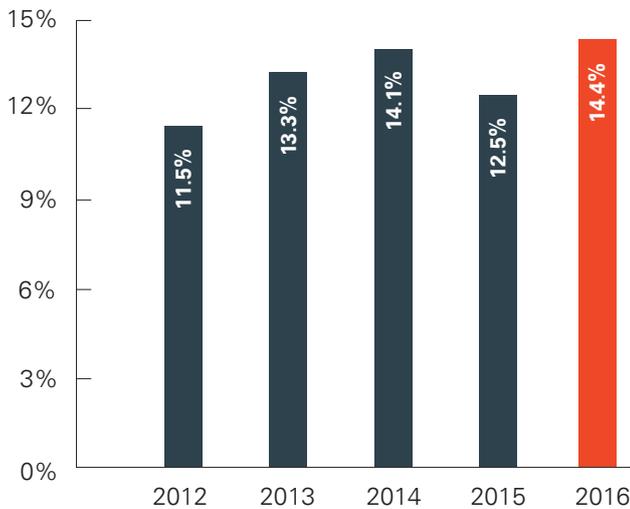
Targeted improvement in productivity achieved

+15.9%

Thanks to the measures taken, productivity at SFS intec's Swiss production sites improved by 15.9% from 2015 (measured by profit contribution per employee). The current level of productivity is actually 5.8% higher than in 2014 before the minimum exchange rate with the euro was discontinued.

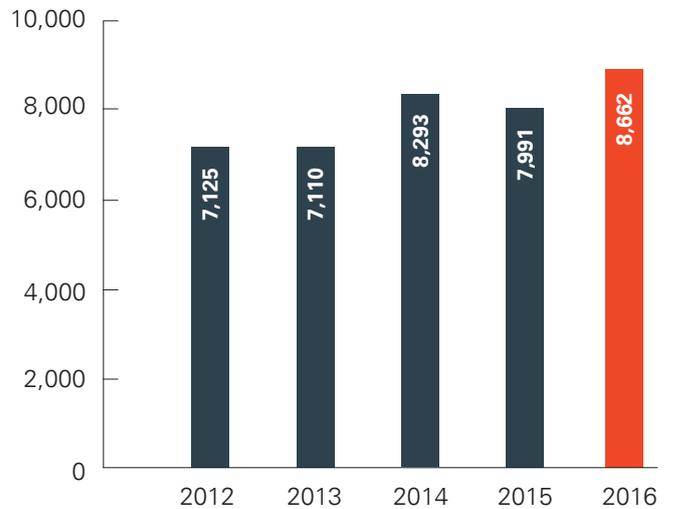
Significant improvement in profitability

Adjusted EBITA margin



More employees due to acquisitions

Number of employees at year-end (headcount)



Positioning in medical device industry significantly expanded

SFS has significantly expanded its position in the growing medical device industry through the acquisitions of Tegra Medical (USA) and Stamm (CH). These two transactions have given SFS access to a large, and largely complementary, portfolio of top-quality customers. The share of sales generated in this growing market will account for about 7% of total sales going forward.



Management report

SFS increased profitability significantly

We look back on a successful year. SFS Group generated robust growth in its core business, mastered the challenges posed by the strong Swiss franc by implementing a series of measures, and established an attractive position in the growing market for medical devices through two acquisitions.

Dear shareholders,

SFS achieved solid organic growth of 5.9% in its core business in the 2016 financial year. All segments contributed to this growth. They maintained and expanded their market positions. Consolidated sales reached a record high of CHF 1,437 million. This represents an increase of 4.4% from the previous year. Currency movements had a positive effect of 0.9% on reported sales, and changes in the scope of consolidation added 1.5% to the reported sales growth. Sales were reduced by CHF 50 million (3.9%) due to the phase-out of the trading activities, a non-core activity within the Engineered Components segment.

Significant improvement in profitability achieved

After the currency-induced decline in profitability in 2015, we managed to surpass our previous levels of profitability in 2016. The adjusted EBITA margin excluding the accounting gains on the sale of company property amounted to 14.4%. This represents a significant increase in profitability compared to 2015 (adjusted EBITA margin of 12.5%). We attribute this improvement to the market success of our innovative products, the realization of economies of scale in the wake of higher production capacity utilization, and the effectiveness of the measures taken after the substantial appreciation of the Swiss franc. Net profit including the proceeds of property disposals amounted to CHF 122.2 million (previous year: CHF 105.0 million).



Competitive strength restored

SFS responded to the sudden surge in the value of the Swiss franc with a host of measures. All of the temporary countermeasures that had been taken, most of which applied to our employees in Switzerland, were gradually rescinded by mid-year. A special bonus of CHF 1,000 was awarded to all employees in Switzerland as a token of gratitude and appreciation for their loyalty.

To restore SFS's successful positioning in the marketplace after the fundamental shift in the currency environment, the Swiss sites are focusing on high value-added products and processes that are particularly know-how and capital-intensive and have a high level of automation. Manufacturing operations for products that do not meet these criteria are being transferred to suitable locations outside Switzerland. The projects that have been initiated to streamline and sharpen our production profiles will be concluded by the summer of 2018. SFS intends to maintain its current level of staffing in Switzerland.

The effectiveness of the measures taken became more visible as the year progressed. Productivity of SFS intec in Switzerland (as measured by the profit contribution per employee) rose by 15.9% during the year under review compared to 2015. In fact, productivity is now 5.8% above the level recorded in 2014 before the minimum EUR/CHF exchange rate was abandoned. We are therefore confident that we can continue to successfully compete in a global economy against international challengers out of Switzerland.

Expansion of position in medical device market

SFS has significantly expanded its position in the growing medical device sector through the acquisitions of Tegra Medical (USA) and Stamm (CH). These two transactions

have given SFS access to a large, and largely complementary, portfolio of top-quality customers while enhancing its range of technical competencies. Meanwhile, integration into SFS Group gives Tegra Medical and Stamm's customers access to SFS's extensive range of technology and know-how. SFS intends to strengthen its position in the medical device market during the coming years.

Change in workforce numbers

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Due to the aforementioned acquisitions, the average number of employees at SFS Group (expressed as full-time equivalents, FTE) rose to 9'021. The annual average 2016 amounted to 8,358 FTE, which is slightly below the previous year level (8,537 FTE; -2.1% yoy). We would like to take this opportunity to warmly welcome all the new colleagues who have joined SFS Group.

Segment Engineered Components: Solid growth trends in core business

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The Engineered Components segment reported sales of CHF 768.1 million, an increase of 3.8% versus the previous year. Sales of the core business activities, i.e. excluding the trading activities of the Electronics division as well as consolidation and exchange-rate effects, showed an increase of 8.0% on a comparable basis. This improvement was supported by the scale-up of important customer projects. The segment raised its EBITA margin by 350 basis points from the previous year to 21.2% thanks to the launch of innovative products, economies of scale, and measures to improve the operational expertise.

Segment Fastening Systems: Good momentum sustained

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The Fastening Systems segment carried its good momentum from the first half into the second half of the year and generated sales of CHF 355.6 million (+8.8%, +7.5% on a comparable basis). Growth was broadly based in terms of application areas and geographies. Also the profitability also increased significantly versus the previous financial year and resulted in an EBITA margin of 9.0% (+220 basis points). The segment took a big step towards its mid-term goal of achieving a 10% EBITA margin and demonstrated that it is moving in the right direction.

Segment Distribution & Logistics: Incremental growth achieved

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The Distribution & Logistics segment has battled strong market headwinds since January 2015 in the wake of the sudden appreciation of the Swiss franc. SFS unimarket dis-

played its competitive edge thanks to its comprehensive product range and the gain acquisition of key projects for digitalized warehouse management systems ("M2M by SFS"). In the 2016 financial year, sales in the Distribution & Logistics segment rose by 1.1% to CHF 312.8 million and the EBITA margin increased from 6.0% to 8.5%. Half of the increase of the EBITA margin is due to book gains on the disposal of non-core properties.

Risk assessment

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The Group Executive Board and the Board of Directors regularly assess the main business risks that SFS Group is exposed to. A comprehensive risk assessment is conducted at least once a year. During this assessment, the relevant risks are systematically classified according to the probability of risk occurrence and the severity of the potential consequences.

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 and compliance risks (see Corporate Governance report, page 52).

Development and innovation activity

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SFS Group endeavors to generate value for the customer at all of its operations by providing innovative products and services. To achieve this goal, SFS Group invests considerable resources in the ongoing development of its core production techniques and processes, the launch of new products and systems, and in continuous process improvements. Thanks to its close collaboration with customers in many projects, SFS Group can also help its customers to achieve efficiency gains in their own value chains.

The total costs for research and development recognized during the reporting period amount to CHF 30.6 million (previous year: CHF 30.5 million). 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.

Changes in the Board of Directors and Group Executive Board

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The representatives of the founding families on the Board of Directors, Ruedi Huber and Karl Stadler, will not stand for re-election at the Annual General Meeting on

26 April 2017. We thank them for their many years of service and their contribution to the successful development of SFS Group. The Board of Directors will propose the election of Nick Huber and Bettina Stadler to the Board of Directors as new representatives of the founding families.

J. Mark King, the CEO of Tegra Medical, was appointed to the Group Executive Board of SFS Group as head of the Medical division, effective 1 December 2016.

A word of thanks

Our employees deserve much thanks for SFS Group's good operating performance in 2016. They achieved excellent results in all areas of our operations thanks to their strong skills, commitment and creativity. We thank our customers for their trust and for partnering with us in developing solutions that create sustainable value.

We appreciate the steady and strong support of our shareholders, which reinforces the stability and sustainability of our company.

Pay-out to shareholders

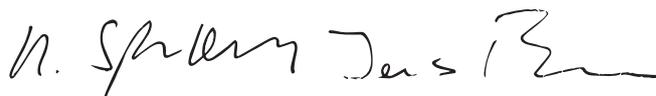
In view of the improved earnings situation and the company's solid balance sheet, the Board of Directors is proposing an increase in the pay-out to CHF 1.75 per share (previous year: CHF 1.50 per share) from capital contribution reserves. This payment is not subject to withholding or income tax for natural persons whose tax domicile is in Switzerland.

Outlook for the 2017 financial year

Our focus in the coming financial year will be on strengthening our position with customers, acquiring new customers, offering new applications, streamlining and sharpening the profiles of our production sites, integrating business activities within the Medical division and expanding the aircraft and medical business. We do not expect any material changes in the economic environment or exchange rates during 2017.

Due to the characteristics of our business model and the focus on our value proposition with short delivery times, order intake is not a suitable indicator to assess the course of the business development.

Assuming exchange rates remain fairly constant, we expect sales to grow by 8–10% including consolidation effects in 2017 and the adjusted EBITA margin to climb to 14.2–15.2% of net sales.



Heinrich Spoerry
Chairman of the Board

Jens Breu
CEO

Strategy

Inventing success daily

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Our number one goal is to create value every day. Achieving that goal requires thorough applications knowledge, strong technology competencies and creativity. And the will to reinvent our success each and every day.

SFS is with you 24/7

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SFS is a reliable companion in your daily life, throughout the entire day, seven days a week. However, most people are unaware of this, since our precision components and mechanical fastening systems are embedded in the top-quality products our customers make, where they are often critical for product performance.

Contact with SFS products begins at home, where SFS fastening systems and precision components serve many important functions in doors, windows and kitchens. SFS know-how can also be found in electric shavers and high-end refrigerators. And, as might be expected, SFS parts are in or on your hand every time you reach for your smartphone or wear a smartwatch. In a car, people are surrounded by different 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 protect lives in an emergency. At the office, numerous SFS components can be found in the disc drives that are used to store data. And the next time you are on board a modern airplane and notice how quiet it is, SFS fastening solutions that reduce vibration in the aircraft cabin are partly the reason. Outdoor gadgets such as adventure cameras or drones are yet another example of how SFS accompanies you through each and every day. Also in the health care sector our instruments and components play an increasingly important role.

Creating value for customers

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The direct costs of SFS products often account for less than 1% of an end product's overall cost, but the related secondary costs at the customer end, ranging from sourcing-related expenses, logistics and handling costs or the sheer variety of parts required, are several times the direct product costs.

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, mechanical fastening systems and assemblies. This segment operates in the Automotive, Electronics, Industrial and Medical divisions, and sells its products under the SFS intec (Automotive, Industrial), Unisteel (Electronics) and Tegra Medical (Medical) 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 2016 amounted to CHF 1.437 billion and the workforce numbered approximately 9,000 (FTE).

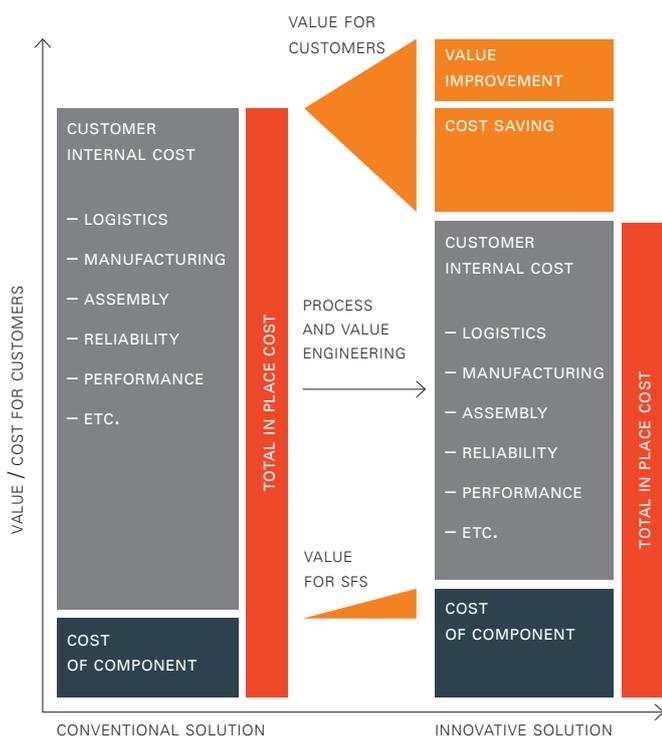
With this in mind, we always try to put ourselves in the shoes of our customers and look for ways to optimize overall costs (see “Value proposition” graph).

This approach unlocks significantly higher cost-savings potential and produces sustainable value for our customers and for SFS. The advantage is that these custom-built products and intelligent solutions make us even more distinctive and deepen the partnerships we maintain with our customers.

Our goal of creating value for the customer requires a certain attitude: the will to reinvent our success every day and work hand-in-hand with our customers in the pursuit of innovations that produce lasting value.

Innovation is a fundamental aspect of our corporate culture and is based on five core values: know, understand, create, move and trust. SFS is particularly skilled at creating value at the production level, through the optimization of product design, through improved fastening processes and the utilization of digital technology. Thereby, e.g. unnecessary handling processes at the customer end can be eliminated.

Value proposition of the SFS Group



KNOW what makes customers more competitive

– A focus on selected 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-savings, and thus sharpen their competitive edge.

UNDERSTAND the issues market partners face

– Listen attentively, exchange ideas, set goals, ensure smooth and efficient execution: these are the principles that have guided SFS employees for years in their dealings 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 brings 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.

SFS's role as an innovator is interpreted differently at each of the three segments, which reflect the three different business models pursued by SFS.

- Engineered Components segment: SFS acts as an engineering partner and creates products that meet specific customer requirements. Value is manifested in the resulting customer-specific solutions and optimized production costs, using, for example, cold forming technology.
- Fastening Systems segment: SFS is a solutions partner that offers mechanical fastening systems for selected applications. Value is added through functionality additions or by improving ergonomics, reliability or efficiency within the fastening process.

- Distribution & Logistics segment: SFS is positioned in this business as a leading supply 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.

MOVE to get customers ahead

– 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. 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. For example, multinational customers from the automotive industry in America, Europe and Asia can therefore expect the same competencies and have their global needs addressed by just 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

– Successful solutions create 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 of SFS 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. Delphi Automotive, for instance, presented SFS 2016 with multiple awards last year. The Riveting division (see page 27) or the Electronics division also earned various awards. The Electronics division earned the "2016 Best Contribution Award", an annual award presented to the 100 best Chinese and foreign companies in the region, given by Shanghai Jiading state government.

Greater performance through focus

– Top performance is not possible without focus and, in keeping with this maxim, many of SFS's production sites are currently undergoing a process of transformation. By sharpening our manufacturing capabilities in congruence with their respective competitive advantages, we are improving the performance of our plants and capturing economies of scales. The significant appreciation of the Swiss franc has increased the urgency of this strategic transformation process. Swiss manufacturing sites of SFS intec, which account for approximately one quarter of the Group's entire profit contribution, found themselves confronted with major challenges in January 2015, when the minimum EUR/CHF exchange rate was discontinued. More than 95% of the products SFS makes in Switzerland are exported, and they are usually priced in euros.

In order to reestablish their sustainable success in the marketplace after this fundamental shift in the business environment, the Swiss sites are methodically focusing on high value-added products and processes that are particularly know-how and capital-intensive and have a high level of automation. Projects undertaken by the Automotive and Industrial divisions meet the specified criteria particularly well. Conversely, manufacturing operations for products used in the construction industry are being transferred to suitable locations outside Switzerland. This, in turn, frees up space and resources in Switzerland for the many new projects now under way in the Automotive and Industrial divisions that will enhance our profile as a manufacturer. These projects are scheduled for completion in the summer of 2018. SFS still intends to maintain its current level of staffing in Switzerland.

The effectiveness of the measures taken after the surge in the value of the Swiss franc became more visible as the year progressed. Productivity of SFS intec (as measured by the profit contribution per employee) rose by 15.9% during the year under review compared to 2015. In fact, productivity is now 5.8% above the level recorded in 2014, when the Swiss National Bank was still enforcing the minimum exchange rate of CHF 1.20 per euro. All temporary countermeasures – most of which fell on the shoulders of our employees in Switzerland – were gradually rescinded during the course of 2016. Besides the commitment to maintain the current staff levels in Switzerland, a special bonus was paid to all workers in Switzerland as a sign of gratitude.

Targeted use of digitalization

Digitization has a long history at SFS. Particular potential is seen in its digital solutions for automated inventory management ("M2M systems"), a field in which SFS has been a leader for years and has earned numerous awards. Its "M2M systems" automate the entire ordering process, reduce inventory levels and improve parts availability.

As a manufacturer, optimization opportunities via automation, lean management and other means are an important factor for success that must be constantly leveraged. Increasing digitalization gives us more options for product innovation. These range from enhanced simulation models and detailed production planning to the greater use of manufacturing robotics.

In addition to product logistics, we use digitalization to enrich product features and optimize fastening processes. Process monitoring through the electronic documentation of fastening points is one example of this in practice.

The trend toward digitalization has created new sales opportunities, particularly in the Electronics division. As a leading development partner for precision components and miniature screws, SFS is also an attractive partner for a tremendous variety of new products being developed for the "Internet of Things", which puts it in a strong position to capture the anticipated market growth.

Innovation and acquisition-driven growth

Innovation is at the heart of our business activities. For SFS, possession of a clear profile and position in ever-changing markets is relevant for innovation. Market change is typically fueled by technological change, social or demographic change, efficiency gains, or mega trends such as health and safety.

SFS disposes of a very robust pipeline of innovations and new projects, which have been strengthened in the year under review. With our international network of production sites, we have created a platform from which new markets can be penetrated. Thanks to our positions in fast-growing markets, close partnerships with the leaders in these markets and our strong innovation skills, our targeted growth rate over the next few years lies well above the projected growth of the world economy.

Besides organic growth, acquisitions have long been an integral part of our growth strategy. Targeted acquisitions broaden our access to new markets, customers and ap-

plications that will fuel future organic growth. Large companies are not the primary targets of our acquisition activities. Instead, we focus on identifying well-positioned and well-run small and medium-sized companies that will enhance the Group's performance.

The acquisitions of Tegra Medical and Stamm clearly expand our positioning in the growing medical device market and enhance our customer and product portfolios. The acquisition of Ncase significantly expands our range of products and services for facade fastening solutions.

Further margin expansion

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. The brief dip in profitability caused by exchange-rate fluctuations was already offset in 2016 in part by various countermeasures. Good profitability is the cornerstone of a solid balance sheet and a guarantee of our long-term entrepreneurial freedom.

In the medium term, we are aiming to further increase SFS Group's EBITA margin. The targeted improvement in profitability will be achieved through above-average growth in profitable business areas, further productivity gains, and the launch of innovative products.

Strategic priorities for 2017

- Strengthen our position with customers by focusing on their needs and increasing our innovation cadence
- Selectively broaden our customer base and penetrate new application areas
- Integrate the medical device business
- Expand aircraft and medical device business
- Sharpen the company's manufacturing profiles and capture economies of scale
- Achieve further progress in lean management and operational excellence



Besides providing market access to major manufacturers in the medical device industry, acquiring Tegra Medical augmented SFS Group's own range of technology and manufacturing competencies.

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Markets

Position in growing markets strengthened

SFS's acquisition of Stamm and Tegra Medical significantly strengthened its position in the growing medical device market. These acquisitions broaden SFS's footprint and customer base in the growing medical technology sector.

Significantly greater penetration of the medical device market

The medical device market is experiencing rapid growth around the globe. Demographics, strong demand for healthcare services, improved access to healthcare systems and the sector's high rate of innovation are the key factors fueling this growth. Due to mounting cost pressures, medical device OEMs are concentrating their resources on product development and marketing, and intensifying their collaboration with external manufacturing specialists. A similar development was witnessed in the automotive industry during the 1980s. Manufacturing specialists such as the SFS Group, Tegra Medical and Stamm are involved in their customers' product development processes early on and, thanks to their extensive technology and production expertise, they can then generate substantial value for the customer.

SFS has significantly expanded its position in the growing medical device sector with the acquisition of Tegra Medical (USA) and Stamm (CH) (see page 22). These two transactions have given SFS access to a large, and largely complementary, portfolio of top-quality customers while enhancing its range of technical competencies (see page 19).

SFS plans to further expand its market position in the medical device industry during the years to come.

Sustained strong momentum in the automotive business

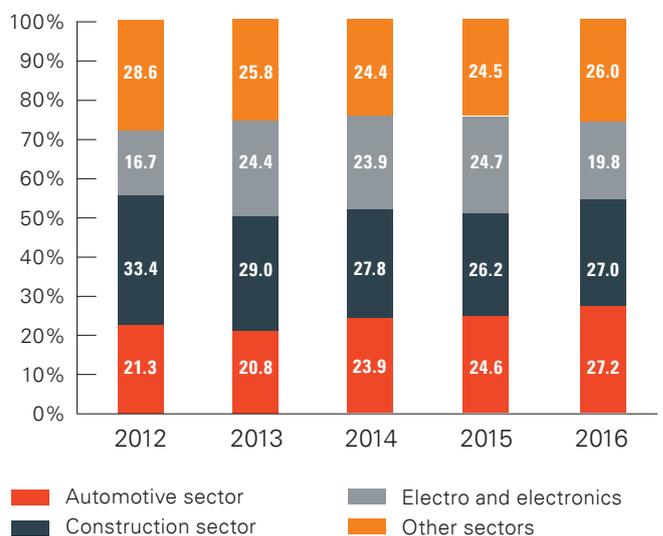
Focused on technology – diversified in end markets and applications. This approach has been very rewarding for SFS. It reduces vulnerability to cyclical downturns in any one industry, while requiring a clear focus on specific market segments that are addressed by applications specialists with strong technical competencies.

The good growth momentum in the automotive business from preceding years was sustained in 2016, leading to another sharp increase in this industry's share of total sales to 27.2% (previous year: 24.6%). Annual sales within the automotive industry averaged 11.3% during the period from 2012 to 2016. Based on projections by market analysts and thanks to new projects recently acquired by SFS, the share of total sales generated by the automotive industry is expected to continue growing.

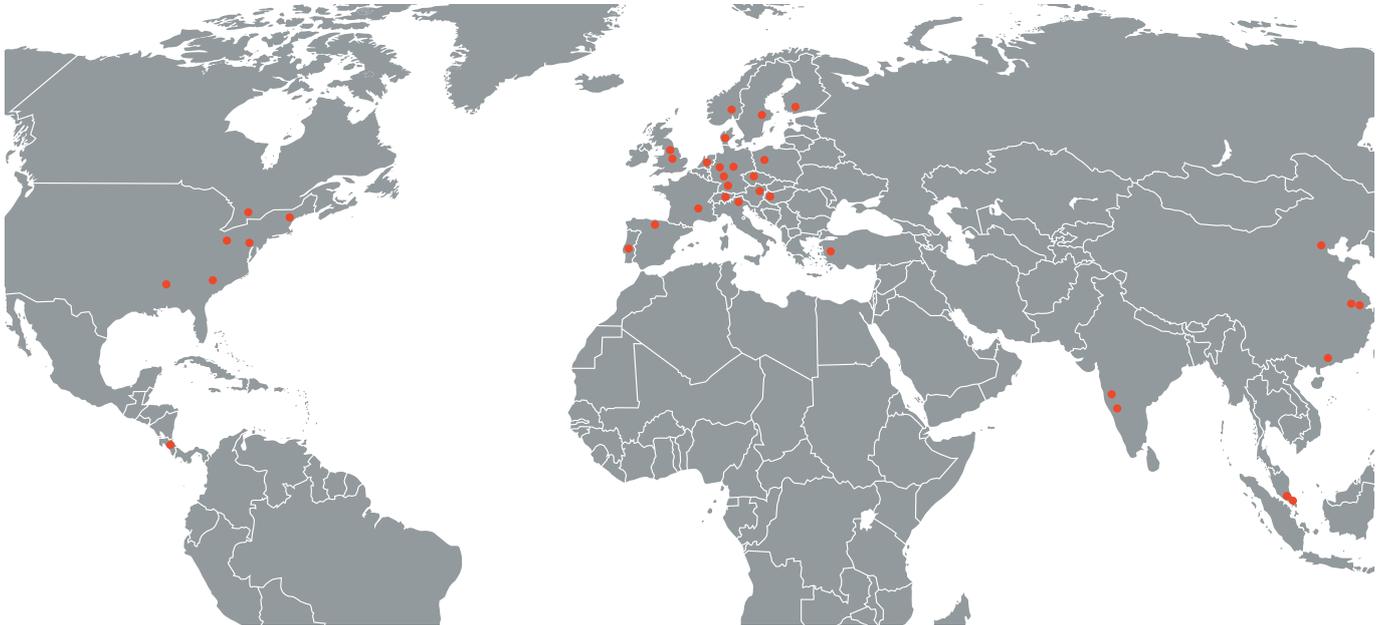
The good results from the Fastening Systems segment led to a slight increase in the construction industry's share of sales to 27.0%, 80 basis points more than in 2015.

The rapid phase-out of the non-core trading activities and the generally adverse market environment led to a sharp contraction in the electro and electronics industry's sales. The proportion of sales in the electro and electronics industry therefore decreased from 24.7% (2015) to 19.8%. The proportion of sales from other sectors was relatively stable and there were some pleasing developments in various industries, such as aerospace and medical devices.

Share of sales by end markets 2012–2016 in %



Worldwide sales offices and production sites



Supplying global players from local sources

– An extensive distribution and production network across North America, Europe and Asia allows SFS Group to serve its customers locally from one of more than 70 sites worldwide (see map above). Customers appreciate our global presence because it allows them to collaborate with just one partner for all their international projects. Our worldwide distribution and production network is a powerful tool that sets us apart from the competition, which often operates only locally.

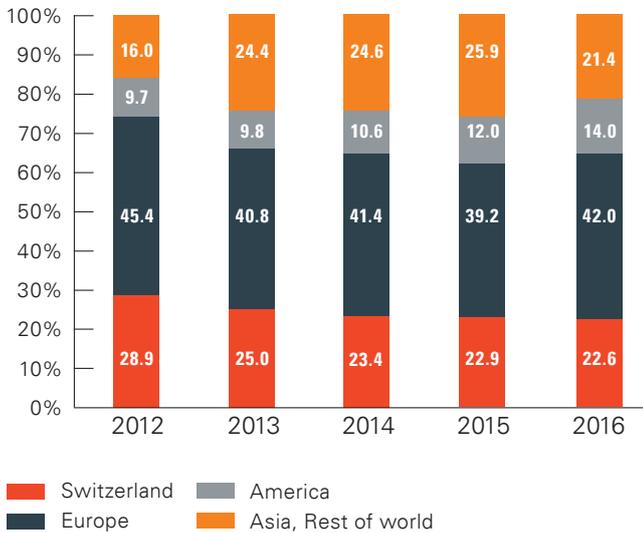
Sales in North America continue to grow

– SFS is widely diversified, not only in terms of end markets but also in terms of geography. North America was once again the region with the fastest relative growth (+22%). This growth was fueled by the good economic environment, by the scale-up of new products for customers in the automotive industry and the first-time consolidation of Tegra Medical. The region's contribution to total sales rose to 14%, an increase of 200 basis points versus 2015. The share of sales generated in the Americas is likely to increase to about 18–20% in 2017 due to the acquisition of Tegra Medical.

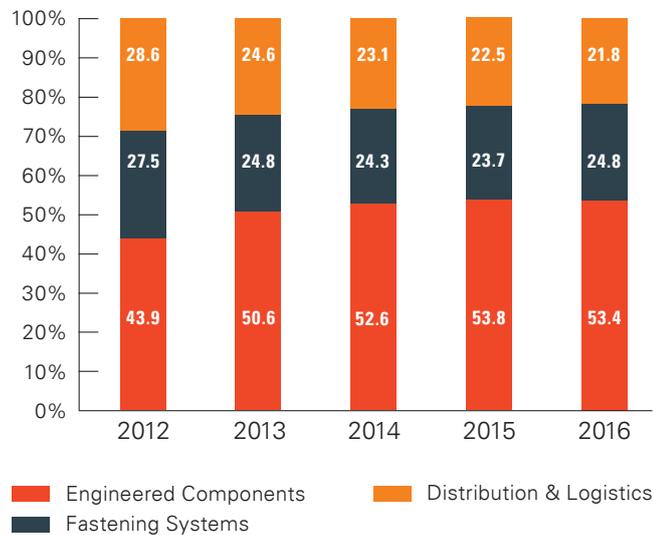
As sales in the electronics industry are generated almost exclusively in Asia, the decline in sales at the Electronics division had a direct impact on Asia's share of total sales, which declined from 25.9% (2015) to 21.4% (2016). Other SFS Group units reported very positive business developments in Asia, but could not offset the negative effect stemming from the phase-out of the trading activities. Europe's share of consolidated sales grew thanks to good, broadly based demand in the construction and manufacturing sectors, as well as the success of numerous new projects in the automotive, aircraft and other industries.

In Switzerland, sales grew 3.1% and the Swiss share of sales amounted to 22.6%. Despite the difficult market environment due to the strength of the Swiss franc, SFS raised its stature as a local player in competition with domestic and foreign companies by winning prominent projects with major customers during the year under review.

Share of sales by region 2012–2016 in %



Share of sales by segment 2012–2016 in %



Attractive growth in Fastening Systems

The Fastening Systems segment reported attractive sales growth of 8.8% in 2016. Its share of SFS Group sales rose to 24.8% from 23.7% in the previous year. This positive development is attributed to good demand in key markets in North America and Europe, and to substantial market share gains driven by the success of innovative products.

Segment sales in Engineered Components rose by 3.8% thanks to solid growth in the Automotive and Industrial divisions. Excluding the negative effects of the trading activities at the Electronics division, growth would have increased to 8.0%. The segment's share of total sales was slightly lower at 53.4%.

The Distribution & Logistics segment scored major project wins despite a challenging market environment. It contributed 21.8% of Group sales.

Engineered Components expected to achieve the fastest growth

From a medium-term perspective, the Engineered Components segment is expected to achieve faster sales growth than SFS Group as a whole. This forecast reflects the segment's positioning in fast-growing markets and the scores of new projects that are now under way. Sales growth at the Fastening Systems segment should be roughly in line with the SFS Group growth rate, while the Distribution & Logistics segment is expected to experience gentle growth due to the estimated slow growth of the Swiss economy, especially in export-oriented industrial sectors served by the Distribution & Logistics segment.



We endeavor to fabricate components for our customers in the automotive industry as closely as possible to their site and have therefore set up identical production lines at several locations around the world. Modules for electrical parking brakes, for instance, are now being produced with identical standards at SFS plants in Europe, Asia and North America.

-

Technology

Technology portfolio enhanced

SFS's widely recognized cutting-edge technological and process expertise provides a stable foundation for innovative solutions. Its technology portfolio has been attractively enhanced with micro injection moulding and laser technology capabilities through the acquisition of Stamm and Tegra Medical.

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.

Cold forming offers obvious advantages. Material volumes remain constant throughout the forming process, so material loss is extremely low compared with alternative fabrication methods such as machining. 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 functional characteristics, 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

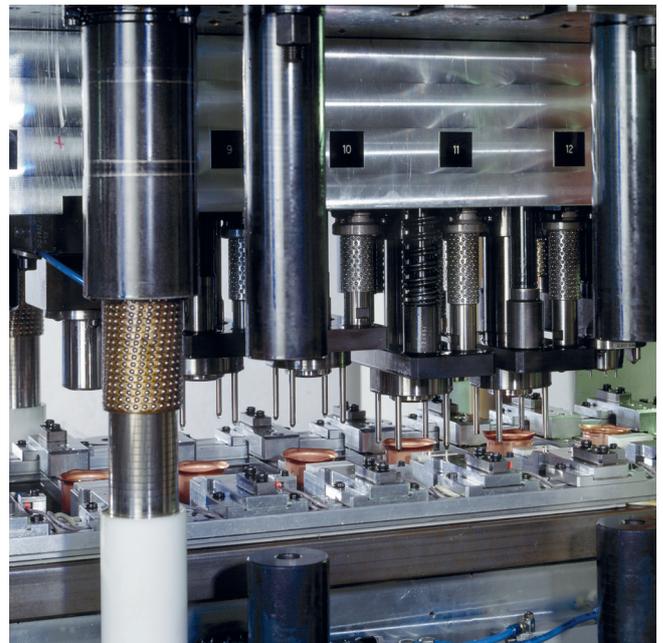
With its comprehensive knowledge of precision machining, SFS is well equipped to meet customer demand for ready-to-fit components. A wide range of products are made using modern machines and systems for machining components.

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

Plastic injection moulding technology: competencies expanded into the field of micro injection moulding

SFS has years of experience and a vast range of skills in plastic injection moulding. Thermoplastics are used in a wide range of solutions 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 both metal and plastic. With the acquisition of Stamm, micro injection moulding was added to SFS' technology portfolio (see box on page 19).

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



Deep drawing is suitable, among other purposes, for fabricating hollow bodies with a wall thickness ranging from 0.1 to 2 mm. After the blanks are cut, the workpieces are brought into their final shape, undergoing as many as 22 different forming and shaping operations in the process.

Mechanical fastening technology: fastener and installation device as one system

SFS focuses on the holistic optimization of the fastening process in its constant quest to generate added value for the customer. We make the fastening process more ergonomic, reliable and efficient. By developing application-specific installation devices and tools, customers benefit from tailor-made comprehensive systems solutions.

Rivets are often the right alternative when screws do not meet the specified requirements. 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. Bearing this in mind, SFS has developed and implemented numerous solutions under the “M2M by SFS” label for optimizing C class inventory management processes that offer significant cost advantages. These solutions lower process costs and required inventory levels while increasing supply availability. They also offer a range of new tools, such as mobile device connectivity, as well as state-of-the-art sensor technology and wireless communications functionality. With these innovative logistics solutions, SFS underscores its technology leadership.

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

Micro injection moulding

Stamm specializes in manufacturing complex small and micro-sized molded parts. Micro moulding technology is used to fabricate ultra-small parts with high precision tolerances. Super-small geometries and micro structures can, depending on the material used, be engineered with high reproducibility and tolerances in the micrometer range – and at attractive total costs. Countless polymers can be used in a vast range of applications to meet a variety of part requirements.

During the production process, manufacturing parameters such as temperature and humidity must be calibrated with the utmost care, as even the slightest variation in the process environment can result in defective products.

Laser processing technology

Tegra Medical offers machining, injection molding and cleaning technologies, as well as extensive laser processing services such as welding, cutting, drilling, abrasion and marking to the medical device industry, and has more than 20 years of experience in these fields. The value process starts with prototyping and product development and continues through process validations and into production manufacturing of all types of medical devices. Tegra Medical is well experienced in processing a wide range of materials to best suit customers' project needs. Its extensive process knowledge is used to meet customer needs for responsiveness, versatility and repeatable accuracy.

Tegra Medical has deep process knowledge in the applied manufacturing processes. Combined with the ability to find innovative solutions for customer issues, Tegra Medical helps customers to offer new and improved solutions in the field of medical devices, ranging from orthopedic devices and assemblies, cardiovascular components and assemblies to minimally invasive devices for arthroscopy, laparoscopy, and ophthalmic surgery.

 [More about Tegra Medical \(video\)](#)

Engineered Components

Position in growth markets strengthened

Thanks to the success of key projects and the acquisition of Stamm and Tegra Medical, the Engineered Components segment greatly expanded its position in the relevant growth markets. The significant increase in this segment's profitability bears testimony to the effectiveness of the measures taken after the sudden appreciation of the Swiss franc as well as the launch and scale-up of key customer projects.

Key figures Engineered Components

in CHF million

	2016	± PY	2015	2014
Third party sales	768.1	3.8%	740.1	727.2
Sales growth comparable ¹		0%		
Net sales	781.5	3.4%	756.1	743.5
EBITDA	218.9	18.1%	185.3	190.7
As a % of net sales	28.0		24.5	25.7
EBITA	165.4	23.4%	134.1	143.0
As a % of net sales	21.2		17.7	19.2
Net operating assets	1,519.2	17.8%	1,290.6	1,326.1
Investments	48.2	-31.4%	70.3	62.6
Employees (FTE)	6,217	10.3%	5,635	6,038
RONOA (%) ²	12.6		10.4	11.0
ROCE (%) ³	32.3		26.5	30.8

¹ at constant exchange rates and on the same scope of consolidation

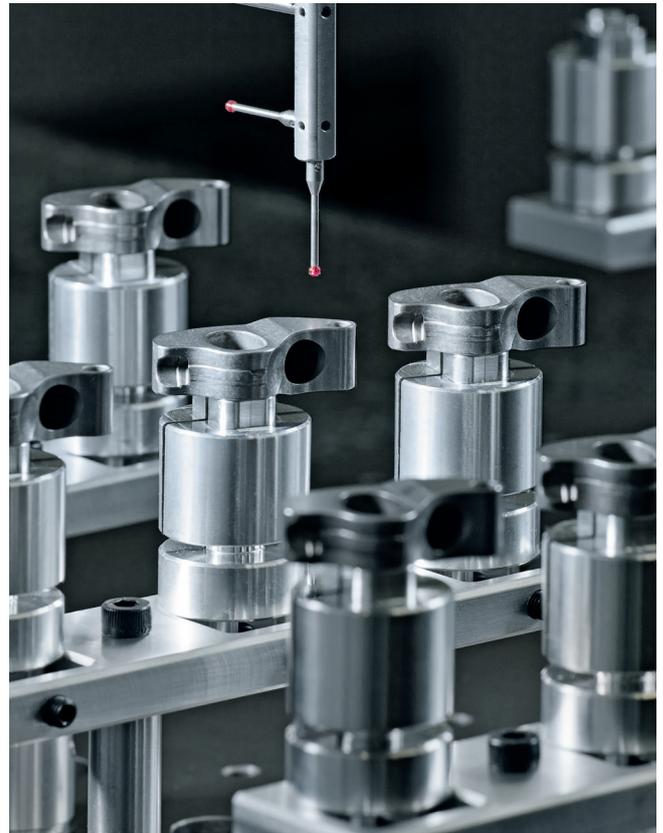
² return (EBITA) in % of net operating assets (adjusted for Tegra Medical 2016 and Indo Schöttle 2014)

³ return (EBITA) in % of average capital employed without intangible assets

Solid growth trends in core business

The Engineered Components segment reported sales of CHF 768.1 million, an increase of 3.8% versus the previous year. Factoring out changes in the scope of consolidation and exchange-rate fluctuations, segment sales remained at the prior-year level. Sales of the core business activities, i.e. excluding the trading activities of the Electronics division, showed an increase of 8.0% on a like-for-like basis.

All core business areas showed solid trends, but the reported sales growth rates varied. The Automotive and Industrial divisions achieved attractive growth rates, sup-



Our center of excellence for high-precision measurements plays a vital role in the production of our flawless components. Products, tools and gauges are measured, with micrometer precision if necessary.

ported by healthy market fundamentals and the scale-up of new products. In the Electronics division, an adverse market environment and the accelerated run-off of the trading activities, which are not a core business activity, resulted in considerably lower sales. Nevertheless, the Electronics division defended and even expanded its position in its core business by acquiring customers and new projects.

Sales from Tegra Medical, a recently acquired leading development, manufacturing and supply partner for the medical device industry, were consolidated for the first time as of December. Thereby, and thanks to the acquisition of Stamm AG, which was consolidated as of 1 January 2016, SFS significantly expanded its position in the attractive, growing market of medical devices. The increase in the number of employees in the Engineered Components segment (+10.3%) is mostly due to the acquisition of Tegra Medical.

Engineered Components segment

– In the Engineered Components segment, SFS partners with customers to develop and manufacture customized precision components, mechanical fastening systems 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 four 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, support autonomous driving or which reduce the fuel consumption and exhaust emissions of internal combustion engines.

Electronics division

– A leading supplier of precision components and miniature screws for the electronic industry, 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 and which operate 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.

Medical division

– In the Medical division, SFS develops and manufactures primarily disposable metal/plastic hybrid parts for leading global OEMs. Its range of products sold under the Tegra Medical brand includes surgical fasteners, stylets and cannulas, implants and instruments used in orthopedic devices and assemblies, interventional treatments or minimally invasive surgical procedures.

Significant increase in profitability

– The Engineered Components segment raised its EBITA margin by 350 basis points from the previous year to 21.2%. The launch of innovative products, economies of scale fueled by the top-line growth, and measures to improve the operational performance contributed to this significant improvement in profitability.

The core measure is the sharpening of the profiles of our manufacturing operations. Our production plants in Switzerland are now focused exclusively on the needs of the Automotive and Industrial divisions. Manufacturing resources are concentrated on products and processes characterized by high levels of innovation, value added and automation, and which are capital-intensive. Operations that do not meet these criteria are being transferred to SFS manufacturing sites in other countries. SFS still intends to maintain its current level of staffing in Switzerland.

During the year under review CHF 48.2 million was invested in plant and equipment. This represents a decline of 31.4 % from the previous year. The decline in investment is due to delays in infrastructure and equipment projects. The investments that had been made in 2014 and 2015 were optimally utilized for the ramp-up of high-volume products in 2016. Capital expenditure is set to increase in coming years to overcome existing capacity bottlenecks and to meet the anticipated need for additional production capacity. SFS recently approved a CHF 30 million investment project to expand its heat-treating capacity in Switzerland and the Czech Republic, for example, which will ensure the smooth ramp-up of various new projects under way in the Automotive division.

New projects and customer awards document operational expertise

– SFS's business model is premised on early involvement in the development projects of its customers. This is necessary to fully exploit the benefits that its technology offers and to create the greatest possible value for the customer. Customers place a lot of trust in us when they invite SFS to work with them at an early stage of their development projects. That they do so is evidence of a high level of customer satisfaction.

Our many project wins in 2016 confirm our proficiency and are also testimony to the high level of satisfaction among our customers. SFS was again honored with various awards from prominent customers (see page 11).

A platform for growth in attractive market segments created

– The medical devices market is growing rapidly around the globe. The key drivers of this expansion are demographic developments, high demand for healthcare services, improved access to healthcare systems and the industry's own high rate of innovation. As cost pressure in the medical device industry mounts, companies such as Tegra Medical and Stamm can offer OEMs significant value added due to their profound technology and manufacturing expertise. Both these firms, acquired during the year under review, are, like SFS, trusted development partners that are embedded in their customers' product development process at an early stage; both embrace close and lasting partnerships and set high standards for precision manufacturing of complex components.

Tegra Medical

– Tegra Medical develops and manufactures primarily disposable products made of metal and plastic for leading global medical device OEMs. These parts are used in orthopedics, interventional therapies and minimally invasive surgery. The product range includes surgical fasteners, stylets and cannulas, implants and instruments. With a total headcount of approximately 700 people at its sites in Franklin, Dartmouth and Hernando (USA) and La Aurora (Costa Rica), Tegra Medical develops and manufactures products near to key customers located in premier global medtech clusters. The integration into SFS Group allows it to offer its customers a wider selection of production technologies. Tegra Medical operates independently as the Medical division within the Engineered Components segment.

Stamm

– Stamm specializes in developing and manufacturing high-precision small and micro-sized plastic parts. SFS has strengthened and expanded its competencies in micro-molding through this acquisition. The customer portfolio largely complements SFS's customer portfolio and provides further access to top-rate companies in the medical device industry. With the integration into SFS, Stamm's customers will benefit from the Group's broad spectrum of competencies and know-how; e.g. in the production of hybrid components (made of plastic and metal). Organizationally, Stamm's approximately 60 employees are part of the Industrial division.

Automotive division

Attractive growth sustained

– The Automotive division maintained its strong organic growth momentum in 2016. Much of its growth stemmed from the successful ramp-up of numerous new products against the backdrop of a good market environment. Trends towards greater comfort, safety and efficiency and, from an overall perspective, towards autonomous driving, are innovation drivers. A particularly promising growth opportunity is the increasing electrification of brake systems. Numerous new projects that were acquired in 2016 and in the previous years are likely to generate further momentum in the coming years.

The Sunil SFS intec joint venture in Tianjin (China) continued to prosper in 2016. The production capacity created in 2015 set the stage for the successful launch of new projects that fueled strong growth. This joint venture is not consolidated in accordance with IFRS accounting rules.

The Automotive division expects to deliver attractive growth in 2017 in particular thanks to specific new projects. Industry analysts are also expecting the positive trends in the automotive market to continue. The substantial expansion of heat-treating capacity (see page 21) and other capital expenditure projects are necessary to successfully scale-up customer projects and to increase productivity.

Electronics division

Market position in core business expanded

– 2016 was a transitional year for the Electronics division. Although it managed to again increase its market position in its core business, sales were sharply lower in 2016. Besides a drop in demand from hard disk drive manufacturers and other market segments, the run-off of the trading activities was largely to blame for the contraction in sales. The Electronics division has successfully implemented measures to lower the negative impact on the development of the EBITA-margin. Month-on-month sales in the fourth quarter of 2016 showed positive growth again. Unisteel's acknowledged competitive advantages, rapid product development capabilities, for example, and its excellent agility and reliability when launching new products, were demonstrated once again during the year under review. Major wins were collected from Chinese OEMs in the smartphone business.

Pressure on product prices continue undiminished owing to increasing market saturation and a slower pace of device innovation. This is a short-term challenge but a medium-term opportunity for SFS. By leveraging its competencies in cold forming technology, SFS can encourage the replacement of parts that are currently manufactured using conventional machining processes with parts that are cold formed and, hence, cheaper to fabricate.

Besides the continual advancement of its market position, the Electronics division will focus in 2017 on leveraging the opportunities that cold forming technology offers. It expects to deliver further productivity gains in the coming year thanks to new product launches and comprehensive lean management projects.

Industrial division

Good growth in aerospace business

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The Industrial division achieved solid growth in 2016. Its position in every targeted market segment was either maintained or expanded. Once again, aerospace served as the number one growth driver, thanks in large measure to the production ramp-up of the Airbus A350. SFS has developed fastening solutions for the cabin interior of this innovative aircraft. Production capacity is being steadily expanded to ensure the ongoing successful ramp-up of this project. SFS is also working on attractive new development projects that will further expand its current range of products and services.

Another key growth driver were the activities in the medical device industry. The acquisition of Stamm (see text box on page 22) significantly strengthened SFS Group's position in this market by broadening its customer base and expanding its range of technological competencies. Stamm is not part of the newly created Medical division, but potential synergies are being explored and they will be systematically exploited. The targets set for 2016 with respect to the acquisition process were achieved.

The focus of the Industrial division in the coming financial year will be on the launch of new products. Broadening and deepening its business ties with existing customers and acquiring new customers are also key objectives for 2017.

Medical division

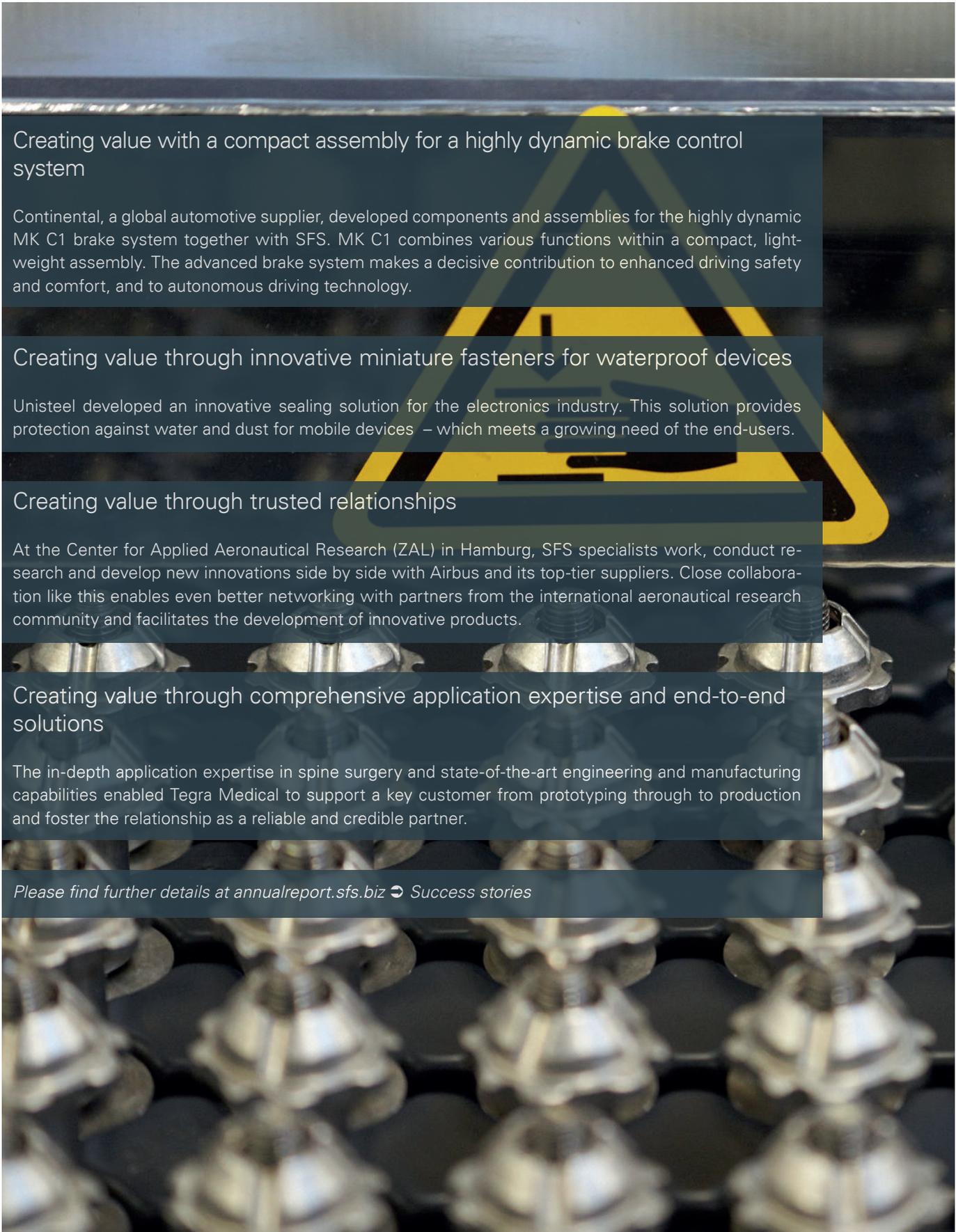
Share-of-wallet successfully increased

–
Sales of Tegra Medical were consolidated for the first time in December 2016. Tegra Medical experienced an attractive growth rate in the past, capitalizing on its close partnerships with leading OEMs in the medical device industry. Tegra Medical collaborates early in the product development cycle to ensure efficient, cost-effective and high quality manufacturing and assembly of the end product at reduced cost and time-to-market for its customers. The Medical division expanded its capabilities in clean-room molding, assembly and packaging, serving as single vendor to its customers and successfully increasing its share-of-wallet.

The ongoing trend of increased outsourcing among its customers is expected to continue in future. The Medical division expects to further deepen relationships with OEMs by broadening its range of capabilities (e.g. advanced automated process cleaning systems), through increased automation and efficiency, and by expanding its facilities at three of its four locations. Moreover, we seek to systematically exchange know-how and exploit synergy potential within the SFS Group.



Thanks to its extensive expertise in micro molding, including pre- and post-production processes, Stamm is a trusted manufacturer of complex assemblies for leading companies in the medical device industry.



Creating value with a compact assembly for a highly dynamic brake control system

Continental, a global automotive supplier, developed components and assemblies for the highly dynamic MK C1 brake system together with SFS. MK C1 combines various functions within a compact, light-weight assembly. The advanced brake system makes a decisive contribution to enhanced driving safety and comfort, and to autonomous driving technology.

Creating value through innovative miniature fasteners for waterproof devices

Unisteel developed an innovative sealing solution for the electronics industry. This solution provides protection against water and dust for mobile devices – which meets a growing need of the end-users.

Creating value through trusted relationships

At the Center for Applied Aeronautical Research (ZAL) in Hamburg, SFS specialists work, conduct research and develop new innovations side by side with Airbus and its top-tier suppliers. Close collaboration like this enables even better networking with partners from the international aeronautical research community and facilitates the development of innovative products.

Creating value through comprehensive application expertise and end-to-end solutions

The in-depth application expertise in spine surgery and state-of-the-art engineering and manufacturing capabilities enabled Tegra Medical to support a key customer from prototyping through to production and foster the relationship as a reliable and credible partner.

Please find further details at annualreport.sfs.biz ➔ Success stories

Fastening Systems

Attractive growth achieved with innovative products

The Fastening Systems segment grew its share of the market amid a positive market environment. Innovative products, economies of scale and far-reaching measures to enhance efficiency led to a significant improvement in profitability.

Key figures Fastening Systems

in CHF million

	2016	± PY	2015	2014
Third party sales	355.6	8.8%	326.9	336.7
Sales growth comparable ¹		7.5%		
Net sales	370.8	8.6%	341.4	353.1
EBITDA	49.3	26.7%	38.9	43.4
As a % of net sales	13.3		11.4	12.3
EBITA	33.5	44.1%	23.2	26.9
As a % of net sales	9.0		6.8	7.6
Net operating assets	309.7	7.1%	289.1	317.6
Investments	27.2	66.9%	16.3	20.8
Employees (FTE)	1,885	7.2%	1,758	1,733
RONOA (%) ²	10.8		8.0	8.5
ROCE (%) ³	16.0		11.1	12.3

¹ at constant exchange rates and on the same scope of consolidation

² return (EBITA) in % of net operating assets

³ return (EBITA) in % of average capital employed without intangible assets

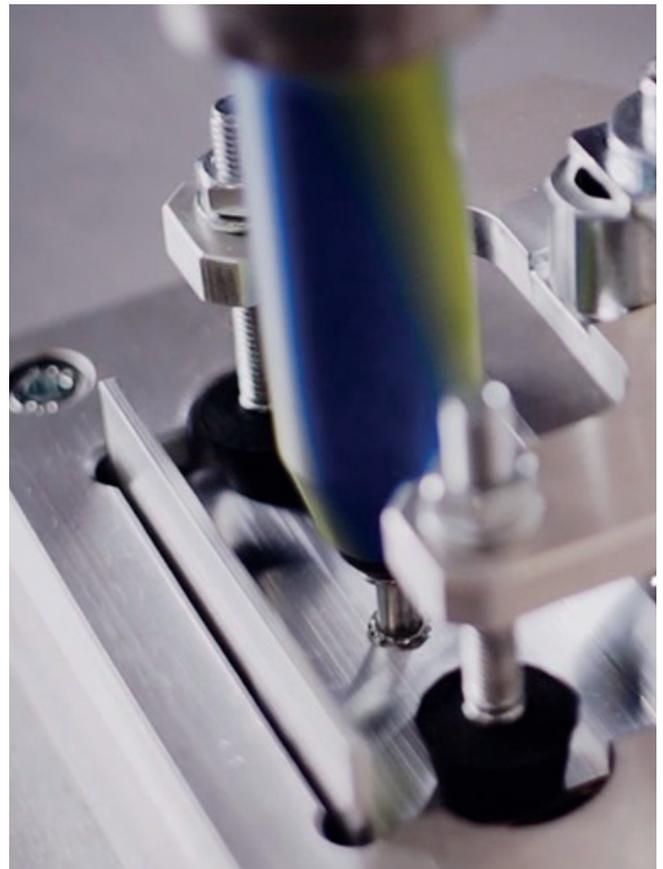
Competitive position further strengthened

The Fastening Systems segment generated sales of CHF 355.6 million in 2016, which represents an increase of 8.8% from the previous financial year. A positive currency translation effect added 0.1% to the reported full-year sales growth. Key markets in North America and Central Europe were strong and business activity picked up in Europe's southern markets. Thanks to its innovative products, the Fastening Systems segment widened its market share and sharpened its competitive edge. The acquisition of Ncase enhanced the range of products and services on offer. Ncase has been consolidated since 1 July 2016. This increase, reduced by the divestment of Unibolt (Denmark) results in an augmentation of 1.2% from the changed scope of consolidation.

Significant increase in profitability

The Fastening Systems segment increased profitability significantly versus the previous financial year and earned an EBITA margin of 9.0%. This corresponds to an increase of 220 basis points and is largely attributable to the following three factors. Firstly, good demand for new and innovative products had a positive impact on the product mix. Secondly, higher rates of capacity utilization at its manufacturing sites yielded economies of scale. Thirdly, numerous optimization projects throughout the supply chain led to efficiency gains.

The legal structures are also being simplified by merging the country organizations of GESIPA® with the corresponding SFS intec subsidiaries. Thanks to all these measures, the segment took a big step towards its mid-term goal of achieving a 10% EBITA margin and demonstrated that it is moving in the right direction.



GESIPA® set new standards in blind rivet setting with its latest innovation, the new FDR® (Flow Drilling Rivet®). It combines the drilling of the rivet hole and the riveting itself in a single step, resulting in significant efficiency gains.

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

Innovative products placed in a positive market environment

As a specialist for building envelope fastening solutions, the Construction division managed to gain more market share and thereby strengthen its competitive position. Trends toward greater safety and environmental sustainability formed the basis for market success with innovative products.

The Construction division profited in general from good market momentum. Demand was high, especially in North America, but Europe, in particular Europe's southern markets of Spain, Portugal, France and Italy, also showed signs of recovery.

Customers displayed strong interest in the "M2M" logistics solutions Fastening Systems offered (originating from SFS's Distribution & Logistics segment). These solutions create added value for the customer by automating the ordering process and increasing parts availability while reducing inventory levels.

Collaboration with HECO (Ludwig Hettich GmbH & Co. KG), a company in which SFS acquired a 30% interest in 2015, has been fruitful. Important synergies that have been realized so far derive from having access to HECO's highly capable sales network, from the coordination of product management activities and from the consolidation of production operations for wood fasteners at HECO sites. HECO is not part of the scope of consolidation.

Further improvement in performance

– Sharpening our production profiles throughout SFS Group is crucial in order to raise the bar on operational performance and efficiency. This goal has implied considerable change for the Construction division as the manufacturing sites in Switzerland are increasingly focused on the needs of the Automotive and Industrial divisions. This focusing process began in 2015 with the successful transfer of the Construction division's finishing operations from Switzerland to the Czech Republic, which made a significant contribution to the segment's improvement in profitability already in 2016. In the next stage scheduled for completion by the middle of 2018, the production of construction industry products will be transferred to non-Swiss SFS sites that offer optimal conditions for these operations.

Expertise in fastening solutions for facades strengthened

– SFS acquired Ncase in July 2016. Ncase has about 20 employees and develops, produces and markets high-quality subframes for rainscreen cladding systems. Its products are marketed under the well-known Nvelope and Kladfix brand names. The Construction division strengthened its competency in rainscreen cladding and broadened its product range with this ideal bolt-on acquisition. Customers can now turn to a single source for a comprehensive fastening solution for exterior walls – subframes, fastening elements and engineering services. SFS's strong international presence creates attractive growth opportunities for Ncase products. SFS and Ncase had already worked together successfully for several years before the transaction.

A priority for the Construction division in 2017 will be the launch of more major product innovations. It is also determined to take advantage of the good market environment to widen its share of market and to rigorously carry out the aforementioned measures for improving its operating performance.



With the acquisition of Ncase, a leading provider of subframes for rainscreen cladding in the UK, the Construction division strengthened its competencies and competitive position in this high end application area.

Riveting division

Solid growth achieved

– Growth in the second half of the year did not quite reach the reported growth rate from the first half due to the divestment of Unibolt, but the good momentum in the relevant core business activities was sustained. The relevant markets targeted by the Riveting division in North America and Europe showed signs of strength. Applications for industrial customers and OEMs in the automotive industry confirmed their role as growth drivers. Besides the convincing new product solutions, the Riveting division's existing product line-up also contributed to the top-line growth. General Motors (GM) honored GESIPA® for the third consecutive year giving it with the "Supplier Quality & Development Excellence Award". The Riveting division's constant pursuit of innovation was also recognized by the European Research Association for Sheet Metal Working (EFB). It presented GESIPA® with an "Innovative Alliance" award, which honors the longstanding and continuous commitment of companies and research institutions to successful research.

Innovation as a growth driver confirmed

– Key market trends are the increasing electrification of assembly lines (replacing pneumatic solutions) and process automation, including process quality monitoring. With its high-performance, battery-powered riveting devices and installation tools that monitor the setting process of each rivet, GESIPA® offers convincing solutions for these trends. GESIPA® also confirmed its leadership in blind rivet setting technology with the launch of its "Flow Drilling Rivet®" technology (see page 29).

Better performance thanks to focusing

– SFS's group-wide efforts to focus on core business activities and, by extension, to sharpen its production site profiles are bringing considerable change to the Riveting division, too. The sites in Mörfelden-Walldorf and Thal (both Germany) are being repositioned in this context. In future, Mörfelden-Walldorf will focus exclusively on the assembly of installation tools; the site in Thal, where capacity will be significantly expanded, will manufacture fasteners. In the US, the plant in Vivian was decommissioned; the riveting operations are now consolidated at the plant in Mocksville.

Unibolt, a subsidiary in Denmark specializing in plough bolts for the agricultural sector, was divested through a management buyout. Its business activities were no longer a strategic market focus.

More projects executed to improve performance

As part of our ongoing efforts to standardize operating processes, the SAP solutions adopted during the year under review in Germany, Spain, the US and France will be rolled out to GESIPA®'s other international sites in 2017. Its legal structures are also being simplified by merging the country organizations with the corresponding SFS intec subsidiaries. This has already been done in Spain, the US and France; additional organizational mergers will follow.

In 2017, the Riveting division will concentrate in particular on capturing additional market potential through the launch of numerous innovative new products. Attention will also be focused on the successful execution of the aforementioned projects to sharpen the division's production profiles.



The start of construction of a new production hall and warehouse in Thal/Thüringen (Germany) marked an important milestone in the "Evotion" project, which was initiated in the year under review. The main objectives are to ready GESIPA® for future challenges and to strengthen and broaden its competitive advantages.



Creating value with comprehensive solutions

With the acquisition of Ncase Limited, a leading supplier of subframes for rainscreen cladding in the UK, SFS strengthened its competencies in this demanding application area. Customers can now turn to a single source for a range of comprehensive exterior wall cladding fastening systems. Simpler, more practical and less costly solutions are the result.

Creating value with efficiency gains

GESIPA® strengthened its leading position in the market for blind rivet solutions with the launch of its “Flow Drilling Rivet®” technology. This patent-protected innovation offers much faster cycle times, which makes the rivet-setting process even more cost-effective.

Please find further details at annualreport.sfs.biz ➔ Success stories

Distribution & Logistics

Important projects won thanks to logistics expertise

The Distribution & Logistics segment boasts extensive logistics competencies and an attractive product portfolio that is marketed under the SFS unimarket brand. It scored some major project wins in 2016 despite the challenging market environment and achieved a substantial increase in profitability.

Key figures Distribution & Logistics

in CHF million

	2016	± PY	2015	2015
Third party sales	312.8	1.1%	309.3	319.1
Sales growth comparable ¹		0.9%		
Net sales	318.6	1.2%	314.8	326.0
EBITDA	33.8	27.6%	26.5	33.7
As a % of net sales	10.6		8.4	10.3
EBITA	27.1	44.4%	18.8	26.0
As a % of net sales	8.5		6.0	8.0
Net operating assets	140.3	-7.6%	151.9	146.6
Investments	3.9	143.8%	1.6	4.0
Employees (FTE)	625	-2.8%	643	626
RONOA (%) ²	19.3		12.3	17.7
ROCE (%) ³	19.0		12.5	18.8

¹ at constant exchange rates and on the same scope of consolidation

² return (EBITA) in % of net operating assets

³ return (EBITA) in % of average capital employed without intangible assets

Positive results in a demanding market environment

Demand from the construction industry has held steady at a high level, but the repercussions of the strong Swiss franc are still affecting demand from industrial sectors. In this challenging market environment, the Distribution & Logistics segment achieved sales of CHF 312.8 million. Compared to the previous year, this represents an increase of CHF 3.5 million or 1.1%. Growth rates in the "tools" product group were particularly attractive. Thanks to the broad product range and the segment's strong competencies in C class logistics ("M2M"), several major new projects were acquired in 2016 and reputable names were added to the customer base. At the same time, customer acceptance of its electronic sales channels rose, leading to further growth in its online sales. SFS customers also

appreciate a combination of electronic and traditional sales channels, as demonstrated by the 27 HandwerkStadt retail stores. The breadth of its distribution channels and product offering clearly differentiates SFS from the competition.

Healthy level of profitability restored

The rapid pass-through of potentially lower prices on the procurement front in the wake of the significant appreciation of the Swiss franc led to a decline in the segment's sales and margins in 2015. It managed to restore its profitability in 2016 and raised the EBITA margin to 8.5%. This corresponds to a significant improvement of 250 basis points from the previous year level. Half of the increase is due to book gains on the disposal of non-core properties. The return on capital surged as well, to about 19%, which underscores the attractiveness of this business segment.

Better access to specialty retailers with Allchemet

SFS greatly increased its market position in Switzerland's hardware wholesale and specialty retail markets through its takeover of Allchemet in the spring of 2015. Allchemet continues to operate independently in these markets. The inclusion of Allchemet's products greatly expanded the product range offered to commercial customers and improved the segment's competitive differentiation. Most of the objectives of the acquisition were subsequently achieved and the integration of Allchemet into SFS Group has proceeded as planned.



Customers turn to Allchemet as a highly competent partner for assembling a range of commercial-grade tools and custom tool boxes.

Distribution & Logistics segment

–
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.

Competitive edge sharpened with M2M

–
Export-oriented manufacturers in Switzerland need efficiency-enhancing solutions to remain competitive. SFS unimarket offers its partners an optimal solution to meet this challenge with its digitalized warehouse management system “M2M by SFS” and allows the transformation towards Industry 4.0. “M2M” enables its customers to minimize the process costs associated with C class inventory management while improving parts availability and reducing inventory levels. The acronym “M2M” stands for “machine to machine” and refers to the automated exchange of information between machines and devices – in the case of “M2M by SFS”, to the flow of information between warehouse infrastructure, mobile devices and ERP systems.

The “M2M” product range comprises a wide range of solutions for the digitalized warehouse management system. All products offer an impressive array of new features, such as mobile device connectivity as well as tracking and delivery status updates.

Integration of third-party suppliers enabled

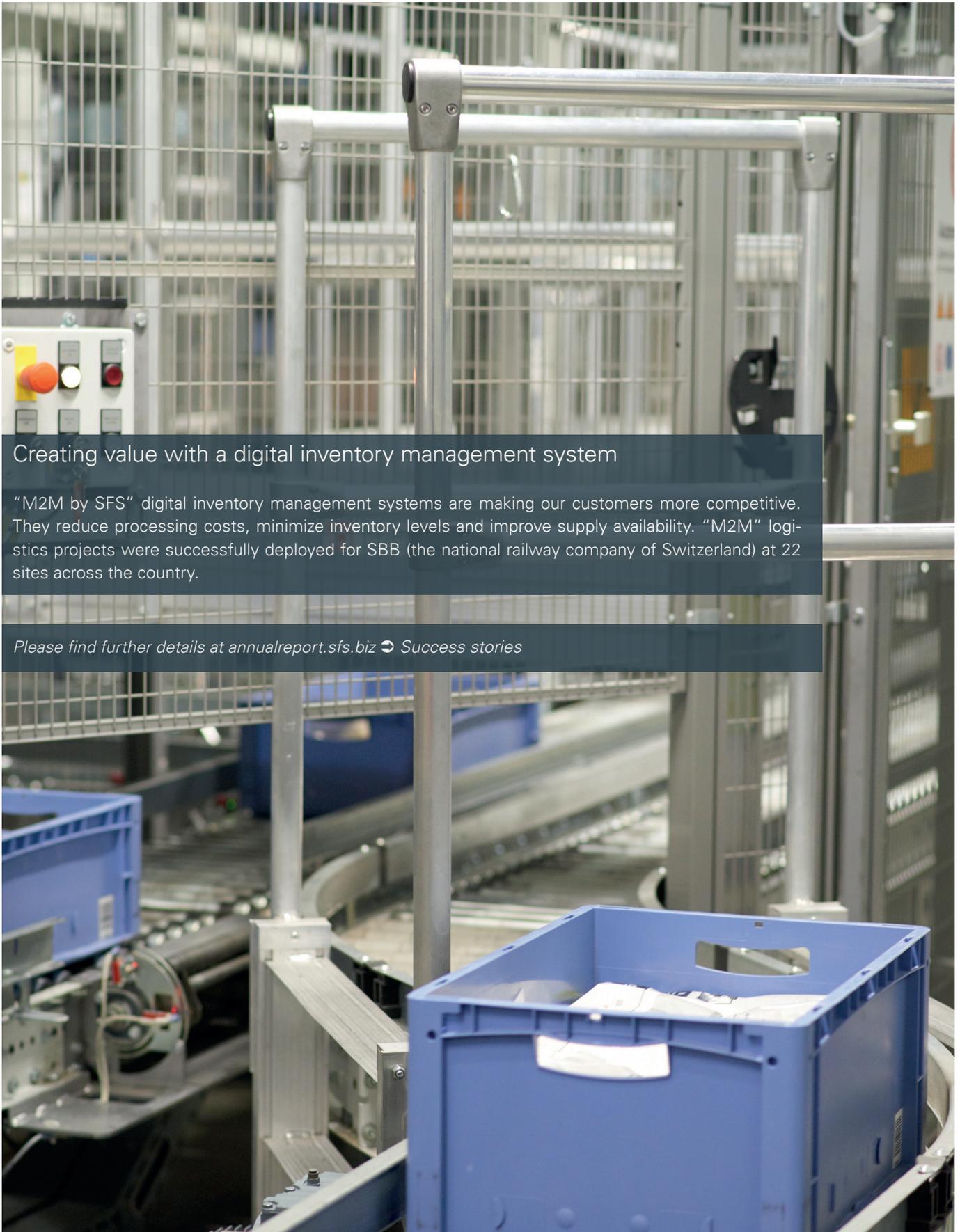
–
The strong competitive standing of the “M2M” products can also be traced to their lower system costs. These solutions are attractive even for customers with small-scale procurement volumes and the associated cost-savings can be quickly realized thanks to the short installation time.

Another strength of the “M2M” system is its scalability. Products that are sourced from other suppliers can be easily integrated into the SFS system and customers can continue to benefit from the advantages that “M2M” offers if sourcing volumes increase significantly, while still working with only one inventory management system. Moreover, by collaborating with capable business partners or networking with SFS sites, internationally active, strategic customers can also profit from the advantages the “M2M” system offers on a global scale.



turnLOG® 2 offers all the advantages of its multi-award-winning predecessor and much more. Mobile device integration functionality offers particularly exciting possibilities.

-



Creating value with a digital inventory management system

“M2M by SFS” digital inventory management systems are making our customers more competitive. They reduce processing costs, minimize inventory levels and improve supply availability. “M2M” logistics projects were successfully deployed for SBB (the national railway company of Switzerland) at 22 sites across the country.

Please find further details at annualreport.sfs.biz ➔ *Success stories*

Sustainability

Key topics identified

—

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

Adoption of GRI G4 Guidelines

—

Sustainability as we understand it comprises both environmental sustainability and social responsibility, and it has been part of our corporate DNA from the very beginning. Our corporate culture and business strategy are governed by a long-term outlook and a holistic, integrative approach that is based on partnership and trust.

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

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

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

Human rights

—

Compliance processes and organization strengthened

—

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

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

UN Global Compact supported by suppliers

—

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

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

Labor

Vocational education programs made even more attractive

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

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

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

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



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

Selected employee key figures of SFS in Switzerland

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

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

Environment

All sites in the Automotive division now ISO 14001 certified

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

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

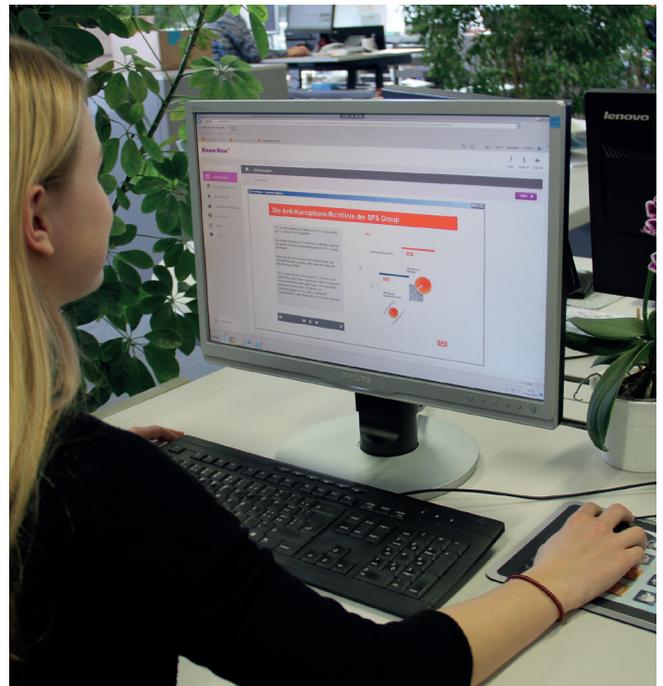
It is also noted that, in keeping with SFS Group's commitment to value creation, numerous innovative products were developed and manufactured in 2016 that created value for our customers and end-users by improving energy efficiency or enhancing comfort and convenience or safety, for example.

Anti-corruption

Anti-corruption policies implemented

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

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



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

Materiality assessment

Intensifying our dialog with stakeholders

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

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

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

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

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

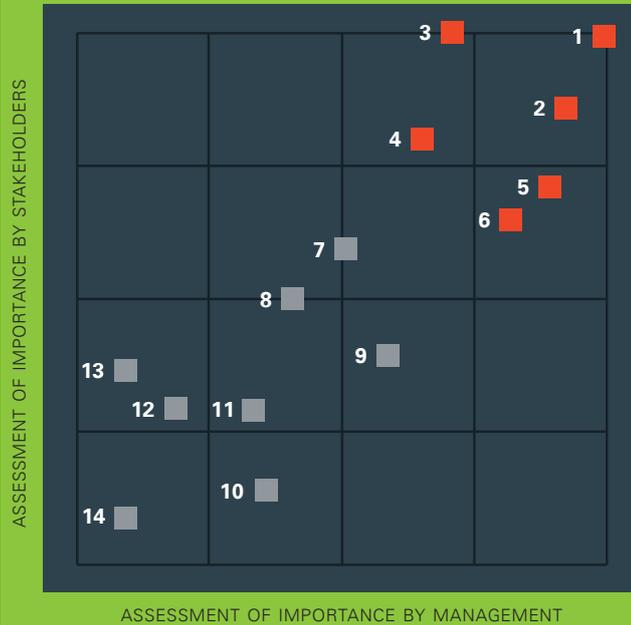
In a first step designed to ensure that the information collected in 2016 would be as relevant as possible, conversations took place with key customers and suppliers of the Engineered Components segment (Automotive, Industrial and Electronics divisions). This segment accounted for more than 50% of sales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

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

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



Materiality matrix of the SFS Group



Most important topics for a sustainable development of SFS

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

Further relevant topics

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

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

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

■ 1 Customer satisfaction

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

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

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

■ 3 Occupational health and safety

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

■ 4 Regular performance and career development reviews

5 Programs for skill management and lifelong learning

6 Training and education

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

Priorities for future reporting defined

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

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



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

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 2016, 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 four 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 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 knowledge transfer, operations, business development) and Services (information technology, finance, controlling, human resources, communication, tax, legal & compliance, corporate development).

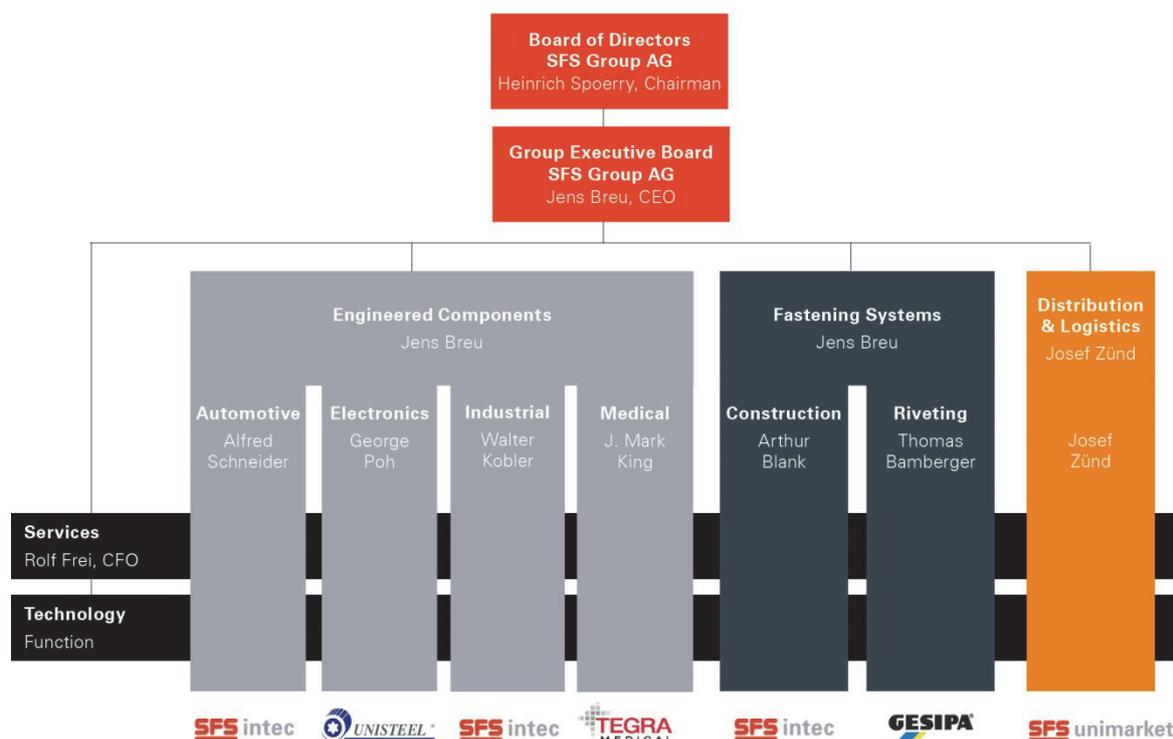
The parent company of SFS Group is SFS Group AG, domiciled in Heerbrugg, municipality of Au/SG, Switzerland. It is incorporated under Swiss law and listed in the main segment of SIX Swiss Exchange AG (security number 23.922.930, ISIN CH 023 922 930 2). Its share capital is CHF 3,750,000 (PY: 3,750,000) and its market capitalization was CHF 3,116.3 million (PY: 2,625.0) as at 31 December 2016.

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. 12 of the Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FINMA Financial Market Infrastructure Ordinance, FMIO-FINMA).

Group structure and Group Executive Board



Share capital and voting rights

	31.12.2016	31.12.2015
Founding families	55.0%	55.1%

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 before 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 (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 web link 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

No cross-shareholdings of capital or voting rights exist with any other company.

2 Capital structure

2.1 Capital

The share capital of SFS Group AG 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

SFS Group AG does not have any conditional or authorized capital.

2.3 Changes in capital

In the reporting year 2016, 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 no participation certificates or 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 holders of shares for their own account in their application for entry in the share register or on 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 they are holding 0.3% or more of the share capital outstanding at that time, and provided that they comply with the disclosure requirement stipulated by the Stock Exchange Act. 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 exercise of 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 linked through capital ownership or voting rights, through common management or in like manner, and individuals, legal entities and partnerships (in particular syndicates) that 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 person concerned must be informed of 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

No convertible bonds are outstanding 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.

Over the last three years, the non-executive members of the Board of Directors have not had any material business relationship with SFS Group.

3.2 Other activities and vested interests

The profiles of the members of the Board of Directors give an overview of 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 that 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 that exceeded in two successive reporting years CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees on 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 attained 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 who 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
- Independent, external member since 2016
- Chief Executive Officer from 1999 to 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, Chairman of the BoD since 2016, member since 2008

Qualifications

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

2 Ruedi Huber

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

Other activities

- 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
- HUWA Finanz- und Beteiligungs AG, Vice Chairman of the BoD since 1997

Qualifications

- SKU Advanced Management Program, Switzerland 2001
- Matura type C in mathematics and natural science 1980

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, designated Chairman of the BoD as of 5 April 2017
- Schaffner Holding AG, Chairman of the BoD since 2017
- 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
- Masters degree in engineering, Swiss Federal Institute of Technology (ETH) Zurich 1987

4 Thomas Oetterli

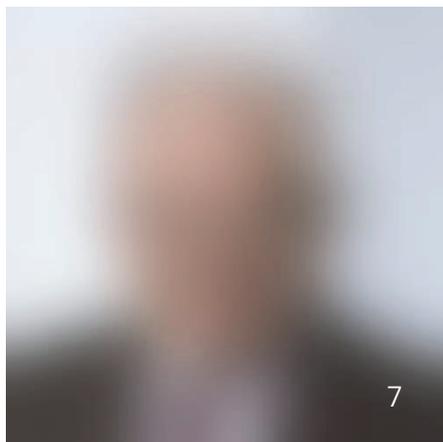
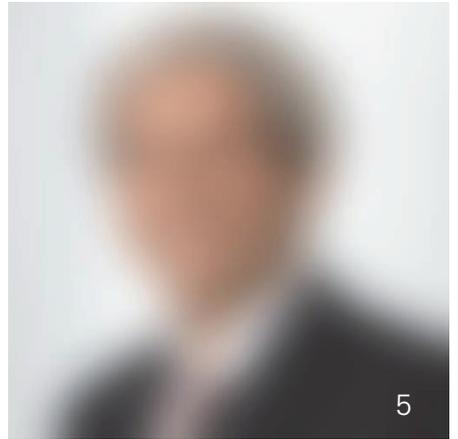
- Independent, external member since 2011
- Chairman of the Audit Committee since 2014
- Swiss citizen, born 1969

Other activities/professional background

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

Qualifications

- Masters degree in economics, University of Zurich 1996



5 Karl Stadler

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

Other activities/professional background

- Suprem SA, co-founder, majority shareholder and Chairman of the BoD since 2006
- icotec ag, founder, majority shareholder and Chairman of the BoD since 2000
- POLYGENA AG, majority shareholder and Chairman of the BoD since 1992
- 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
- Masters degree in economics, University of St. Gallen 1970

6 Jörg Walther

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

Other activities/professional background

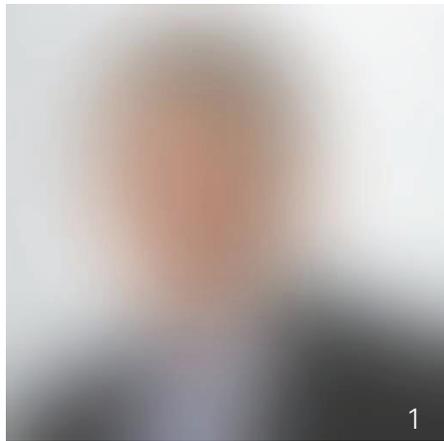
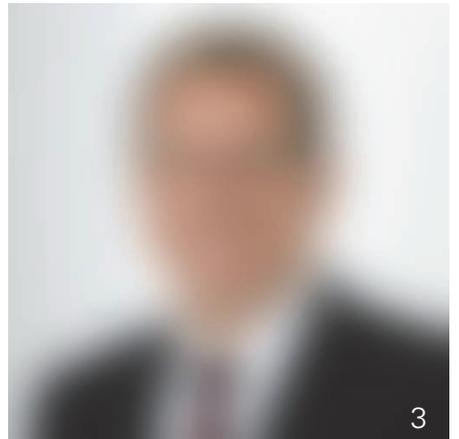
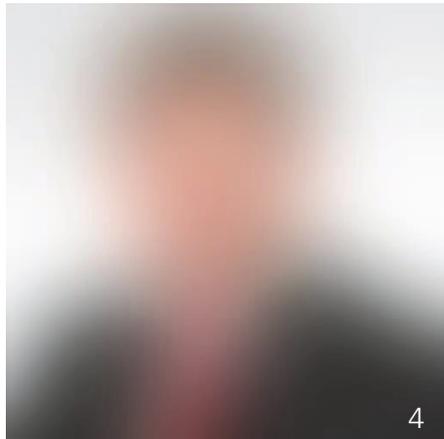
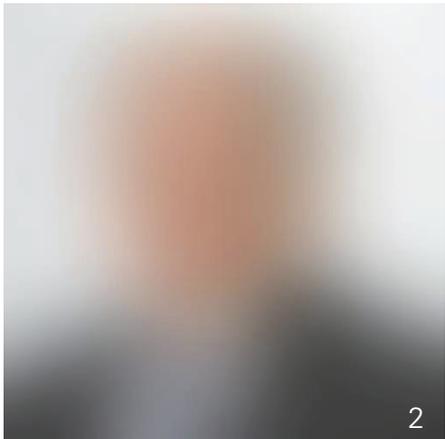
- Partner at Schärer Attorneys at law since 2010
- HUBER + SUHNER AG, member of the BoD since 2016
- Zehnder Group AG, member of the BoD and Chairman of the Audit Committee since 2016
- Sika AG, Chairman of the Special Expert Committee of Sika AG since 2015
- AEW Energie AG, member of the BoD since 2014
- 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 the BoD) since 1999
- Chairman of the BoD until 1999
- Pioneer/co-founder of the SFS Group
- Swiss citizen, born 1927



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 at regular intervals over the first and second half-year. The chairman, or in his absence the Lead Director, or in the absence of both another member of the Board of Directors, chairs the meeting. They convene Board meetings and set meeting agendas. Additionally, they ensure that the meeting agenda and supporting material are sent to Board members no later than 10 days before the meeting date. The Chief Executive Officer, Chief Financial Officer and other members of the Group Executive Board for specific agenda items attend Board meetings with an advisory vote.

Eight ordinary Board meetings took place in the reporting year. Two meetings lasted less than two hours, five meetings lasted for a day and a strategy workshop in Asia lasted for two and a half days. The meetings were held at regular intervals 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 the event of a tie 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 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 if the following items are on the agenda:

- assessment of the Chairman's work;
- 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 Chairman's compensation.

Committees constitution and procedures

The committees 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

The committees support the Board of Directors in its supervisory and control capacities and act mainly as consulting, assessment and preparation bodies. The Nomination and Compensation Committee has final decision competence only concerning the approval of agreements and employment contracts of the Chairman of the Board of Directors, the Chief Executive Officer and other members of the Group Executive Board, and concerning 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 in the previous year, as follows:

Nomination and Compensation Committee

Urs Kaufmann	Chairman
Heinrich Spoerry	Member
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. The Audit Committee typically meets in January, February and September. A record is kept of every meeting and participants and the Board of Directors is provided with the minutes. The chairmen of the committees report on the committees' activities at the next meeting of the Board of Directors and prepare formal requests to the Board of Directors.

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 by request of the Board of Directors. The Nomination and Compensation Committee constitutes itself. The committee prepares all relevant decisions related to the nomination and compensation of the members of the Board of Directors and the Group Executive Board. The Nomination and Compensation Committee has only a consulting and preparation function and no decision-making authority with a 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 two meetings, each lasting about three hours.

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

- requests related to the compensation system of the Group;
- requests related to the setting of compensation-related targets for the Group Executive Board;
- requests related to the approval of the individual compensation of the Chairman and the members of the Board of Directors, the Chief Executive Officer and other members of the Group Executive Board;
- requests related to amendments to the Articles of Association in respect of the compensation system;
- proposals related to 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 members of the Group Executive Board;
- evaluation of proposals of the Chief Executive Officer related to the appointment or removal from office members of the Group Executive Board;
- approval of agreements and employment contracts with the Chairman of the Board of Directors, the Chief Executive Officer and 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. The Audit Committee constitutes itself and supports the Board of Directors in its ultimate supervisory function on the completeness of the financial statements, 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 and 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 three meetings, each 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 on 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 auditor and assessment of its 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 for information from the Group Executive Board and the internal and external auditors on major risks, contingent liabilities and other liabilities of the Group and assessment of the minimization measures taken;
- review and discussion of the annual and interim financial statements and other published financial information;
- discussion of the results of the annual audit with the external auditor and the reports of the internal audit and submissions or proposals to the Board of Directors;
- assessment and assurance 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 that 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 approves in particular the business strategy and organization as proposed by the Group Executive Board, the budgets, medium-term plans and any other business that by its nature or financial importance is considered strategically significant. For any projects that require 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 and the Chief Financial Officer give information on the current state of business, the most important business transactions of the segments, the divisions and the subsidiaries (management units) and about the execution of functions delegated to the Group Executive Board.

The management information system of SFS Group works as follows: the balance sheet, income statement, cash flow statement and key figures of the management units are set up and consolidated on a quarterly, half-yearly and yearly basis, and, compared with the previous years figures and budget. The budget is reviewed based on the quarterly financials in the form of a latest best estimate on 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 about 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 in 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. 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, three (PY: 12) internal audits took place within the group, two of which were performed by the external partner.

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

The Group Executive Board selects and assesses the substantial financial, operational and strategic risks annually 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 and 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 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 the outline and achievement of their business objectives and for the

autonomous management of their units. In connection with the acquisition of Tegra Medical, a new Division Medical within the Segment Engineered Components was set up as at 1 December 2016.

As of 1 January 2016, Jens Breu, former Chief Operation Officer, took over the function of Chief Executive Officer from Heinrich Spoerry.

The Group Executive Board consists of nine (PY: eight) members:

Group Executive Board

1 Jens Breu

- Chief Executive Officer since January 2016
- Head of Segment Engineered Components since 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 – 2015
- Head of Division Industrial 2012 – 2013
- Technical Director SFS intec 2008 – 2013
- Vice President of manufacturing SFS intec Inc. (US) 2000 – 2008
- Tool engineer 1995 – 2000

Qualifications

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

2 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

3 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

4 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 manufacturing management, IMD Lausanne 1994
- Bachelor of Science (B.Sc.), Buchs Institute of Technology (NTB) 1982

5 Walter Kobler

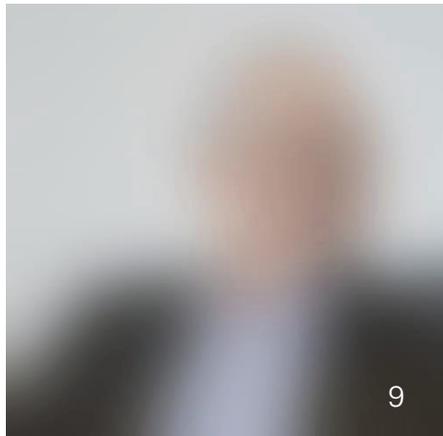
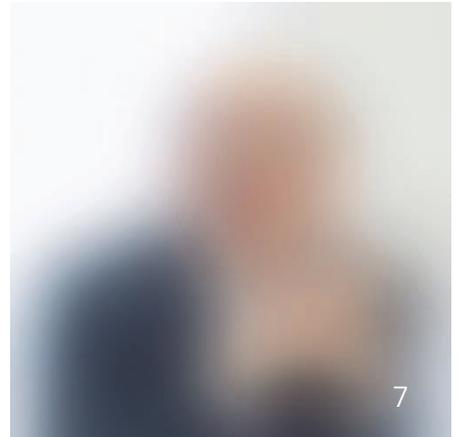
- Head of Division Industrial since 2014
- With SFS since 1987
- Swiss citizen, born 1963

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- General Manager of SFS intec 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



6 J. Mark King

- Head of Division Medical since December 2016
- With SFS (Tegra Medical) since 2012
- US citizen, born 1965

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- President and Chief Executive Officer of Tegra Medical 2014 – 2016
- Chief Operating Officer of Tegra Medical 2012 – 2014

Further functions

- President and Chief Executive Officer of Clinical Innovations 2009 – 2012
- Cardinal Health (formerly Baxter Healthcare/Allegiance Healthcare) 1994 – 2003
- Johnson & Johnson Healthcare 1989 – 1994

Qualifications

- Executive Education, University of Wisconsin and Duke University 2000
- Bachelor of Science, Purdue University School of Technology 1987

7 George Poh

- Head of Division Electronics since 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, UK 1998
- Bachelor of Engineering (B.Eng.), mechanical engineering, University of Sheffield, UK 1988
- Diploma mechanical engineering, Singapore Polytechnic 1983

8 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

9 Josef Zünd

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

Functions within SFS Group

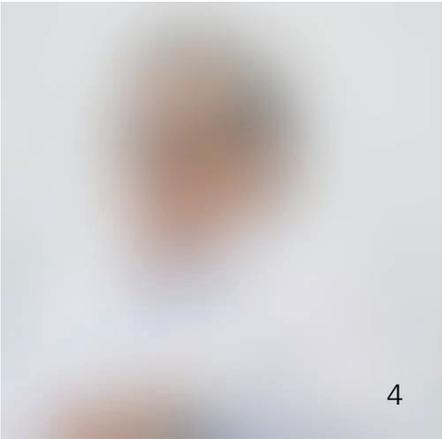
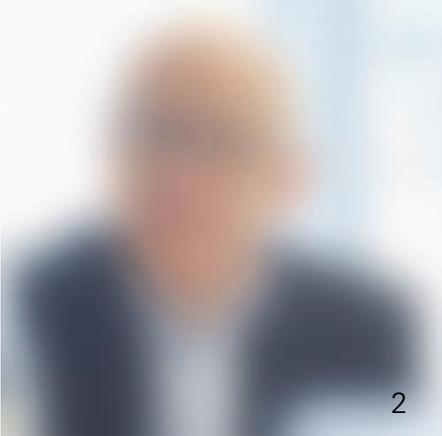
- Member of the BoD of several SFS Group companies
- Chief Executive Officer SFS unimarket 2000 – 2013
- Various sales and management positions SFS unimarket

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



4.2 Other activities and vested interests

The profiles of the members of the Group Executive Board in Section 4.1 give an overview of 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 that 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 that exceeded in two successive reporting years CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees on 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 related to 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. Its duties are governed by the relevant statutory provisions.

The Annual General Meeting of 20 April 2016 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

No regulations deviate 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 5% of the share capital may demand that items are put on the agenda. Such demands must be submitted in writing to the Chairman of the Board of Directors at least 45 days before the date of the Annual General Meeting.

6.6 Registration in the share register

No registrations are made in the share register in the 10 days before and the five days after the date of the Annual General Meeting. The exact dates are set out 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 related to change of control. The blocking period of shares continues to apply in the event of a change of control. There are no clauses related to 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 is six months.

The agreed non-competition 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, Thomas Illi, took office at the Annual General Meeting of 2016.

8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.7 million (PY: 0.7) for the audit of

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: none). For additional services related to tax compliance and other tax consulting services, a total amount of CHF 0.3 million (PY: 0.2) was paid to PricewaterhouseCoopers AG and affiliated companies in 2016.

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 and 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.

For the Half-Year Report 2016, PricewaterhouseCoopers performed an analytical review and confirmed its audit result. 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 makes an annual assessment of the effectiveness, performance, independence and fees paid to the external auditor, and provides the Board of Directors with a proposal for the election of the auditor by the General Meeting.

This evaluation is based on the reports and presentations provided by the external auditor the discussions held in the meetings, its objectivity and its technical and operational competency.

The Audit Committee assesses the sustainability, the scope and the fee 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 on important activities and dates of significant events for shareholders, analysts and 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, an investor day in August/September, roadshows in spring and fall, a volume notification with sales numbers in January and investors days at various banks.

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

http://www.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 simultaneously with publication 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 on 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

Claude Stadler

Rosenbergsaustrasse 8

9435 Heerbrugg, Switzerland

+41 71 727 51 85

corporate.communications@sfs.biz

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 SFSs 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 dated 1 January 2016) 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 – 30 of SFS Group AGs 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 revision of the compensation system and proposal of the amounts of compensation to be paid lies with the Nomination and Compensation Committee (NCC). Its 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. The NCC 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.

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 is 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 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 or during the previous year. Compensation of the members of the Board of Directors is subject to approval by the General Meeting.

The duties of the Chairman of the Board and the CEO were separated in 2016. In 2015, these duties were vested in the same individual.

2.2 Compensation of the Group Executive Board

Members of the Group Executive Board (GEB) 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 GEB is subject to approval by the General Meeting. Members, also receive 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 authority.

The compensation comprises the following components:

- 1) base salary
- 2) variable cash compensation
- 3) variable SFS share compensation

1) base salary

As a general rule, the base salary corresponds to the fixed salary as paid in 13 monthly installments. It is fixed individually and considers the function performed and the responsibility of the particular member of the GEB.

2) variable cash compensation

The compensation system of the GEB is based on the MbO (Management by Objectives) process of the SFS Group. A success and performance-oriented target compensation is agreed in advance for each member of the GEB. This variable cash compensation is limited for the CEO to 40% to 60% and for the GEB to 20% to 40% of the base salary including the variable cash compensation. In the event none of the agreed targets is met, no variable cash compensation will be paid out. Where the agreed targets are significantly outperformed a cap for this salary component is set at 150% of the agreed variable cash amount.

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 2016 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 capi-

tal as a percentage of the net sales or the operating free cash flow 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: in respect of all other GEB 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 GEB 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 Conduct
CEO, CFO	60%	–	20%	20%
Other board members	30%	30%	20%	20%

3) variable SFS share compensation

A second part of the variable compensation is paid out in the form of SFS shares. The Board of Directors determines a certain number 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 30% of the base salary paid to the Chief Executive Officer and to between 10% and 20% of the base salary paid to other members of the GEB. 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 at which this compensation is confirmed. These SFS shares are blocked for a period of at least three years. Shares awarded to a member of the GEB shall remain their 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. 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 or 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 are 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 with a similar geographic footprint and of a similar size is consulted, and the individual responsibilities and experience of the respective persons are also taken into consideration. This data is reviewed on an annual basis.

Responsibility for determination of variable compensation and aggregate compensation is shown 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 following 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 for 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 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 Compensations 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 2016

in CHF except number of shares	Base salary net ¹	Number of SFS shares	Value of SFS shares ²	Stock ownership plan ³	Social-contributions ⁴	Total	Of which in cash
Heinrich Spoerry, Chairman	246,218	1,500	104,625	4,686	76,967	432,496	246,218
Ruedi Huber	77,334	500	34,875	4,686	16,328	133,223	77,334
Urs Kaufmann	77,334	500	34,875	4,686	16,328	133,223	77,334
Thomas Oetterli	77,334	500	34,875	4,686	16,328	133,223	77,334
Karl Stadler	77,158	500	34,875	4,686	11,281	128,000	77,158
Jörg Walther	77,334	500	34,875	4,686	16,328	133,223	77,334
Total Board of Directors	632,712	4,000	279,000	28,116	153,560	1,093,388	632,712

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

² The exchange value of the SFS shares at the time of the allocation of the number of shares on 27 April 2016 was CHF 69.75 per share.

³ Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount.

⁴ Employee and employer contributions to social security schemes and occupational pension plans.

4.2 Compensation of the Board of Directors 2015

in CHF except number of shares	Base salary, net ¹	Number of SFS shares	Value of SFS shares ²	Social-contributions ³	Total	Of which in cash
Heinrich Spoerry, Chairman and CEO	–	–	–	–	–	–
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 base salary was reduced by 10% during the period from 1 May 2015 to 31 December 2015 in response to exchange rate developments.

² The price per SFS share was CHF 65.60.

³ Employee and employer contributions to social security schemes and occupational pension plans.

4.3 Compensation of the Group Executive Board 2016

in CHF except number of shares	Base salary net ¹	Variable cash compensation, net	Number of SFS shares	Value of SFS shares ²	Stock ownership plan ³	Social- contribu- tions ⁴	Total	Of which in cash
Jens Breu, CEO	413,954	237,420	1,750	161,000	4,686	199,499	1,016,559	651,374
Other members of GEB	1,973,915	523,876	5,339	491,188	16,401	804,485	3,809,865	2,497,791
Total GEB	2,387,869	761,296	7,089	652,188	21,087	1,003,984	4,826,424	3,149,165

- ¹ The base salary was reduced by 10% during the period from 1 January 2016 to 30 June 2016 in response to exchange rate developments.
- ² The exchange value of the SFS shares at the time of the allocation at the meeting of the Board of Directors on 20 February 2017 was CHF 92.00 per share.
- ³ Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount.
- ⁴ Employee and employer contributions to social security schemes and occupational pension plans.

4.4 Compensation of the Group Executive Board 2015

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

- ¹ The base salary was reduced by 10% during the period from 1 February 2015 to 31 December 2015 in response to exchange rate developments.
- ² The exchange value of the SFS shares at the time of the allocation on the occasion at the meeting of the Board of Directors on 22 February 2016 was CHF 65.60 per share. At the time of vesting (21 April 2016), the SFS share price was at CHF 71.40 per share.
- ³ Employee and employer contributions to social security schemes and occupational pension plans.

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 the Group Executive Board

5.1 Board of Directors

	Number of shares 31.12.2016	Number of shares 31.12.2015
Heinrich Spoerry, Chairman, non-executive member (PY executive)	194,480	n/a
Ruedi Huber, non-executive member	247,404	244,280
Urs Kaufmann, independent, external member	7,780	5,000
Thomas Oetterli, independent, external member	5,780	3,000
Karl Stadler ¹ , non-executive member	2,522,580	2,519,800
Jörg Walther, independent, external member	2,780	–
Total Board of Directors	2,980,804	2,780,480

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 31.12.2016	Number of shares 31.12.2015
Heinrich Spoerry, Chief Executive Officer until end 2015	n/a	190,280
Thomas Bamberger, Head of Division Riveting	1,870	1,170
Arthur Blank, Head of Division Construction	13,340	12,840
Jens Breu, Chief Executive Officer since 2016	7,580	6,330
Rolf Frei, Chief Financial Officer	62,850	61,530
J. Mark King, Head of Division Medical	0	n/a
Walter Kobler, Head of Division Industrial	20,000	19,500
George Poh, Head of Division Electronics	51,780	50,330
Alfred Schneider, Head of Division Automotive	14,880	14,080
Josef Zünd, Head of Segment Distribution & Logistics	19,290	18,190
Total Group Executive Board	191,590	374,250

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

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Au/SG

We have audited chapter 4 (pages 66 to 67) of the accompanying compensation report dated 9 March 2017 of SFS Group AG for the year ended 31 December 2016.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration 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 remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration 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 remuneration report of SFS Group AG for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Thomas Illi
Audit expert
Auditor in charge

St. Gallen, 9 March 2017



Martin Bettinaglio
Audit expert

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Consolidated balance sheet

Assets in CHF million	Notes	31.12.2016		31.12.2015	
Cash and cash equivalents	7	163.8		157.0	
Trade receivables	8	283.6		243.9	
Other receivables	9	34.4		29.2	
Inventories	10	275.1		258.1	
Current assets		756.9	31.1%	688.2	31.7%
Property, plant and equipment	11	592.1		576.0	
Intangible assets	12	1,028.4		850.2	
Financial assets	13	9.4		10.1	
Investments in related entities	14	26.4		27.1	
Deferred income tax assets	17	23.6		18.1	
Non-current assets		1,679.9	68.9%	1,481.5	68.3%
Assets		2,436.8	100.0%	2,169.7	100.0%

Liabilities and Equity in CHF million	Notes	31.12.2016		31.12.2015	
Trade payables		94.1		77.0	
Current income tax liabilities		25.4		18.4	
Other payables	15	107.6		93.6	
Current borrowings	16	27.8		17.2	
Current liabilities		254.9	10.5%	206.2	9.5%
Non-current borrowings	16	135.5		12.3	
Deferred income tax liabilities	17	104.9		106.2	
Provisions	18	81.2		52.4	
Non-current liabilities		321.6	13.2%	170.9	7.9%
Liabilities		576.5	23.7%	377.1	17.4%
Share capital		3.8		3.8	
Reserves	19	1,846.2		1,780.5	
Equity attributable to SFS		1,850.0	75.9%	1,784.3	82.2%
Non-controlling interests		10.3		8.3	
Total equity		1,860.3	76.3%	1,792.6	82.6%
Liabilities and equity		2,436.8	100.0%	2,169.7	100.0%

The notes on pages 77 to 111 are an integral part of these consolidated financial statements.

Consolidated income statement

in CHF million	Notes	2016		2015	
Net sales	20	1,436.7	100.0%	1,371.8	100.0%
Change in work in progress and finished goods		-4.5		-1.2	
Material expenses		-515.4		-532.2	
Other operating income	21	25.4		16.1	
Contribution margin		942.2	65.6%	854.5	62.3%
Personnel expenses	22	-416.3		-377.5	
Other operating expenses	23	-225.5		-209.6	
Depreciation	11	-83.7		-80.8	
Amortization of intangible assets	12	-61.6		-57.5	
Total operating expenses		-787.1	-54.8%	-725.4	-52.9%
Operating profit (EBIT)		155.1	10.8%	129.1	9.4%
Finance expense	24	-3.0		-3.2	
Finance income	24	-1.0		3.4	
Share of profit /(loss) from related entities	14	-0.3		1.6	
Earnings before tax		150.8		130.9	
Income taxes	25	-28.6		-25.9	
Net income		122.2	8.5%	105.0	7.7%
Attributable to owners of SFS Group AG		122.0		104.1	
Attributable to non-controlling interests		0.2		0.9	
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	26	3.25		2.78	

The notes on pages 77 to 111 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

in CHF million	Notes	2016	2015
Net income		122.2	105.0
Items that will not be reclassified to profit and loss			
Actuarial gains on defined benefit plans	19	-25.6	-24.7
Tax effect defined benefit plans	19	4.3	4.7
Items that may be subsequently reclassified to profit and loss			
Currency translation adjustments (CTA)	19	18.9	-36.3
Cash flow hedges	19	2.9	-2.4
Tax effect on cash flow hedges		-0.5	0.5
Comprehensive income		122.2	46.8
Attributable to owners of SFS Group AG		122.0	46.9
Attributable to non-controlling interests		0.2	-0.1

Consolidated statement of changes in equity

in CHF million	Share capital	Reserves	Attributable to owners of SFS Group	Non-controlling interests	Total
Balance at 1.1.2015	3.8	1,789.9	1,793.7	11.3	1,805.0
Comprehensive income 2015	-	46.9	46.9	-0.1	46.8
Payout for 2014	-	-56.3	-56.3	-2.3	-58.6
Other changes	-	-	-	-0.6	-0.6
Balance at 31.12.2015	3.8	1,780.5	1,784.3	8.3	1,792.6
Comprehensive income 2016	-	122.0	122.0	0.2	122.2
Payout for 2015	-	-56.3	-56.3	-0.6	-56.9
Other changes	-	-	-	2.4	2.4
Balance at 31.12.2016	3.8	1,846.2	1,850.0	10.3	1,860.3

The changes of the Reserves are shown in note 19 in detail.

The notes on pages 77 to 111 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

in CHF million	Notes	2016	2015
Operating profit (EBIT)		155.1	129.1
Depreciation/amortization	11, 12	145.3	138.3
Interest paid	24	-2.9	-3.1
Income tax paid		-33.8	-38.4
Changes in provisions and valuation allowances		-16.5	-8.5
Cash flow before changes in net working capital		247.2	217.4
Changes in trade receivables		-25.0	16.9
Changes in other receivables		-4.6	3.8
Changes in inventories		-1.6	7.8
Changes in current liabilities		25.5	-34.6
Changes in net working capital		-5.7	-6.1
Cash flow from operating activities		241.5	211.3
Purchases of property, plant and equipment	11	-83.5	-88.7
Purchases of software	12	-1.1	-1.7
Proceeds from sale of assets		23.4	2.1
Acquisition of subsidiary, net of cash acquired	30	-249.4	-7.5
Proceeds from sale of investments		0.2	0.3
Proceeds from sale of related entities	14	-	1.6
Acquisition of related entities		-4.4	-10.1
Dividends from related entities	14	0.1	-
Proceeds from interest and securities	24	1.0	0.9
Cash flow from investing activities		-313.7	-103.1
Proceeds from current borrowings		20.8	12.9
Repayment of current borrowings		-12.0	-29.0
Proceeds of non-current borrowings		127.4	-
Change in financial assets		0.3	-9.9
Payout to the shareholders		-56.9	-58.6
Cash flow from financing activities		79.6	-84.6
Translation adjustment on cash and cash equivalents		-0.6	-4.9
Changes in cash and cash equivalents		6.8	18.7
Cash and cash equivalents at beginning of period	7	157.0	138.3
Cash and cash equivalents at end of period	7	163.8	157.0

The notes on pages 77 to 111 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 9 March 2017 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 26 April 2017.

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 IFRSs/IAS adopted

With effect of 1 January 2016, the IAS 1 Disclosure initiative has been adopted without noteworthy effect. The annual improvement cycle 2012-2015 does not have relevant effects on the consolidated financial statements.

2.2.2 Early adoption of IFRSs/IASs

The SFS Group has not early adopted new standards nor interpretations with effective date after 1 January 2017.

2.2.3 New standards not adopted

The new standard IFRS 9 deals with the classification, recognition and measurement of financial instruments. Impairment of financial assets and liabilities including trade receivables as well as lease receivables are assessed based on future expected expenses. The new standard also introduces a new hedge accounting model. No significant effects are expected for the SFS Group.

IFRS 15 revenues from contracts with customers is introducing the principle to recognize revenue when the customer obtain control over the product or service. SFS does

not expect significant effect with exception of additional disclosures.

The standards IFRS 9 and IFRS 15 become effective as of 1 January 2018.

IFRS 16 will require the capitalization of operating leases and subsequently will increase the carrying value of property, plant and equipment. Liabilities will increase in similar amounts. Parts of the currently reported operating lease is then recorded as interest expense. In 2016 operating lease expenses of CHF 9.2 Mio. are recognized. The total assets will increase by approximately CHF 41.8 million representing the future minimum lease payments but reduced by the interest effect. IFRS 16 becomes effective on 1 January 2019.

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 vola-

tility 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 VAT and withholding tax, accrued assets and other receivables. 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 represents the net realizable value principle and any 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
Customers, brands, technology	5 - 10
Building leases	50
Patents	3 - 5
Software	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 12.

3.2 Valuation of Customers, Brands, Technology

The valuation is done during the purchase price allocation. It is based amongst other assumptions on sales growth, the discount rate and the attrition rate for customers.

3.3 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.

3.4 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. Furthermore, corporate revenue and expenses are also included in this column.

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 2016 the column "Other" does not include significant special impacts. In 2015 this column includes a positive special impact of CHF 14.9 million within earnings from revaluation of post-employee benefits according to IAS 19. 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
2016							
Third party sales	20	768.1	355.6	312.8	1,436.5	-	1,436.5
Inter-segment		15.7	14.8	4.2	34.7	-34.7	-
Gross sales		783.8	370.4	317.0	1,471.2	-34.7	1,436.5
Net sales	20	781.5	370.8	318.6	1,470.9	-34.2	1,436.7
EBITDA		218.9	49.3	33.8	302.0	-1.5	300.5
- Depreciation		-53.5	-15.8	-6.7	-76.0	-7.7	-83.7
EBITA		165.4	33.5	27.1	226.0	-9.2	216.8
- Amortization		-51.4	-7.6	-1.0	-60.0	-1.6	-61.6
Operating profit (EBIT)		114.0	25.9	26.1	166.0	-10.9	155.1
Investments		48.2	27.2	3.9	79.3	5.3	84.6
Assets		1,639.9	343.9	163.1	2,146.9	55.9	2,202.8
Liabilities		120.7	34.2	22.8	177.8	21.3	199.0
Net operating assets		1,519.2	309.7	140.3	1,969.2	34.6	2,003.8
Of which net working capital		264.8	115.9	91.8	472.5	-8.0	464.5

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

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

During the reporting period no customer exceeded the reportable threshold of 10% of third party sales (PY: one customer of the segment Engineered Components with sales of CHF 150.9 million or 11.0% respectively).

Third party sales and assets by region

Gross sales to third parties	Notes	2016		2015	
Switzerland		325.3	22.6%	315.3	22.9%
Germany		242.2	16.9%	219.6	16.0%
Other Europe		359.7	25.0%	318.9	23.2%
America		201.1	14.0%	164.8	12.0%
China		184.9	12.9%	232.9	16.9%
Other Asia		118.7	8.3%	120.5	8.7%
Africa, Australia		4.6	0.3%	4.3	0.3%
Total	20	1,436.5	100.0%	1,376.3	100.0%

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

Assets: Property, plant, equipment and intangible assets	Notes	2016		2015	
Switzerland		313.3	19.3%	294.9	20.7%
Europe		207.5	12.8%	193.0	13.5%
America		263.4	16.3%	70.4	4.9%
Asia		836.3	51.6%	867.9	60.9%
Total	11, 12	1,620.5	100.0%	1,426.2	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	2016	2015
Operating profit (EBIT)		155.1	129.1
Financial result	24	-4.0	0.2
Share of profit from related entities	14	-0.3	1.6
Earnings before tax		150.8	130.9
Assets			
Operating assets		2,202.8	1,946.3
+ Cash and cash equivalents	7	163.8	157.0
+ Other receivables	9	34.4	29.2
+ Investments in related entities	14	26.4	27.1
+ Financial assets	13	9.4	10.1
Assets		2,436.8	2,169.7
Liabilities and equity			
Operating liabilities		199.0	183.2
+ Current income tax liabilities		25.4	18.4
+ Other payables	15	107.6	93.6
+ Current borrowings	16	27.8	17.2
+ Non-current borrowings	16	135.5	12.3
+ Provisions	18	81.2	52.4
Liabilities		576.5	377.1
Equity (Net assets)		1,860.3	1,792.6

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 2.7 million (PY: 4.1) lower, and vice versa. Similarly, equity would have been CHF 0.2 million (PY: 1.5) lower.

Had the USD weakened by 5%, net income would have been CHF 2.2 million higher (PY: 0.2 lower) due to hedges and equity would have increased by CHF 5.9 million (PY: 0.6).

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 2016 would increase interest expenses by CHF 0.5 million (PY: 0.1) 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	2016	2015
Cash and cash equivalents	163.8	157.0
Credit lines committed	235.8	230.2
Borrowings	-163.3	-29.5
Obligation of Guarantee against third parties	-10.9	-10.9
Total liquidity available	225.4	346.8
Target liquidity reserve	120.0	115.0

The financial liabilities have the following maturities:

Financial year 2016	Total 31.12.2016	Cash-out-flows			
		in 3 months	in 4 - 12 months	in 13 - 24 months	later
Trade payables	94.1	94.1	-	-	-
Other payables	107.6	97.4	10.2	-	-
Borrowings	163.3	21.4	6.4	7.9	127.6
Interest payments	5.8	0.7	1.6	1.8	1.7
Total	370.8	213.6	18.2	9.7	129.3

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

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	2016	2015
Net financial assets in CHF million	0.5	127.5
Equity ratio (Equity/Total assets) in %	76.3	82.6
Ø Net working capital as a % of net sales	24.7	25.7
Investments in PPE and software as a % of net sales	5.9	6.6
Return (EBITA) on average capital employed in %	27.1	22.2

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 2016 amounted to CHF 797.1 million (PY: 838.6), where as Tegra Medical, which is consolidated since 1 December 2016, is excluded both in capital employed and EBITA.

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	2016	2015
Cash and cash equivalents		163.8	157.0
Derivative financial instruments	2	0.7	0.3
Total		164.5	157.3

Financial assets

Receivables and loans		2016	2015
Trade receivables		283.6	243.9
Loans to third parties and related entities		9.3	10.0
Total		292.9	253.9

Financial liabilities	Fair value level	2016	2015
Trade payables		94.1	77.0
Current borrowings		27.8	17.2
Non-current borrowings		135.5	12.3
Derivative financial instruments	2	0.9	4.3
Total		258.3	110.8

7 Cash and cash equivalents

	2016	2015
Cash at bank and on hand	154.7	153.3
Current bank deposits	9.1	3.7
Total cash and cash equivalents	163.8	157.0

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

8 Trade receivables

	2016	2015
Receivables from third parties	285.4	245.7
Receivables from related entities	0.9	0.6
Valuation allowances	-2.7	-2.4
Total	283.6	243.9

Ageing analysis

Not yet due	229.9	192.3
Overdue 1 to 30 days	42.9	42.1
Overdue 31 to 90 days	12.1	11.6
Overdue more than 91 days	1.4	0.3
Trade receivables - gross	286.3	246.3
Valuation allowances	-2.7	-2.4
Trade receivables - net	283.6	243.9

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

	2016	2015
Fair value level		
VAT and withholding tax	11.7	6.5
Miscellaneous receivables	12.5	14.5
Accrued assets	9.5	7.9
Derivative financial instruments	0.7	0.3
Total	34.4	29.2

10 Inventories

	2016	2015
Raw materials and consumables	33.8	33.8
Work in progress	70.3	61.2
Finished goods	208.1	201.8
Valuation allowances	-37.1	-38.7
Total	275.1	258.1

In 2016 provisions made for obsolete or slow-moving inventories amounting to CHF 1.6 million are reversed to material costs (PY: 2.5 expensed).

11 Property, plant and equipment

	Land	Buildings	Machinery Movables Vehicles	Assets under con- struction	Total
Cost at 1.1.2015	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
Disposal of subsidiaries	-0.1	-7.2	-7.8	-	-15.1
Acquisitions of subsidiaries	1.4	17.2	44.5	0.4	63.5
Additions	0.3	3.2	44.3	35.7	83.5
Disposals	-3.6	-19.8	-47.4	-	-70.8
Transfers	-	4.3	20.7	-27.1	-2.1
Exchange differences	-0.4	-2.4	-1.6	-0.5	-4.9
Cost at 31.12.2016	78.5	528.2	931.2	39.4	1,577.3
Accumulated depreciation at 1.1.2015	-	-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
Disposal of subsidiaries	-	6.9	7.7	-	14.6
Acquisitions of subsidiaries	-	-4.6	-24.9	-	-29.5
Depreciation	-	-23.9	-59.8	-	-83.7
Disposals	-	14.6	43.4	-	58.0
Exchange differences	-	1.2	1.4	-	2.6
Accumulated depreciation at 31.12.2016	-	-323.5	-661.7	-	-985.2
Net book value as at 31.12.2015	80.9	215.2	249.0	30.9	576.0
Net book value as at 31.12.2016	78.5	204.7	269.5	39.4	592.1

In order to collateralize other current and non-current borrowings, assets amounting to CHF 19.2 million (PY: 21.6) have been pledged with CHF 18.8 million (PY: 18.8), of which CHF 13.1 million (PY: 15.1) have been drawn.

The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 29.1 million (PY: 14.8).

12 Intangible assets

	Goodwill	Customers, brands, technology	Building leases, patents	Software	Total
Cost at 1.1.2015	508.2	541.2	2.6	56.7	1,108.7
Acquisition of subsidiaries	-	6.2	-	0.5	6.7
Purchase of intangible assets	-	-	-	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
Acquisition of subsidiaries	92.7	120.2	-	0.6	213.5
Purchase of intangible assets	-	-	-	1.1	1.1
Disposals	-	-2.4	-0.3	-1.5	-4.2
Transfers	-	-	0.1	2.0	2.1
Exchange differences	14.7	14.5	-0.1	-	29.2
Cost at 31.12.2016	609.5	668.8	2.2	60.9	1,341.4
Accumulated amortization at 1.1.2015	-	-148.9	-0.4	-50.7	-200.0
Acquisition of subsidiaries	-	-	-	-0.4	-0.4
Amortisation	-	-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
Acquisition of subsidiaries	-	-	-	-0.5	-0.5
Amortisation	-	-58.9	-	-2.7	-61.6
Disposals	-	2.4	0.3	1.4	4.1
Exchange differences	-	-5.5	0.1	-	-5.4
Accumulated amortization at 31.12.2016	-	-258.8	-0.2	-54.0	-313.0
Net book value as at 31.12.2015	502.1	339.7	1.9	6.5	850.2
Net book value as at 31.12.2016	609.5	410.0	2.0	6.9	1,028.4

The purchased intangible assets in the column "customers, brands, technology" include exclusively assets with finite useful lives.

In 2016 the SFS Group has CHF 1.1 million (PY: 0.1) 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 key factors. The most significant positions are listed below. With the exception of Germany (Fastening Systems) all goodwill numbers relate to the Segment Engineered Components.

2016	USA	Switzerland	Germany	Malaysia / China	India
Carrying amount of goodwill	76.9	11.0	46.3	449.7	11.5
Growth rate after end of planning periode	2.0%	1.0%	2.0%	2.0%	4.0%
Discount rate pre tax	8.3%	6.0%	7.3%	9.2%	15.4%

2015	Germany	Malaysia / China	India
Carrying amount of goodwill	46.6	436.9	11.5
Growth rate after end of planning periode	1.0%	2.0%	4.0%
Discount rate pre tax	9.0%	8.8%	18.5%

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

	2016	2015
Loans to third parties	0.9	1.3
Loans to associated companies	8.4	8.7
Other financial assets	0.1	0.1
Total	9.4	10.1

14 Related entities

Joint Ventures	2016		2015	
	CHF	Share	CHF	Share
Sunil SFS intec Automotive Parts (Tianjin) Co., Ltd, Tianjin	13.4	50%	13.0	50%

Associates				
Ludwig Hettich Holding GmbH & Co. KG, Schramberg	13.0	30%	14.1	30%
Total	26.4		27.1	

Income from the related entities in the reporting period amount to a total of CHF 3.2 million (PY: 3.1).

Movements	2016	2015
Balance as at 1.1.	27.1	13.8
Aquisitions of related entities	-	14.3
Additions	1.5	-
Share of profit	-0.3	-
Disposals	-1.3	-
Exchange differences Balance as at 31.12.	-0.6	-1.0
Balance as at 31.12.	26.4	27.1

Transactions with related entities	2016	2015
Purchase of goods and services	0.3	-
Sales of goods and services	1.3	0.6
Sales of machines and tools	2.1	2.1
Receivables	0.9	0.6
Loans to related entities	8.4	8.7
Bank guaranties for related entities	11.0	10.9

2016

SFS has participated in the capital increase (Additions CHF 1.5 million) of Sunil SFS intec. The purchase price allocation out of the acquisition of HECO Group has been finalized (Disposal CHF 1.3 million).

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 final since the end of 2016.

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	2016	2015
VAT and other liabilities		27.9	25.4
Accrued liabilities		78.8	63.9
Derivative financial instruments	2	0.9	4.3
Total		107.6	93.6

16 Borrowings

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

	2016		2015	
	CHF	Interest	CHF	Interest
Bank borrowings	27.8	3.8%	17.2	6.2%
Current borrowings	27.8	3.8%	17.2	6.2%
Of which CHF	-	-	3.2	2.1%
Of which EUR	1.2	2.7%	0.9	4.4%
Of which USD	19.1	1.7%	5.1	2.6%
Of which TRY	6.6	10.4%	6.5	12.3%
Of which other currencies	0.9	1.5%	1.5	1.5%
Bank borrowings	135.2	1.4%	12.1	2.1%
Other borrowings	0.3	2.0%	0.2	0.5%
Non-current borrowings	135.5	1.4%	12.3	2.0%
Of which CHF	0.3	2.0%	0.1	0.0%
Of which EUR	7.5	1.3%	9.5	1.6%
Of which USD	127.7	1.4%	2.7	3.9%
Total borrowings	163.3	1.8%	29.5	4.4%

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 original term of the syndicated loan in CHF was five years. In 2015 SFS Group has exercised an option to extend the final maturity by one year. The maturity of the syndicated loan is 25 August 2020. The committed and uncollateralized revolving credit line amounts to CHF 150 million and is drawn down with 95% (PY: 0) at the end of 2016. He can be increased by a maximum of additional CHF 150 million, provided the lenders agree tot he 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

Other borrowings

In order to collateralize other current and non-current borrowings assets amounting to CHF 19.2 million (PY: 21.6) have been pledged with CHF 18.8 million (PY: 18.8) of which CHF 13.1 million (PY: 15.1) 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:	2016	2015
Property, plant and equipment	5.8	4.9
Intangible assets	14.5	11.0
Inventories	6.8	2.9
Valuation allowances and provisions	16.5	11.3
Tax loss carry-forwards	1.6	1.2
Offsets	-21.6	-13.2
Total	23.6	18.1

Deferred tax liabilities on:		
Property, plant and equipment	42.9	38.4
Intangible assets	62.6	62.1
Inventories	11.3	10.3
Valuation allowances and provisions	9.7	8.6
Offsets	-21.6	-13.2
Total	104.9	106.2
Net	81.3	88.1

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 2016 the temporary differences on investments in subsidiaries including equity loans amount to CHF 616.1 million (PY: 618.4).

Movement in deferred tax balances	2016	2015
Balance at 1.1.	81.3	100.1
Acquisition of subsidiaries	9.0	1.2
Disposal of subsidiaries	-	0.2
Charged/(credited) to income statement	-12.3	-7.1
Charged/(credited) to other comprehensive income	3.0	-5.2
Exchange differences	0.3	-1.1
Balance at 31.12.	81.3	88.1

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	
	2016	2015	2016	2015
Expiry within 3 years	0.2	0.3	1.0	1.1
Expiry in 4 to 7 years	0.2	0.1	2.2	2.8
Expiry after 7 years	4.9	4.1	6.8	6.6
Total	5.3	4.5	10.0	10.5

The tax rates for the unrecognized tax loss carry-forwards are between 25 and 41%.

18 Provisions

	Swiss pension plan	Other pension plans	Anniversaries, severance payments	Other	Total
Balance at 1.1.2015	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
Acquisition of subsidiaries	2.0	-	-	0.1	2.1
Additions	27.2	-	0.9	0.3	28.4
Used amounts	-	-0.3	-0.4	-	-0.7
Unused amounts reversed	-	-0.3	-	-0.6	-0.9
Exchange differences	-	-	-	-0.1	-0.1
Balance at 31.12.2016	59.2	7.6	10.3	4.1	81.2

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

As of the end of 2016 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 3.2 million (PY: 2.9). For other business risks CHF 0.9 million (PY: 1.5) are deferred.

19 Reserves

The reserves in equity have this breakdown:

	Retained earnings	Exchange differences	Hedging	Pension plans	Total
Balance at 1.1.2015	1,835.8	-24.7	-0.7	-20.5	1,789.9
Net income	104.1	-	-	-	104.1
Payout 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
Net income	122.0	-	-	-	122.0
Payout 2015	-56.3	-	-	-	-56.3
Exchange differences	-	18.9	-	-	18.9
Recognized in other comprehensive income	-	-	-	-21.3	-21.3
Cash flow hedges	-	-	2.4	-	2.4
Balance at 31.12.2016	1,949.3	-41.1	-0.2	-61.8	1,846.2

20 Net sales

	2016	2015
Gross sales	1,436.5	1,376.3
Transportation charged	8.0	7.7
Hedged exchange differences	-1.4	-5.2
Discounts	-6.4	-7.0
Total	1,436.7	1,371.8

Gross sales increased by 4.4% (PY: 0.5 decrease). The growth attributable to changes in the scope of consolidation is 1.5% (PY: 2.1). When comparing on the same scope of consolidation and ignoring foreign currency effects, sales rose by 2.0% (PY: 2.5). The currency translation effect amounts to 0.9% (PY: -5.1).

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

21 Other operating income

	2016	2015
Sales of services	7.8	8.0
Lease income	1.6	1.4
Miscellaneous income	4.3	4.1
Gain on disposals	11.7	2.3
Gain on disposal of net assets	-	0.3
Total	25.4	16.1

During the reporting period CHF 1.6 million (PY: 1.4) 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	2016	2015
No later than 1 year	1.1	1.2
Later than 1 year and no later than 5 years	0.7	1.5
Later than 5 years	0.1	0.1
Total	1.9	2.8

22 Personnel expenses

	2016	2015
Wages and salaries	327.5	310.5
Profit-sharing	7.7	5.5
Social security and pension costs	70.6	50.6
Other employment costs	10.5	10.9
Total	416.3	377.5

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 9.1 million (PY: 8.5) are included in personnel expenses.

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

23 Other operating expenses

	2016	2015
Tools, energy, maintenance	110.5	106.6
Selling and distribution	76.5	68.9
Miscellaneous operating expenses	38.5	34.1
Total	225.5	209.6

"Other operating expenses" include operating lease expenses in the amount of CHF 9.2 million (PY: 7.7).

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

Future aggregate minimum lease payments	2016	2015
No later than 1 year	10.9	7.8
Later than 1 year and no later than 5 years	26.3	17.8
Later than 5 years	4.6	4.6
Total	41.8	30.2

Research and development costs

The total costs for research and development recognized during the reporting period amount to CHF 30.6 million (PY: 30.5). 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

	2016	2015
Interest paid	-2.9	-3.1
Change in accrued interest	-0.1	-0.1
Finance expenses	-3.0	-3.2
Realized gains	1.0	0.9
Exchange differences on financial investments	-2.0	2.5
Finance income	-1.0	3.4
Finance result	-4.0	0.2

25 Income taxes

	2016	2015
Current income tax	40.9	33.0
Deferred income tax	-12.3	-7.1
Income tax expense	28.6	25.9
Reconciliation:		
Earnings before tax	150.8	130.9
Expected tax rate	17.4%	17.4%
Expected income tax	26.2	22.8
Variance in tax rates	6.2	0.7
Items not subject to tax	-1.4	-2.5
Changes in tax loss carry-forwards	-0.1	1.9
Adjustment in respect of prior years and other items	-2.3	3.0
Effective income tax	28.6	25.9
Effective tax rate	19.0%	19.8%

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

	2016	2015
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	122.0	104.1
Earnings per share (in CHF) basic and diluted	3.25	2.78

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 2016 37,500,000 shares at CHF 0.10 are issued and outstanding. There are no dilutive effects.

The payout of CHF 1.75 (PY: 1.50) per registered share, amounting to a total of CHF 65.6 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 2.75% and 7.50% (PY: 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 2016 the SFS pension fund's financial position shows a coverage ratio according to BVG of 116.3% (PY: 115).

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 were 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	2016	2015	2014	2013	2012
Fair value of plan assets	519.2	490.3	478.0	433.8	400.4
Present value of benefit obligations	-578.4	-520.3	-494.4	-430.9	-436.4
Net asset/(obligation) in balance sheet	-59.2	-30.0	-16.4	2.9	-36.0

Movements in the benefit obligations	2016	2015
Present value of benefit obligations at 1.1.	-520.3	-494.4
Changes in group of insured persons	-11.2	-
Amendment conversion rate	-	18.2
Current service cost	-24.9	-25.1
Interest cost	-3.9	-6.2
Experience adjustments	-5.6	1.5
Change in financial assumptions	-25.8	-29.5
Benefits paid	13.3	15.2
Present value of benefit obligations at 31.12.	-578.4	-520.3

Movements in fair value of plan assets	2016	2015
Fair value of plan assets at 1.1.	490.2	478.0
Changes in group of insured persons	9.2	-
Employer's contributions	11.0	10.4
Employee's contributions	11.0	10.4
Interest income	3.7	6.0
Return on plan assets	7.8	1.1
Administration expense	-0.4	-0.4
Benefits paid	-13.3	-15.2
Fair value of plan assets at 31.12.	519.2	490.3

Pension costs	2016	2015
Employer's contributions	-11.0	-10.4
Additional current service cost employer	-3.0	-4.3
Amendment conversion rate	-	18.2
Interest cost net	-0.2	-0.2
Administration expense	-0.4	-0.4
Recognized in the income statement	-14.6	2.9
Return on plan assets	7.8	1.1
Change in financial assumptions	-28.1	-29.5
Experience adjustments	-5.5	1.5
Recognized in other comprehensive income	-25.8	-26.9

The actual return on plan assets for 2016 amounts to CHF 11.5 million (PY: 7.1). The employer contributions for 2017 are estimated to be CHF 11.0 million (PY: 10.5). Der Versichertenkreis hat sich um die Mitarbeitenden der Stamm AG erhöht.

Considering the step-by-step decline of the conversion rate the service costs are reduced in 2015 by CHF 18.2 million as one time effect.

Assumptions/parameters	2016	2015
Discount rate/return on plan assets	0.40%	0.75%
Future salary increases	1.00%	1.00%
Demographic assumptions	BVG 2015 GT	BVG 2010 GT
Average retirement age	64/63	64/63
Duration of benefit obligation	12.5 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 2016:

- a decrease/increase of the discount rate by 25 basis points (PY: 25) increases the pension obligation by CHF 23.8 million (PY: 20.5) and decreases by CHF 22.3 million (PY: 19.2)
- a salary increase/decrease by 50 basis points (PY: 50) increases the pension obligation by CHF 2.9 million (PY: 2.8) and decreases by CHF 2.7 million (PY: 2.7) respectively.

Structure of insured persons

2016	Actives	Retirees	Total
Number	2,170	490	2,660
Present value of benefit obligation	372.2	206.1	578.3

2015

Number	2,129	464	2,593
Present value of benefit obligation	348.1	172.2	520.3

Categories of plan assets	2016	2015
Cash and cash equivalents	37.1	52.7
Bonds listed	141.8	145.2
Shares listed	185.6	156.6
Shares not listed	18.2	18.9
Real estate	135.5	116.3
Other assets	1.0	0.6
Plan assets at 31.12.	519.2	490.3

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 0.1 million (PY: 2.4). 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		
2016							
EUR sale/CHF purchase	58.3	-53.8	-	-	-	0.7	2
USD sale/EUR purchase	-	2.9	-4.0	-	-	-0.9	2
USD sale/MYR purchase	-	-	-1.5	-	6.7	0.0	2
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

29 Related-party transactions

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

Key management compensation	2016	2015
Compensation	5.2	5.5
Pension benefits	0.2	0.2
Discount on share purchases	0.1	0.0
Total	5.5	5.7
Members of key management	15	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:

	2016	2015
Sales of goods and services	3.1	3.2
Purchases of goods and services	1.2	0.8
Receivables	0.3	0.2

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

	2016	thereof Tegra Medical	2015
Acquisition of subsidiaries			
Cash and cash equivalents	10.8	3.9	0.8
Trade receivables	15.3	11.1	1.9
Inventories	14.9	9.2	4.3
Other current assets	1.2	0.8	1.6
Property, plant and equipment	34.0	26.1	0.7
Intangible assets	120.3	86.2	6.2
Goodwill	92.7	76.9	-
Current liabilities	-11.8	-6.0	-1.5
Borrowings	-	-	-3.7
Deferred taxes net	-9.0	-1.6	-1.2
Other provisions	-2.1	-	-0.8
Purchase price	266.3	206.6	8.3
Cash and cash equivalents	-10.8	-3.9	-0.8
Contingent consideration	-6.1	-0.5	-
Consideration in cash flow statement	249.4	202.2	7.5

The contingent consideration of CHF 6.1 million relates to the acquisitions of Stamm AG, Ncase Ltd and Tegra Medical. The payment of this purchase price components depends on the achievement of fixed financial performance indicators. The purchase price allocations are provisional at this date.

2016

As of 11 February 2016 the SFS Group acquired 100% of the Stamm AG domiciled in Hallau, Switzerland. The company Stamm AG achieved in 2015 with 60 employees a turnover of CHF 15 million is part of segment Engineered Components. The purchase price allocation is provisionally. The contingent consideration represents a price component depending on the annual result of 2016 payable in 2017.

On 7 July 2016 SFS Group acquired Ncase Ltd based in Welwyn Garden City, North of London. Ncase Ltd provides the fastening systems and the engineering for ventilated facades. The company employed 22 employees in 2015 and generated a turnover of around CHF 8 million. The purchase price allocation is provisionally. The contingent consideration represents a price component depending on the annual result of 2017 payable in 2017.

On 8 July 2016 SFS Group sold the subsidiary Unibolt A/S, Denmark, to a person close to the Unibolt management team. Unibolt generated sales of nearly CHF 4 million in 2015.

On 11 November 2016 SFS signed the securities purchase agreement for Tegra Medical in Franklin, USA. Tegra Medical develops and manufactures primarily disposable products made of metal and plastic for global, leading medical device OEMs. It employs around 700 people and generated sales of approx. USD 80 million in its 2015 fiscal year. The closing of the transaction took place on 30 November 2016. Since then Tegra Medical is managed and known as the Division Medical. The purchase price allocation is provisionally. The contingent consideration represents a price component depending on the annual result of 2016 payable in 2017. The local management holds a non-controlling interest in Tegra Medical of 1.9%.

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.

31 Events after the reporting period

SFS is not aware of 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 2016.

32 Group companies

Country	Legal seat	Name of the company	Participation rate in %		Share capital in local currency		Activities
			2016	2015		(,000)	
Austria	Korneuburg	SFS intec GmbH	100.0	100.0	EUR	146	V, P
	Wien	GESIPA Blindnietvertriebs GmbH	100.0	100.0	EUR	365	V
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	V, P
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
China	Guangzhou	Guangzhou SFS intec Fastening & Precision Parts Co., Ltd	-	100.0	-	-	-
	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	Unisteel Precision (Suzhou) Co., Ltd	100.0	100.0	CNY	89,095	V, P
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	98.1	-	USD	0	V, P
Denmark	Vejle	Unibolt A/S	-	100.0	-	-	-
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	-	-	-
		SFS Group SAS	100.0	100.0	EUR	3,078	V, P
		SFS unimarket SAS	-	100.0	-	-	-
Germany	Mörfelden-Walldorf	GESIPA Blindniettechnik GmbH	100.0	100.0	EUR	5,000	V, P
	Oberursel	SFS intec GmbH	100.0	100.0	EUR	5,000	V, P
		SFS intec Beteiligungen GmbH & Co. KG	99.0	99.0	EUR	4,000	H
	Olpe	W+O Niettechnik GmbH	-	100.0	-	-	-
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
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 S.r.l. unipersonale	100.0	100.0	EUR	10,000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P
	Labuan	Unisteel Technology International Ltd	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
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
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
Spain	Arrigorriaga	SFS Group Fastening Technology (Iberica), S.A.U.	100.0	100.0	EUR	975	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
			2016	2015		(,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	100.0	CHF	340	V
	Hallau	Stamm AG	100.0	-	CHF	500	V, P
Taiwan	Kaohsiung	Unisteel Technology Limited Taiwan Branch	100.0	-	NT\$	n/a	DL
Turkey	Torbali-Izmir	SFS intec Bağlantı Teknolojileri Sanayi ve Ticaret A.Ş.	91.4	91.4	TRY	3,000	V, P
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
		Ncase Ltd	100.0	-	GBP	0	H
		Ekoklad Ltd	100.0	-	GBP	0	V
		Ladfix Ltd	100.0	-	GBP	0	V
	Nvelope Rainscreen Systems Ltd	100.0	-	GBP	0	V	
USA	Mocksville, NC	GESIPA Fasteners USA, Inc.	-	100.0	-	-	-
	Wyomissing, PA	SFS Group USA, Inc.	100.0	100.0	USD	34,000	V, P
		SFS Aquisition Holding, Inc.	98.1	-	USD	140,000	H
	Franklin, MA	Tegra-CTW Holdings, LLC	98.1	-	USD	41,473	H
		Tegra Medical, LLC	98.1	-	USD	23,465	V, P
		Tegra Medical CR, LLC	98.1	-	USD	0	H
	Hernando, MS	Tegra Medical (MS), LLC	98.1	-	USD	17,275	V, P
Seattle, WA	Nvelope Rainscreen Systems Corporation	100.0	-	USD	0	V	

DL = Services

P = Production

V = Sales

H = Holding

2016

Business activities of SFS unimarket SAS are processed from Switzerland. This entity was liquidated in 2016. W+O Niettechnik GmbH in Germany was merged into GESIPA Blindniettechnik GmbH as of 1 January 2016. In the course to further streamline the legal structure of the SFS Group, the national entities of GESIPA and SFS intec in the USA and in France have been merged. The merged company does business under the name of SFS Group. It is planned to do additional mergers in 2017.

2015

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.

33 Exchange rates

		Balance sheet		Income statement	
		2016	2015	2016	2015
China	CNY 100	14.670	15.250	14.784	15.317
Costa Rica	CRC 100	0.185	-	0.180	-
Denmark	DKK 100	14.445	14.500	14.705	14.344
EU	EUR 1	1.074	1.082	1.090	1.068
United Kingdom	GBP 1	1.254	1.467	1.325	1.471
India	INR 100	1.500	1.500	1.467	1.495
Canada	CAD 1	0.757	0.712	0.744	0.753
Malaysia	MYR 100	22.710	23.050	22.866	24.460
Norway	NOK 100	11.819	11.240	11.758	11.957
Poland	PLN 100	24.350	25.420	24.992	25.538
Sweden	SEK 100	11.242	11.790	11.529	11.415
Singapore	SGD 1	0.705	0.701	0.714	0.701
Taiwan	TWD 100	3.150	-	3.070	-
Czech Republic	CZK 100	3.974	4.000	4.033	3.912
Turkey	TRY 100	28.968	33.850	32.694	34.806
Hungary	HUF 100	0.347	0.346	0.350	0.345
USA	USD 1	1.019	0.990	0.986	0.963



Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Au/SG

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SFS Group AG and its subsidiaries (the Group), which comprise the Consolidated balance sheet as at 31 December 2016 and the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated cash flow statement for the year then ended, and Notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 71 to 111) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 7,540,000

We concluded full scope audit work at eleven group companies in seven countries. Additionally, we concluded reviews at a further four group companies in four countries.

Our audit scope addressed 84% of the revenue and 85% of the assets of the Group.

As key audit matters, the following areas of focus were identified:

- Impairment testing of goodwill
- Assessment of intangible assets from the acquisition of the Tegra-CTW Group (Tegra)

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We tailored the scope of our audit so that either a full scope audit or a review was performed at all significant subsidiaries. For the remaining companies, we referred to the results of the completed statutory audits and analyses of significant changes. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether adequate sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. This enabled us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 7,540,000
<i>How we determined it</i>	5% of profit before tax
<i>Rationale for the materiality benchmark applied</i>	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 300,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of goodwill

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Intangible assets include goodwill in the amount of CHF 609.5 million as of 31 December 2016. This represents about 25% of total assets. We consider the impairment testing of goodwill to be a key audit matter. Goodwill must be tested annually for impairment. This involves significant scope for judgement, in particular with regard to:</p> <ul style="list-style-type: none">• Assumptions concerning expected revenue growth during the forecast period.• Assumptions used in deriving the weighted cost of capital (discount rate). <p>We identified the following risks in relation to goodwill: Goodwill could be impaired if Management's assumptions concerning expected revenue and its assumptions used to derive the discount rate were too optimistic.</p> <p>There is a defined goodwill impairment testing process in place. Management performs the impairment tests and submits them to the Audit Committee for approval.</p> <p>Management estimates the revenues for the forecast period on the basis of historical experience and expectations for market growth. The budget approved by the Board of Directors and the medium-term plan form the basis for this. The weighted cost of capital is derived from observable market data inputs and specific factors pertaining to the individual companies.</p> <p>Critical assumptions used by Management for the impairment testing of goodwill are described in note 12 to the consolidated financial statements.</p>	<p>We focussed our audit work on the forecasted revenues and the weighted cost of capital applied. We adopted the following approach:</p> <ul style="list-style-type: none">• We compared the business results, including the revenues for the year under review, with the results of the forecasts made in the previous year. This enabled us to identify any assumptions that in retrospect appeared too optimistic.• We reconciled Management's assumptions of revenue growth to the forecasts in the budget approved by the Board of Directors and the medium-term plan.• We compared the assumptions for the weighted cost of capital with independent market data, where possible. We checked the other company-specific assumptions by comparing them with those of analogous firms, taking into account any country-specific particularities.• Further, we examined Management's sensitivity analyses for the key assumptions. These analyses helped us to assess better the risk of the impairment of goodwill as a whole. <p>The results of our audit support the assumptions applied by Management and the forecast figures used in the impairment testing of goodwill as of 31 December 2016.</p>

Assessment of intangible assets from the acquisition of the Tegra-CTW Group (Tegra)

Key audit matter

As part of the provisional allocation of the purchase price for the acquisition of Tegra as of 30 November 2016 (closing date), intangible assets (customers, brands and technology) were identified and valued in the amount of CHF 86.2 million.

We consider the assessment of the intangible assets (customers, brands and technology) included in the purchase price allocation to be a key audit matter. Their valuation involves significant scope for judgement:

- Assumptions concerning the expected revenue growth during the forecast period.
- Assumptions used in deriving the weighted cost of capital (discount rate).
- Assumptions concerning the customer turnover rate.
- Assumptions concerning royalties and technology.

We identified the following risks in relation to the valuation of the intangible assets (customers, brands and technology): The assumptions chosen by Management could be unrealistic and the intangible assets (customers, brands and technology) could be over-/undervalued. Consequently, the goodwill resulting from the acquisition could be too low or too high.

There is a defined process in place for the valuation of intangible assets as part of a purchase price allocation. Management performs the valuation and submits it to the Audit Committee for approval.

Management estimates the revenues for the forecast period based on historical experience and expectations for market growth. The weighted cost of capital is derived from observable market data inputs and company-specific factors. Management's expectations concerning the customer turnover rate and royalties are based on historical experience and external benchmarks.

For detailed information on intangible assets from the provisional purchase price allocation, please refer to note 30.

How our audit addressed the key audit matter

We focussed our audit work on the forecasted revenues, the weighted cost of capital and the assumptions concerning the customer turnover rate and royalties. We adopted the following approach:

- We compared the business results, including the revenues for the year under review and the prior year, with the forecasts made by Management. This enabled us to identify any assumptions that appeared too optimistic.
- We reconciled Management's assumptions of revenue growth to the provisional purchase price allocation approved by the Audit Committee.
- We compared the assumptions for the weighted cost of capital with independent market data, where possible. We checked the other company-specific assumptions by comparing them with those of analogous firms, taking into account any country-specific particularities.
- We compared Management's assumptions concerning the customer turnover rate, royalties and technology with our own historical experience of similar industries. This enabled us to identify unrealistic assumptions, which would have led to an over-/ undervaluation of customers, brands and technology.

The results of our audit corroborate the assumptions applied by Management and the forecast figures used in the valuation of intangible assets (customers, brands and technology) as part of the purchase price allocation.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the compensation report of SFS Group AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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



Thomas Illi
Audit expert
Auditor in charge



Martin Bettinaglio
Audit expert

St. Gallen, 9 March 2017

Financial statements of SFS Group AG

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Balance sheet

Assets in CHF million	31.12.2016	31.12.2015
Cash and cash equivalents	14.6	19.3
Other current receivables from Group companies	49.5	52.5
Current assets	64.1	71.8
Financial assets	0.1	0.1
Financial assets from Group companies	738.8	696.8
Shareholdings	90.8	90.8
Non-current assets	829.7	787.7
Assets	893.8	859.5

Liabilities and equity in CHF million

Interest-bearing borrowings from Group companies	22.6	21.6
Deferred income and accrued expenses	0.7	0.7
Current liabilities	23.3	22.3
Interest-bearing borrowings from Group companies	33.6	14.2
Non-current liabilities	33.6	14.2
Share capital	3.8	3.8
Statutory capital reserves	210.6	266.9
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	345.5	275.3
Total equity	836.9	823.0
Liabilities and equity	893.8	859.5

Income statement

Income in CHF million	2016	2015
Investment income	66.0	63.0
Interest income	5.4	5.7
Total income	71.4	68.7
Expenses in CHF million		
Interest expense	-0.4	-0.5
Currency loss financial assets (net)	0.0	-0.3
Administration expenses	-0.4	-0.4
Total expenses	-0.8	-1.2
Net income before taxes	70.6	67.5
Direct taxes	-0.4	-0.4
Net income	70.2	67.1

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:

	2016		2015	
	Share capital	Participation rate ¹	Share capital	Participation rate ¹
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.

¹ each share represents one voting right

4 Share capital

The share capital is divided into 37,500,000 registered shares each with a par value of CHF 0.10. 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	31.12.2016	31.12.2015
Founding families	55.0%	55.1%

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 31.12.2016	Number of shares 31.12.2015
Board of Directors		
Heinrich Spoerry, Chairman, non-executive member (PY: executive)	194,480	n/a
Ruedi Huber, non-executive member	247,404	245,960
Urs Kaufmann, independent, external member	7,780	6,680
Thomas Oetterli, independent, external member	5,780	4,680
Karl Stadler, non-executive member	2,522,580	2,521,480
Jörg Walther, independent, external member	2780	1,680
Total	2,980,804	2,780,480

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 31.12.2016	Number of shares 31.12.2015
Group Executive Board		
Heinrich Spoerry, Chief Executive Officer until 31.12.2015	n/a	190,280
Thomas Bamberger, Head of Division Riveting	1,870	1,170
Arthur Blank, Head of Division Construction	13,340	12,840
Jens Breu, Chief Operating Officer since 1.01.2016	7,580	6,330
Rolf Frei, Chief Financial Officer	62,850	61,530
J. Mark King, Leiter Division Medical	0	n/a
Walter Kobler, Head of Division Industrial	20,000	19,500
George Poh, Head of Division Electronics	51,780	50,330
Alfred Schneider, Head of Division Automotive	14,880	14,080
Josef Zünd, Head of Segment Distribution & Logistics	19,290	18,190
Total	191,590	374,250

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

7 Statutory capital reserves

The disclosed statutory capital reserves amount to CHF 210,674,250 (PY: 266,924,250) 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. 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	31.12.2016	31.12.2015
Warranty obligations to Group companies	214.7	74.1
Warranty obligations to third parties	10.9	10.9
Of which used	168.5	21.2

Proposed appropriation of retained earnings and statutory capital reserves

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of shareholders to carry forward the available earnings into retained earnings.

Retained earnings in CHF million	31.12.2016	31.12.2015
Profit carry-forward	275.3	208.2
Net income	70.2	67.1
Earnings available for distribution	345.5	275.3
Carry forward to retained earnings	345.5	275.3

Proposed appropriation of statutory capital reserves

The Board of Directors proposes to the Annual General Meeting to approve the payment from statutory capital reserves of CHF 1.75 (PY: 1.50) per registered share with a nominal of CHF 0.10 per share.

Statutory capital reserves in CHF million	31.12.2016	31.12.2015
Carry forward	210.6	266.9
Payout from statutory capital reserves	-65.6	-56.3
Carry forward to statutory capital reserves	145.0	210.6

Report of the statutory auditor to the General Meeting of SFS Group AG Heerbrugg, municipality of Au/SG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the SFS Group AG, which comprise the balance sheet as at 31 December 2015, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 119 to 124) as at 31 December 2016 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<i>Overall materiality</i>	CHF 4,185,000
<i>How we determined it</i>	0.5% of total equity
<i>Rationale for the materiality benchmark applied</i>	We chose total equity as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 300,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

We have no key audit matters to report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTSuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of retained earnings and of the statutory capital reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Thomas Illi
Audit expert
Auditor in charge



Martin Bettinaglio
Audit expert

Zurich, 9 March 2017

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.

	31.12.2016	31.12.2015	31.12.2014
Number of registered shares	37,500,000	37,500,000	37,500,000
Number of shares ranking for dividend	37,500,000	37,500,000	37,500,000
Weighted average number of shares	37,500,000	37,500,000	35,814,167
Number of shareholders	6,641	6,941	6,778
Stock exchange quotation (in CHF)			
Year high	83.15	79.00	79.30
Year low	60.45	56.90	62.50
Year-end price	83.10	70.00	79.10
Share key data			
Earnings per share in CHF	3.25	2.78	3.07
Cash earnings per share in CHF	4.59	4.03	4.32
Distribution per share in CHF	1.75	1.50	1.50
Payout ratio in % of consolidated net income	53.7	53.6	51.0
Price/earnings ratio (year-end price)	25.6	25.2	25.8
Cash price/earnings ratio (year-end price)	18.1	17.4	18.3
Market capitalization			
In CHF million (year-end price x number of shares ranking for dividend)	3,116.3	2,625.0	2,966.3
As a % of net sales	216.9	191.4	214.7
As a % of equity	167.5	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 172.1 million (PY: 151.1).

Agenda

Friday, 10 March 2017	Publication results business year 2016
Wednesday, 26 April 2017	24th Annual General Meeting of SFS Group AG
Friday, 21 July 2017	Publication half year results 2017

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 2016

The annual report is available in German and English. The German language version of the full annual report is the only legally binding version and 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.

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SFS Group AG

Rosenbergsaustasse 8 | 9435 Heerbrugg | Switzerland
T +41 71 727 51 51 | F +41 71 727 51 03
corporate.communications@sfs.biz | www.sfs.biz