



Creating value

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Annual report 2014



FINANCIAL OVERVIEW

INCOME STATEMENT in CHF million	2014	2013 adjusted ¹	2013	2012	2011	2010
Gross sales	1,383.0		1,330.6	1,193.3	1,068.1	1,092.9
Change to previous year (%)						
At actual exchange rates	3.9		11.5	11.7	-2.3	6.4
At constant exchange rates	4.8		11.1	12.5	5.5	11.6
EBITDA	271.4	251.5	269.8	207.8	186.5	208.3
As a % of operating revenue	19.5	19.0	20.3	17.5	17.3	19.1
EBITA	195.4	177.1	195.4	140.7	123.7	139.8
As a % of operating revenue	14.1	13.3	14.7	11.9	11.5	12.8
Operating profit (EBIT)	141.5	124.0	142.3	110.7	111.9	125.8
As a % of operating revenue	10.2	9.3	10.7	9.3	10.4	11.5
Net income	110.2		86.5	73.5	82.9	97.8
As a % of operating revenue	7.9		6.5	6.2	7.7	8.9
Cash net income ²	154.6		128.2	96.6	92.1	109.3
As a % of operating revenue	11.1		9.7	8.1	8.5	9.1

BALANCE SHEET

in CHF million

Assets	2,246.1		2,133.0	2,298.3	1,525.5	1,516.7
Net operating assets (NOA)	1,822.2		1,664.2	1,766.1	905.4	950.8
Net cash/(debt)	87.7		-248.5	-424.2	333.0	279.5
Equity	1,805.0		1,336.4	1,256.2	1,167.3	1,154.6
As a % of assets	80.4		62.7	54.7	76.5	76.1

CASH FLOW STATEMENT

in CHF million

Cash flow from operating activities	199.8		216.0	132.1	146.9	162.1
Purchase of property, plant, equipment and software	-97.6		-76.6	-67.7	-56.7	-36.8
Proceeds from sale of assets	2.7		18.0	13.2	1.7	7.0
Acquisitions of subsidiaries, net of cash	-37.9		-10.6	-706.8	-2.8	-2.1
Proceeds from associates (net)	0.2		32.9	-26.2	4.3	0.3

EMPLOYEES

Headcount	8,293		7,110	7,125	4,224	4,147
Full-time equivalents (FTE)	8,688		7,000	7,000	4,117	4,009

FINANCIAL KEY RATIOS

Return on equity (%) ³	8.2		6.9	6.3	7.2	8.7
RONOA (%) ⁴	10.7	10.6	11.7	10.2	13.7	14.7

SHARE KEY RATIOS

Earnings per share ⁵ in CHF	3.07		2.67	2.29	2.58	3.04
Dividend per share in CHF	1.50 ⁶		1.00	0.63	0.70	0.90
Dividend payment in CHF million	56.3		32.4	20.4	22.4	29.0
Payout ratio (%)	51.0		37.5	27.8	27.0	29.7

¹ adjusted for book gains on the disposal of non-core assets in the amount of CHF 18.3 million | ² net income before amortization of intangible assets net of deferred taxes | ³ net income as a % of equity as of beginning of the year | ⁴ return on net operating assets: EBITA in % of net operating assets | ⁵ share key ratios adjusted to the new nominal value of CHF 0.10 | ⁶ proposed dividend to the Annual General Meeting of shareholders of SFS Group AG on 7 May 2015

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Knowledge is a corporate asset.

At SFS, we consider knowledge to be a key factor of our success. It is an intangible asset that boosts our market value and plays a vital role in the value we offer. Our corporate culture is conducive to knowledge. Knowledge is acquired, fostered and shared at every company location. At SFS, knowledge isn't power; it's a shared asset.

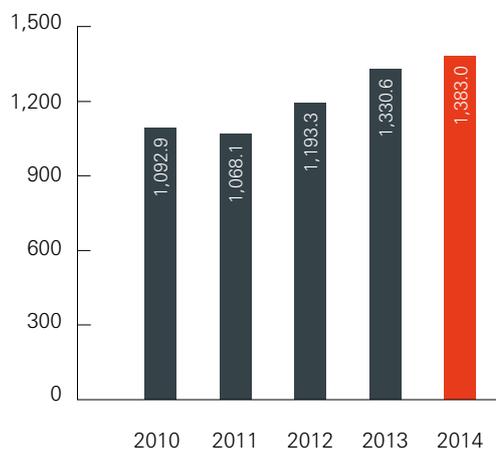


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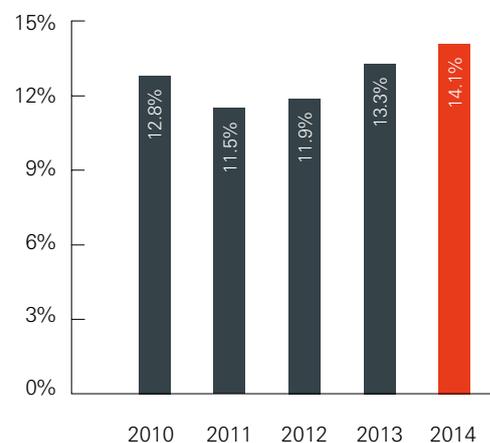
SFS Group highlights 2014

Encouraging sales growth in core business	CHF	1,383.0 million	+5.1%
Proportionately faster EBITA growth	CHF	195.4 million	+10.3%
Important capital expenditure for future growth	CHF	97.6 million	+27.4%
Strong R&D activities	CHF	34.3 million	+59.5%
Solid equity financing and balance sheet	CHF	1,805.0 million	+35.1%
Back to a net cash position	CHF	87.7 million	n/a

Third party sales (in CHF million)



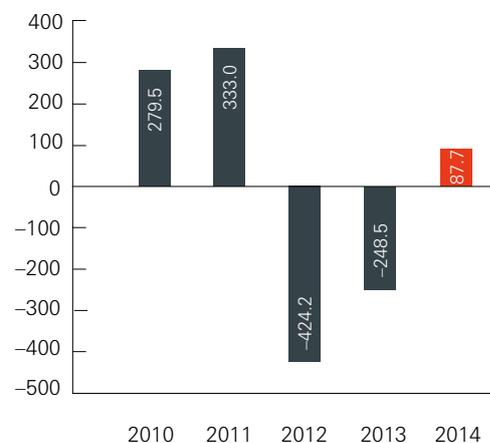
EBITA margin



Equity ratio



Net cash (in CHF million)





Heinrich Spoerry

Chairman of the Board of Directors and CEO

Letter to shareholders

On a like for like basis sales up by 5.1% and improvement in the EBITA margin to 14.1%. Accelerated pace of innovation. Acquisition of new customers and projects a catalyst for future growth. High outlays to expand the company's capacities and international footprint.

Dear shareholders,

We are pleased to report on the good results we achieved during the 2014 financial year.

Solid sales and profit growth

All the efforts made during previous years to solidify our leadership in our core technologies and competencies and to expand our international presence had a positive impact on our business performance last year. Reported gross sales grew by 3.9% to CHF 1,383 million. On a comparable basis, i.e., excluding exchange rate movements, change in the scope of consolidation and the trading activity at Engineered Components, sales increased by 5.1%. Comparable operating profit excluding acquisition-related amortization (EBITA) increased by 10.3% to CHF 195.4 million, which corresponds to 14.1% of operating revenue (py, adj.: 13.3%).

Stronger equity position

The initial public offering and issue of approximately 5 million new shares increased equity by CHF 311.3 million after consideration of all transaction-related costs. SFS Group is thus well positioned to take advantage of market opportunities for organic and acquisition-driven growth. Going public also established a broader platform

for SFS Group's ongoing corporate development as an independent, autonomous company. We would like to take this opportunity to welcome the more than 6,000 private and institutional investors who placed their confidence in SFS Group during and after our public offering by purchasing our shares.

Continuous innovation and improvement

As a trusted partner delivering innovation and a market leader in its field, SFS Group was able to win major new contracts and new accounts for the coming years. Future-oriented spending on development, prototyping and on preparations for large-scale production runs clearly exceeded the amounts invested during previous periods. In order to meet the high market expectations of price-performance gains from the products we offer, all operating units pressed ahead diligently with ongoing improvement programs.

Expansion of international presence

The doubling of production floor space at the Medina (USA) factory, the construction of a new production plant in Nansha, in the Guangzhou metropolitan area (China), and the purchase of a majority interest in the Indian company Indo Schöttle in Pune strengthened SFS Group's international presence and broadened its basis for future growth.

Engineered Components segment

The Engineered Components segment reported a 7.8% increase in comparable sales for 2014 and its EBITA margin was lifted slightly higher to the good level of 19.1%.

The Automotive division secured a large new contract for a component used in a fuel injection application from a major US systems manufacturer. SFS teamed up with leading systems manufacturers to develop precision engineered components and assemblies for applications in electric and electronic brake systems and was then awarded corresponding contracts in Europe, North America and Asia. The Electronics division maintained its position as a foremost supplier of miniature fastening systems and other

components for smartphones, hard disk drives and other electronic devices, supplying virtually every leading branded manufacturer in the Western Hemisphere. Initial orders were also received from the fast growing Chinese newcomers entering this market.

The Industrial division operates in various niche markets with differing growth profiles. Sales with the aerospace industry were particularly strong during the period under review.

Fastening Systems segment

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The Fastening Systems segment generated sales of CHF 336.7 million, which represented an increase of 3.4% in local currency. While construction sector sales stagnated in the wake of the persisting unfavorable market environment in Europe, sales with customers in industrial sectors were sharply higher. Intensive efforts to rejuvenate and upgrade the product range and the systems solutions offered under the SFS intec and GESIPA brands were made. Rapid progress was made in the implementation of numerous programs designed to improve operating efficiency and the intended benefits began to emerge. The EBITA margin rose slightly to 7.6% (py: 7.5%). Our medium-term target is to raise this margin above the 10% mark.

Distribution & Logistics segment

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Distribution & Logistics achieved sales of CHF 319.1 million, which corresponds to a growth rate of 1.6% on an unchanged scope of consolidation. Excluding the one-time effect from the previous year, its EBITA margin was steady at 8.0%. This margin equates with a high return on capital given the relatively low capital employed in this business activity.

Thanks to the ongoing development of optimized logistics solutions and a strong reputation as a reliable supplier and service partner for C class parts, we were able to acquire major new customers while also expanding our supply and service contracts with existing customers. These developments created future growth potential.

Corporate governance

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Prior to the initial public offering in May 2014, the Articles of Incorporation were amended in accordance with the provisions of the Swiss federal Ordinance Against Excessive Compensation in Listed Companies (OAEC). The changes made pertained to the company's compensation models and structures, among other areas. The Annual General Meeting will cast a prospective vote on the fixed compensation to be paid to the members of the Executive Board and the Board of Directors. Conversely, the Annual General Meeting will cast a vote on the variable compensation paid to the members of both boards for the preceding financial year, a retrospective vote in this case. Further details on this subject can be found in the compensation report of this annual report.

Changes in the Board of Directors of SFS Group AG

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After many years of service, Hans Brunhart and Christian Fiechter stepped down as directors at the 2014 Annual General Meeting. We thank both gentlemen for their skillful guidance and dedication and their great loyalty to SFS Group over many years. Jörg Walther was elected to the Board of Directors of SFS Group for the first time at the 2014 Annual General Meeting. All current members of the Board of Directors of SFS Group will be standing for re-election at the 2015 Annual General Meeting. The Chairman of the Board of Directors of SFS Group and the members of the Nomination and Compensation Committee of SFS Group will also be elected directly by the Annual General Meeting.

Changes in the Group Executive Board of SFS Group AG

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Jens Breu was appointed COO of SFS Group effective 1 January, 2014, making him the designated successor of the current CEO. As part of our ongoing executive succession planning, Helmut Binder stepped down from the Group Executive Board of SFS Group effective 31 March, 2014, and has since served the company in an advisory capacity on selected strategic projects and special tasks. We thank Helmut Binder for his outstanding service at the

head of SFS intec. On October 1, 2014, management responsibility for the Electronics division (Unisteel) passed from Bernhard Toh to George Poh, who was already given a seat on the Group Executive Board of SFS Group as of the beginning of the year. Bernhard Toh has relinquished his seat on the Group Executive Board of SFS Group. We deeply appreciate his many achievements at Unisteel and his entrepreneurial drive both before and after Unisteel's integration into SFS Group.

A word of thanks

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Our employees performed outstandingly during the past financial year. The creativity, a can-do attitude and the know-how of our employees throughout the Group were pivotal factors behind the progress and the operating results we are able to present today. We are grateful for the people who make SFS what it is and thank them all for their commitment and professional work.

We also appreciate the strong and loyal support of our shareholders, which reinforces the stability and sustainability of our company. We thank our customers for their trust and for allowing us to participate in their development projects as partners.

Dividend payment for shareholders of SFS Group AG

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

Outlook for the 2015 financial year

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The Swiss National Bank's decision to abandon the minimum exchange-rate floor of CHF 1.20 to the euro on 15 January, 2015, changed the playing field for us going into the 2015 financial year.

Due to the massive depreciation of the euro and other currencies against the Swiss franc, we are expecting reported sales in Swiss francs, the company's reporting currency, to decline by 2–4%. Despite measures that have already been initiated in Switzerland, such as an increase in weekly work hours and strict cost management, we expect that the EBITA margin will contract by 60 to 120 basis points from the level reported for the 2014 financial year.

In view of the progress made during the 2014 financial year and the new projects we have been entrusted with, we are confident that we will continue to build our technology leadership and expand our position in our targeted niche markets during the coming year. For the coming year we expect sales in our core business to grow by 5–7% at constant exchange rates.



Heinrich Spoerry

Chairman of the Board of Directors
and CEO



“At SFS, even we apprentices are expected and encouraged to keep coming up with new ideas.”

Ryan Sulzener, multi-station heading apprentice, Medina, USA

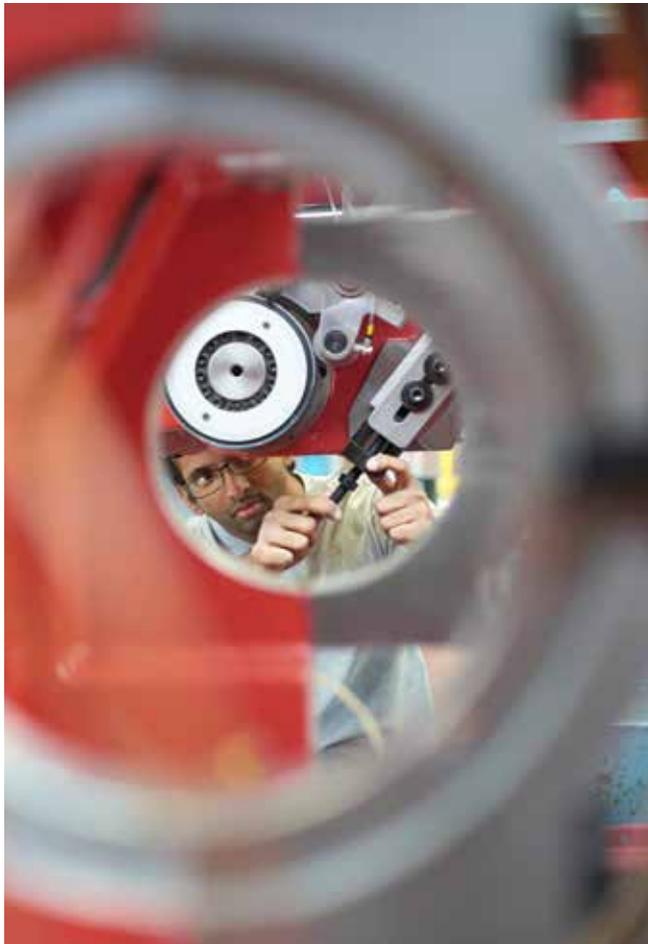
Building up knowledge

“The dual educational system creates a pool of talent with hands-on experience and secures the company’s future knowledge base.”

*Hans Huber, pioneer, co-founder and Honorary Chairman,
one of the first SFS apprentices*

Focusing knowledge

*“Knowledge-intensive products create new market opportunities.”
Bernd Huchler, Head of R&D, Heerbrugg, Switzerland*





Applying knowledge

“The ability to generate, process and apply knowledge is increasingly becoming a crucial production factor.”
*Beatrice Gyger, Head of HR Training & Development,
Heerbrugg, Switzerland*





Sharing knowledge

“Knowledge sharing is a crucial factor in the pursuit of continuous improvement.”
Balasingam Karupaya, Senior Manager Technology Development, Johor, Malaysia





Knowledge is a corporate asset.

Building up knowledge

Knowledge begets expertise. Year after year, some 160 young people at various locations in Switzerland experience a unique interaction between school-based knowledge and real-life work experience as they go through their apprenticeship. The dual educational system has been a model of success for us, and for learners, it's an ideal way to understand and master groundbreaking SFS technologies.

A look at the model in practice at our Medina site (USA): We have been rapidly expanding our workforce in Medina to ensure the successful implementation of customer projects. Vocational training is an important tool towards that end. Even in the US we provide motivated young women and men with opportunities to complete a vocational apprenticeship. In collaboration with local colleges, they can obtain a skilled vocational qualification and thereby significantly enhance their employability.

The pioneer, co-founder and current honorary chairman was one of the first apprentices at SFS. Hans Huber knows first hand the rewards that professional education can provide and he is a strong advocate of vocational training, which he also supports through the privately funded "Hans Hubert Foundation", an organization founded by Hans Huber himself.

Focusing knowledge

Cold forming, precision machining, deep drawing, injection moulding, mechanical fastening and blind rivet technology: High process control and expertise in designated core technologies allow us to push the boundaries of what is technically feasible and commercially viable.

Applying knowledge

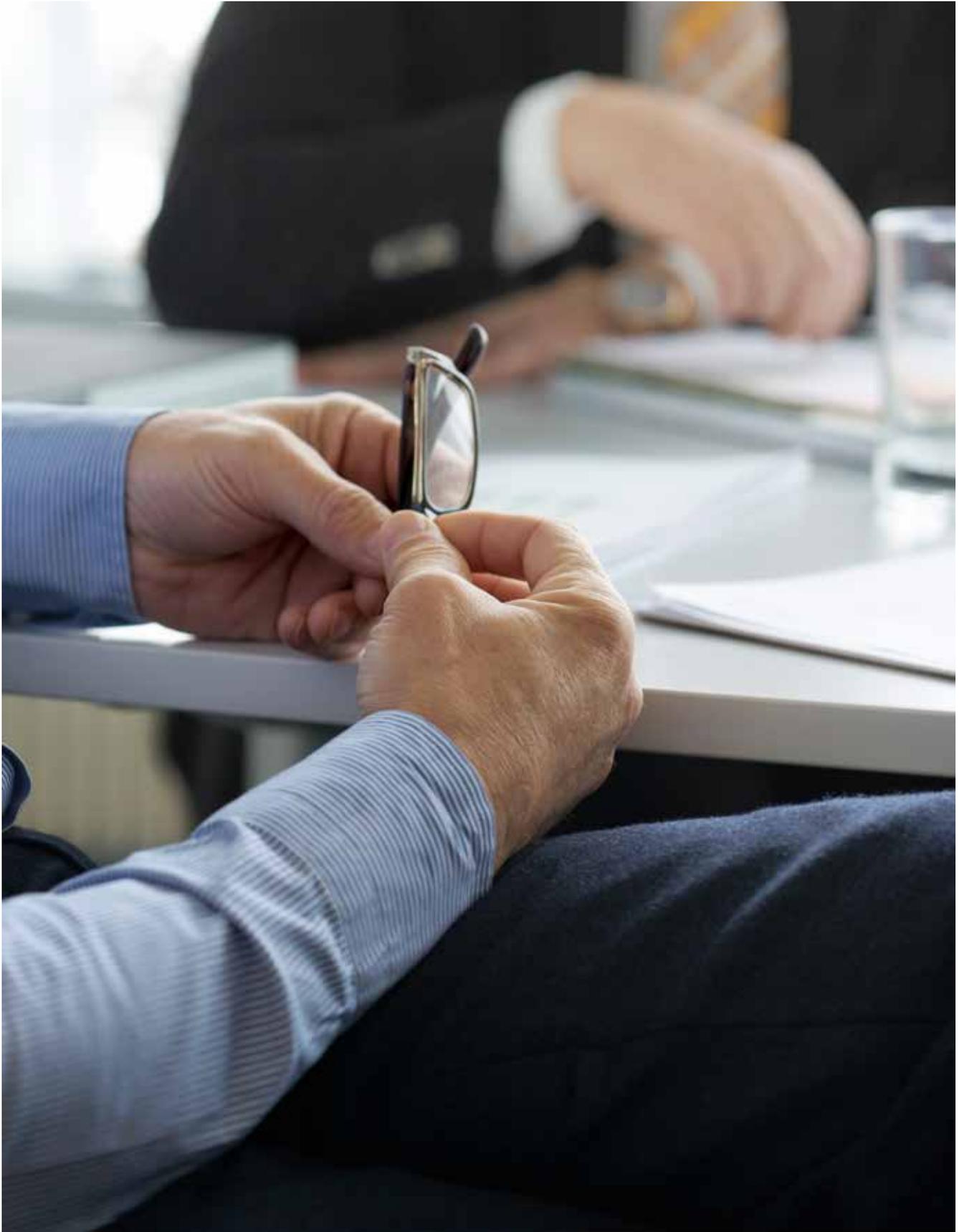
Bringing up ideas is part of our company culture. The shop floor management supports our colleagues in developing operating processes and procedures at their particular point in the business. The average employee submits as many as five suggestions for improvement every year. Up to 80% of those proposals are documented, implemented and approved for re-use at other sites.

The company's knowledge base is a key corporate asset. It is continuously enlarged, updated, and documented to ensure its expeditious application and transfer.

Sharing knowledge

Our international colleagues undergo training at the various designated competency centers, where they get to know, understand and apply the company's core technologies, harmonized processes and globally applicable standards of quality. Production operations are standardized and as uniform as reasonably possible throughout the world.

Approximately 8,700 employees (FTE) at more than 70 sales and production sites have access to our pool of standardized knowledge. They use that knowledge and their own specific applications and market experience to create value for our customers while continuously adding to the knowledge base.



Round-table CEO, COO and CFO

—
“We will boost efficiency and innovation even more”

SFS Group’s top management – Heinrich Spoerry (Chairman of the Board of Directors and CEO), Jens Breu (COO; designated CEO) and Rolf Frei (CFO) – look back on 2014 and cast a glimpse into the future. Moderation: Medard Meier

**The IPO was one of the highlights of 2014.
Mr. Spoerry, did it meet your expectations?**

—
Heinrich Spoerry: Going public marked a major milestone in the history of our company. The transaction secured the operating autonomy and independence of SFS Group and the concurrent increase in share capital put us on a financially very sound base that will help to fund the company’s ongoing expansion. We were able to achieve every objective we had set with this transaction. Company shareholders now include long-term family and employee shareholders as well as a good mix of private and institutional investors from Switzerland and abroad. SFS shares also performed well up to 15 January 2015.

Mr. Frei, what was the most important aspect of the IPO from a financial perspective?

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Rolf Frei: Completing the project within the given time frame was important. We had to present all the IPO-relevant financial data for 2011, 2012 and 2013 under the new reporting structure and have it examined by the auditors. Since these were new operating structures, we couldn’t simply retrieve the necessary data from existing records in a copy-paste manner.

Mr. Breu, how did SFS manage the operating side of the business while the company was preparing to go public?

—
Jens Breu: There wasn’t any interference. A small team of four individuals efficiently handled the IPO project. The other divisional heads were practically uninvolved or unaffected by the IPO during the course of their daily duties, so they were able to focus all their attention on providing top-quality services and products for our customers.

Where there any other highlights last year besides the IPO?

—
Jens Breu: The top-line growth of more than 5% that we achieved in our core business. We successfully launched innovative solutions in sectors with rapid innovation cycles and that helped us to achieve our sales target.

Is there anything in particular you’d like to draw attention to?

—
Jens Breu: In the Engineered Components segment, where the Automotive division is a major growth driver, key projects involving new products entered the production stage. Several major new projects entailed investments in production assets in Europe, North America and Asia, and these new production lines were brought on stream. Putting into place the required skills and capabilities was a big challenge, but having done so, we are now in a good position relative to the global competition.

“Going public raised capital that will be used to expand SFS Group and its global footprint. We secured the company’s autonomy and independence.”

*Heinrich Spoerry,
Chairman of the Board of Directors and CEO*

Can you give any specifics about these projects?

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Jens Brey: We are working on prestigious projects for electric and electronic brake systems and a major project for a fuel injection system used in automotive engines. In the Electronics division we supported well known smartphone manufacturers in launching new models. We were tasked with delivering large quantities of miniature components in the required quality when and where needed. Product development deadlines are especially tight in the electronics business and going into full-scale production afterwards can be a real challenge – in the electronics industry, just a few weeks are scheduled for ramping up production from zero to 100%.

“The expectations we raised among analysts and investors as well as our new shareholders were met with the reported core sales growth rate of 5.1% and the improvement in the operating profit margin.”

Rolf Frei, CFO

Is the CFO truly satisfied with the results?

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Rolf Frei: Yes, we're satisfied. Operating profit before interest, taxes and amortization - EBITA – rose by 10% and the EBITA margin rose to 14.1%. The expectations we raised among analysts and investors and our new shareholders were met with the reported core sales growth rate of 5.1%, which was within the targeted range. Exchange rate movements already had a dampening effect on reported sales growth in 2014.

Speaking of currencies, last year's operating results were not affected by the SNB's recent decision to give up the minimum exchange rate to the euro but what consequences will that decision have on SFS going forward?

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Rolf Frei: When we perform simulations with last year's results utilizing the latest exchange-rate levels, we observe two effects on the income statement. Sales would have been around 7.5% lower and the EBITA margin would have retreated to between 12.5% and 13.0%. In response to the new currency situation, we have initiated a number of measures intended to offset some of that downward pressure on margins in the 2015 financial year. We also intend to grow in local currency terms. Innovation and capital investment projects that were visible only on the cost side during the 2014 financial year will have a positive impact on sales and earnings in 2015 and 2016.

Just how important is the Swiss franc in terms of costs and sales?

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Rolf Frei: We generate 23% of our total sales in Switzerland. After factoring out the cost of materials, less than 50% of total operating expenses were incurred in Switzerland in 2014 – at the time of the last currency crisis in 2011, this percentage was more than 60%.

So you are better prepared to absorb the currency shock this time?

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Heinrich Spoerry: We are less vulnerable than we were in 2011 but there is still considerable currency exposure. Our three production plants in Switzerland export more than 90%. That's our dilemma: We invoice most of our exports in euros, and to a lesser extent in dollars, and only in exceptional cases are exports invoiced in Swiss francs. And yet a large share of the cost base is in Swiss francs.

How are you dealing with that?

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Heinrich Spoerry: Only part of the Swiss franc's massive appreciation can be passed through to customers by raising our selling prices. Now we are taking various measures to compensate for the currency-induced competitive disadvantages forced upon our Swiss production plants. We will intensify our efforts to innovate and focus even more on developing and delivering demanding, technology-rich solutions. We will also have to extract further savings on the cost side.

In which areas are rapid adjustments possible?

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Jens Breu: We need to become better and faster, and even more flexible and efficient. We will also make certain adjustments to our production portfolio in Switzerland. Which means sharpening our focus in Switzerland on innovative products while transferring the production of standard products and particularly price-sensitive products to manufacturing sites in the EU. This is a process that has already been under way for several years now.

What developments can be expected technology-wise?

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Jens Breu: We're anticipating a fairly linear development on the technology front. Growth in the automotive industry will continue and the pace of innovation will speed up. The growing use of electronics in cars, be it for brake-by-wire systems or self-driving cars, is a tremendous opportunity. This is an area where we are well positioned to capitalize on these innovations as a development and supply partner. We are also involved in basic R&D projects for materials and surface technologies, that could lead to another burst of innovation in one or two years' time.

Heinrich Spoerry: We are working on our first projects to supply entire assembly groups, thus going beyond the manufacture of precision engineered components. Investments were recently made to expand assembly capacity, assembly automation and assembly expertise. This will increase the capital intensity of our production resources in Switzerland and enable us to leverage the considerable

technical skills and knowledge of our employees in Switzerland even better.

"In the electronics business, short development times and the immediate ramp-up of production are a special challenge – we go from zero to 100% in just a few weeks."

Jens Breu, COO

How much leeway is there with regard to capital intensity?

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Rolf Frei: We are a capital-intensive company by virtue of the technology we use and offer. In simplified terms, we have to invest a franc for every franc of sales we generate early in the life cycle of a product. We have almost no other alternative but to move the production of more labor-intensive products out of high-wage Switzerland. We must live with a strong Swiss franc. We stand by our commitment to Switzerland as our home base and to the Rhine valley in particular. That means that part of our cost base will always be in francs.

Heinrich Spoerry: The air is getting thinner. The low-hanging fruits have been picked. Now we have to further improve our efforts. We recently imposed a hiring freeze despite the high level of capacity utilization and will therefore be increasing weekly work hours. Switzerland's manufacturing base is currently grappling with a serious currency-induced handicap. But I'm confident we will overcome the latest challenges.

Rolf Frei: Fortunately, Switzerland is not the only country where we have a strong anchor. Our subsidiaries outside the country are hardly affected by the sudden shift in foreign exchange rates. Nevertheless, we do expect Group profits to decline, a temporary setback here appears inevitable at the present time.

Will spending on research and development be increased?

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Jens Breu: Absolutely. Even if sales would decline, we will continue to maintain our innovation-related activities at least at the same level as before. Perhaps a bit more focused and selective than before. Innovation cycles in the markets we address are relatively short. On the other hand, this means there are more frequent windows of opportunity for positioning new products with better prices and margins. Taking advantage of those opportunities is our stated goal.

Rolf Frei: We recognize R&D costs directly in the income statement, none of our R&D outlays are capitalized in the balance sheet. A comparison of the numbers here reveals that we have already increased our innovation drive. In 2013 expenditure for research and development amounted to 21 million, in 2014 this amounted to 34 million.

Is your business model with the various segments and divisions viable?

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Heinrich Spoerry: The model is attuned to our corporate principles and culture. We seek close partnerships with our customers. We seek to earn the status of preferred development and supply partner with every customer we serve. The Group structure with its segments, divisions and focused business units helps us to keep the organization aligned with the demands and needs of specific customer groups. Close-knit system-based partnerships with customers necessitate a spirit of openness and cooperative business models. That has been our *modus operandi* for years and it is paying off today. Our customers need us just as much as we need them. We must constantly demonstrate that they can raise the bar higher and higher and achieve even more by partnering with us.

How about giving us an outlook for 2015?

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Heinrich Spoerry: In 2014 we made some significant investments in the future. Those investments burdened the P/L last year but will feed through to the top line in 2015 and 2016. We expect good sales growth in the core business and thus in local currency, in a range of 5% to 7%. Translated into our reporting currency, the Swiss franc, we will probably see a decline in sales. It all depends on the future path of exchange rates, which is impossible to foretell at the present time.

Are acquisitions a possibility?

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Heinrich Spoerry: We are always examining potential acquisitions. Besides organic growth, we want to expand through acquisitions. I won't say anything about specific projects, but I can say that we have a very solid balance sheet that will allow us to act if we come across compelling deals.

Your priority goals for 2015, Mr. Breu?

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Jens Breu: The top goal for 2015 is certainly pressing ahead with the projects that we have won over the past six to 18 months, ramping up production, achieving the targeted productivity and profitability levels. A second priority is organic growth in growth markets, such as China, India and Turkey, and taking advantage of the re-industrialization movement in North America. The third point concerns us right here at home: Securing the competitiveness of the Swiss manufacturing sites over the next 12 to 24 months despite the strength of the Swiss franc.

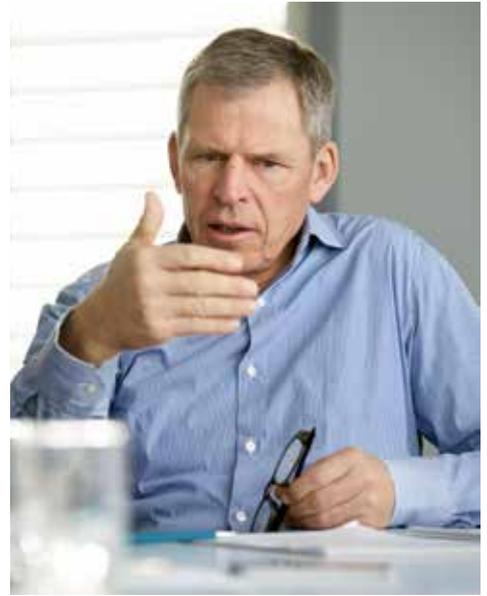
And looking ahead from a financial standpoint?

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Rolf Frei: We're in a good position. The exchange rate with the euro has brought some clouds into the picture but we are working hard to address this temporary challenge. Repercussions from the exchange-rate turmoil will certainly be felt in 2015 and 2016.



Jens Breu, COO, designated CEO



Heinrich Spoerry,
Chairman of the Board of Directors and CEO



Rolf Frei, CFO



Strategy

Focus creates value

With specific applications knowledge, creativity and expertise, we create solutions that add value – for our customers and ourselves.

Mission critical products in everyday life

SFS is a leading global provider of mechanical fastening systems and precision components. Our products accompany many people throughout their daily lives, albeit invisibly, as components of car brakes and seatbelts, smart phones, computer hard disk drives, aircraft cabins, building envelopes, doors and windows – and even refrigerators.

Concentration on technology leadership and high process competence

A focus on selected core technologies and skills allows us to push the limits of what's possible and claim market leadership. We also offer end-to-end logistics solutions that help our customers to significantly enhance their efficiency and optimize costs. These areas of expertise form the basis for SFS's convincing solutions.

Exploring new potential through close collaboration

In selected markets and applications where we see opportunities for innovation, growth and differentiation, we strive for market leadership with our products and services. We do so by operating in focused business units and key account teams that have the relevant applications knowledge to understand the customer's challenge perfectly. Diversification across various end markets brings stability and helps to avoid excessive exposure to a particular target market.

Turning ideas into commercially viable solutions

When customer requirements are paired with our high level of technology and process expertise, the result is a seedbed for exceptional ideas. In the constant search for new solutions, SFS people push the limits of technology time and again, generating convincing products that add value for our customers and differentiate SFS from the competition.

"We help our customers gain a competitive edge by constantly pushing the limits of technology."

Jens Breu, COO

Perfecting the details while keeping sight of the big picture

While the direct costs of our products are low, the associated costs on the customer end are many times higher. These indirect costs are for instance influenced by administrative operations in procurement, assembly, or by the performance specifications of the customer's product. Our aim is always to optimize both direct and indirect costs, an approach that creates much greater potential for improvement that helps us to create value added for the customer. We benefit as these optimal products and solutions enhance our differentiation and tighten our customer relationships.

International production platform provides local supply channels for customers

Seamless control over the value chain ensures a rapid and dependable product realization process. A high degree of value integration is a proven means of protecting our intellectual property. Standardized processes and production operations in combination with an international production platform enable us to supply our customers all over the world from local sources.

Establishing and expanding partnerships with market leaders

Successful products create trust. Trust is the basis for close and stable partnerships and conducive to our early integration in development processes, which is such an important factor when it comes to harnessing the full potential of collaboration. We pride ourselves on having built solid, long-lasting partnerships with the leading players across a wide range of industries and appreciate the growth we have shared with them through the years.

Growing through innovation and acquisitions

Being well positioned in growth markets and focused on major trends like health protection and growing efficiency demands, we can prove our capabilities and strengths year after year with a steady flow of innovation. We have also set up an international production platform that will help us to enter new markets. Selective acquisitions will allow us to target new markets, new customer groups and new application areas and thereby create further opportunities for organic growth. Being able to make independent and swift business decisions is important in a constantly changing environment. Sustainable income flows and sound finances ensure that we will be able to do so going forward.

Untiring pursuit of top performance

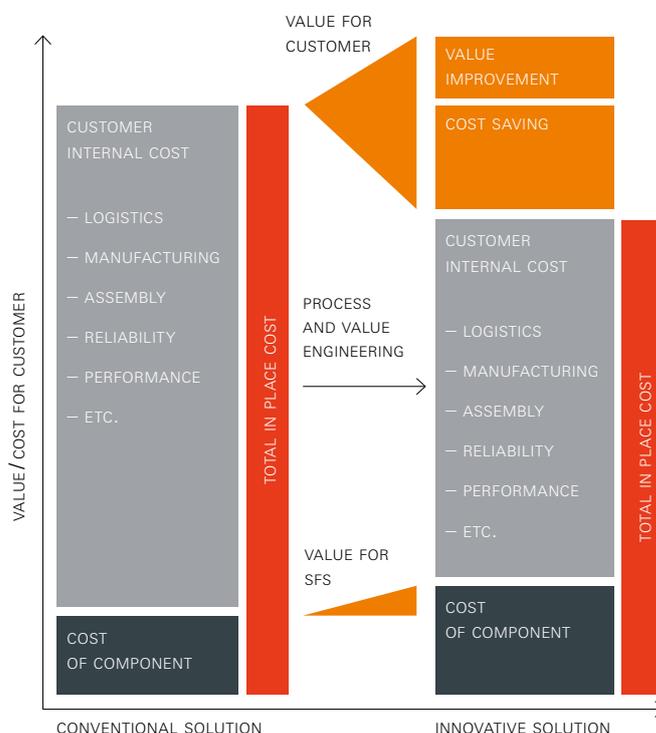
Our commitment to continuous improvement has been part of our culture at SFS since our earliest days. That commitment is evident not only in our comprehensive and systematic efforts on the lean management front, but also in our exploitation of synergies between the various business segments. All these efforts go to accomplish one goal in the end: create added value.

"Demanding customers requirements actually inspire us to seek new ways of improving what we do and to reach out for new challenges."

Alfred Schneider, Head of Division Automotive

Entrepreneurial responsibility is shouldered by the segments

The SFS Group is organized into three business segments and six divisions. The segments represent the three distinct business models we operate under the umbrella of the SFS Group. The Engineered Components, Fastening Systems, and Distribution & Logistics segments are delegated full responsibility and authority over their entire value chain, from production to end customer. They are supported by the cross-departmental Technology and Services units.



Markets

Focused in technology – diversified by end markets and regions

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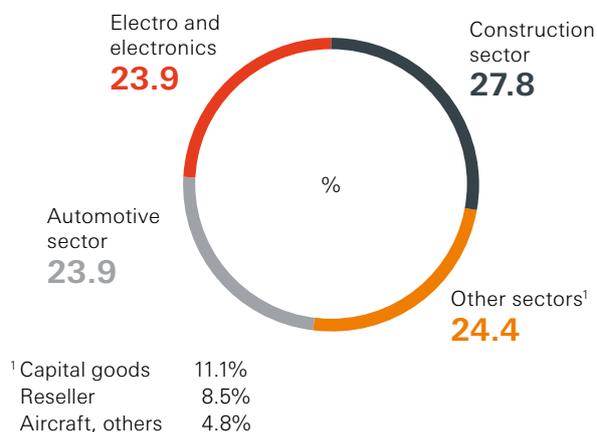
We are in direct contact with our customers wherever possible, so we can be sure we know exactly what they need and want. A well-developed production and sales network spanning Europe, Asia and North America facilitates this direct contact.

Striving for leadership in selected markets

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We focus our business activities on selected markets in which we can apply our skills to create value for our customers. These are growing market segments where change is rampant, often marked by mega trends such as growing efficiency demands or health protection. Success in these areas comes through innovation – the basis of our business model. We seek partnerships with industry leaders and strive to advance their market positions with our innovative products. In the process we aim to become their preferred supplier and partner by virtue of our outstanding solutions and performance.

SHARE OF SALES BY END MARKET 2014 IN %

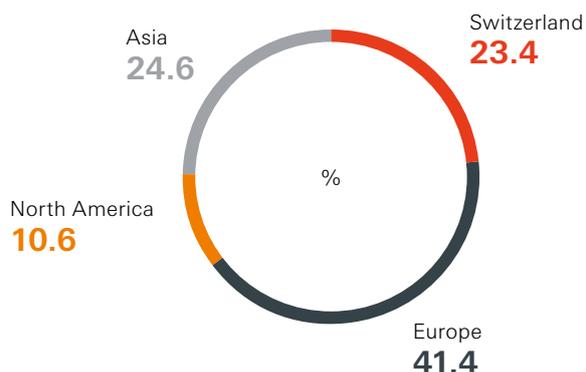


A diversified industry reach gives greater stability

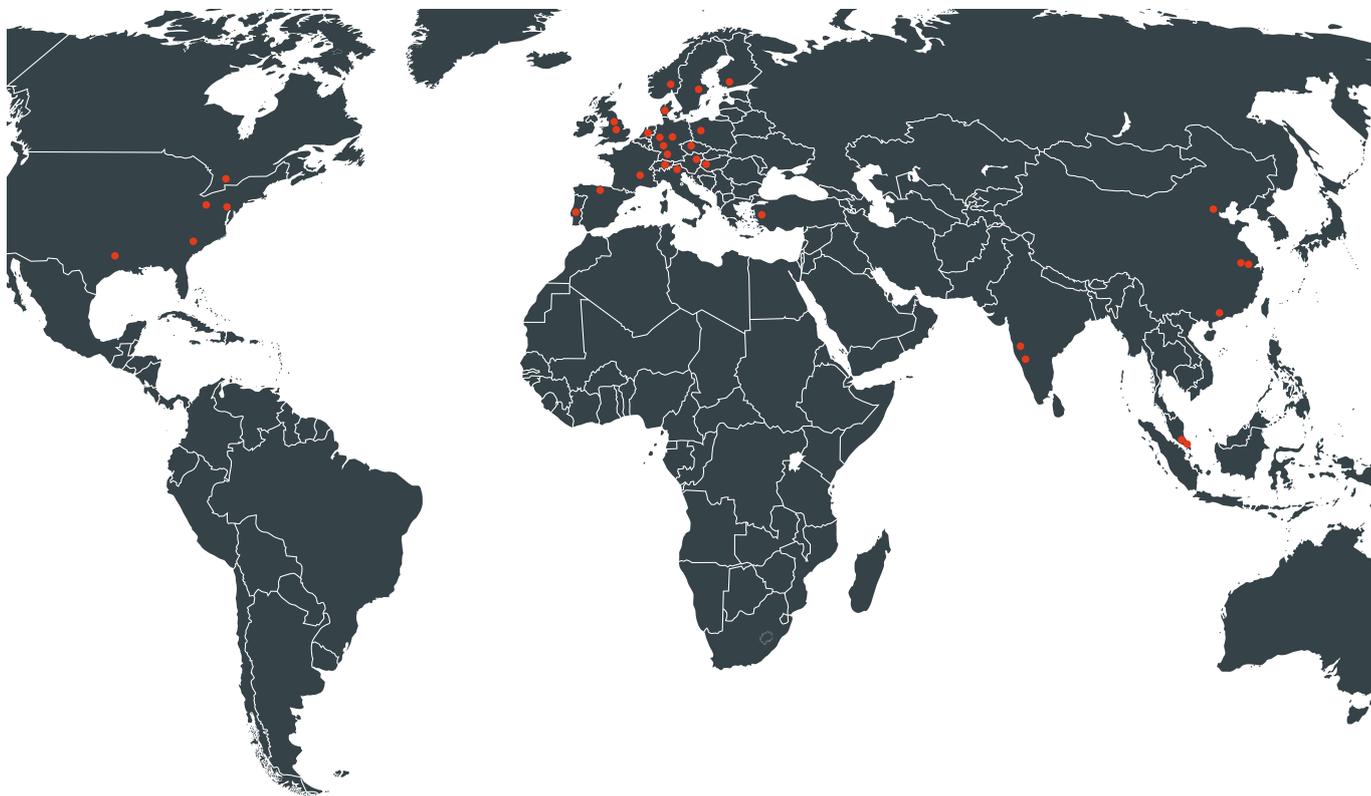
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Given our high level of diversification in terms of end markets, the industries we supply have vastly different profiles, ranging from automotive and construction industry to architectural hardware. We also do extensive business with companies in the electrical and electronics industry and the aerospace industry. Addressing a variety of markets reduces our vulnerability to cyclical downturns in any particular industry, yet also necessitates the focused and systematic exploitation of business opportunities in these same markets by applications specialists.

SHARE OF SALES BY REGION 2014 IN %



WORLDWIDE SALES OFFICES AND PRODUCTION SITES

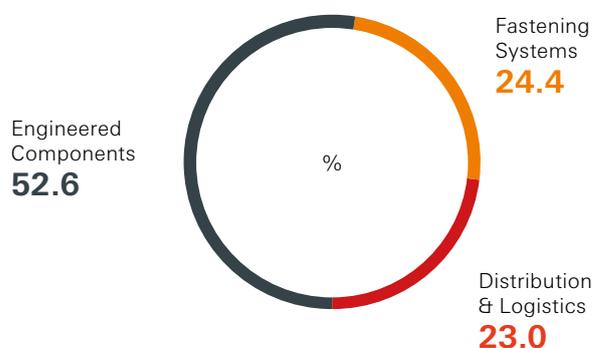


Well-balanced geographic footprint strengthened

Our extensive local presence in our main markets of Europe, Asia and North America puts us in a good position to react to regional developments in a flexible and targeted manner.

The new projects launched in the growing North American economy led to a slight increase in that region's share of total sales from 9.8% to 10.6%. Asia's share of sales was stable compared with the previous year, with the weak sales performance in the first half offset by strong sales in the second. Sales in Switzerland were solid and its share of overall sales remained almost at the previous year's level.

SHARES OF SALES BY SEGMENT 2014 IN %



The art of understanding.

**Our organization creates added value for the customer.
A local presence and close customer relationships give us
a better understanding of customer needs and desires.**



Understanding customers

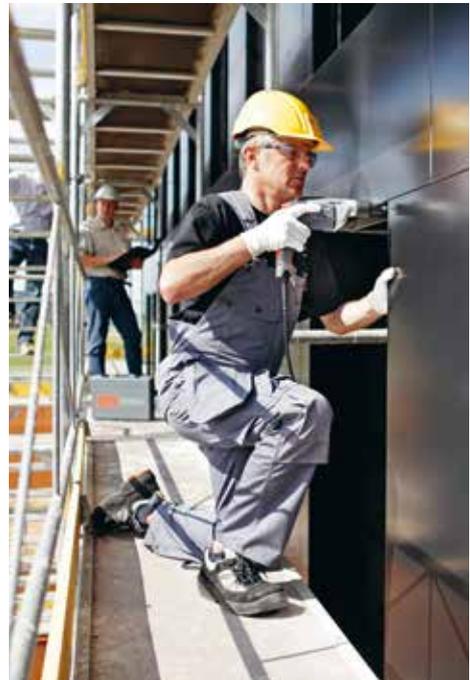
“The earlier we are included in the development process, the more likely we are to find groundbreaking solutions together and then generate added value for the customer.”

Ray Dobbins, Vice President Sales & Marketing Automotive North America, Medina, USA

Understanding markets

“Understanding fast growing markets and the underlying mechanisms and trends is crucial.”

John Neil, Vice President & General Manager, Wyomissing, USA



Understanding cultures

“Understanding and respecting other cultures is essential in identifying common needs and developing the right solutions.”

Eray Çelikli, Director of Manufacturing, Torbalı Izmir, Turkey





The art of understanding.

Understanding customers

Creating added value involves understanding the entire life cycle of precision formed parts, fastening systems or assemblies. The closer we work with customers, the more efficiently and cost-effectively we can analyze and design a product's entire process chain, including ways to maintain and conserve product value.

Many of our customer relationships have evolved into long-standing partnerships. Forthright sharing of information and ideas as equals, setting joint objectives for the future, and establishing high levels of mutual understanding are key factors that lead to superior results.

Understanding markets

Successful companies in areas including the automotive, electronics, aerospace and construction industries stand out by virtue of their innovative products and services. They take pains to respond to current trends such as safety, energy efficiency, comfort and convenience, miniaturization and sustainability. We support them with customized and cost-effective solutions that are crucial in determining the commercial success of innovation.

From our earliest days, we have always been on the lookout for attractive markets in the midst of rampant change and innovation. Our goal is to grow in tandem with the market leaders. We achieve that by creating solutions that offer our customer added value and by embracing a spirit of long-term partnership in the work we do for our customers.

Understanding cultures

One of the business challenges of our time is to achieve a good balance between the global market and the local structures. We believe that the best way to achieve that goal is through relationships built on fairness and mutual trust.

Wherever we do business, we seek out and recruit people who share our values. We promote their talents and provide career development opportunities. With their collaboration, we explore and take advantage of the growth markets that matter to our business. We work together to tap into the huge potential unleashed by combining local expertise with the global scale of our group.

Engineered Components

Growth through innovation

The Engineered Components segment delivered strong growth. Margins were slightly improved from the previous year's high level.

Key figures Engineered Components

in CHF million

	2014	±	2013	2012
Third party sales	727.2	8.1%	672.9	524.2
Sales growth comparable		7.8%		
Operating revenue	749.9	9.0%	687.8	537.5
EBITDA	190.7	9.0%	175.0	131.1
As a % of operating revenue	25.4		25.4	24.4
EBITA	143.0	10.0%	129.9	92.9
As a % of operating revenue	19.1		18.9	17.3
Net operating assets	1,326.1	12.2%	1,182.0	1,259.4
Employees (FTE)	6,038	34.5%	4,488	4,498

Core activities show high growth rates

Strong sales growth of 8.1% was achieved in the Engineered Components segment. Organic sales growth in the core business, which excludes the effects of exchange rate movements and changes in the scope of consolidation as well as the results of the non-core trading activity, amounted to 7.8%. This dynamic growth was fueled by the launch of numerous new projects. Additional significant innovation-driven projects are still at an early stage of execution and will provide further growth catalysts in the years ahead. Our earnings performance was steady with an EBITA margin of 19.1%, which represents a slight improvement from the high level reported in the previous year (18.9%). This was a pleasing achievement given the additional costs that were incurred to pave the way for the realization of highly innovative projects.

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

Automotive division

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

Electronics division

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

Industrial division

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



SFS employees show a strong sense of personal responsibility when working on customer-specific precision parts and assemblies. They have a vast array of modern production tools and equipment at their disposal to get the job done, some of which have been designed and built by our own in-house team of R&D engineers.

Automotive division

Innovative projects create new growth drivers

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The Automotive division had a positive year. In addition to a generally good order inflow from the automotive industry, a number of new projects provided a strong boost. A large new order was won from a major US systems manufacturer for a valve control component. SFS also teamed up with leading systems manufacturers to develop precision engineered components and assemblies for applications in electric and electronic brake systems and was then awarded corresponding contracts from automotive companies in Europe, North America and Asia. Besides its high level of technical expertise, having an international manufacturing base proved to be a decisive argument that favored SFS over competing bidders.

Electronics division

Market leadership defended

–

The Electronics division retained its position as market leader. In addition to the usual seasonality, the realization of major customer projects in the second half of the year created considerable business momentum. During this process the division again demonstrated its reliability and rapid response capabilities, qualities that are particularly critical when launching new projects.

Industrial division

Project successes in attractive niche markets

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Sales in the Industrial division's various niche markets trended pleasingly higher. The aircraft industry is highlighted here as an illustrative example. Production of the Airbus A350 was ramped up and SFS provided fastening solutions for the passenger jet's cabin area. The components produced for the Airbus A350 made a substantial contribution to sales for the first time. The anticipated success of these products should serve as an important growth driver during the coming years. Another SFS success story can be found in the field of medical components. In collaboration with a market leader, a series of significant successes was booked, confirming that SFS is similarly adept at titanium cold forming processes.



Presence in fast growing Asian markets strengthened

SFS increased its stake in Indo Schöttle Auto Parts from 45% to 89% on 31 July, 2014. The formerly family-owned Indo Schöttle is based in Pune, some 200 kilometers east of Mumbai, India. Most of its business is conducted with Indian and foreign auto manufacturers. The operating results of Indo Schöttle Auto Parts have been fully consolidated since 1 July, 2014. In China, the start-up of operations at the SFS plant in Nansha, in the Guangzhou metropolitan area (China), creates additional capacity in preparation for the anticipated growth in the years ahead.

SFS convinces major new customers

In addition to our constant efforts to improve our standing as a supplier with existing accounts, progress was also made in acquiring important new customers. In the smartphone business, for example, initial orders were received from fast growing Chinese OEMs. Our customer base in the consumer electronics sector was strengthened with the acquisition of major new orders in the sports & leisure camera segment. A manufacturer of high performance brake systems for premium sports cars was also added to our customer portfolio.

High profile innovation projects for future growth

All divisions created added value for our customers as well as future drivers for our own growth by kicking off major innovation projects. Products used in valve control systems that make motors more energy efficient are an example here, as are innovations for “brake by wire” systems that enhance car safety and comfort. Miniature screws that add greater efficiency to assembly processes in the electronics industry also deserve special mention, as do the ultra lightweight and noise-reducing fastening systems designed for the Airbus A350’s cabin interior panels.

Fastening Systems

Improved performance thanks to new products

In a mixed market environment profitability has slightly increased, thanks to new products and operating improvements.

Key figures Fastening Systems

in CHF million

	2014	±	2013	2012
Third party sales	336.7	2.0%	330.0	328.5
Sales growth comparable		3.4%		
Operating revenue	353.7	3.6%	341.4	340.7
EBITDA	43.4	3.2%	42.1	32.6
As a % of operating revenue	12.3		12.3	9.6
EBITA	26.9	4.7%	25.7	18.2
As a % of operating revenue	7.6		7.5	5.4
Net operating assets	317.6	2.1%	311.0	316.3
Employees (FTE)	1,733	7.8%	1,608	1,552

Good momentum from industrial applications

The Fastening Systems segment generated sales of CHF 336.7 million, which was 2.0% more than in the previous year. Excluding exchange rate movements, the segment achieved organic sales growth of 3.4% for the financial year 2014. Most of that growth originated from customers in the industrial sector. Rapid progress was made in the implementation of numerous programs designed to improve operating efficiency and the intended benefits began to emerge. This was also reflected in the EBITA margin, which has slightly improved to 7.6% (7.5% in the previous year) despite the unfavorable general market conditions.

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 is specialized 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).



Fastening solutions tried and tested millions of times over and selected new development activities for mechanical fastening and blind riveting applications are at the heart of this segment's offering. The combination of profound application expertise and a thorough knowledge of the available manufacturing techniques has created a sturdy platform for turning ideas into reality.

Construction division

Growth subdued by mixed market environment

–

The markets addressed by the Construction division showed mixed trends. After a period of rather severe winter weather in North America, demand in the US market rebounded during the second half of the year.

The general market recovery forecast for Europe did not materialize. While demand in several markets such as the UK, Switzerland and the Scandinavian countries was robust, business showed no sign of picking up in southern Europe. Demand in the second half was generally slightly weaker.

Improving operational performance

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The expansion of the company's footprint in Turkey will allow it to capture more market opportunities in the region and gives it a cost-efficient production platform for high volume products. Holistic action plans for improving operational performance have been defined and in some cases already implemented. Optimization of the supply chain is a key issue. Several national and regional market organizations and storage locations were merged, a move that will create significant synergy potential going forward.

Riveting division

Growth in Germany and in the automotive end market

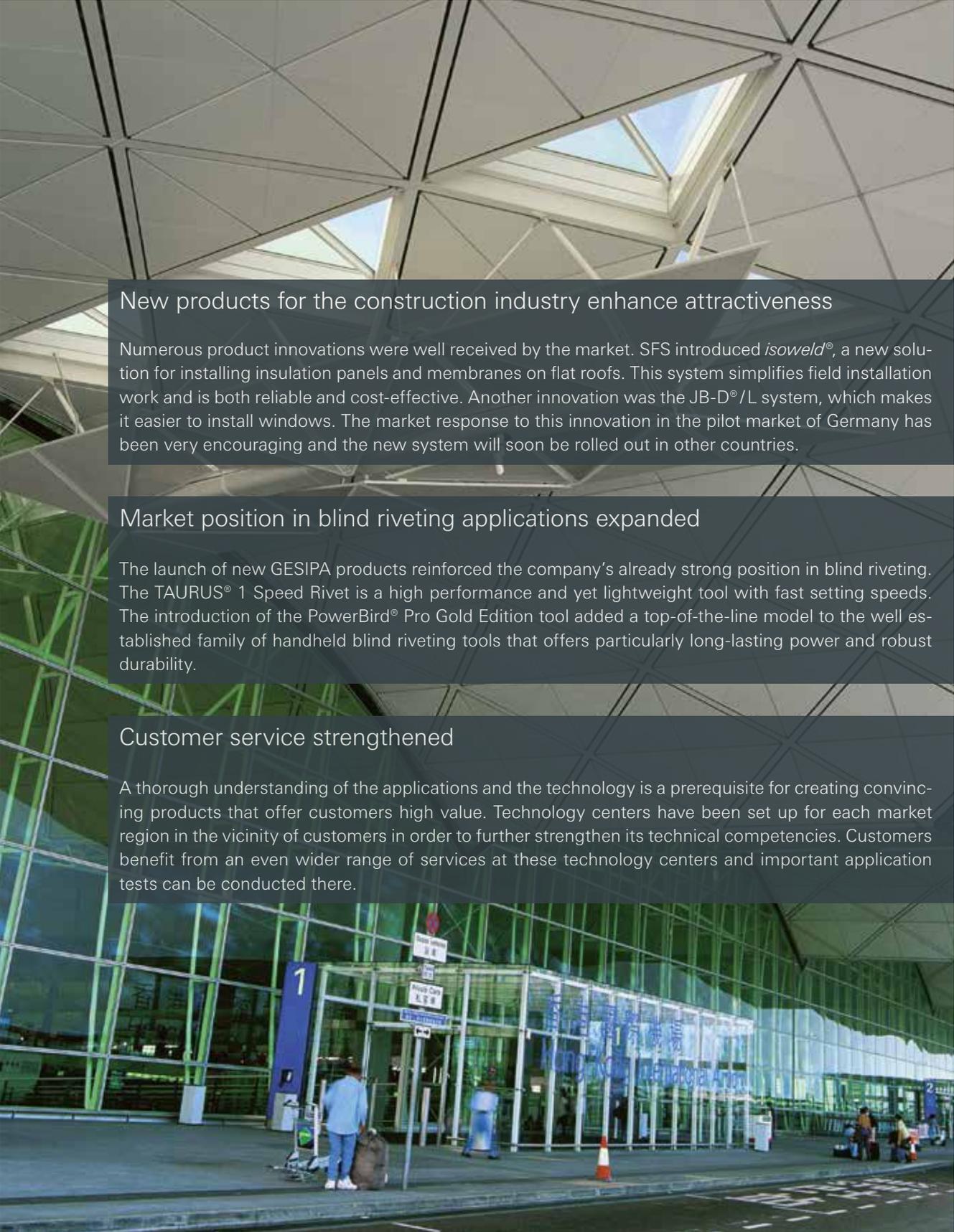
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The Riveting division profited from a positive market environment. Business momentum was particularly strong in the German market and with customers from the automotive industry. Overall growth was supported by a large order to supply several factories belonging to a US auto manufacturer with various products.

Positive resonance from new markets

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Entering new markets is one of the Riveting division's top priorities and is expected to boost its growth in the coming years. Of prime importance in this regard is the Chinese market, where the division was hardly active before. Early in 2014 a new production plant was inaugurated in Nansha, in the Guangzhou metropolitan area (China). It will serve as a local supplier for existing, internationally active customers as well as for new Chinese customers.



New products for the construction industry enhance attractiveness

Numerous product innovations were well received by the market. SFS introduced *isoweld*[®], a new solution for installing insulation panels and membranes on flat roofs. This system simplifies field installation work and is both reliable and cost-effective. Another innovation was the JB-D[®]/L system, which makes it easier to install windows. The market response to this innovation in the pilot market of Germany has been very encouraging and the new system will soon be rolled out in other countries.

Market position in blind riveting applications expanded

The launch of new GESIPA products reinforced the company's already strong position in blind riveting. The TAURUS[®] 1 Speed Rivet is a high performance and yet lightweight tool with fast setting speeds. The introduction of the PowerBird[®] Pro Gold Edition tool added a top-of-the-line model to the well established family of handheld blind riveting tools that offers particularly long-lasting power and robust durability.

Customer service strengthened

A thorough understanding of the applications and the technology is a prerequisite for creating convincing products that offer customers high value. Technology centers have been set up for each market region in the vicinity of customers in order to further strengthen its technical competencies. Customers benefit from an even wider range of services at these technology centers and important application tests can be conducted there.

Distribution & Logistics

Differentiation through logistics systems

The segment achieved a solid result, fueled by the success of its customized logistics solutions.

Key figures Distribution & Logistics

in CHF million

	2014	±	2013	2012
Third party sales	319.1	-2.6%	327.7	340.6
Sales growth comparable		1.6%		
Operating revenue	326.0	-2.3%	333.6	346.9
EBITDA	33.7	-10.4%	37.6	33.4
As a % of operating revenue	10.3		11.3	9.6
EBITA	26.0	-11.0%	29.2	24.2
As a % of operating revenue	8.0		8.8	7.0
Net operating assets	146.6	0.6%	145.7	169.1
Employees (FTE)	626	3.0%	608	635

Attractive product range expanded

Distribution & Logistics increased its sales in its core business by 1.6% to CHF 319.1 million. Its EBITA margin excluding non-recurring items in the previous year was held at 8.0%. Given the relatively low capital requirements in this business activity, this EBITA margin corresponds to a sustained high return of 17.7% on capital employed at year-end. SFS unimarket acquired major new customers, thanks to its optimized logistics solutions and its reputation as a reliable supplier of and service partner for C class items. Supply contracts and the scope of services rendered with existing customers were broadened, creating more potential for further growth.

Distribution & Logistics offers market-oriented products (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.



Besides offering in-demand products for the industrial sector and the skilled trades, the focus at the Distribution & Logistics segment is on the optimization of supply chain flows. Customer-specific logistics concepts are drawn up based on precise knowledge of customer needs and desires, well conceived inventory systems, and intelligent IT infrastructure.



Attractive product range expanded

Marketing the right products to the target customer groups is a cornerstone of any successful partnership. Our partnerships with customers have been strengthened with the introduction of new market services within the cutting machine tool segment, for example, or redesigned prefinished fittings and hinge products. The product portfolio was enhanced with the addition of attractive construction tools. Professional point-of-sale (POS) activities underpin sales of products to specific target customer groups in specialty stores and hardware & home improvement stores. All these activities and efforts have made SFS unimarket one of Switzerland’s leading providers of fastening systems, construction tools and architectural hardware.

Growth driven by superior logistics skills

Distribution & Logistics is active in the marketplace through the SFS unimarket brand and delivers customer value with innovative services, many of which entail logistics and ordering solutions that significantly simplify the management of C class supplies. The execution of projects with renowned customers led to renewed high rates of growth.

The added value offered to customers arises from a sustained reduction in process costs and the reduced capital requirements. Its logistics offering was successfully rolled out in other business areas during the year under review. This system was also opened to third-party suppliers and that led to new customer contacts and extended partnerships.

Needs-driven distribution channel expanded

A dense network of 25 HandwerkStadt locations in Switzerland serves customer needs in the building and construction trades. A large network of sales representatives and an attractive online store offer a convenient range of ordering possibilities for SFS unimarket customers. A regional marketing organization was set up and expanded in French-speaking Switzerland, new customers were acquired and business relationships were strengthened. Targeted efficiency programs have enhanced productivity and improved competitiveness.



Logistics solutions successfully implemented at renowned customers

A comprehensive logistics solution implemented for a manufacturer of rail vehicles based in Belarus simplified its C class supply management operations. SFS unimarket installed a turnLOG® solution with a total length of some 60 meters handling more than 1,000 items that now ensures timely supply deliveries.

Scores of new projects won

Intensive sales and marketing activities elicited a positive response from customers and the market in general. One example was the company's exhibit at the PRODEX 2014, an international trade fair for machine tools, precision tools and measurement technology in Basel. Various marketing activities throughout the year led to the initiation of many new projects.

Local presence expanded

Distribution & Logistics offers its customers demand-driven distribution channels that bring it closer to the customer. Besides eShops and direct sales channels, SFS unimarket is present throughout the Swiss market with a comprehensive network of 25 attractively located retail stores (HandwerkStadt), see page 42.

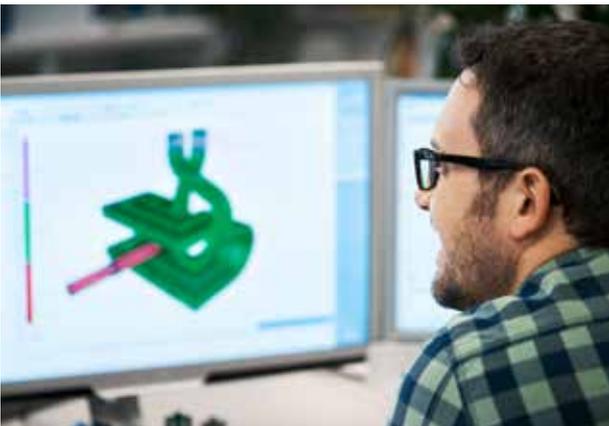
Creativity as a driving force.

Creativity is important to our company. The key to success and growth lies in the minds of our employees. To grasp that key, our corporate culture nurtures the innovative talent of every individual. Outstanding performance becomes possible when challenges are perceived as opportunities.

Creative solutions

“An innovative solution needs to do more than just work right – it needs to fascinate people!”

Richard Gärtner, Head of R&D GESIPA, Mörfelden-Walldorf, Germany



Creative employees

“Creative people make for efficient processes.”

Nina Spirig, Design Engineer, Heerbrugg, Switzerland



Creative logistics systems



“Supporting customers in their internal logistics processes while producing added value is the sort of creative challenge we relish.”

Michael Leitner, Head of Business Unit Fastening Systems, Heerbrugg, Switzerland



Creativity is our driving force.

Creative solutions

Perfect fit for purpose, ease of assembly, durability in application and competitive manufacturing cost are key variables that determine the overall cost-effectiveness of a component or assembly. At our company, creating things is an interdisciplinary process with the customer as the primary player. We are skilled at leveraging and integrating the full potential of our technologies and solutions from the early project stages on.

Markets and products are changing at an increasingly rapid rate. Short response times help to drive the commercial success of innovation. We accelerate product development processes with simulation models and we use FMEA (Failure Mode and Effect Analysis) to ensure efficient production processes and effective quality assurance already during the creative concept stage.

Our creative people

We believe in improving and perfecting processes step by step. At the heart of this approach are the workers and teams who analyze, discuss and optimize processes and procedures on a regular basis.

Customized solutions often require customized tools. A cold forming tool may consist of as many as 100 individual parts, some of them with tolerances in the micron range. Our people meet these challenges on a daily basis – all over the world. Every single one of our production sites has its own toolmaking shop and in-house experts who are adept at translating challenging requirements into faultless products.

Creative logistics systems

We aim to provide marketable products and innovative logistics solutions that our customers will appreciate. Our IT-based ideas designed specifically for that purpose help us to simplify processes, enhance supply chain transparency and lower inventory levels, while maximizing supply security at the same time.

Our creative logistics solutions are tailored to suit the customer's value creation process and hence facilitate continuously improved control of operations. We pride ourselves on our smart solutions ranging from just-in-time delivery of production supplies all the way through to spare parts logistics that create sustainable added value for our customers.

Employees

Every employee is a co-entrepreneur

SFS acknowledges individual performance and encourages entrepreneurship and responsibility throughout the workforce.

Encouraging employee training and education

SFS employees shape the company's success with their commitment, self-initiative and can-do attitudes. As co-entrepreneurs, to quote the company's Corporate Principles, SFS employees have important responsibilities. They must also be empowered to carry out those responsibilities. SFS therefore attaches great importance to systematic employee training and development. In Switzerland, the average employee invests a full work week in training every year. Continual employee development is also the reason for our commitment to the dual system of vocational education and training, which is firmly entrenched in the SFS organization. In Switzerland we have more than 160 apprentices learning nine different occupations. SFS is also transplanting the proven advantages of Switzerland's vocational education system to other countries. Acting on its own initiative, vocational training programs have been established in other countries such as the United States.

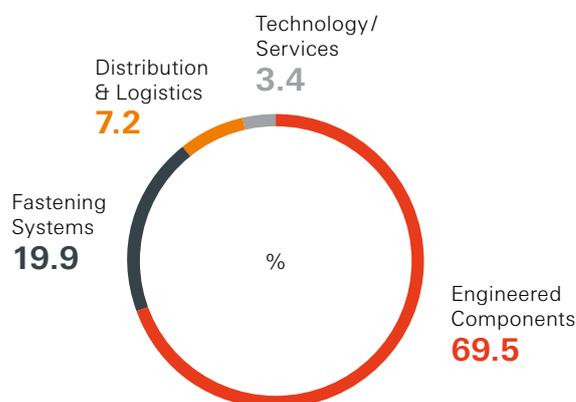
Achieving continual improvements

Continuous improvement is a key aspect of SFS's corporate culture. The means for making this happen is the steadfast application of KAIZEN/CIP philosophy, which centers on the pursuit of continuous improvement. SFS employees are constantly searching for ways of rationalizing processes, raising the bar on quality or securing new business opportunities. By deploying the shop floor management approach, processes and procedures are systematically improved in a very targeted manner.

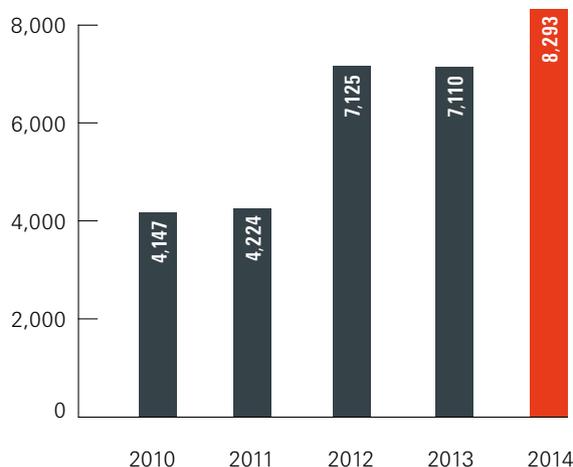
Ensuring value development

SFS, a company whose business activities are located in different countries with different cultures, and its employees espouse a high level of mutual understanding and trust. A shared set of values is important to make this a reality. SFS's core values and principles are described in its Corporate Principles.

WORK-FORCE BREAKDOWN BY SEGMENT 2014 IN %



NUMBER OF EMPLOYEES AT YEAR-END



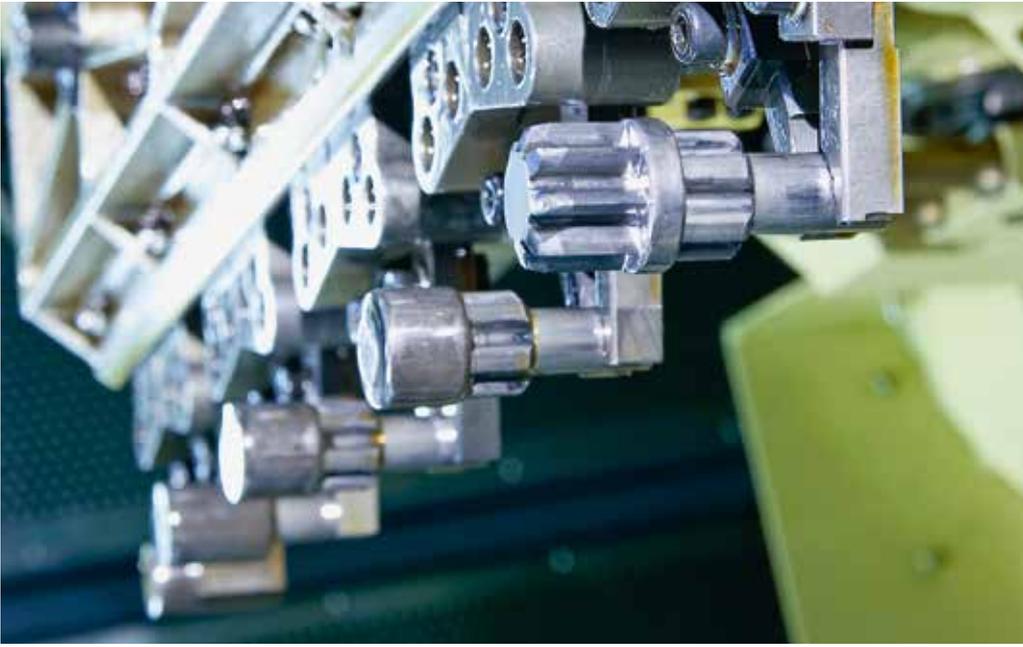


Lean management intensified

A comprehensive lean management initiative that was launched in Switzerland several years ago has since been introduced to other locations worldwide. Thanks to the active engagement of employees and local supervisors, business processes have been streamlined, efficiency increased and quality improved. This, in turn, has produced other positive effects such as a greater focus on the customer, reduced inventory levels and a reduction in workplace accidents.

Number of employees

8,293



Many years of experience with the core technologies of cold forming, deep drawing and plastic injection moulding have yielded a steady stream of opportunities for SFS to profile itself and provide valuable inputs for groundbreaking projects.

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Technology and innovation

Our know-how for the solutions of tomorrow

Every day, we strive to find innovations that offer our clients added value, backed by our renowned process and technology expertise.

In accordance with market and customer requirements, we aim to create ideas and purposefully translate them into useful products. We achieve this through close collaboration with our business partners, coupled with outstanding process and technology expertise. A focus on specific core technologies and skills makes us even more adept at what we do and allows us to constantly push the limits of what's possible. Cold forming lies at the heart of our work.

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. This efficient production process can be used with all ductile metals and their alloys as the basic material. 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.

By exploring the boundaries of technology, SFS specialists have repeatedly been able to achieve extraordinary solutions. A judicious approach to risk coupled with a commitment to continuous improvement is one of the fundamental pillars of our corporate culture and one of the reasons why SFS has become a renowned leader in the area of cold forming.

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

Secondary technologies: meeting comprehensive customer requirements

Deep drawing is an ideal complement to cold forming as it enables the execution of special precision parts that cannot be produced through cold forming. Flat blanks serve as the starting material for deep-drawn parts. They are shaped into hollow bodies with diverse functions undergoing as many as 22 different forming and shaping operations in the process. The product portfolio includes both rotationally symmetrical and non-symmetrical workpieces.

With its comprehensive knowledge of precision machining, SFS is well equipped to meet client demand for ready-to-fit components. Our production facilities are equipped with modern machines and systems for cutting and forming components.

Another technology that has become indispensable in a range of application areas is plastic injection moulding. SFS has extensive experience and comprehensive production expertise in this area, thus ensuring it is able to offer customers comprehensive solutions, beginning with the initial idea all the way through to the production-ready solution.

Thermoplastic parts can be used for a wide range of solutions that would not be possible with formed metal parts, or only with certain limitations.

Mechanical fastening technology: the optimal alignment of fastener and installation tool

–

In the development and production of application-optimized fastening systems, our specialists take a holistic approach. Fasteners are subject to diverse requirements so there are a variety of aspects that must be taken into consideration, such as mechanical properties, corrosion resistance as well as aesthetic characteristics. In many cases additional functions can be integrated, such as self-drilling, thread-forming, sealing or clamping screws. We also place utmost importance on ensuring the comfort, safety and cost-effectiveness of the installation process. We address these aspects by developing application-specific installation devices and tools and offering system solutions.



For applications in which screws do not fully meet the required specifications, rivets are often a sensible alternative. SFS is backed by the extensive and long-standing expertise GESIPA brings in blind rivet technology. Blind rivets and rivet nuts widen the range of mechanical fastening applications. Over the years the company has established an excellent reputation in many industrial sectors as a developer and manufacturer of cost-effective installation machines and tools. Minimal wear, high installation quality, short processing cycles and a long service life are the hallmarks of GESIPA installation tools and systems.

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

–

Sourcing costs associated with C parts are often higher than the actual cost of the parts themselves. This can usually be attributed to administrative tasks, intricate flows of information and complex movements of goods. In light of this, SFS has developed and implemented a series of solutions for optimizing C class inventory management processes.

In close collaboration with customers from a range of different industries, our logistics specialists examine existing procurement processes and identify potential for savings and optimization. This results in customized logistics concepts that offer tangible benefits with regard to process costs, warehousing costs and supply availability, significantly outweighing the related costs for the logistics modules.

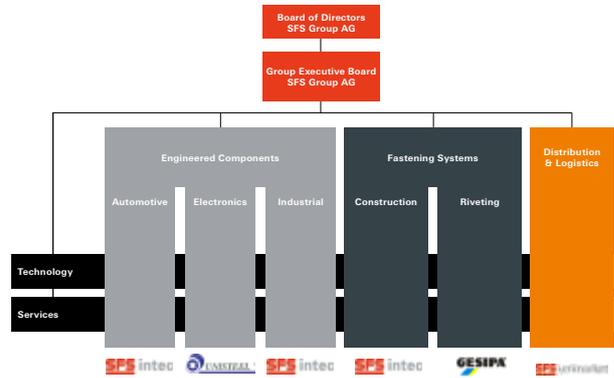


Lowering procurement costs

eLogistics allows customers to manage the products they source from SFS unimarket, as well as any other product from third-party suppliers, using the well known logistics systems turnLOG®, pushLOG, weightLOG or mdeLOG. This multi-supplier logistics platform checks incoming orders, splits them up and forwards them to the appropriate suppliers. Procurement costs are lowered not only for SFS products, but also for the products delivered by third-party suppliers.

2014

The year in pictures



QUARTER 1 – A new organizational structure was introduced on 1 January 2014, to ensure the company’s lasting flexibility, speed and customer focus. The Group is divided into three focused segments and six divisions, all of which receive support from the cross-departmental Technology and Services units.



QUARTER 1 – SFS introduced the JB-D®/L installation system, an innovative solution for quick, easy and reliable fastening of window casement frames to building structure surfaces. JB-D®/L was unveiled at the fensterbau frontale, the world’s leading trade fair for windows, doors and facades in Nuremberg.



QUARTER 2 – Zoo Zurich’s new elephant park «Kaeng Krachan» opened its doors to zoo visitors. A spectacular feature of the new compound is the wooden concave roof with its net-like organic structure and skylights that filter sunlight like a canopy of leaves. The highly complex wooden frame was constructed with fastening solutions from SFS.



QUARTER 1 – A new factory was built in Nansha, in the Guangzhou metropolitan area (China). It serves as a hub for the Automotive, Riveting and Industrial divisions, as well as an operating base for the SFS unimarket team in China.



QUARTER 1 – Major projects entered the production start-up and ramp-up stages in Switzerland, China and the US. These projects are for ball screw drives used in electronic parking brakes.



QUARTER 1 – Expansion at the manufacturing plant in Medina, Ohio, roughly doubled the existing factory floor space. SFS is well prepared to ramp up the production of major new products thanks to this expansion.



QUARTER 2 – An impressive project was realized in the heart of Paris with the help of the *isoweld*® system for the new offices of the Fondation Jérôme Seydoux-Pathé. *isoweld*® is a novel system for installing insulation panels and membranes on flat roofs.



QUARTER 2 – 7 May, 2014, marked SFS' debut on the Swiss stock market SIX Swiss Exchange AG. With this historic milestone, SFS Group has strengthened the foundation for its sustainable and autonomous corporate development.



QUARTER 3 – High precision miniature parts with diameters of less than 2 mm and special screws that can be fastened directly to parts made of engineering plastics are produced for everyday personal care products. Made by the million using cold forming technology, these ready-to-fit parts satisfy the most demanding of requirements with regard to corrosion resistance, dermal tolerance, design and quality.



QUARTER 3 – SFS started to supply precision components to smartwatch manufacturers. Key components of a smartwatch, such as fasteners, springs, precision machined parts, miniature cold forged parts and sub-assemblies of mechanical components, were delivered, as were top-quality, esthetic solutions for surface treatment applications.



QUARTER 3 – SFS Group AG increased its interest in Indo Schöttle Auto Parts from 45% to about 89% on 31 July, 2014. Indo Schöttle is a well positioned Indian supplier of precision parts for automobile manufacturers. SFS can also utilize Indo Schöttle as a base for developing new business activities in the promising Indian market.



QUARTER 3 – Modules and subassemblies are now being developed in-house, in addition to our production process development activities for customer-specific products. Adjustments therefore had to be made to our ISO/TS 16949 certified quality management system and in September 2014 we received initial certification with design responsibility for our product development process from SGS.



QUARTER 3 – September 17 marked the 14th Swiss Employer Award ceremony in Bern. SFS staff at various sites in Switzerland participated in this extensive employee survey. SFS Group was pleased to qualify as one of the best employers in Switzerland with a number 4 ranking in the large company category.



QUARTER 4 – A comprehensive logistics solution was implemented for a manufacturer of rail vehicles in Belarus that vastly simplified management of its C class supplies. SFS unimarket installed a turnLOG® solution with a total length of some 60 meters that manages more than 1,000 items and ensures continual, just-in-time restocking of supplies.



QUARTER 4 – The Best Contribution Award 2014 was presented to Unisteel Fastening Systems Shanghai (UFS) in December 2014. With this distinction, UFS ranked one of the top 10 of 100 outstanding Chinese and foreign enterprises who received the award.



QUARTER 3 – On 4 September, 2014 we were able to give institutional shareholders, potential investors and financial analysts a tour of the company and deepen their understanding of SFS Group. Some 60 interested individuals were welcomed at the first SFS Investor Day in Heerbrugg.



QUARTER 3 – PowerBird® Pro Gold Edition, a handheld blind rivet setting tool, offers high performance and fast setting speeds. Equipped with a brushless motor, it is an extremely rugged, nearly wear-free tool with record setting speeds.



QUARTER 3 – New, spacious demonstration and training centers were opened at various GESIPA locations worldwide. Customers can test and learn more about a wide range of the latest GESIPA tools at these new centers.



© XTU architects

QUARTER 4 – The undulating form of the Center for wine and civilization in Bordeaux is captivating to the eye. The building's structural framework consists of a concrete and wood substrate. A total of 19,000 square meters of glass plates are mounted on to this substrate, forming the building envelope. SFS intec provided fastening technology for this construction project, which is scheduled to be completed in March 2016.



QUARTER 4 – SFS developed systems for fastening cabin interior panels used in the Airbus A350 XWB and other aircraft families. The convincing features of these systems are easy assembly and disassembly plus a light-weight design. They are also instrumental in reducing interior cabin noise.



QUARTER 4 – SFS started commercialization of new high performance UV Fresnel lenses, after being approached by smartphone manufacturers seeking to upgrade conventional Fresnel lenses. The new, innovative UV Fresnel lenses are an excellent choice for smartphones with a thin profile.

Corporate Governance

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Corporate Governance

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.

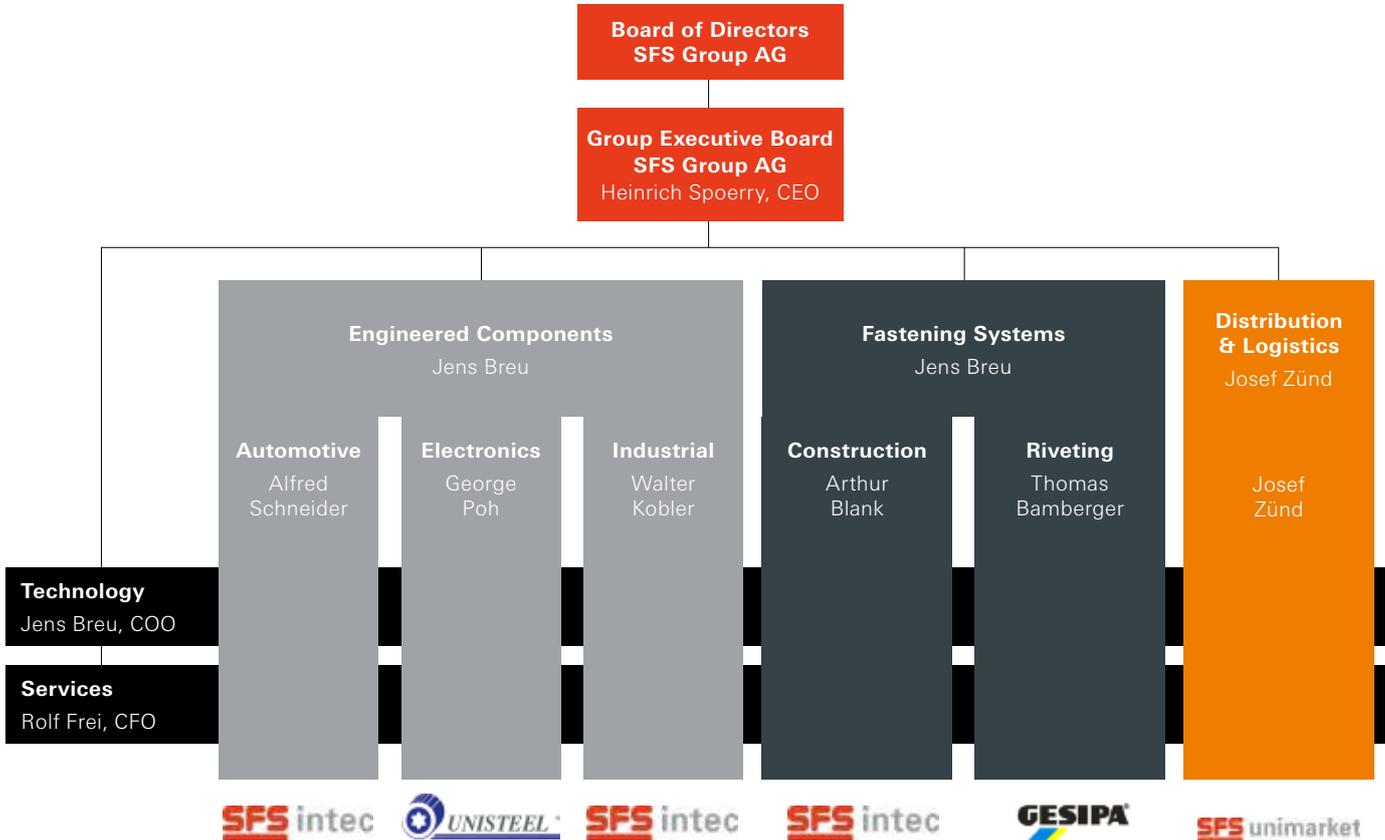
The structure of the following Corporate Governance report follows the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange AG (DCG). All figures apply to 31 December 2014, unless otherwise stated.

1 Group structure and shareholders

1.1 Group structure

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

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



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

The parent company of SFS Group is SFS Group AG, domiciled in Heerbrugg, municipality of Au (SG), Switzerland. It is incorporated under Swiss law and listed in the main segment of SIX Swiss Exchange AG (security number 23.922.930, ISIN CH0239229302). Its share capital is CHF 3,750,000 and its market capitalization was CHF 2,966.3 million as per 31 December 2014 (PY n/a).

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

1.2 Significant shareholders

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

Share capital and voting rights

	31.12.2014
Founding families	55.04%

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

The Board of Directors is not aware of any other shareholders listed in the share register or shareholder groups holding more than 3% of the share capital or voting rights as per 31 December 2014.

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

http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

1.3 Cross-shareholdings

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

2 Capital structure

2.1 Capital

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

2.2 Authorized and conditional capital

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

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

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

Conditional capital does not exist in SFS Group AG.

2.3 Changes in capital

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

2.4 Shares and participation certificates / Dividend right certificates

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

2.5 Limitations on transferability and nominee listings

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

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

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

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

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

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

In the reporting year no exceptions were granted and no deletions were executed.

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

2.6 Convertible bonds and options

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

3 Board of Directors

3.1 Members of the Board of Directors

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

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

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

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

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

3.2 Other activities and vested interests

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

3.3 Permitted additional activities

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

- five mandates in publicly traded companies (Art. 727 para. 1 num. 1 CO); and, in addition,
- ten mandates in companies which exceeded, in two successive reporting years, CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees in average (Art. 727 para. 1 num. 2 CO); 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

Since 1 January 2014 the terms of office for the Board of Directors of public traded companies end at the end of the next Annual General Meeting, according to Art. 3 of the Ordinance against Excessive Compensation (OaEC). Therefore the terms of office of each member of the Board of Directors correspond to the legally permitted maximum term of one year. The members of the Board of Directors, the Chairman and the members of the Nomination and Compensation Committee are elected by the Annual General Meeting. Every member is elected individually.

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

If the office of the Chairman of the Board of Directors is vacant, the Nomination and Compensation Committee is not complete or the company does not have an Independent Proxy, the Board of Directors shall appoint a substitute for the time period until the conclusion of the next Annual General Meeting that must be - with the exception of the Independent Proxy - a member of the Board of Directors.

Board of Directors

1 Heinrich Spoerry

- Executive Chairman and Chief Executive Officer since 1999
- Executive member since 1994
- Member of the Board of Directors 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 Board of Directors since 2010
- Bucher Industries AG, member of the Board of Directors since 2006
- Frutiger AG, member of the Board of Directors since 2008
- Chamber of Commerce and Industry St. Gallen - Appenzell, Vice Chairman of the Supervisory Board since 2005

Qualifications

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

2 Ruedi Huber

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

Other activities

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

Qualifications

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

3 Urs Kaufmann

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

Other activities/professional background

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

Qualifications

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



1



3



2

4 **Thomas Oetterli**

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

Other activities/professional background

- Schindler Group, member of Executive Management Committee since 2010
- Schindler Group, Head of China since 2013
- Schindler Group, Head of Europe North & East 2010–2013
- Schindler Group, Head of Switzerland 2006–2009
- With Schindler Group since 1994 (various management positions)

Qualifications

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

5 **Jörg Walther**

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

Other activities/professional background

- Partner at Schärer Attorneys at law since 2010
- AEW Energie AG, member of the Board of Directors since 2014
- Proderma Betriebs AG, Chairman of the Board of Directors since 2014
- Resun AG, General Counsel und Head Corporate Services, member of the Executive Committee 2010–2012
- Novartis International AG, Global Head Legal M&A an 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

6 **Karl Stadler**

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

Other activities

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

Qualifications

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

7 **Hans Huber**

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



4



5



6



7

3.5 Internal organizational structure

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

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

BOARD OF DIRECTORS' PROCEDURES

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

Ten ordinary Board meetings took place in the reporting year. Four meetings lasted less than two hours, five meetings lasted for one day and a strategy workshop lasted for one day and a half. Due to the IPO in the reporting year, the Board meetings were held more frequently than usual in the first half-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 at a meeting can take place by telephone or electronic media. The Board of Directors passes its resolutions with the majority of the votes cast. In case of a tie of votes, the Chairman has the casting

vote. Voting by proxy is not allowed. All resolutions and deliberations are recorded. The minutes are signed by the Chairman and the secretary and must be approved by the Board of Directors.

LEAD DIRECTOR

The Board of Directors has elected Urs Kaufmann as Lead Director until the end of the next Annual General Meeting. In his function, he takes the chair of Board meetings if the Chairman is indisposed. In particular, the Lead Director chairs Board meetings if the Chairman is required to abstain from the deliberation and decision-taking in case the following items are on the agenda:

- Assessment of the work of the Chairman
- Decision of the Board of Directors on the request to the general meeting for the re-election or not of the Chairman
- Decision about the compensation of the Chairman

COMMITTEE'S CONSTITUTION AND PROCEDURES

The committee's areas of authority and responsibility are defined in Section 5 of the Organizational Regulations of SFS Group. They support the Board of Directors in its supervisory and control capacities and act mainly as consulting, assessing and preparation bodies. The Nomination and Compensation Committee only has final decision competence concerning the approval of agreements and employment contracts of the Chairman of the Board of Directors, the CEO and the other members of the Group Executive Board as well as concerning the approval of the acceptance of external mandates by members of the Board of Directors and the Group Executive Board. The Audit Committee approves with final competence additional services of the external auditor that are not related to the actual audit.

At the end of the reporting period, the committees were set up as follows:

Nomination and Compensation Committee

Urs Kaufman	Chairman
Karl Stadler	Member

Audit Committee

Thomas Oetterli	Chairman
Ruedi Huber	Member
Jörg Walther	Member

The committees meet as often as the business of the company requires. The Nomination and Compensation Committee usually meets in February and December before the Board meeting. The Audit Committee typically meets in January, February and September. A record is kept of every meeting and the meetings' participants and the Board of Directors are provided with the minutes. The Chairmen of the committees report about the committees' activities at the next meeting of the Board of Directors and prepare formal requests to the Board of Directors in whole.

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

NOMINATION AND COMPENSATION COMMITTEE

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

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

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

- requests regarding the compensation system of the Group

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

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

AUDIT COMMITTEE

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

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

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

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

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

The Board of Directors periodically examines and amends the Organizational Regulations.

3.6 Definition of areas of responsibility

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

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

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

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

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

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

The management-information-system of SFS Group works as follows: quarterly, half-yearly and yearly, the balance sheet, income statement, cash flow statement and key figures of the subsidiaries are set up and consolidated, comparing them to the previous year's figures and the budget. The budget is reviewed based on the quarterly financials in the form of a latest best estimate about the reachability of each legal 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 midterm planning for the following three to five years. Usually, the Board of Directors deals with strategic questions with regard to the group, the segments and the divisions in a two-day workshop.

The Chief Executive Officer and the Group Executive Board 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 Board of Directors immediately in written form.

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

In line with the initial public offering of 7 May 2014 the Board of Directors decided to strengthen the audit focus in the area of compliance, governance and operational processes. For this purpose a cooperation with a specialized external partner was agreed upon, who has the technical resources to ensure a co-sourcing of the internal audit.

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

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

- dependency on global economic developments
- investment risks in large-scale projects
- general market risks
- risks resulting from acquired corporations
- currency risks
- compliance risks

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

4. Group Executive Board

4.1 Members of the Group Executive Board

The Chief Executive Officer, together with the Group Executive Board, is responsible for the management of the SFS Group. Under his leadership, the Group Executive Board addresses all issues of relevance to the Group, takes decisions within its remit and submits proposals to the Board of Directors. The Heads of the Segments, Divisions and corporate cross-functions are responsible for outlining and achieving their business objectives and for managing their units autonomously.

The Group Executive Board had nine members as per 31 December 2014:

Group Executive Board

1 **Heinrich Spoerry**

- Chief Executive Officer since 1999
- Further comments in Section 3 Board of Directors

2 **Jens Breu**

- Chief Operating Officer since 2014
- Head of Segment Engineered Components since October 2014
- Head of Segment Fastening Systems since 2014
- With SFS since 1995
- Swiss citizen, born 1972

Functions within SFS Group

- Member of the Board of Directors of several SFS Group companies
- Head of Industrial Sales 2012–2013
- Technical Director SFS intec 2008–2013
- Vice president of manufacturing SFS intec Inc. (USA) 2000–2008
- Tool engineer 1995–2000

Qualifications

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

3 **Rolf Frei**

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

Functions within SFS Group

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

Further functions

- Member of the Board of Directors of stürmsfs ag since 2011

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

4 **Alfred Schneider**

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

Functions within SFS Group

- Member of the Board of Directors of several SFS Group companies
- Member of the Board of Directors 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

5 **Walter Kobler**

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

Functions within SFS Group

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

Qualifications

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

6 **George Poh**

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

Functions within SFS Group

- Member of the Board of Directors 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

Further functions

- Member of the Board of Directors of Uni-Capital Limited since 2012
- Member of the Board of Directors of Unifund Investors Limited since 2008

Qualifications

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

7 **Arthur Blank**

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

Functions within SFS Group

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

Qualifications

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

8 **Thomas Bamberger**

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

Functions within SFS Group

- Member of the Board of Directors 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

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 Board of Directors of several SFS Group companies
- Chief Executive Officer SFS unimarket 2000–2013
- Various sales and management positions SFS unimarket

Further functions

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

Qualifications

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





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

4.2 Other activities and vested interests

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

4.3 Permitted additional activities

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

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

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

4.4 Management contracts

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

5. Compensation, shareholdings, loans

All information on this subject can be found on page 81 – 87 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.

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

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

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

6.2 Independent Proxy

Each shareholder may be represented by the Independent Proxy.

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

The Annual General Meeting of 4 April 2014 has elected bürki bolt németh rechtsanwälte, 9435 Heerbrugg, as Independent Proxy until the next Annual General Meeting.

6.3 Statutory quorums

For:

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

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

6.4 Convocation of the Annual General Meeting

There are no regulations deviating from the relevant statutory provisions.

6.5 Inclusion of items on the agenda

The Board of Directors states the items on the agenda.

Registered shareholders with voting rights individually or jointly representing at least 5% of the share capital may demand that items are put on the agenda. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 days before the date of the Annual General Meeting and shall be in writing.

6.6 Registration in the share register

No registrations are made in the share register about ten days before and five days after the date of the Annual General Meeting. The exact dates are set in the invitation to the Annual General Meeting. In the reporting year the Board of Directors has granted no exceptions to this rule.

7. Changes of control and defense measures

7.1 Duty to make an offer

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

7.2 Clauses on changes of control

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

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

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

8. Auditing body

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

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

8.2 Audit fees

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

8.3 Additional fees

For audit-related services in coherence with the IPO in May 2014, PricewaterhouseCoopers AG and affiliated companies raised invoices in a total amount of CHF 0.2 million (PY 0.2 million). For additional services with regard to tax compliance as well as other tax consulting services a total amount of CHF 0.2 million (PY 0.2) was paid to PricewaterhouseCoopers AG and affiliated companies in 2014.

8.4 Informational instruments pertaining to an external audit

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

PricewaterhouseCoopers AG performed an "analytical review" of the Half-Year Report 2014 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 all three meetings of the Audit Committee.

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

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

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

9. Information policy

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

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

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

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

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

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

http://www.sfs.biz/en/web/maillinglist/maillinglist_abonnieren.jsp

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

http://www.sfs.biz/en/web/investoren/aktionaersinformationen/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 can be ordered in written form. Other interested parties receive the reports upon request. Official announcements and company notices are published in the Swiss Commercial Gazette (SHAB).

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

Investors' information

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

Organizational regulations

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

Articles of Association

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

Company news and ad hoc announcements

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

Financial reports

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

Corporate Communications / Investor Relations

Claude Stadler
Rosenbergsaustrasse 20
CH-9435 Heerbrugg

+41 71 727 51 85
corporate.communication@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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Compensation report

1 Introduction

This Compensation Report provides information about the compensation system established by SFS Group and the compensation paid to SFS's Board of Directors and the Group Executive Board. SFS Group updated the compensation system for the Board of Directors and the Group Executive Board in conjunction with its going public transaction 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 *économiesuisse* and the provisions set forth in the Directive on Information relating to Corporate Governance (DCG) issued by SIX Swiss Exchange AG.

2 Fundamental provisions of the compensation system and compensation components

The fundamental principles underlying SFS Group's compensation program are given below:

- fixed and variable as well as short and long-term compensation components
- performance-oriented, based on clearly defined, measurable targets
- element of discretionary management judgment
- clear and comprehensive
- fair/market-based, ethical and justifiable in the public domain
- predetermined maximum and minimum thresholds

3 Compensation components

3.1 Board of Directors

The compensation paid to members of the Board of Directors is a fixed amount and it is set annually by the Board of Directors based on a proposal by the Nomination and Compensation Committee (NCC). It consists of the base fee and a lump-sum cash payment as reimbursement for committee work and service-related expenses. In addition, a long-term incentive is awarded in the form of a fixed number of shares of SFS Group AG (hereinafter SFS shares) subject to a holding period of at least three years. The number of SFS shares awarded will be reviewed on a regular basis by the NCC. Proposals for modification will be submitted to the Board of Directors if and when appropriate.

As the duties of the chairman of the board of Directors and the CEO were vested in the same individual during the 2014 financial year, compensation was given only for the service as CEO. No additional compensation was paid for the individual's service as executive director.

Comparative country-specific market data is referenced when setting the aggregate compensation of the Board of Directors. This data will be reviewed on an annual basis.

3.2 Group Executive Board

Members of the Group Executive Board receive a base salary commensurate with their responsibilities and experience, a variable cash component based on individual performance and operational results, and a variable long-term incentive component in the form of SFS shares that are restricted for at least three years. No special perquisites are provided to members of the Group Executive Board. They receive a lump-sum cash payment as reimbursement for business and representational expenses in accordance with the business and travel expense policy document approved by the competent cantonal tax authority, which is applicable to all management level employees based in Switzerland.

Comparative market data on Swiss industrial companies of a similar size and with a similar geographic presence is consulted when setting the aggregate compensation of the Group Executive Board, and the individual responsibilities and experience of the respective persons are also taken into consideration. This data will be reviewed on an annual basis.

The fundamental compensation principles applicable to members of the Group Executive Board are set forth in a policy document and will in each case be in effect over a multi-year period.

Subject to approval at the General Meeting of shareholders, compensation of members of the Group Executive Board will consist of a fixed cash component, a variable cash component based on individual performance and operational results, and a number of SFS shares.

The variable cash compensation is based on the extent to which certain predetermined targets over a one-year performance period have been achieved. The Board of Directors sets the performance targets and their weightings based on a proposal submitted by the NCC. In the 2014 financial year, the targets used pertained to sales, EBIT margin and asset turnover and each target was assigned an equal weighting.

OVERVIEW OF TARGET COMPENSATION

FIXED COMPENSATION (BASE SALARY, 13X MONTHLY SALARY)	VARIABLE CASH COMPENSATION	VARIABLE SFS SHARE COMPENSATION
100%	25 to 50%	10 to 20%

BREAKDOWN OF VARIABLE COMPONENTS

	VARIABLE CASH COMPENSATION	VARIABLE SFS SHARE COMPENSATION	VARIABLE COMPENSATION CAP SFS SHARES
CEO	50% of base salary	15 to 20% of base salary	approx. 2x base salary
Group Executive Board	25% of base salary	10 to 15% of base salary	approx. 1.6x base salary

VARIABLE CASH COMPENSATION

The amount of variable cash compensation paid to each member of the Group Executive Board is determined by the Board of Directors as a percentage of fixed compensation. For the CEO, variable cash compensation is capped at 75% of fixed compensation. For all other members of the Group Executive Board, variable cash compensation is capped at 37.5% of fixed compensation. Every year at the beginning of the one-year performance period, individual targets are set for each member of the Group Executive Board by the Board of Directors based on a proposal submitted by the NCC and/or the CEO.

Besides the financial targets at group, segment and divisional level, individual objectives for the year are set and subsequently assessed. The compensation-relevant objectives are determined by the Board of Directors in accord with the Company's long-term strategy. Threshold levels are determined for each of the defined objectives, below which there is no entitlement to compensation, and caps are set as well, representing the maximum payout for the given objective. An evaluation of the "Leadership, Values and Behaviors" metrics is also performed as part of the variable compensation program.

WEIGHTING OF TARGETS AND OBJECTIVES

TARGET CATEGORY	GROUP RESULT	SEGMENT AND DIVISIO- NAL RESULT	INDIVIDUAL TARGETS	LEADERSHIP, VALUES, BEHAVIORS
CEO, COO, CFO	60%	–	20%	20%
Other board members	30%	30%	20%	20%

VARIABLE SHARE COMPENSATION

An additional component of the variable compensation of members of the Group Executive Board is paid in SFS shares. The Board of Directors determines a certain amount of SFS shares for each member every year at the beginning of the performance period, at which time the value of said shares should correspond to between 10 and 15% of the fixed base salary. At the end of the performance period the Board of Directors will determine how many SFS shares shall be delivered to each member of the Group Executive Board based on the situation in the markets, implementation of strategy and financial constitution of the company. The corresponding number of SFS shares will become the property of the recipients after the General Meeting affirming this compensation. These SFS shares will be subject to a holding period of at least three years. Shares awarded to a member of the Group Executive Board shall remain his or her property upon separation from the Company.

3.3 Stock ownership plan

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

3.4 Loans and credit facilities

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.

4. Corporate governance

The Board of Directors nominates candidates to serve on the Nomination and Compensation Committee (NCC) for annual election by shareholders at the General Meeting. These candidates must be chosen from among the members of the Board of Directors.

Urs Kaufmann chaired the NCC during the 2014 financial year. Karl Stadler also served as a member of the NCC.

The NCC submits proposals to the Board of Directors regarding the annual compensation of members of the Board of Directors and the CEO and the annual financial targets with respect to the variable, performance-based compensation components for the Group Executive Board and senior management.

Furthermore, the Board of Directors sets the compensation for the other members of the Group Executive Board and takes due note of the compensation of the members of the divisional management teams. The entire Board of Directors is present whenever deliberating and setting its own compensation levels and all members have decision-making authority.

The responsibility for determining variable compensation and aggregate compensation is set forth in the following table:

	PROPOSAL	DECISION	APPROVAL
Board of Directors	NCC	Board	AGM
CEO	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 CEO 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 CEO and the Group Executive Board to be paid in the subsequent financial year.

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

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

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

This additional compensation may only be used if the aggregate compensation of the Group Executive Board approved by the General Meeting for the period up to the Annual General Meeting is not sufficient to cover the compensation of the new or promoted members of the Group Executive Board. The General Meeting does not vote on the additional compensation paid.

5. Compensation paid or granted in the 2014 financial year

This section is subject to inspection by the auditors.

5.1 Compensation of the Board of Directors

SHARES GRANTED ¹⁾

IN CHF EXCEPT NUMBER OF SHARES	BASE SALARY, NET	NUMBER	VALUE	SOCIAL AND PENSION CONTRIBUTIONS ²⁾	TOTAL	OF WHICH IN CASH
Heinrich Spoerry, Chairman	No compensation as board member, compensation appears under chapter 5.2					
Hans Brunhart (until 4.04.2014)	21,667				21,667	21,667
Christian Fiechter (until 4.04.2014)	20,845			1,917	22,762	20,845
Ruedi Huber ³⁾	88,125	500	32,500	13,278	133,903	88,125
Urs Kaufmann	75,239	500	32,500	11'336	119,075	75,239
Thomas Oetterli	75,239	500	32,500	11,336	119,075	75,239
Karl Stadler	88,539	500	32,500	9,351	130,390	88,539
Jörg Walther (from 4.04.2014) ⁴⁾	60,000	500	32'500	9,040	101,540	60,000
Total Board of Directors	429,654	2,500	162,500	56,258	648,412	429,654

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

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

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

⁴⁾ Jörg Walther was elected to the Board of Directors on 7 April, 2014. Compensation for advisory services prior to his election to the board amounted to a net CHF 20,000.

5.2 Compensation of the Group Executive Board

VARIABLE SHARE COMPENSATION ¹⁾

IN CHF EXCEPT NUMBER OF SHARES	BASE SALARY, NET	VARIABLE CASH COMPENSATION, NET	NUMBER	VALUE	STOCK OWNERSHIP PLAN ²⁾	SOCIAL AND PENSION CONTRIBUTIONS ³⁾	TOTAL	OF WHICH IN CASH
Heinrich Spoerry, CEO	624,243	302,581	2,100	136,500	6,324	246,933	1,316,581	926,824
Other members of GEB	2,819,008	680,180	5,550	360,750	33,201	849,411	4,742,550	3,499,188
Total Group Executive Board	3,443,251	982,761	7,650	497,250	39,525	1,096,344	6,059,131	4,426,012

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

²⁾ Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount

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

5.3 Loans and credit facilities

SFS Group did 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.

6. Share ownership

6.1 Shares owned by the Board of Directors

	NUMBER OF SFS SHARES
Heinrich Spoerry, Chairman	see 6.2
Ruedi Huber	244,280
Urs Kaufmann	5,000
Thomas Oetterli	3,000
Karl Stadler	2,519,800
Jörg Walther	–
Total 31.12.2014	2,772,080

The number of shares of Karl Stadler include privately hold 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 statements of this annual report pursuant to Article 663c of the Swiss Code of Obligations.

6.2 Shares owned by the Group Executive Board

	NUMBER OF SFS SHARES
Heinrich Spoerry, CEO	188,180
Thomas Bamberger	670
Arthur Blank	12,340
Jens Breu	5,680
Rolf Frei	60,680
Walter Kobler	19,000
George Poh	49,680
Alfred Schneider	13,580
Josef Zünd	17,340
Total 31.12.2014	367,150

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



Report of the statutory auditor on the compensation report

We have audited chapter 5 (pages 86 to 87) of the accompanying remuneration report dated 5 March 2015 of SFS Group AG for the year ended 31 December 2014.

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 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen
Audit expert
Auditor in charge

Martin Bettinaglio
Audit expert

St. Gallen, 6 March 2015

Financial report 2014

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CONSOLIDATED BALANCE SHEET

in CHF million

ASSETS	NOTES	31.12.2014		31.12.2013	
Cash and cash equivalents	7	138.3		217.4	
Marketable securities	7	0.0		0.3	
Trade receivables	8	268.3		218.7	
Other receivables	9	33.2		29.5	
Inventories	10	273.2		239.5	
Current assets		713.0	31.7%	705.4	33.1%
Property, plant and equipment	11	590.5		534.2	
Intangible assets	12	908.7		842.9	
Financial assets	13	0.7		5.7	
Investments in associates	14	13.8		32.6	
Deferred income tax assets	17	19.4		12.2	
Non-current assets		1,533.1	68.3%	1,427.6	66.9%
Assets		2,246.1	100.0%	2,133.0	100.0%
LIABILITIES AND EQUITY					
Trade payables		118.4		77.3	
Current income tax liabilities		24.3		24.8	
Other payables	15	87.4		100.6	
Current borrowings	16	38.2		114.0	
Current liabilities		268.3	11.9%	316.7	14.8%
Non-current borrowings	16	12.4		352.2	
Deferred income tax liabilities	17	119.5		106.0	
Provisions	18	40.9		21.7	
Non-current liabilities		172.8	7.7%	479.9	22.5%
Liabilities		441.1	19.6%	796.6	37.3%
Share capital		3.8		3.2	
Reserves	19	1,789.9		1,328.8	
Equity attributable to SFS		1,793.7		1,332.0	
Non-controlling interests		11.3		4.4	
Total equity		1,805.0	80.4%	1,336.4	62.7%
Liabilities and equity		2,246.1	100.0%	2,133.0	100.0%

The notes on pages 94 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

in CHF million

	NOTES	2014		2013	
Net sales	20	1,381.8		1,330.4	
Change in work in progress and finished goods		6.9		-2.4	
Operating revenue		1,388.7	100.0%	1,328.0	100.0%
Material expenses		-523.5		-516.3	
Other operating income	21	12.5		31.9	
Contribution margin		877.7	63.2%	843.6	63.5%
Personnel expenses	22	-387.9		-374.1	
Other operating expenses	23	-218.4		-199.7	
Depreciation	11	-76.0		-74.4	
Amortization of intangible assets	12	-53.9		-53.1	
Total operating expenses		-736.2	53.0%	-701.3	52.8%
Operating profit (EBIT)		141.5	10.2%	142.3	10.7%
Finance expense	24	-12.2		-20.2	
Finance income	24	4.4		7.3	
Share of profit/(loss) from related entities	14	0.4		-19.4	
Earnings before tax		134.1		110.0	
Income taxes	25	-23.9		-23.5	
Net income		110.2	7.9%	86.5	6.5%
Attributable to owners of SFS Group AG		109.9		86.5	
Attributable to non-controlling interests		0.3		-	
Earnings per share of the owners of SFS Group AG (in CHF) basic and diluted	26	3.07		2.67	

The notes on pages 94 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF million

	NOTES	2014	2013
Net income		110.2	86.5
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT AND LOSS			
Actuarial gains/(losses) on defined benefit plans	19	-20.7	44.3
Tax effect defined benefit plans	19	3.4	-7.4
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT AND LOSS			
Currency translation adjustments (CTA)	19	86.7	-24.2
Reversal of CTA from deconsolidation		5.0	0.9
Cash flow hedges	19	-1.5	0.7
Tax effect on cash flow hedges		0.4	-0.1
Comprehensive income		183.5	100.7
Attributable to owners of SFS Group AG		182.8	100.9
Attributable to non-controlling interests		0.7	-0.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in CHF million

	NOTES	SHARE CAPITAL	RESERVES	ATTRIBUTABLE TO OWNERS OF SFS GROUP	NON-CONTROLLING INTERESTS	TOTAL
Balance at 1.1.2013	19	3.2	1,248.3	1,251.5	4.7	1,256.2
Comprehensive income 2013		-	100.9	100.9	-0.2	100.7
Dividends for 2012		-	-20.4	-20.4	-0.1	-20.5
Balance at 31.12.2013	19	3.2	1,328.8	1,332.0	4.4	1,336.4
Comprehensive income 2014		-	182.8	182.8	0.7	183.5
Dividends for 2013		-	-32.4	-32.4	-	-32.4
Changes minorities	30	-	-	-	6.2	6.2
Capital increase		0.6	310.7	311.3	-	311.3
Balance at 31.12.2014	19	3.8	1,789.9	1,793.7	11.3	1,805.0

The notes on pages 94 to 121 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in CHF million

	NOTES	2014	2013
Operating profit (EBIT)		141.5	142.3
Depreciation/amortization	11, 12	129.9	127.5
Interest paid	24	-8.0	-19.3
Income tax paid		-35.3	-39.3
Changes in provisions and valuation allowances		-7.7	-10.9
Cash flow before changes in net working capital		220.4	200.3
Changes in trade receivables		-31.6	37.9
Changes in other receivables		-	3.0
Changes in inventories		-21.1	15.7
Changes in current liabilities		32.1	-40.9
Changes in net working capital		-20.6	15.7
Cash flow from operating activities		199.8	216.0
Purchases of property, plant and equipment	11	-95.8	-75.0
Purchases of software	12	-1.8	-1.6
Proceeds from sale of assets		2.7	18.0
Acquisition of subsidiary, net of cash acquired	30	-38.6	-30.6
Proceeds from sale of investments	30	0.7	20.0
Proceeds from sale of associates		-	35.7
Acquisition of associates		-	-3.2
Dividends from associates	14	0.2	0.4
Cash flow from operational investing activities		-132.6	-36.3
Proceeds from interest and securities	24	1.6	1.4
Proceeds from sale of marketable securities		0.3	0.9
Cash flow from investing activities		-130.7	-34.0
Capital increase net		311.3	-
Proceeds from current borrowings	16	21.6	4.4
Repayment of current borrowings	16	-125.8	-77.3
Repayment of non-current borrowings	16	-328.5	-45.4
Change in financial assets		0.5	3.3
Dividends paid to the shareholders		-32.4	-20.5
Cash flow from financing activities		-153.3	-135.5
Translation adjustment on cash and cash equivalents		5.1	-1.1
Changes in cash and cash equivalents		-79.1	45.4
Cash and cash equivalents at beginning of period	7	217.4	172.0
Cash and cash equivalents at end of period	7	138.3	217.4

The notes on pages 94 to 121 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, 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 5 March 2015 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 7 May 2015.

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.

Except for certain financial instruments, such as derivative financial instruments, which have been recognized at fair value, the consolidated financial statements have been prepared under the historical cost convention.

2.2 Changes in accounting policy and disclosures

2.2.1 Amended standards adopted

With effect of 1 January 2014, no new International Financial Reporting Standards (IFRS) have been adopted. However, the following adjustments to IFRSs/IASs and interpretations have been adopted by the SFS Group:

IAS 32 The presentation of the Financial Instruments was adjusted with a clarification on the allocation of financial assets and financial liabilities.

IAS 39 Financial Instruments: Recognition and measurement of financial instruments have been adopted with a clarification, that derivative instruments continue to exist as a hedging instrument after novation.

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests and IAS 27 Separate Financial Statements contain clarifications according to which investment companies must be consolidated.

IFRIC 21 Levies defines the recording date for regulatory charges, which are not income taxes.

None of the amendments and interpretations have a significant impact on the consolidated financial report of the SFS Group.

The common annual specifications and minor adjustments in various standards and interpretations do not have a significant impact on the consolidated financial statements.

2.2.2 New standards and interpretations not adopted

The new standard IFRS 9 Financial Instruments addresses the classification and measurement of financial assets and financial liabilities. The Group does not expect a significant impact based on this standard. Effective date: 1 January 2018.

IFRS 15 Revenue from Contracts with Customers introduces a new principle specifying that revenue is recognized when a customer obtains control of a good or service. SFS does not expect a significant impact based on this standard. Effective date: 1 January 2017.

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 in order to recognize the Group's share of the postacquisition profits or losses and movements in other comprehensive income.

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 remeasured through profit or loss, unless they are designated as cash flow hedges.

LOANS AND RECEIVABLES

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

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

2.8 Hedge accounting

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

2.9 Other receivables

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

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of goods comprises raw materials, direct labor, other direct costs and related production overheads based on normal operating capacity utilization. Where necessary, a provision is made for obsolete or slow-moving inventories.

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 straightline 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 straightline method to allocate the cost over the asset's estimated useful lives, as follows:

	YEARS
Licenses and patents	3–5
Software	3–10
SAP project costs	5–10
Building lease	50
Other intangible assets	3–10

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

2.13 Provisions

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

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

2.14 Employee benefits

PENSION PLANS

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

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

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

The employer's contributions related to defined contribution 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.

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 the dividends are approved by the company's shareholders 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 assumptions 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 estimates and uncertainties affecting SFS are discussed below:

3.1 Valuation allowances on inventories

The SFS Group achieves a high level of added value on its products and pursues stringent quality standards. In managing an optimum readiness to deliver to customers, there may be situations in which inventory items may be in excess of forecasted orders, leading to obsolescence in inventory. Provisions for obsolescence are recognized systematically.

3.2 Useful life of property, plant and equipment

An essential portion of SFS Group's assets are invested in property, plant and equipment. At initial recognition the useful life of the asset may not be precisely determined. Technical development or competitor products may lead to reductions of useful lives. Consequently, the assets' residual values and useful lives are reviewed regularly, and adjusted if appropriate.

3.3 Useful life of intangible assets

A significant share of the assets is recognized in the form of intangible assets with a finite useful life, which are affected by assumptions with respect to the market development. Therefore, possible changes may lead to shorter useful lives or impairments.

3.4 Recoverability of goodwill

The Group tests annually whether goodwill has suffered any impairment. These calculations require the use of estimates for expected cash flows as well as other assumptions.

3.5 Tax assets and liabilities

The SFS Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in areas such as the definition of inter-company transfer prices, the evaluation of tax loss carry-forwards and other estimates necessary in determining the tax liabilities and assets. If these judgments and estimates prove to be incorrect, this may lead to impairments or subsequent payments.

3.6 Pension plans

With regard to defined benefit plans, actuarial assumptions are required in order to estimate future cash flows. If any of these parameters differ from the underlying assumptions, this may have a significant impact on later results.

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. Associates 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 Engineered Components segment 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 Fastening Systems segment 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 Distribution & Logistics segment 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 crossfunctions Technology and Services.

Technology ensures the transfer of know-how among the segments and production sites. Methods, processes and best practices are exchanged and enhanced. Standardized investment policies and engineering processes improve the efficiency of the SFS Group further.

Services provides added value across the Group in the fields of information technology, finance, controlling, human resources and communication. These are divided in Corporate Services and Shared Services.

2014	NOTES	ENGINEERED COMPONENTS	FASTENING SYSTEMS	DISTRIBUTION & LOGISTICS	TOTAL SEGMENTS	OTHER	TOTAL SFS GROUP
Third party sales	20	727.2	336.7	319.1	1,383.0	-	1,383.0
Inter-segment		18.7	16.7	5.7	41.1	-41.1	
Gross sales		745.9	353.4	324.8	1,424.1	-41.1	1,383.0
Operating revenue		749.9	353.7	326.0	1,429.6	-40.9	1,388.7
EBITDA		190.7	43.4	33.7	267.8	3.6	271.4
- Depreciation		-47.7	-16.5	-7.7	-71.9	-4.1	-76.0
EBITA		143.0	26.9	26.0	195.9	-0.5	195.4
- Amortization		-44.0	-7.2	-	-51.2	-2.7	-53.9
Operating profit (EBIT)		99.0	19.7	26.0	144.7	-3.2	141.5
Investments		62.6	20.8	4.0	87.4	10.2	97.6
Assets		1,480.4	351.0	169.6	2,001.0	59.1	2,060.1
Liabilities		154.3	33.4	23.0	210.7	27.2	237.9
Net operating assets		1,326.1	317.6	146.6	1,790.3	31.9	1,822.2
Of which net working capital		234.7	114.0	84.9	433.6	-10.5	423.1

2013

Third party sales	20	672.9	330.0	327.7	1,330.6	-	1,330.6
Inter-segment		15.4	15.3	4.1	34.8	-34.8	
Gross sales		688.3	345.3	331.8	1,365.4	-34.8	1,330.6
Operating revenue		687.8	341.4	333.6	1,362.8	-34.8	1,328.0
EBITDA		175.0	42.1	37.6	254.7	15.1	269.8
- Depreciation		-45.1	-16.4	-8.4	-69.9	-4.5	-74.4
EBITA		129.9	25.7	29.2	184.8	10.6	195.4
- Amortization		-42.2	-7.6	-	-49.8	-3.3	-53.1
Operating profit (EBIT)		87.7	18.1	29.2	135.0	7.3	142.3
Investments		45.8	23.6	2.7	72.1	4.5	76.6
Assets		1,281.3	348.0	171.4	1,800.7	46.8	1,847.5
Liabilities		99.3	37.0	25.7	162.0	21.3	183.3
Net operating assets		1,182.0	311.0	145.7	1,638.7	25.5	1,664.2
Of which net working capital		201.7	105.1	80.8	387.6	-6.7	380.9

In 2013 EBITDA, EBITA and EBIT include book gains on the disposal of non-core assets in the amount of CHF 18.3 million. Of that amount, CHF 3.9 million relates to Distribution & Logistics and CHF 14.4 million to "Other".

CUSTOMERS WITH SALES AMOUNTING TO MORE THAN 10% OF TOTAL GROSS SALES TO THIRD PARTIES

During the reporting period the SFS Group did not have sales to a customer exceeding the reportable threshold of 10% of total sales (PY 137.9/10.4%/a customer within the Engineered Components segment).

Third party sales and assets by region

GROSS SALES TO THIRD PARTIES	NOTES	2014	2013
Switzerland		323.2	332.4
Germany		233.8	225.2
Other Europe		338.5	318.1
America		146.8	130.4
China		221.0	218.0
Other Asia		115.4	102.7
Africa, Australia		4.3	3.8
Total	20	1,383.0	1,330.6

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

ASSETS: PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS	NOTES	2014	2013
Switzerland		318.0	324.6
Europe		220.3	226.1
America		56.4	38.8
Asia		904.5	787.6
Total		1,499.2	1,377.1

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	2014	2013
Operating profit (EBIT)		141.5	142.3
Financial result	24	-7.8	-12.9
Share of profit/(loss) of associates	14	0.4	-19.4
Earnings before tax		134.1	110.0

ASSETS

Operating assets		2,060.1	1,847.5
+ Cash and cash equivalents	7	138.3	217.4
+ Marketable securities	7	-	0.3
+ Other receivables	9	33.2	29.5
+ Investments in associates	14	13.8	32.6
+ Financial assets	13	0.7	5.7
Assets		2,246.1	2,133.0

LIABILITIES AND EQUITY

Operating liabilities		237.9	183.3
+ Current income tax liabilities		24.3	24.8
+ Other payables	15	87.4	100.6
+ Current borrowings	16	38.2	114.0
+ Non-current borrowings	16	12.4	352.2
+ Provisions	18	40.9	21.7
Liabilities		441.1	796.6
Equity (Net assets)		1,805.0	1,336.4

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.

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% (PY 5%) 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 5.7 million (PY 2.2) lower, and vice versa. Similarly, equity would have been CHF 9.2 million lower (PY 0.4 higher).

Had the USD weakened by 5% (PY 5%), net income would have been CHF 0.8 million (PY 0.1) higher due to hedges and equity would have increased by CHF 0.2 million (PY 18.9).

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 2014 would increase interest expenses by CHF 1.1 million (PY 1.7) 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 each customer's credit rating and payment history continuously and systematically. Past experience and other criteria are considered as well.

The losses 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, unused credit lines and marketable securities. 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	2014	2013
Cash and cash equivalents	138.3	217.4
Marketable securities	–	0.3
Credit lines committed	244.8	511.7
Borrowings	–50.6	–470.3
Guarantees, other	–3.0	–2.7
Total liquidity available	329.5	256.4
Target liquidity reserve	115.0	110.0

The financial liabilities have the following maturities:

FINANCIAL YEAR 2014	TOTAL 31.12.2014	CASH OUT- FLOWS IN 3 MONTHS	CASH OUT- FLOWS IN 4–12 MONTHS	CASH OUT- FLOWS IN 13–24 MONTHS	CASH OUT- FLOWS LATER
Trade payables	118.4	118.4	–	–	–
Other payables	87.4	79.0	7.9	0.3	0.2
Borrowings	50.6	0.5	37.7	11.3	1.1
Interest payments	2.0	0.5	1.4	0.1	–
Total	258.4	198.4	47.0	11.7	1.3

FINANCIAL YEAR 2013	TOTAL 31.12.2013	CASH OUT- FLOWS IN 3 MONTHS	CASH OUT- FLOWS IN 4–12 MONTHS	CASH OUT- FLOWS IN 13–24 MONTHS	CASH OUT- FLOWS LATER
Trade payables	77.3	77.1	0.2	–	–
Other payables	100.6	82.0	18.6	–	–
Borrowings	470.3	0.2	115.7	133.8	220.6
Interest payments	18.1	2.2	5.9	5.5	4.5
Total	666.3	161.5	140.4	139.3	225.1

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
- 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
- optimization of the finance expenses

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

- 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	2014	2013
Net financial assets / (debts) in CHF million	87.7	-248.5
Equity ratio (Equity/Total assets) in %	80.4	62.7
Ø Net working capital as a % of operating revenue	21.9	19.8
Investments in PPE and software as a % of operating revenue	7.0	5.8
Return (EBITA) on average capital employed in %	23.1	23.0

The capital employed is 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 2014 amounted to CHF 844.4 million (PY 770.9) The key indicator EBITA for 2013 has been adjusted for the book gains of CHF 18.3 million resulting from the disposal of non-core assets.

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	2014	2013
Cash and cash equivalents		138.3	217.4
Marketable securities	1	–	0.3
Financial assets		–	4.5
Total		138.3	222.2

The financial assets are disclosed in note 13.

FINANCIAL ASSETS RECEIVABLES AND LOANS	2014	2013
Trade receivables	268.3	218.7
Loans to third parties	0.7	1.2
Total	269.0	219.9

FINANCIAL LIABILITIES	2014	2013
Trade payables	118.4	77.3
Current borrowings	38.2	114.0
Non-current borrowings	12.4	352.2
Total	169.0	543.5

7 Cash and cash equivalents, marketable securities

	FAIR VALUE LEVEL	2014	2013
Cash at bank and on hand		122.6	201.3
Current bank deposits		15.7	16.1
Total cash and cash equivalents		138.3	217.4
Shares	1	–	0.3
Total marketable securities		–	0.3

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

8 Trade receivables

	2014	2013
Receivables from third parties	270.0	219.9
Receivables from associates	1.2	1.7
Valuation allowances	–2.9	–2.9
Total	268.3	218.7

AGEING ANALYSIS

	2014	2013
Not yet due	219.7	178.9
Overdue 1 to 30 days	40.5	31.4
Overdue 31 to 90 days	9.9	9.5
Overdue more than 91 days	1.1	1.8
Trade receivables - gross	271.2	221.6
Valuation allowances	–2.9	–2.9
Trade receivables - net	268.3	218.7

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 total sales. This reflects the quality of the customer base and indicates that the credit management system is working effectively.

9 Other receivables

	FAIR VALUE LEVEL	2014	2013
VAT and withholding tax		10.9	8.0
Miscellaneous receivables		14.3	12.6
Accrued assets		8.0	7.4
Derivative financial instruments	1	–	1.5
Total		33.2	29.5

10 Inventories

	2014	2013
Raw materials and consumables	39.6	32.2
Work in progress	65.3	56.3
Finished goods	205.8	191.0
Valuation allowances	–37.5	–40.0
Total	273.2	239.5

In 2014 provisions made for obsolete or slow-moving inventories amounting to net CHF 2.5 million could be reversed and credited to the material expenses (PY expenditure 0.1).

11 Property, plant and equipment

	LAND	BUILDINGS	PLANT AND MACHINERY	ASSETS UNDER CONSTRUCTION	TOTAL
Cost at 1.1.2013	85.1	532.5	788.9	11.4	1,417.9
Disposal of subsidiaries	-5.6	-5.1	-8.3	-	-19.0
Additions	-	8.3	40.1	26.6	75.0
Disposals	-4.9	-15.7	-43.9	-	-64.5
Transfers	-	1.9	8.4	-10.4	-0.1
Exchange differences	-0.2	-1.5	-2.9	-0.6	-5.2
Cost at 31.12.2013	74.4	520.4	782.3	27.0	1,404.1
Disposal of subsidiaries	-	-0.8	-2.5	-	-3.3
Acquisitions of subsidiaries	9.2	4.8	31.1	0.1	45.2
Additions	-	5.8	64.0	26.0	95.8
Disposals	-	-1.2	-32.6	-0.1	-33.9
Transfers	-	9.5	13.6	-23.6	-0.5
Exchange differences	0.6	3.1	14.5	0.9	19.1
Cost at 31.12.2014	84.2	541.6	870.4	30.3	1,526.5
Accumulated depreciation at 1.1.2013	-	-277.8	-584.2	-	-862.0
Disposal of subsidiaries	-	3.4	6.0	-	9.4
Depreciation	-	-22.0	-52.4	-	-74.4
Disposals	-	13.9	41.4	-	55.3
Exchange differences	-	0.2	1.6	-	1.8
Accumulated depreciation at 31.12.2013	-	-282.3	-587.6	-	-869.9
Disposal of subsidiaries	-	0.5	1.7	-	2.2
Acquisitions of subsidiaries	-	-0.8	-15.6	-	-16.4
Depreciation	-	-21.7	-54.3	-	-76.0
Disposals	-	1.1	31.8	-	32.9
Exchange differences	-	-1.1	-7.7	-	-8.8
Accumulated depreciation at 31.12.2014	-	-304.3	-631.7	-	-936.0
Net book value as at 31.12.2013	74.4	238.1	194.7	27.0	534.2
Net book value as at 31.12.2014	84.2	237.3	238.7	30.3	590.5

In order to collateralize other current and non-current borrowings, assets amounting to CHF 13.2 million (PY none) have been pledged with CHF 16.4 million (PY none) of which CHF 6.8 million (PY none), has been drawn.

The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 29.3 million (PY 30.1).

12 Intangible assets

	GOODWILL	CUSTOMERS BRANDS TECHNOLOGY	BUILDING LEASES PATENTS OTHER	SOFTWARE	TOTAL
Cost at 1.1.2013	467.9	481.0	2.0	53.5	1,004.4
Additions	–	–	–	1.6	1.6
Disposals	–3.8	–	–	–1.2	–5.0
Transfers	–	–0.4	0.4	0.1	0.1
Exchange differences	–9.8	–10.5	–	–	–20.3
Cost at 31.12.2013	454.3	470.1	2.4	54.0	980.8
Acquisition of subsidiaries	11.6	28.0	–	0.5	40.1
Additions	–	–	–	1.8	1.8
Disposals	–	–	–	–0.3	–0.3
Transfers	–	–	–	0.5	0.5
Exchange differences	42.3	43.1	0.2	0.2	85.8
Cost at 31.12.2014	508.2	541.2	2.6	56.7	1,108.7
Accumulated amortization at 1.1.2013	–3.8	–43.3	–	–44.6	–91.7
Additions	–	–49.1	–0.2	–3.8	–53.1
Disposals	3.8	–	–	1.2	5.0
Transfers	–	0.1	–0.1	–	–
Exchange differences	–	1.9	–	–	1.9
Accumulated amortization at 31.12.2013	–	–90.4	–0.3	–47.2	–137.9
Acquisition of subsidiaries	–	–	–	–0.2	–0.2
Additions	–	–50.4	–0.1	–3.4	–53.9
Disposals	–	–	–	0.2	0.2
Exchange differences	–	–8.1	–	–0.1	–8.2
Accumulated amortization at 31.12.2014	–	–148.9	–0.4	–50.7	–200.0
Net book value as at 31.12.2013	454.3	379.7	2.1	6.8	842.9
Net book value as at 31.12.2014	508.2	392.3	2.2	6.0	908.7

The purchased intangible assets in the column "Customer, Brands, Technology" include exclusively assets with finite useful lives. The intangible assets from the acquisition of Unisteel Technology have a remaining useful life of 7.6 years (PY 8.6).

The SFS Group has no (PY 0.2) future commitments to purchase software or for 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 for that. The weighted average cost of capital (WACC) is based on pre-tax rates and reflects specific risks of the business.

The key factors listed below have been taken into consideration for the impairment tests of the remaining goodwill positions:

	GERMANY ENGINEERED COMPONENTS	GERMANY FASTENING SYSTEMS	MALAYSIA/ CHINA ENGINEERED COMPONENTS	INDIA ENGINEERED COMPONENTS
2014				
Carrying amount of goodwill	7.9	51.9	436.5	11.9
Growth rate	2.0%	2.0%	2.0%	4.0%
WACC	8.0%	7.9%	8.4%	14.1%

2013				
Carrying amount of goodwill	8.1	52.9	393.3	–
Growth rate	2.0%	2.0%	2.0%	–
WACC	11.0%	11.0%	10.9%	–

Sensitivities have been calculated for reasonably possible changes with respect to sales, growth rates and the weighted average cost of capital (WACC). Even after applying more conservative assumptions, the calculations did not result in an impairment charge for goodwill.

13 Financial assets

	2014	2013
Loans to third parties	0.7	1.2
Prepaid pension expense	–	2.9
Other financial assets	–	1.6
Total	0.7	5.7

14 Related entities

	2014		2013	
	CHF	SHARE	CHF	SHARE
JOINT VENTURES				
Sunil SFS intec Automotive Parts (Tianjin) Co., Ltd, Tianjin, China	13.8	50%	12.4	50%
Indo Schöttle Auto Parts Pvt Ltd, Pune, India	–	–	20.2	45%

ASSOCIATES

Hyflex Technology Co Ltd, Changsha, China	0.0	35%	0.0	35%
Total	13.8		32.6	

Income from the joint ventures in the reporting period amounted to a total of CHF 0.8 million (PY 3.9 includes also Indo Schöttle).

Income from associates during the reporting period amounted to CHF 0.0 million (PY 0.0).

2014

In July 2014 the SFS Group increased its share in Indo Schöttle from 45% to 88.8%. Therefore, the company has been consolidated as a subsidiary since 1 July 2014 (see note 30).

2013

During the previous year the SFS Group disposed of the five investments in stürmsfs, ARCOTEC Bewehrungstechnik, INHAUS, InfoTrain and F+L Systeme for total proceeds of CHF 35.7 million. The resulting loss on disposals of CHF –19.6 million is included in the “Share of profit/(loss) from related entities”.

MOVEMENTS	2014	2013
Balance as at 1.1.	32.6	87.5
Additions	–	3.2
Share of profit/(loss)	0.4	0.2
Disposals	–20.8	–55.3
Dividends	–0.2	–0.4
Exchange differences Balance as at 31.12.	1.8	–2.6
Balance as at 31.12.	13.8	32.6

The contingencies against associates amount to CHF 3.0 million (PY 2.7).

15 Other liabilities

	FAIR VALUE LEVEL	2014	2013
VAT and other liabilities		18.6	16.3
Accrued liabilities		67.5	82.0
Derivative financial instruments	1	1.3	2.3
Total		87.4	100.6

16 Borrowings

The carrying amount of the Group's borrowings equals their fair value. The borrowings are structured as follows:

CURRENT BORROWINGS	2014		2013	
	CHF	INTEREST RATE	CHF	INTEREST RATE
Bank borrowings	38.1	4.2%	113.9	2.5%
Other borrowings	0.1	2.0%	0.1	0.6%
Total	38.2	4.2%	114.0	2.5%
Of which EUR	21.2	3.3%	21.3	3.2%
Of which USD	10.3	2.1%	91.7	2.2%
Of which other currencies	6.7	10.3%	1.0	11.3%

NON-CURRENT BORROWINGS

Bank borrowings	11.8	2.0%	351.3	2.3%
Other borrowings	0.6	0.3%	0.9	0.5%
Total	12.4	1.9%	352.2	2.3%
Of which CHF	0.1	0.0%	0.3	0.0%
Of which EUR	8.5	1.7%	28.4	2.9%
Of which USD	3.9	2.5%	323.5	2.2%
Total borrowings	50.6	3.6%	466.2	2.3%

SYNDICATED LOAN IN USD

The syndicated loan in USD was repaid at the end of August 2014 voluntarily and completely.

SYNDICATED LOAN IN CHF

In order to secure the liquidity reserve a new loan contract was taken out with five banks in August 2014. The term of the syndicated loan in CHF is five years, whereas the SFS Group can apply for an extension option of the final maturity by 12 months within the first 12 months of the term. Such an extension is made at the sole discretion of each lender. The committed and uncollateralized revolving credit line amounts to CHF 150 million and can be increased by a maximum of additional CHF 150 million, provided the lenders agree to the application of the SFS Group. This option may be exercised until three months prior to the maturity.

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

	THRESHOLD
Leverage ratio: net senior debt/EBITDA	maximum 2.50x

EUR CREDIT FACILITY

Since February 2009 two Swiss banks have granted SFS a credit facility amounting to EUR 15 million (PY 30) with a maturity of seven years. The facility includes normal commercial terms and conditions. The financial covenant corresponds to the financial covenant of the syndicated loan in CHF. The key ratio "leverage ratio" has been met in all subsequent periods.

The credit is not collateralized. The residual term of the EUR credit facility is four months and will not be extended.

OTHER BORROWINGS

In order to collateralize other current and non-current borrowings assets amounting to CHF 13.2 million (PY none) have been pledged with CHF 16.4 million (PY none) of which CHF 6.8 million (PY none) 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:	2014	2013
Property, plant and equipment	6.6	4.7
Intangible assets	10.5	8.9
Inventories	3.1	2.8
Valuation allowances and provisions	7.5	3.3
Tax loss carry-forwards	4.0	3.8
Offsets	-12.3	-11.3
Total	19.4	12.2

DEFERRED TAX LIABILITIES ON:

Property, plant and equipment	41.6	40.6
Intangible assets	71.6	63.9
Inventories	9.9	6.1
Valuation allowances and provisions	8.7	6.7
Offsets	-12.3	-11.3
Total	119.5	106.0
Net	100.1	93.8

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 2014 the temporary differences on investments in subsidiaries including equity loans amount to CHF 646.0 million (PY 566.4).

MOVEMENT IN DEFERRED TAX BALANCES	2014	2013
Balance at 1.1.	93.8	104.7
Acquisition of subsidiaries	12.7	–
Disposal of subsidiaries	–	–1.0
Charged / (credited) to income statement	–6.7	–16.8
Charged / (credited) to other comprehensive income	–3.8	7.5
Exchange differences	4.1	–0.6
Balance at 31.12.	100.1	93.8

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 each 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	
	2014	2013	2014	2013
Expiry within 3 years	2.0	1.6	1.6	0.6
Expiry in 4 to 7 years	2.6	1.6	3.2	3.0
Expiry after 7 years	10.8	11.5	2.5	6.1
Total	15.4	14.7	7.3	9.7

18 Provisions

	SWISS PENSION PLAN	OTHER PENSION PLANS	ANNIVERSARIES SEVERANCE PAYMENTS	OTHER	TOTAL
Balance at 1.1.2013	36.0	9.6	8.6	15.8	70.0
Additions	–	–	1.3	0.3	1.6
Used amounts	–	–0.4	–0.9	–	–1.3
Unused amounts reversed	–36.0	–0.8	–0.2	–	–37.0
Transfers	–	–	–	–11.6	–11.6
Exchange differences	–	–	–	–	–
Balance at 31.12.2013	–	8.4	8.8	4.5	21.7
Acquisition of subsidiaries	–	–	0.2	–	0.2
Additions	19.3	2.3	1.1	0.3	23.0
Used amounts	–	–0.3	–0.3	–0.4	–1.0
Unused amounts reversed	–	–	–	–0.7	–0.7
Transfers	–2.9	–	0.3	–	–2.6
Exchange differences	–	0.3	–0.1	0.1	0.3
Balance at 31.12.2014	16.4	10.7	10.0	3.8	40.9

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

As of the end of 2014 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. Any obligations arising from product liability are covered by the SFS Group's insurance policies. In addition to this, provisions are recognized for warranty claims based on historical experience and amount to CHF 2.9 million (PY 2.6). In 2013 a contingent purchase price payment, which was due in 2014, was reclassified to "Other liabilities".

19 Reserves

	RETAINED EARNINGS	EXCHANGE DIFFERENCES	HEDGING	PENSION PLAN	TOTAL
Balance at 1.1.2013	1,381.5	-92.9	-0.2	-40.1	1,248.3
Net income	86.5	-	-	-	86.5
Dividends 2012	-20.4	-	-	-	-20.4
Exchange differences	-	-23.1	-	-	-23.1
Recognized in other comprehensive income	-	-	-	36.9	36.9
Cash flow hedges	-	-	0.6	-	0.6
Balance at 31.12.2013	1,447.6	-116.0	0.4	-3.2	1,328.8
Capital increase	310.7	-	-	-	310.7
Net income	109.9	-	-	-	109.9
Dividends 2013	-32.4	-	-	-	-32.4
Exchange differences	-	91.3	-	-	91.3
Recognized in other comprehensive income	-	-	-	-17.3	-17.3
Cash flow hedges	-	-	-1.1	-	-1.1
Balance at 31.12.2014	1,835.8	-24.7	-0.7	-20.5	1,789.9

20 Net sales

	2014	2013
Gross sales	1,383.0	1,330.6
Transportation charged	7.8	7.9
Hedged exchange differences	-1.9	-1.2
Discounts	-7.1	-6.9
Total	1,381.8	1,330.4

Gross sales increased by 3.9% (PY 11.5). The growth attributable to changes in the scope of consolidation (Sale of SFS Locher 2013, purchase of Indo Schöttle 2014) is almost zero (PY 9.8). When comparing on the same basis of consolidation and ignoring foreign currency effects, sales rose by 4.8% (PY 1.1). The currency translation effect amounts to -0.9% (PY 0.6).

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

21 Other operating income

	2014	2013
Sales of services	6.0	6.8
Lease income	1.5	1.7
Miscellaneous income	3.0	3.6
Gain on disposals	2.0	10.0
Gain on disposal of net assets	-	9.8
Total	12.5	31.9

During the reporting period CHF 1.6 million (PY 1.5) 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	2014	2013
No later than 1 year	1.2	1.3
Later than 1 year and no later than 5 years	1.3	1.4
Total	2.5	2.7

22 Personnel expenses

	2014	2013
Wages and salaries	307.3	293.3
Profit-sharing	5.3	5.2
Social security and pension costs	63.4	63.9
Other employment costs	11.9	11.7
Total	387.9	374.1

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 7.9 million (PY 6.1) are included in personnel expenses.

23 Other operating expenses

	2014	2013
Tools, energy, maintenance	112.3	96.2
Selling and distribution	73.6	70.9
Miscellaneous operating expenses	32.5	32.6
Total	218.4	199.7

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

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

FUTURE AGGREGATE MINIMUM LEASE PAYMENTS	2014	2013
No later than 1 year	7.4	6.5
Later than 1 year and no later than 5 years	15.0	17.2
Later than 5 years	4.6	5.4
Total	27.0	29.1

RESEARCH AND DEVELOPMENT COSTS

The total costs for research and development recognized during the reporting period, amount to CHF 34.3 million (PY 21.5). The expenses in the fields development, tools, sampling, preparation for large-lot production have been increased significantly compared to previous periods. 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

	2014	2013
Interest paid	-8.0	-19.3
Change in accrued interest	-4.2	-0.9
Finance expenses	-12.2	-20.2
Realized gains	1.6	1.4
Exchange differences on financial investments	2.8	5.9
Finance income	4.4	7.3
Finance result	-7.8	-12.9

25 Income taxes

	2014	2013
Current income tax	30.6	40.3
Deferred income tax	-6.7	-16.8
Income tax expense	23.9	23.5
Reconciliation:		
Earnings before tax	134.1	110.0
Expected tax rate	17.4%	17.4%
Expected income tax	23.3	19.1
Variance in tax rates	1.8	2.8
Impact of change in tax rate on deferred taxes	-0.2	0.1
Items not subject to tax	-2.9	-2.5
Changes in tax loss carry-forwards	1.8	0.9
Adjustment in respect of prior years and other items	0.1	3.1
Effective income tax	23.9	23.5
Effective tax rate	17.8%	21.4%

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.

The expected tax rate on earnings before tax is 17.4% (PY 17.4). Deferred taxes have been calculated based on the future expected tax rate for earnings before tax of 17.4% (PY 17.4). The expected tax rate corresponds to the maximum tax rate for legal entities in the canton of St. Gallen.

26 Earnings per SFS share

	2014	2013
Weighted average number of shares	35,814,167	32,442,500
Net income attributable to owners of SFS Group AG	109.9	86.5
Earnings per share (in CHF) basic and diluted	3.07	2.67

The weighted average number of shares in 2013 has been adapted to the new nominal value of CHF 0.10.

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.

37,500,000 shares at CHF 0.10 are issued and outstanding as of 31 December 2014 (PY 3,244,250 at 1.00). There are no dilutive effects.

A dividend for the year ended 31 December 2014 of CHF 1.50 (PY 1.00) per registered share, amounting to a total dividend of CHF 56.3 million (PY 32.4), 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 assetliability 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 from the employer and employee contributions as well as an annual interest yield of the insured person's savings accounts. The contributions, which are payable by employer and employee, depend on the insured wage level and vary 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 2014 the SFS pension fund's financial position shows a coverage ratio according to BVG of 118% (PY 115%).

FUNDING OF BENEFIT OBLIGATIONS	2014	2013	2012	2011	2010
Fair value of plan assets	478.0	433.8	400.4	366.5	360.3
Present value of benefit obligations	-494.4	-430.9	-436.4	-425.8	-388.7
Net asset/(obligation) in balance sheet	-16.4	2.9	-36.0	-59.3	-28.4

MOVEMENTS IN THE BENEFIT OBLIGATIONS	2014	2013
Present value of benefit obligations at 1.1.	-430.9	-436.4
Changes in group of insured persons	-	5.2
Current service cost	-21.8	-24.5
Interest cost	-9.8	-9.9
Experience adjustments	4.9	3.0
Change in financial assumptions	-52.0	-
Change in demographic assumptions	-	17.3
Benefits paid	15.2	14.4
Present value of benefit obligations at 31.12.	-494.4	-430.9

MOVEMENTS IN FAIR VALUE OF PLAN ASSETS	2014	2013
Fair value of plan assets at 1.1.	433.8	400.4
Changes in group of insured persons	–	–4.6
Employer's contributions	10.4	10.6
Employee's contributions	10.4	10.6
Interest income	9.8	9.1
Return on plan assets	29.2	22.5
Administration expense	–0.4	–0.4
Benefits paid	–15.2	–14.4
Fair value of plan assets at 31.12.	478.0	433.8

PENSION COSTS	2014	2013
Current service cost employer	–11.4	–13.9
Interest cost net	–	–0.8
Administration expense	–0.4	–0.4
Changes in group of insured persons and in conversion rate	–	0.6
Recognized in the income statement	–11.8	–14.5
Return on plan assets	29.2	22.5
Change in financial assumptions	–52.0	–
Change in demographic assumptions	–	17.3
Experience adjustments	4.9	3.0
Recognized in other comprehensive income	–17.9	42.8

The actual return on plan assets for 2014 amounts to CHF 39.0 million (PY 31.6). The employer contributions for 2015 are estimated to be CHF 10.4 million.

ASSUMPTIONS/PARAMETERS	2014	2013
Discount rate/return on plan assets	1.25%	2.30%
Future salary increases	1.00%	1.00%
Future pension increases	0.00%	0.00%
Demographic assumptions	BVG 2010 GT	BVG 2010 GT
Average retirement age	64 / 63	64 / 63
Duration of benefit obligation	11.6 years	10.6 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 2014:

- a decrease/increase of the discount rate by 25 basis points increases/decreases the pension obligation by CHF 13.5 million and CHF 14.3 million respectively
- a salary increase/decrease by 50 basis points increases/decreases the pension obligation by CHF 3.0 million and CHF 2.8 million respectively

STRUCTURE OF INSURED PERSONS

2014	ACTIVES	RETIREEES	TOTAL
Number	2,173	438	2,611
Present value of benefit obligation	342.9	151.5	494.4

2013			
Number	2,125	407	2,532
Present value of benefit obligation	300.2	130.7	430.9

CATEGORIES OF PLAN ASSETS	2014	2013
Cash and cash equivalents	29.6	19.1
Bonds listed	146.2	142.6
Shares listed	179.9	154.1
Shares not listed	19.5	18.5
Real estate	101.8	98.4
Other assets	1.0	1.1
Plan assets at 31.12.	478.0	433.8

The investment policy defines the strategic asset allocation currently with 34% equity instruments, 42% fixed income instruments and 24% real estate investments.

The plan assets include shares of the SFS Group AG amounting to CHF 2.8 million (PY 2.0). Consistent with previous years no owner-occupied properties are part of the plan assets.

28 Derivative financial instruments

FORWARD FOREIGN EXCHANGE CONTRACTS	CONTRACT VALUE					MARKET VALUE	CALCULATION METHOD
	CHF	EUR	USD	CNY	MYR	CHF	
2014							
CHF sale (SWAP)/EUR purchase	-7.2	6.0	-	-	-	0.0	Market value
USD sale/EUR purchase	-	8.9	-12.0	-	-	-1.0	Market value
USD sale/MYR purchase	-	-	-1.5	-	5.2	0.0	Market value
USD sale/CNY purchase	-	-	-50.7	315.9	-	-0.3	Market value

2013							
EUR sale/CHF purchase	15.0	-12.0	-	-	-	0.3	Market value
USD sale/EUR purchase	-	11.9	-16.0	-	-	0.3	Market value
EUR sale/USD purchase	-	-48.0	64.0	-	-	-1.9	Market value
USD sale/CNY purchase	-	-	-57.4	352.4	-	0.7	Market value
USD interest rate swap	-	-	276.3	-	-	-0.2	Market value

29 Related-party transactions

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

KEY MANAGEMENT COMPENSATION	2014	2013
Compensation	6.5	6.9
Pension benefits	0.2	0.3
Discount on share purchases	0.0	–
Total	6.7	7.2
Members of key management	14	17

The compensation 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 amendment of the articles of incorporation from 4 April 2014 the SFS Group companies are no longer allowed to grant loans to members of the key management (PY CHF 0.1 million).

Business transactions with members of key management

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

	2014	2013
Sales of goods and services	3.1	1.5
Purchases of goods and services	1.0	0.3
Receivables	0.2	0.2
Liabilities	0.1	0.3
Disposal of investments in associates and other assets	–	62.9

In order to focus on the core business, the SFS Group disposed of investments in associates and other assets in 2013. Members of key management or their affiliated companies purchased these assets for a total of CHF 62.9 million.

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.

TRANSACTIONS WITH ASSOCIATES	2014	2013
Sales of goods and services	2.0	3.1
Purchases of goods and services	–	0.2
Receivables	1.2	1.7

30 Changes in scope of consolidation

ACQUISITION OF SUBSIDIARIES	2014	2013
Cash and cash equivalents	0.8	–
Trade receivables	5.8	–
Inventories	5.5	–
Other current assets	1.1	–
Property, plant and equipment	28.8	–
Intangible assets	28.3	–
Goodwill	11.6	–
Other non-current assets	1.7	–
Current liabilities	–7.3	–
Borrowings	–6.9	–
Deferred taxes net	–12.7	–
Non-controlling interests	–6.3	–
Formerly acquired shares	–26.9	–
Purchase price	23.5	–
Cash and cash equivalents	–0.8	–
Contingent consideration	15.9	30.6
Consideration in cash flow statement	38.6	30.6

2014

As of 31 July 2014 the SFS Group increased its share in Indo Schöttle from 45% to 88.8%. More than 10% of the share capital remains with the founding family. The consolidation of Indo Schöttle within the SFS Group commenced on 1 July 2014. Indo Schöttle is based in Pune, India, approximately 200 kilometers to the southeast of Mumbai. It supplies the Indian and international automotive industry from five production sites located in Pune and Belgaum. The financial year of Indo Schöttle runs from 1 April to 31 March. An interim financial closing is prepared as of 31 December each year. In 2014 Indo Schöttle achieved sales amounting to CHF 27.5 million with 1,065 employees (FTE). The purchase price allocation (PPA) for Indo Schöttle is provisionally.

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

31 Events after the reporting period

On 15 January 2015 the Swiss National Bank announced it was abandoning the euro cap of 1.20 Swiss francs per Euro. The amounts disclosed in the financial report 2014 are based on the year-end rates as per 31 December 2014 for the balance sheet and average exchange rates during 2014 for the income statement.

The Group uses the Swiss franc as reporting currency for its consolidated financial statements. The depreciation of the foreign currencies against the Swiss franc after the decision of the Swiss National Bank will have a negative impact on the consolidated total net assets and the consolidated income statement.

SFS is not aware of other events that occurred after the balance sheet date that could have a material impact on the consolidated statements for the financial year ended 31 December 2014.

32 Group companies

COUNTRY	COMPANY'S HEADQUARTERS	NAME OF THE COMPANY	PARTICIPATION RATE IN %		SHARE CAPITAL IN LOCAL CURRENCY ('000)		ACTIVITIES
			2014	2013			
China	Guangzhou	Guangzhou SFS intec Fastening & Precision Parts Co., Ltd	100.0	100.0	CNY	13,185	inactive
	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	100.0	100.0	CNY	93,959	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100,688	V, P
	Suzhou	SPI Precision (Suzhou) Co., Ltd	100.0	100.0	CNY	25,533	V, P
		Unisteel Precision (Suzhou) Co., Ltd	100.0	100.0	CNY	89,095	V, P
	Wuxi	Sonic Clean (Wuxi) Co., Ltd	-	100.0	CNY	-	-
Denmark	Vejle	Unibolt A/S	100.0	100.0	DKK	13,000	V, P
Germany	Mörfelden-Walldorf	GESIPA Blindniettechnik GmbH	100.0	100.0	EUR	5,000	V, P
	Oberursel	SFS intec GmbH	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	100.0	EUR	1,000	V, P
Estonia	Tallinn	SFS intec Oy Eesti Filiaal	100.0	100.0	EUR	n/a	V
Finland	Nummela	SFS intec Oy	100.0	100.0	EUR	84	V
France	Valence	GESIPA SAS	100.0	100.0	EUR	150	V
		SFS intec SAS	100.0	100.0	EUR	3,078	V, P
		SFS unimarket SAS	100.0	100.0	EUR	500	V
United Kingdom	Batley	QBM Distributors Ltd	100.0	100.0	GBP	100	V
	Keighley	GESIPA Blind Riveting Systems Ltd	100.0	100.0	GBP	840	V, P
	Leeds	SFS intec Holdings Ltd	100.0	100.0	GBP	2,000	H
		SFS intec Ltd	100.0	100.0	GBP	2,500	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	88.8	45.0	INR	46,654	V, P
		Pusalkar Fluid Power Pvt Ltd	100.0	n/a	INR	17,672	V, P
Italy	Pordenone	SFS intec Spa.	100.0	100.0	EUR	10,000	V, P
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P
	Labuan	Unisteel Technology International Limited	100.0	100.0	USD	379,850	V, H
Mauritius		Unisteel International Pte. Ltd	100.0	100.0	USD	1	V
Netherlands	Helmond	Afast Holding B.V.	100.0	100.0	EUR	18	V, P
Norway	Lorenskog	SFS intec AS	100.0	100.0	NOK	2,500	V
Austria	Korneuburg	SFS intec GmbH	100.0	100.0	EUR	146	V, P
	Vienna	GESIPA Blindnietvertriebs GmbH	100.0	100.0	EUR	365	V
Poland	Legionowo	GESIPA Polska Sp. z o.o.	100.0	100.0	PLN	1,000	V
	Poznan	SFS intec Sp. z o.o.	100.0	100.0	PLN	8,600	V

DL = Services

P = Production

V = Sales

H = Holding

COUNTRY	COMPANY'S HEADQUARTERS	NAME OF THE COMPANY	PARTICIPATION RATE IN %		SHARE CAPITAL IN LOCAL CURRENCY ('000)		ACTIVITIES
			2014	2013			
Portugal	Malveira	SFS intec E y P, S.A. Suc.	100.0	100.0	EUR	–	V
Sweden	Strängnäs	SFS intec AB	100.0	100.0	SEK	200	V, P
Switzerland	Heerbrugg	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
Singapore	Singapore	Unisteel Technology Limited	100.0	100.0	USD	8,033	V
		Sonic Clean Pte. Ltd	63.0	63.0	SGD	2,020	V, H
		SPI Precision (Suzhou) Pte. Ltd	70.0	70.0	SGD	–	H
Spain	Arrigorriaga	GESIPA Fijaciones S.A.	100.0	100.0	EUR	975	V
		SFS intec E y P, S.A.	–	100.0	EUR	–	–
Czech Republic	Brno	GESIPA CZ s.r.o.	100.0	100.0	CZK	1,700	V
	Turnov	SFS intec s.r.o.	100.0	100.0	CZK	205,000	V, P
Turkey	Torbali-Izmir	SFS intec Baglantı Teknolojileri Sanayi ve Ticaret A.S.	91.4	91.4	TRY	3,000	V, P
Hungary	Jánossomorja	GESIPA Hungary Kft.	100.0	100.0	HUF	12,500	V
		SFS intec Kft.	100.0	100.0	HUF	400,000	V, P
USA	Robbinsville	GESIPA Fasteners USA Inc.	100.0	100.0	USD	3,750	V, P
	Wyomissing	SFS intec Inc.	100.0	100.0	USD	34,000	V, P

DL = Services P = Production V = Sales H = Holding

SFS intec E y P, S.A. was merged in 2014 with GESIPA Fijaciones S.A.

33 Exchange rates

		BALANCE SHEET		INCOME STATEMENT	
		2014	2013	2014	2013
EU	EUR 1	1.203	1.227	1.216	1.231
USA	USD 1	0.989	0.891	0.919	0.928
Canada	CAD 1	0.853	0.837	0.830	0.899
United Kingdom	GBP 1	1.540	1.472	1.505	1.450
Denmark	DKK 100	16.150	16.450	16.326	16.500
Norway	NOK 100	13.320	14.640	14.591	15.800
Sweden	SEK 100	12.780	13.890	13.376	14.220
Poland	PLN 100	28.060	29.560	29.062	29.320
Czech Republic	CZK 100	4.340	4.476	4.447	4.740
Hungary	HUF 100	0.382	0.413	0.395	0.410
China	CNY 100	16.170	14.720	15.010	15.110
Turkey	TRY 100	42.480	41.970	41.872	47.900
India	INR 100	1.560	1.440	1.536	1.576
Singapore	SGD 1	0.748	0.705	0.723	0.741



Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of SFS Group AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes (pages 90 to 121), for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Beat Inauen
Audit expert
Auditor in charge

Martin Bettinaglio
Audit expert

St. Gallen, 6 March 2015

Financial statements of SFS Group AG

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FINANCIAL STATEMENTS OF SFS GROUP AG

in CHF million

Balance sheet

ASSETS	31.12.2014	31.12.2013
Cash and cash equivalents	24.8	78.7
Marketable securities with a stock exchange price	–	0.3
Other current receivables	0.1	0.1
Other current receivables from related companies	11.9	55.1
Accrued income and prepaid expenses	–	0.2
Current assets	36.8	134.4
Financial assets	0.1	0.5
Financial assets from related companies	740.9	332.7
Shareholdings	82.5	82.5
Non-current assets	823.5	415.7
Assets	860.3	550.1
LIABILITIES AND EQUITY		
Trade payables	–	0.3
Interest-bearing borrowings from related companies	28.3	31.1
Deferred income and accrued expenses	0.4	0.5
Current liabilities	28.7	31.9
Interest-bearing borrowings from related companies	19.5	23.4
Non-current liabilities	19.5	23.4
Share capital	3.8	3.2
Statutory capital reserves	323.2	–
Statutory retained earnings	1.6	1.6
Voluntary retained earnings	275.1	275.1
Retained earnings	208.4	214.9
Total equity	812.1	494.8
Liabilities and equity	860.3	550.1

Income statement

INCOME	2014	2013
Investment income	33.0	25.0
Interest income	10.3	5.9
Currency gain financial assets (net)	–	0.1
Total income	43.3	31.0
EXPENSES	2014	2013
Interest expense, financing costs capital increase	–13.2	–
Currency loss financial assets (net)	–3.7	–
Administration expenses	–0.4	–0.3
Total expenses	–17.3	–0.3
Net income before taxes	26.0	30.7
Direct taxes	0.0	–0.5
Net income	26.0	30.2

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.

The first-time adoption of the new Swiss financial reporting law takes effect with the present financial statements. The structure of the previous year's figures has been amended.

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:

	2014		2013	
	SHARE CAPITAL		SHARE CAPITAL	
SFS intec Holding AG, Au/SG, Switzerland	5.4	100%	5.4	100%
SFS unimarket AG, 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 statements.

4 SHARE CAPITAL

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

	Number of shares
Balance 1.1.2014 prior to share split	3,244,250
Balance after share split	32,442,500
Capital increase	5,057,500
Balance 31.12.2014	37,500,000

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	31.12.2014
Founding families	55.04%

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

The Board of Directors is not aware of any other shareholders listed in the share register or shareholder groups holding more than 5% of the share capital or voting rights as per 31 December 2014.

6 BOARD OF DIRECTORS' AND GROUP EXECUTIVE BOARD'S SHAREHOLDING

The following tables provide information with regards to the share shareholding as per 31 December 2014. No conversion and option rights have been issued.

BOARD OF DIRECTORS	NUMBER OF SHARES
Heinrich Spoerry, Chairman	see below
Ruedi Huber, non-executive member	244,280
Urs Kaufmann, independent, external member	5,000
Thomas Oetterli, independent, external member	3,000
Karl Stadler, non-executive member	2,519,800
Jörg Walther, independent, external member	–
Total	2,772,080

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

GROUP EXECUTIVE BOARD	NUMBER OF SHARES
Heinrich Spoerry, Chief Executive Officer	188,180
Thomas Bamberger, Head of Division Riveting	670
Arthur Blank, Head of Division Construction	12,340
Jens Breu, Chief Operation Officer	5,680
Rolf Frei, Chief Financial Officer	60,680
Walter Kobler, Head of Division Industrial	19,000
George Poh, Head of Division Electronics	49,680
Alfred Schneider, Head of Division Automotive	13,580
Josef Zünd, Head of Segment Distribution & Logistics	17,340
Total	367,150

7 STATUTORY CAPITAL RESERVES

The disclosed statutory capital reserves amounting to CHF 323,174,250 result from the share premiums originating from the capital increase performed in connection with the initial public offering. The statutory capital reserves will be proposed for examination to the Swiss Federal Tax Administration after approval of the SFS Group AG's financial statements 2014 at the Annual General Meeting of shareholders. The SFS Group AG recognized these share premiums in total prior to the deduction of the issuing costs incurred to statutory capital reserves. Pursuant to the practice the Swiss Federal Tax Administration, deduction of the issuing costs is required. Consequently, they may not accept the recognized statutory capital reserves to the full extent.

8 CONTINGENT LIABILITIES

Apart from the warranty obligations there are no contingent liabilities.

CONTINGENT LIABILITIES	31.12.2014	31.12.2013
Warranty obligations to related companies	84.3	742.3
Warranty obligations to third parties	3.0	2.7
Of which used	31.7	465.3

In the previous year the major warranty obligation (CHF 642.0 million) concerned the collateral of a credit line, which has been entered into collectively with other Group companies being jointly liable and of which CHF 419.0 million has been drawn.

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of shareholders on 7 May 2015 to approve the payment of a dividend from statutory capital reserves of CHF 1.50 (PY 1.00) per registered share with a nominal of CHF 0.10 per share.

RETAINED EARNINGS	31.12.2014	31.12.2013
Profit carry-forward	182.5	184.7
Net income	26.0	30.2
Withdrawal from statutory capital reserves	56.3	-
Earnings available for distribution	264.8	214.9

BOARD OF DIRECTOR'S PROPOSAL

Dividend from statutory capital reserves (PY profit carry-forward)	56.3	32.4
Allocation to statutory retained earnings	0.3	-
Profit carry-forward	208.2	182.5
Retained earnings	264.8	214.9



Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of SFS Group AG, which comprise the balance sheet, income statement and notes (pages 125 to 129), for the year ended 31 December 2014.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

We further confirm that the proposed appropriation of 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

Beat Inauen
Audit expert
Auditor in charge

Martin Bettinaglio
Audit expert

St. Gallen, 6 March 2015

INFORMATION FOR SHAREHOLDERS

The registered shares of the SFS Group AG of CHF 0.10 each have been listed on the main board of SIX Swiss Exchange AG since 7 May 2014.

	2014
Number of registered shares at 31.12.	37,500,000
Number of shares ranking for dividend	37,500,000
Weighted average number of shares	35,814,167
Number of shareholders at 31.12.	6,778
Stock exchange quotation (in CHF)	
Year high	79.30
Year low	62.50
Year-end price at 31.12.	79.10
Share key data	
Earnings per share in CHF	3.07
Cash earnings per share in CHF	4.32
Dividend per share in CHF (proposal)	1.50
Payout ratio in % of consolidated net income	51.0
Price/earnings ratio (year-end price)	25.8
Cash price/earnings ratio (year-end price)	18.3
Market capitalization (year-end price x number of shares ranking for dividend)	
In CHF million	2,966.3
As a % of net sales	214.7
As a % of equity	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 154.6 million in the reported year.

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Annual report 2014

The annual report are available in German and English. The German language version of the full annual report shall be the only legally binding version. The annual report is also available online at annualreport.sfs.biz.

Exclusion of liability

This annual report includes forward looking statements. These statements reflect the SFS Group's current assesment 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 20
9435 Heerbrugg
Switzerland
T +41 71 727 51 51
F +41 71 727 51 03
corporate.communications@sfs.biz
www.sfs.biz