



SFS Group AG  
Annual report 2017

**Inventing**  
**success**  
**together**

**17**

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## Financial overview

# Strong growth

	Swiss GAAP FER		IFRS	
	2017	2016	2017	2016
	audited	audited	unaudited	audited
<b>Income statement</b> in CHF million				
Gross sales	1,632.7	1,436.5	1,632.7	1,436.5
Change to previous year in %				
At actual exchange rates	13.7	4.4	13.7	4.4
At constant exchange rates	13.2	3.5	13.2	3.5
Net sales	1,634.8	1,436.7	1,634.8	1,436.7
EBITDA	323.5	306.2	320.9	300.5
As a % of net sales	19.8	21.3	19.6	20.9
EBITA	239.9	222.5	237.3	216.8
As a % of net sales	14.7	15.5	14.5	15.1
EBITA adjusted <sup>1</sup>	235.8	213.0	233.2	207.3
As a % of net sales	14.4	14.8	14.3	14.4
Operating profit (EBIT)	197.7	159.8	167.8	155.1
As a % of net sales	12.1	11.1	10.3	10.8
Net income	159.1	124.8	133.0	122.2
As a % of net sales	9.7	8.7	8.1	8.5
Cash net income <sup>2</sup>	192.8	174.8	188.1	172.1
As a % of net sales	11.8	12.2	11.5	12.0
<b>Balance sheet</b> in CHF million				
Assets	1,519.0	1,469.7	2,431.4	2,436.8
Net cash / debt	34.7	0.5	34.7	0.5
Average Capital Employed	927.0	800.0	927.0	800.0
Invested Capital I	1,052.3	948.0	na	na
Invested Capital II	1,960.9	1,692.2	1,912.3	1,657.6
Equity	1,087.0	987.8	1,947.0	1,860.3
As a % of assets	71.6	67.2	80.1	76.3
<b>Cash flow statement</b> in CHF million				
Cash flow from operating activities	226.6	241.5	226.6	241.5
Purchase of property, plant, equipment and software	-132.8	-84.6	-132.8	-84.6
Acquisitions of subsidiaries, net of cash	-10.2	-250.6	-10.2	-249.2
<b>Employees</b>				
Full-time equivalents (FTE)	9,478	9,021	9,478	9,021
<b>Financial key ratios (unaudited)</b>				
ROE in % (Return on equity)	16.1	11.1	7.1	6.8
ROCE in % <sup>3</sup> (Return on capital employed)	25.9	27.8	25.6	27.1
ROIC I in % <sup>4</sup> (Return on invested capital)	15.0	13.5	na	na
ROIC II in % <sup>5</sup> (Return on invested capital)	9.8	10.5	9.8	10.6
<b>Share key ratios</b>				
Earnings per share in CHF	4.24	3.32	3.55	3.25
Payout per share in CHF	1.90 <sup>6</sup>	1.75	1.90	1.75
Payout in CHF million	71.2	65.6	71.2	65.6
Payout ratio in %	44.8	52.6	53.6	53.7

<sup>1</sup> adjusted for special impacts

<sup>2</sup> net income before amortization of intangible assets net of deferred taxes (cash net income)

<sup>3</sup> EBITA in % of the average capital employed in conformity with IFRS less intangible assets

<sup>4</sup> EBIT less tax in % of invested capital I (equity less net cash as of year end)

<sup>5</sup> EBITA less tax in % of invested capital II (equity before goodwill offset (Swiss GAAP FER) less net cash as of year end)

<sup>6</sup> proposed payout to SFS Group's Annual General Meeting held on 25 April 2018

**Key takeaways**

# Advance outlays

**Significant increase in sales**  
in %

**+13.7**

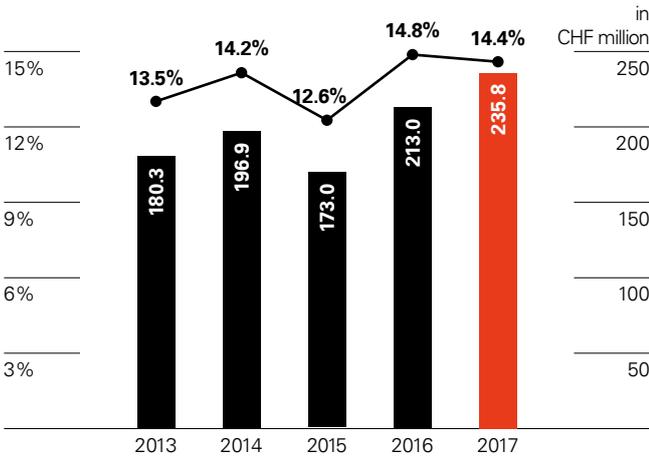
Driven by strong organic growth of 7.4% and the first-time consolidation of Tegra Medical, SFS Group increased its sales in the 2017 financial year by 13.7% to CHF 1,632.7 million.

**Investment in future growth**  
in CHF million

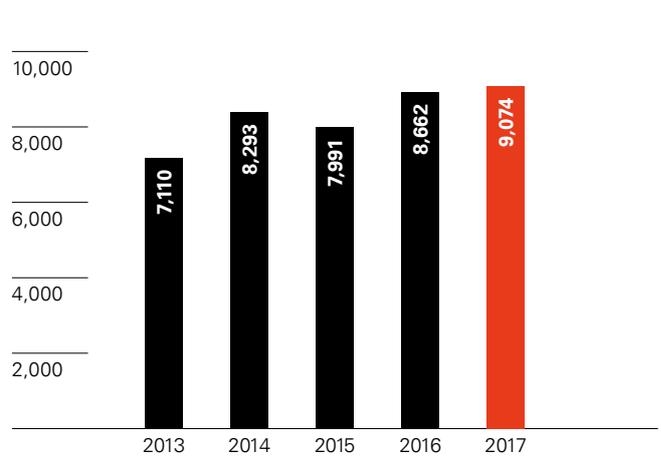
**132.8**

In 2017, SFS invested heavily in improving its capabilities and thereby lays the basis for future growth.

**Operating profit improved despite high advance outlays**  
Development of adjusted EBITA and EBITA margin



**Competitiveness increased**  
Number of employees at year-end (headcount)



**Position in medical device industry and Americas improved**

Due to the successful integration of Tegra Medical, sales generated in the Americas increased by 39.9% and amounted to CHF 281.4 million in 2017. This acquisition has raised the sales contribution from the Americas region to 17.2%.

The sales breakdown also altered by end markets: Thanks to the acquisitions of Stamm (CH) and Tegra Medical (USA) concluded in 2016, the share of sales in the medical device industry jumped from 1.9% (2016) to 6.4% (2017).

**Share of sales by end markets 2017**  
in %



**Success stories**

# Inventing success together

**Engineered Components**  
**From three to one**

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In close collaboration with a customer from the automotive industry, SFS developed an innovative, technically and economically attractive solution that satisfies SFS' claim – "Inventing success together" – 100%.

**Fastening Systems**  
**Comprehensive product offering**

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In close collaboration with the customer, SFS developed successful solutions for Istanbul's new airport, which will be one of the world's largest.

**Distribution & Logistics**  
**Launch of new online store**

Page 26



SFS launched a new, modern and user-friendly online store for customers in the manufacturing and skilled trades sectors. Working hand in hand with customers and external partners, SFS created an online platform that is centered on the needs of the buyers.

**SFS internal**  
**Sharpening of production profiles**

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"Inventing success together" – that promise guides us in all our actions, internal as well as external. It played a crucial role in our successful efforts to address the challenges posed by the appreciation of the Swiss franc.

## Management report

# Dynamic business year

**2017 was a successful year. SFS Group generated dynamic sales growth and improved its position in the medical device industry and in the Americas, thanks to the integration of Tegra Medical. Operating profit showed growth despite the impact of extraordinary operating effects.**



Heinrich Spoerry



Jens Breu

Dear shareholders,

Driven by strong organic growth of 7.4% and the first-time consolidation of Tegra Medical, SFS Group increased its sales in the 2017 financial year by 13.7% to CHF 1,632.7 million. All segments contributed to this pleasing development. Changes in the scope of consolidation had a positive impact of 5.8% and currency movements added 0.5% to reported sales.

For the first time, Swiss GAAP FER accounting standards were used to prepare the financial statements for 2017 instead of IFRS. These standards are more practical for SFS Group than IFRS, which is becoming increasingly complex.

### Operating profit increased

Adjusted operating profit (EBITA) rose by 10.7% (under Swiss GAAP FER) and amounted to CHF 235.8 million. The adjusted EBITA margin decreased to 14.4% (previous

year 14.8%). This decline is mainly due to two reasons: Firstly, extraordinarily high advance outlays and expenditures in the realization of demanding new projects led to additional costs. This is also reflected in the high investments made in property, plant, equipment and software of CHF 132.8 million (previous year CHF 84.6 million). Secondly, important transformational projects initiated in the Fastening Systems segment are nearing completion. The related cost-savings will become effective only in the coming years. Moreover, the appreciation of the euro increased procurement costs for third-party merchandise in the Distribution & Logistics segment significantly. The necessary adjustments to selling prices could be made only after a certain time lag.

Net income including proceeds from property disposals amounted to CHF 159.1 million (previous year CHF 124.8 million), which corresponds to a year-on-year increase of 27.5%.

### Balanced market exposure

In the 2017 financial year, sales showed positive growth in every region. Sales generated in the Americas increased by 39.9%, thanks to the successful integration of Tegra Medical and amounted to CHF 281.4 million. This acquisition has further developed the regional sales mix and raised the sales contribution from the Americas region to 17.2% (previous year 14.0%). The acquisitions of Tegra Medical and Stamm AG (both in 2016) have also changed the breakdown of sales by end market. Sales generated with medical device manufacturers jumped from 1.9% (2016) to 6.4% (2017) of total sales. This marks a big step forward towards a broader market exposure in terms of regional and end market sales.

Asia also showed pleasing year-on-year sales growth and increased its sales by 16.6% to CHF 353.9 million. Growth in this region primarily came from the Electronics division.

Business activities at the other units active in Asia were also promising.

### **Workforce strengthened**

The number of employees at SFS Group stood at 9,478 full-time equivalents at the end of 2017 (annual average 9,250). The increase from the previous year (+5.1%) is attributed to the strong organic growth. We are pleased to welcome these new members of the SFS family.

### **Engineered Components**

#### **Strong sales growth generated**

The Engineered Components segment reported sales of CHF 925.8 million, an increase of 20.5% on the previous year. This pleasing development is equally attributable to the first-time consolidation of Tegra Medical and to the strong growth momentum at the Automotive and Electronics divisions. The realization of demanding new projects was a key factor behind the reported sales growth. The aforementioned advance outlays in connection with the realization of new projects and customer-induced project delays had a negative effect on operating profitability. Nevertheless, the EBITA margin is at a very attractive level of 19.8% (previous year 21.2%).

### **Fastening Systems**

#### **Good momentum sustained**

The Fastening Systems segment sustained its good growth momentum from the first half into the second half of the year and reported full-year sales of CHF 384.0 million, which corresponds to a growth rate of 8.0%. In an overall strong market environment, the Construction division in particular enjoyed high levels of demand in Europe and North America. Thanks to the success of its innovative products, the Fastening Systems segment further widened its share of the market again. The EBITA margin for 2017 amounted to 7.7% (previous year 9.0%). Increased costs in connection with ongoing transformational projects led to the margin contraction, while the intended benefits will become effective only in the coming years.

### **Distribution & Logistics**

#### **Sales lifted by new customer accounts**

The Distribution & Logistics segment strengthened its market position, thanks in particular to the acquisition of new customers. Especially its tools and architectural hardware businesses showed positive growth. Segment sales grew a solid 3.2% to CHF 322.9 million. This growth is well above the growth rate of Switzerland's gross domestic product, which serves as an important benchmark. The segment EBITA margin came in at 9.1%. Excluding the gains on the disposal of property no longer required for operations, profitability for the current year as measured by the EBITA margin of 6.9% was only slightly below the level achieved in previous year (7.2%). The rapidly increased procurement costs could be passed on to customers only after a certain time lag, which had a negative effect on the margin.

### **Risk assessment performed**

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

During the year under review, potential risks and prospective countermeasures were assessed in the following areas: Investment risks in connection with large projects, exchange rate risks, risks associated with acquired companies, product liability risks, IT-related risks, dependency on the global economic environment, and compliance risks.

### **Development and innovation activity stepped up**

SFS Group's mission is to create value for its customers by providing them with innovative services and products. To accomplish this goal, SFS Group invests considerable resources in the continual development of its core technologies, in the ongoing launch of new products and systems, and in continual process improvements. SFS' aim is to fully grasp the customer's perspective and identify ways to optimize overall cost. Working closely with our customers, we are often able to put efficiency gains into their value chains and thereby "invent" success as part of our partnership – true to our value proposition of "Inventing success together".

Expenditure on research and development amounted to CHF 33.8 million in 2017 (previous year CHF 30.6 million). Thanks to these investments, SFS Group's operating performance will improve, laying the basis for further growth. This expenditure was spent on development activities, tools, prototypes and preparation for large production runs. The research and development costs are recognized within various line items in the income statement. The criteria for capitalizing these items under Swiss GAAP FER have not been met.

### **Changes in the Board of Directors**

Shareholders at last year's Annual General Meeting on 26 April 2017 elected Nick Huber and Bettina Stadler as new members of SFS Group's Board of Directors. They succeeded Ruedi Huber and Karl Stadler, who stepped down from the board after many years of service.

### **Shareholder payout**

In view of the robust earnings and the positive outlook for future business activity, the Board of Directors will propose an increase in the payout to CHF 1.90 per share (previous year CHF 1.75), to be paid from capital contribution reserves. This payout is not subject to withholding or income tax for natural persons whose tax domicile is in Switzerland.

### Outlook for the 2018 financial year

Our focus in the 2018 financial year will be on strengthening our position with existing customers and on the selective expansion of our customer base. We also intend to exploit new application areas, launch significant new projects and extract greater synergies from the transformational projects currently under way at SFS Group. Projects aimed at sharpening our production profile in the Fastening Systems segment should also be completed by the end of this year. We do not expect any material changes in the economic environment or in exchange rates during 2018.

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

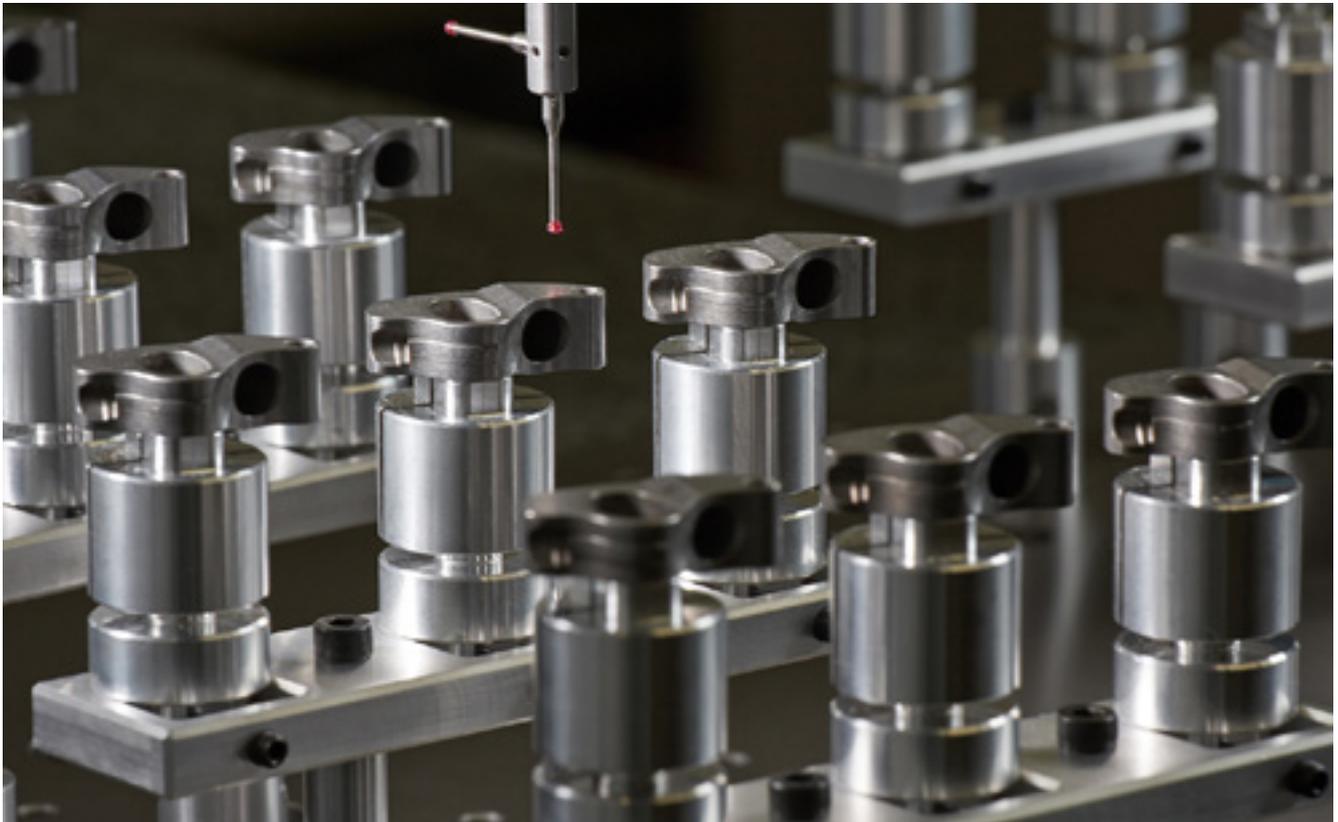
Assuming unchanged economic conditions, we expect sales to grow by 5–7% in 2018 and the EBIT margin to increase compared with the 2017 financial year.

### Thank you

A big thank-you goes out to all employees of SFS Group. It is thanks to them that 2017 was another successful year for SFS Group. Employees throughout the company demonstrated high levels of competence, creativity and dedication and delivered excellent work. We thank our customers for partnering with us and for their trust in letting us work side-by-side with them to develop sustainable, value-added solutions. We also thank our loyal shareholders. Their firm and loyal support is important for the stability and sustainability of the company and is very much appreciated.

Heinrich Spoerry  
Chairman of the  
Board of Directors

Jens Breu  
CEO



High advance outlays by SFS in 2017 build the basis for future growth.

## Strategy

# Shared success

**Creating value for the customer and inventing success in close collaboration with our customers, this is our primary mission. Our vast application and technology expertise helps us to accomplish that mission.**

### Surrounded by SFS products 24/7

SFS is a reliable companion throughout the day, from early morning to late at night, seven days a week. Many people are unaware of this because our precision components and mechanical fastening systems are embedded in the top-quality products our customers make, where they often perform critical functions.

Contact with SFS products starts early each day, in your home, where SFS fastening systems and precision-formed components serve a number of important functions in doors, windows and kitchens. SFS know-how can also be found in electrical devices such as electric shavers or high-end household appliances. You also come into contact with many SFS products whenever you reach for your smartphone or put on a smartwatch or sports watch.

### Active in a variety of application areas

In your car, you are surrounded by many different SFS products: in the automotive interior, the vehicle's structural body and, in particular, in safety systems such as seatbelts, airbags and brake systems, where our products help save lives in an emergency. At the office, numerous SFS components can be found in the disc drives that are used to store data. And the next time you are on board a modern airplane and notice how quiet it is, SFS fastening solutions that reduce vibration in the aircraft cabin are partly the reason. Outdoor gadgets such as adventure cameras or drones are yet another example of how SFS accompanies you through each and every day. Our instruments and components also perform important functions in medical devices used in the health care industry.

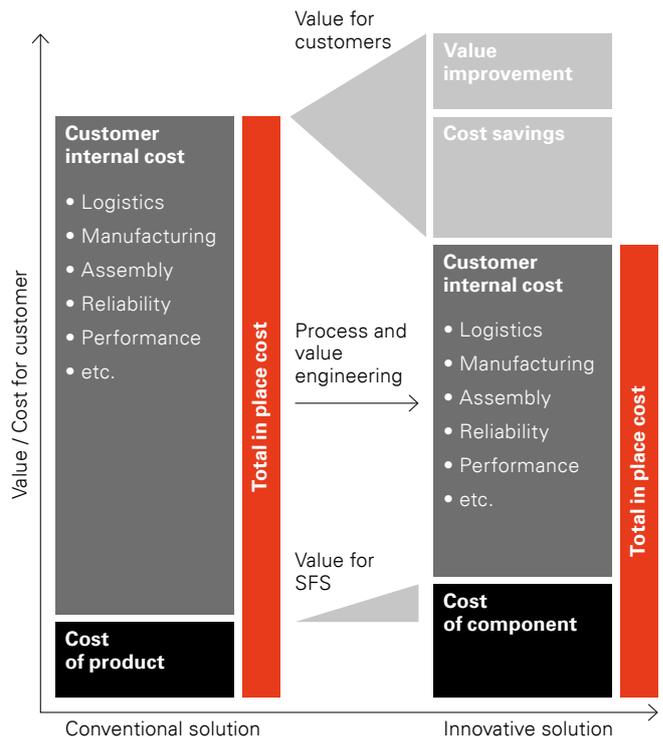
### Creating value for customers

The direct costs of the SFS components embedded in many products often account for less than 1% of the overall product cost, but the secondary costs at customer end, ranging from sourcing-related expenses, logistics and handling operations, or the sheer variety of parts required, are several times the primary costs of such components. That is why our aim is not so much to lower our direct product costs, but

to optimize the overall costs incurred by our customers (see "Value proposition" graph). This approach unlocks significantly more cost-savings potential and creates sustainable value, both for the customer and for SFS.

The advantage of these custom-built products and intelligent solutions is that not only do they help the customer, they allow us to sharpen our profile and deepen the partnerships we maintain with our customers. Our stated goal of achieving success and creating value for the customer necessitates a basic attitude, which can be summed up as a steadfast desire to invent success together with the customer.

### Value proposition of SFS Group



### **Inventing success together**

We constantly strive for improvement and innovation – always acting in close collaboration with our customers, our colleagues and suppliers. We want to be successful together, constantly improve ourselves, and explore and redefine the limits of our technological capabilities. Our new “Inventing success together” claim accurately summarizes in three words the value proposition that SFS stands for – in both its internal and external activities.

We are reinforcing our value proposition, the DNA of SFS, with a streamlined brand strategy: The SFS intec and SFS unimarket brands embrace the same values as the SFS brand. The SFS intec and SFS unimarket brands will therefore be phased out and replaced by the SFS brand. This brand consolidation will make our communications much more effective and efficient. The SFS brand will also be profiled more distinctly to differentiate our services and solutions even more from those of competing companies. The focus on our value proposition is also supported by our new corporate design.

The Group’s other brands such as GESIPA®, Unisteel, Tegra Medical and Indo Schöttle will be used as before. Their strategic and cultural association with SFS will be emphasized by adding the tagline “A member of SFS”.

### **Enhancing the strengths of the Swiss production sites**

To ensure that SFS remains successful in Switzerland despite the strong Swiss franc, the Swiss production sites will focus on particularly knowledge- and capital-intensive products and processes with considerable value-added and a high degree of automation. Projects undertaken by the Automotive and Industrial divisions meet the specified criteria particularly well. Meanwhile, manufacturing operations for products that do not meet these criteria are being transferred to suitable locations outside Switzerland. SFS was able to even increase employee levels in Switzerland slightly during this realignment due to the ramp-up of new projects.

### **Greater performance through focus**

Top performance is not possible without focus and, in keeping with this maxim, many of SFS’s production sites in and outside Switzerland are currently undergoing a process of transformation. By sharpening our production profile in congruence with the competitive advantages of the respective locations, we are improving the performance of our plants and capturing economies of scale. Numerous projects were initiated and they should be completed by the end of 2018.

### **Leveraging the potential of digitalization**

Digitalization offers many opportunities, one example of which is automated inventory management system (“M2M” systems). SFS is a leader in this business, as evidenced by the multiple awards it has received. Thanks to these automated systems, restocking processes can be fully automated and inventory levels lowered, while at the same time improving stock availability.

For a manufacturing company like SFS, methodically exploiting optimization opportunities offered by automation or lean management, for example, is an important factor for success. The onward march of digitalization is creating additional opportunities for product innovation. These range from enhanced simulation models and more granular production planning to the greater use of autonomous manufacturing concepts.

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## **SFS in brief**

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

### **Engineered Components**

In the Engineered Components segment, SFS partners with customers to develop and manufacture customerspecific precision components, mechanical fastening systems and assemblies. This segment comprises the Automotive, Electronics, Industrial and Medical divisions and sells its products under the SFS (Automotive, Industrial), and Unisteel (Electronics) and Tegra Medical (Medical) brands.

### **Fastening Systems**

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

### **Distribution & Logistics**

In the Distribution & Logistics segment with the SFS brand, SFS is a leading supplier and logistics partner for manufacturers and skilled crafts and trades in Switzerland. The segment also offers customized logistics solutions that play a key role in making customers more competitive.

SFS Group is a global player with manufacturing sites and distribution companies at more than 80 locations in 26 countries around the world. It generated sales of CHF 1,632.7 million in business year 2017 with a workforce of approximately 9,500 employees (FTE).

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**Generating growth through innovation**

Innovation and the quest for improvement are key elements of SFS's corporate DNA. As innovation is often preceded by changes in the general market environment, triggered for example by societal developments or the pressure to increase efficiency, it is crucial for SFS to maintain a distinctive profile in its targeted markets.

SFS boasts a very robust innovation and new project pipeline that continued to grow in strength during the year under review. Underpinned by our international manufacturing footprint, our position in fast-growing markets, the close partnerships we maintain with the leaders in these markets and our strong innovation skills, our targeted sales growth in the coming years is well above the projected growth of the world economy.

**Growth through acquisition**

Besides organic growth, acquisitions are also an important element of our growth strategy. Selective acquisitions can give us access to new markets, customers and applications that, in turn, enhance our future organic growth potential. Large companies are not the primary targets of our acquisition activities. Instead, we focus on identifying well-positioned and well-run small and medium-sized companies that will enhance the Group's performance.

**Further margin expansion**

SFS operates with good margins. We see this as confirmation that we are pursuing the right market strategy and successfully delivering on our value proposition "Inventing success together". Good profitability is the cornerstone of a solid balance sheet and a guarantee of our long-term entrepreneurial freedom. We aim to improve the EBIT margin of SFS Group over the medium term. This is to be achieved through above-average growth in profitable business areas, further improvements in our operating performance, and the continued launch of innovative products.

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**Strategic priorities in 2018**

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- Strengthen our position with existing customers by consequently focusing on their needs and accelerating our pace of innovation
  - Selectively broaden our customer base and penetrate new application areas
  - Successfully launch various new projects in the pipeline
  - Bring to completion the comprehensive projects under way to sharpen the company's production profiles
  - Make greater use of synergies within SFS Group, in particular technology synergies
- 



By sharpening our production profile in congruence with the competitive advantages of the respective locations, we are improving the performance of our plants and capturing economies of scale.

Markets

# Broader market exposure

**SFS strengthened its position in key growth markets and thereby improved its market exposure. The acquisition of Tegra Medical lifted the percentage of sales generated in the medical device sector and the Americas region to 6.4% and 17.2%, respectively.**

## Development by end market

### Better penetration of medical device market

Thanks to the acquisitions of Stamm (CH) and Tegra Medical (USA) concluded in 2016, the share of sales generated with medical device OEMs jumped from 1.9% (2016) to 6.4% (2017). Robust trends in the medical device industry are fueling the market’s attractive growth worldwide. Due to mounting cost pressures, OEMs are increasingly concentrating their resources on product development and marketing, and are intensifying their collaboration with external manufacturing specialists such as SFS. We intend to strengthen our position in the medical device sector during the years to come.

### Sustained strong momentum in the automotive business

The good growth momentum witnessed in the automotive sector for the past several years was sustained in 2017. While sales with the automotive industry were sharply higher in absolute terms, relative to total Group sales their share declined by 100 basis points to 26.2%. This contraction can be traced to the integration of Tegra Medical, which altered the sectoral and geographical sales breakdown.

Vehicle electrification is a major growth driver for the Automotive business and it has increased the application areas SFS can address. Components for electric brakes for autonomous driving and new products for housing the cameras are examples of this. Other promising innovations are in the pipeline. Sales from these projects are expected to sustain attractive growth rates in the years ahead.

### Positive momentum achieved

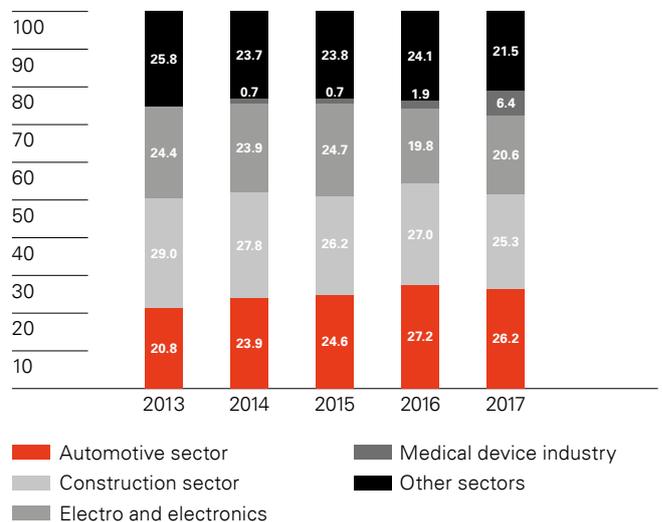
Business trends in the construction sector were similarly very positive. Its share of Group sales came in at 25.3% (previous year 27.0%). Key markets in North America and Europe are showing signs of strength. Thanks to its innovative products, SFS gained market share and accelerated its growth rates.

Sales in the electronics sector turned very positive again after a year of transition in 2016 and accounted for 20.6% of group sales (previous year 19.8%). Further future-oriented projects are in the stages of development and will contribute to sales growth over the next few years.

Business in the various other end markets was stable and accounted for 21.5% of consolidated sales. These markets include aerospace and cutting tools manufacturers, for example.

Share of sales by end markets 2013–2017

in %



## Development by region

### Importance of Americas business increased

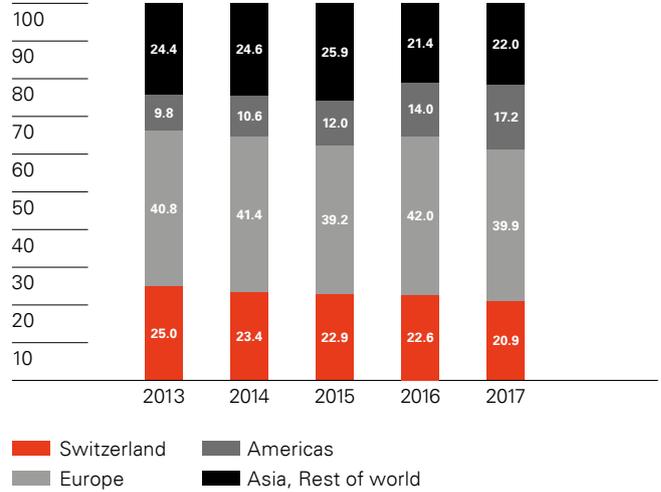
SFS is well balanced, not only in terms of end markets but also in terms of geographies. The importance of the Americas region increased significantly and the share of sales jumped to 17.2% in 2017 (previous year 14.0%). This is largely attributable to the integration of Tegra Medical, where customers are located almost exclusively in North and South America. Business with customers in the automotive and construction sectors also contributed to the increase in this region's share of total sales.

### Asia's share of sales increased

Business activity in Asia is driven primarily by the Electronics division, which generates almost all its sales in Asia. Thanks to the strong growth, the share of sales rose from 21.4% in the previous year to 22.0% despite the first-time consolidation of Tegra Medical. This is attributable primarily to the positive trends in the smartphone business and to the new components launched for smartwatches and smart homes. In the hard disk drives segment, SFS profited both from its increased range of products and from its increasing share of orders from existing customers. Thus, SFS was able to widen its market share despite the overall market contraction. Business trends in other segments of the Asian market were similarly very positive, which offset the run-off of the division's non-core trading activities (TI inserts).

Share of sales by region 2013–2017

in %



## Worldwide sales offices and production sites



An extensive distribution and production network across North America, Europe and Asia allows SFS Group to serve its customers locally from one of its more than 80 sites worldwide. Customers appreciate our global presence because it allows them to collaborate with just one partner when working on an international project.

### Share of sales generated in Europe and Switzerland declined

Sales in Europe is at 39.9%. This positive development is due to the strong market demand in the construction and industrial sector, and to the successful realization of new projects; i. e. in the automotive sector. The share of sales in Switzerland increased by 4.8% compared to the previous year and achieved a share of sales of 20.9%. In a partly still challenging market environment, SFS was able to win substantial projects against domestic and international competitors that underpin its strong competitive position.

## Sales by segment

### All three segments report solid growth

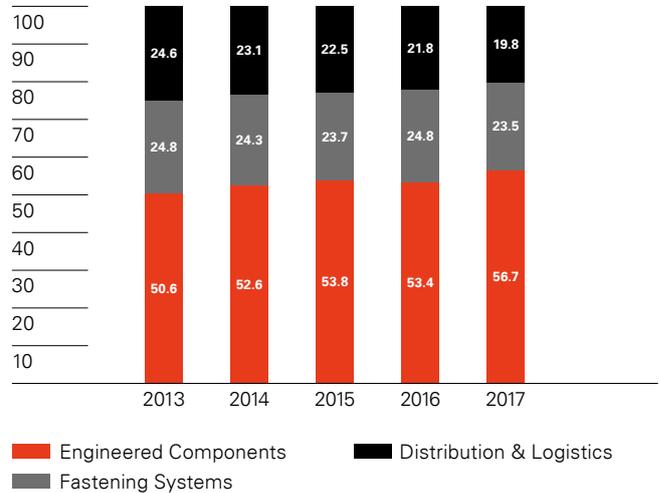
Solid growth and acquisitions in the Automotive and Electronics divisions lifted the sales of the Engineered Components segment by 20.5%. Accounting for 56.7% of total SFS sales, this segment remains the largest contributor to Group sales. Thanks to the market success of innovative products, the Fastening Systems segment strengthened its market position and achieved attractive growth. It accounted for 23.5% of SFS Group sales. The third segment, Distribution & Logistics, performed well in its home Swiss market and added more than 20 logistics accounts to its customer portfolio. It generates 19.8% of SFS Group sales.

### Positive trends expected in the coming years

From a medium-term perspective, the Engineered Components segment is expected to achieve faster sales growth than SFS Group as a whole. This forecast reflects the segment's attractive position in fast-growing markets and the numerous new projects that are moving through the pipeline. Sales growth at the Fastening Systems segment should be roughly in line with the growth rate for SFS Group as a whole, while the Distribution & Logistics segment is expected to experience slower growth which is impacted by the expected growth rate of the Swiss economy. Our targeted sales growth rate for SFS Group in 2018 remains in a range from 5–7%.

### Share of sales by segment 2013–2017

in %



## Engineered Components

# Dynamic sales growth

**The realization of demanding new projects generated considerable growth momentum. Profitability remained at attractive levels despite high advance outlays for future growth projects.**

### Growth fueled by Automotive and Electronics

The strong growth momentum witnessed during the first half of 2017 was successfully maintained in the second half of the year. Sales for the 2017 financial year rose by 20.5% year-on-year and amounted to CHF 925.8 million. As in previous years, the good performance of the Automotive division was a key element of the segment's high organic sales growth. The Electronics division made a notable contribution to growth as well and brought its transformation process to a successful conclusion with the phase out of trading activities. Business at the Industrial division was broadly stable, although growth momentum in its various application areas varied considerably. The integration of Tegra Medical, which made an initial contribution to the growth of the Engineered Components segment in December 2016 and now operates as the Medical division, was successfully completed. Sales for the period were flat because of the characteristics of certain projects, although a slight upturn set in during the second half as expected.

### High earnings power confirmed

The Engineered Components segment again demonstrated its substantial earnings power in the face of a highly competitive market environment and reported an EBITA of CHF 186.0 million. This corresponds to an attractive EBITA margin of 19.8% (previous year 21.2%). The decline in margin was due in particular to advance outlays for the realization of new projects. These additional outlays as well as project delays originating with customers temporarily lowered the operating profit margin.

### Solid base for future growth created

In our role as an engineering partner, early involvement in the development projects of our customers is vital and that early involvement necessitates a partnership of trust. SFS was thus proud to have again received rewards for outstanding performance from several of its key accounts, such as Continental, Robert Bosch, Brose and Faulhaber Group.

### Key figures Engineered Components

in CHF million

	2017 SGF*	2017 IFRS	+/- PY	2016 IFRS	2015 IFRS
Third party sales	925.8	925.8	20.5%	768.1	740.1
Sales growth comparable <sup>1</sup>			9.6%		
Net sales	938.2	938.2	20.0%	781.5	756.1
EBITDA	243.3	243.3	11.2%	218.9	185.3
As a % of net sales	25.9	25.9		28.0	24.5
EBITA	186.0	186.0	12.4%	165.4	134.1
As a % of net sales	19.8	19.8		21.2	17.7
Net operating assets	618.6	1,482.2	-2.4%	1,519.2	1,290.6
Investments	80.3	80.3	66.6%	48.2	70.3
Employees (FTE)	6,492	6,492	4.4%	6,217	5,635
RONOA (%) <sup>2</sup>	30.1	12.6		12.6	10.4
ROCE (%) <sup>3</sup>	31.7	31.7		32.3	26.5

<sup>1</sup> at constant exchange rates and on the same scope of consolidation

<sup>2</sup> return (EBITA) in % of net operating assets (adjusted for Tegra Medical 2016)

<sup>3</sup> return (EBITA) in % of average capital employed without intangible assets

\*SGF = Swiss GAAP FER



The dynamic growth of the Engineered Components segment is based on the good performance of the Automotive and Electronics divisions.

SFS's superior performance capabilities are also mirrored in the numerous demanding new projects it acquired. SFS invested heavily in the expansion of its production capacity due to these new projects. Capital expenditure at the Engineered Components segment amounted to CHF 80.3 million in 2017, which is well above the level from the previous year (CHF 48.2 million). All such projects are subject to strict investment guidelines in order not to compromise future profitability. Newly installed production capacity normally does not operate at full performance levels until two to three years after the associated projects are ramped up.

## Automotive division

### Electrification of cars confirmed as a growth driver

The Automotive division managed to sustain its high growth momentum from the previous years and it grew at a much faster pace than its target market in 2017. A major factor for its strong growth was the ramp-up of new projects. The division also benefited from a positive market environment in Asia and Europe. Vehicle electrification and thus autonomous driving are major innovation and growth drivers, and they are becoming increasingly important. Significant new projects were won in these areas – some will increase the production volumes of systems that are already in the marketplace, and others will develop the next generations of such products.

The Automotive division expects its positive growth momentum to continue throughout the coming year in view of its attractive project pipeline and the positive market environment. To ensure the smooth execution of the innovation projects and set up the corresponding production capacity, capital expenditure will remain high in 2018.

## Electronics division

### Back on the growth track

In 2017, the Electronics division made considerable progress in its development towards a trusted engineering partner for a wider range of precision components. Sales for each half of the 2017 financial year exceeded the year-ago levels by a wide margin. Stronger-than-expected demand for hard disk drives was one reason for the fast growth. In this market segment, SFS profited both from its larger range of products and from its increasing share of orders from existing customers. SFS widened its share of the market despite the overall market contraction.

In the smartphones market, Unisteel again demonstrated its superior production capabilities in meeting rapidly rising production volumes in connection with important product launches. The division's expertise in cold forming technology was also utilized to strengthen its status as a supplier with key accounts and to enter new application areas. Important project wins were secured in the smart watch business

and for IoT (Internet of Things) applications such as Smart Homes.

The division expects to deliver solid organic sales growth in 2018 in view of its healthy project pipeline. The division's competitive edge will be even sharper once the construction of its new production platform in Nantong (CN) is completed in 2019. Factories and production technologies currently spread across several sites will be consolidated at this new factory in the next two to three years, which will lead to efficiency gains. Space will also be available for the realization of growth projects.

## Industrial division

### Stable sales trend achieved

Overall sales at the Industrial division with its different fields of application were stable. Business with the aircraft sector, a key growth driver in recent years, showed a flat development in 2017. This flattening of growth can be traced to temporary inventory effects in customer supply chains. Notwithstanding those effects, the division was able to further strengthen its market position with the aircraft sector and improve its competitive profile. At the same time, various development projects are far advanced and build the basis for further growth.

Floorspace at the plant in Althengstett (DE) is being expanded as planned to accommodate the expected ramp-up of customer projects in the aircraft business. The anticipated increase in production output during the coming years and an expansion of the division's engineering capabilities are the main reasons behind the decision to enlarge the Althengstett plant.

The division enjoyed good growth in the electrical engineering, control engineering and sensorics application areas. This growth was driven by market dynamics and the launch of new products. In fastening technology applications for cutting tool applications, the division's long-standing good relationships with customers helped it to achieve further sales growth.

For 2018, the division expects a broadly positive sales trend. New products introduced during the year under review and the ramp-up of high-volume production series will be the key factors for future growth.

## Medical division

### Smooth integration process

After the acquisition in December 2016, Tegra Medical was consolidated as the Medical division for a full year for the first time. Its integration into SFS Group proceeded very smoothly and was viewed positively by employees and customers, who are now being offered full access to SFS' extensive technology portfolio.

Its solid organic growth rates from previous years suffered a temporary setback in 2017 due to specific project characteristics and customer inventory movements. This resulted in an overall flat divisional sales trend, although slightly positive growth signals were observed during the fourth quarter. Tegra Medical's skills as a producer of hybrid components consisting of plastic and metal materials were particularly noteworthy.

Production capacity at Tegra Medical's factory in Costa Rica was expanded to sustain growth in the coming years. A well-established production network in North and South America gives Tegra Medical a local presence in the region's leading medtech clusters. This status as a local supplier represents a significant competitive advantage for SFS.

In the field of vehicle electrification, SFS won important new projects.



Judging by the current project pipeline, the Medical division expects to return to a path of solid organic growth in 2018 and achieve clearly higher margins. A team of specialists will be deployed to oversee and intensify efforts to secure new customer contacts in Europe and to utilize synergy potential.

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## Engineered Components

In the Engineered Components segment, SFS partners with customers to develop and manufacture customer-specific precision formed components, mechanical fastening systems and assemblies. Tailor-made solutions create added value for customers by enhancing overall system performance, for example, or by reducing the complexity of the parts and components required. Besides the applications knowledge, technical expertise on the manufacturing side is also imperative.

The Engineered Components segment consists of four divisions, each focused on its particular markets.

### Automotive division

SFS has established long-standing partnerships with leading customers of the automotive industry and their suppliers. The services and products offered under the SFS brand focus on applications related to safety and comfort, support autonomous driving and reduce fuel consumption and engine exhaust emissions.

### Electronics division

A leading supplier of precision components and miniature screws for the electronics industry, this division does most of its business in Asia. Its products, sold under the Unisteel brand, can be found in smartphones, smartwatches, smart homes, game consoles and hard disk drives.

### Industrial division

In the Industrial division, SFS sells a wide range of products carrying the SFS brand name to market leaders with diverse needs operating in attractive niches. 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 the medical components industry.

### Medical division

In the Medical division, SFS develops and manufactures primarily disposable metal/plastic hybrid parts sold under the Tegra Medical brand to leading global OEMs in the medical device industry. Orthopedics, interventional therapies and minimally invasive procedures are examples of its targeted application areas.

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## Fastening Systems

# Strengthened market position

**Thanks to the market success of innovative products, the Fastening Systems segment strengthened its market position and delivered attractive growth in a positive market environment. Costs resulting from transformational projects had a negative effect on the profitability.**

### Innovative products confirmed as growth drivers

The Fastening Systems segment sustained and even accelerated the good growth momentum it reported in the previous year. Sales in the 2017 financial year amounted to CHF 384.0 million, which corresponds to an increase of 8.0% from the previous year. In a fundamentally positive environment, demand was high, particularly in the European and North American construction markets. Thanks to its innovative products, SFS widened its share of the market and accelerated its growth.

### Cost of transformational projects impacted profitability

Segment EBITA for 2017 amounted to CHF 31.0 million, which corresponds to an EBITA margin of 7.7% (previous year 9.0%). The market success of innovative products and high capacity utilization rates at the segment's manufacturing sites had a positive impact on profitability. However, the high levels of demand posed considerable challenges that impacted the execution of supply chain optimization projects. To ensure timely processing of customer orders, inventory levels had to be increased, additional capacity had to be secured during the relocation of production processes, and some consolidation projects had to be delayed. As already reported with the release of the first-half results for 2017, the above factors resulted in additional costs that had a negative effect on earnings. SFS assumes that the ongoing optimization projects will be successfully concluded in 2018 and that the ensuing improvements will have a positive effect on earnings power.

### Key figures Fastening Systems

in CHF million

	2017 SGF*	2017 IFRS	+/- PY	2016 IFRS	2015 IFRS
Third party sales	384.0	384.0	8.0%	355.6	326.9
Sales growth comparable <sup>1</sup>			6.5%		
Net sales	401.0	401.0	8.2%	370.8	341.4
EBITDA	47.1	47.1	-4.5%	49.3	38.9
As a % of net sales	11.7	11.7		13.3	11.4
EBITA	31.0	31.0	-7.4%	33.5	23.2
As a % of net sales	7.7	7.7		9.0	6.8
Net operating assets	240.8	347.5	12.2%	309.7	289.1
Investments	30.6	30.6	12.7%	27.2	16.3
Employees (FTE)	1,992	1,992	5.7%	1,885	1,758
RONOA (%) <sup>2</sup>	12.9	8.9		10.8	8.0
ROCE (%) <sup>3</sup>	13.5	13.5		16.0	11.1

<sup>1</sup> at constant exchange rates and on the same scope of consolidation

<sup>2</sup> return (EBITA) in % of net operating assets

<sup>3</sup> return (EBITA) in % of average capital employed without intangible assets

\*SGF = Swiss GAAP FER



In the Riveting division, setting tools are important growth drivers.

## Construction division

### Market share increased thanks to innovative projects

Key markets addressed by the Construction division showed signs of strength. Demand in different fields of application in the European and North American markets rose to levels last seen before the global financial and economic crisis.

The Construction division managed to grow much faster than the market. Its market share gains were fueled by the success of its innovative products and services. Trends associated with greater safety, energy consumption savings, aesthetics and individuality proved to be major drivers of innovation. Positive factors were its enlarged offering of products and services via acquisitions or strategic partnerships, examples of which are Ncase (subframes for rainscreen cladding systems) and HECO (wood construction screws). Moreover, the launch of the in-house developed fall protection system "Soter" for roof applications proved to be very successful.

Due to pleasing customer demand, some of the projects aimed at sharpening the production profiles had to be postponed. This ensured the timely processing of customer orders.

These production optimization projects will be concluded during the second half of 2018 and lead to further efficiency gains for the Construction division. Management expects a positive market environment in 2018 and both sales and profits should develop positively.

## Riveting division

### Demand from automotive sector increased

Sales at the Riveting division rose in 2017. Demand from the automotive industry was particularly strong. Attention is drawn to successful projects involving blind rivet nuts and blind rivet nut studs that necessitated the expansion of the division's production capacity in the United Kingdom.

Successful riveting tool projects, such as the launch of the new battery-powered blind rivet setting tool FireBird® Pro, boosted top-line growth. This tool offers obvious advantages in terms of comfort and riveting speed and force compared with competitor products. Trends towards the electrification of assembly lines and automated rivet setting tools that allow a 100% monitoring of the rivet installation have proven to be robust drivers of innovation and growth. Thanks to the solutions provided, customers can benefit from substantial efficiency gains and from more accurate quality control.

Comprehensive projects were initiated to sharpen the division's production profile. Operational difficulties that arose after consolidation of two sites in the US to a single location continued to persist in the second half, as had been expected. The largest infrastructure project ever launched in the

history of GESIPA®, expanding its production site in Thal (Germany), is proceeding as planned. Recruitment of the necessary skilled workers has been a challenge, however. The factory in China, which is part of the global production platform that SFS is building to serve the automobile industry, achieved several milestones and tripled its production volume.

The Riveting division expects to deliver solid growth in 2018 and to improve its profitability. The launch of new products such as digitally connected rivet setting tools, will support the upward sales trend. Most of the infrastructure projects to ensure growth capacity will be completed in 2018. The challenges at the US site are gradually being overcome and this, too, will contribute to higher profitability in the future.

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## Fastening Systems

SFS offers customers proprietary mechanical fastening solutions under the SFS and GESIPA® brands in its Fastening Systems segment. SFS 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 segment consists of the Construction and Riveting divisions.

### Construction division

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

### Riveting division

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

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## Distribution & Logistics

# Broadened customer base

**The Distribution & Logistics segment achieved solid growth and gained important new customers by virtue of its compelling solutions. Profitability was affected by higher procurement costs.**

### Success driven by convincing market offering

The Distribution & Logistics segment achieved solid growth in a generally improved market environment. Compared to the figure from the previous year, segment sales rose by 3.2% to CHF 322.9 million. This growth is well above the growth rate of Switzerland's gross domestic product, which is a relevant benchmark for this segment.

The increase in sales can be traced to the sound project and customer acquisitions made in previous years and to demand for its attractive product portfolios. The two product categories of fastening technology and tools showed particularly strong growth rates.

More than 20 new (logistics) customers were acquired during the year, which is a clear indication of the competitive advantages that its C-class logistics systems offer. These solutions provide substantial optimization potential: besides automating administrative processes, customers can reduce their average inventory level while increasing parts availability at the same time. Thanks to the scalability of these systems and the alliance with business partners, customers with international activities can also reap the benefits of these logistics systems at their sites located outside Switzerland.

### Profitability affected by higher procurement costs

In the 2017 financial year, the Distribution & Logistics segment generated an EBITA of CHF 30.0 million, which corresponds to an EBITA margin of 9.1%. Excluding the non-recurring effects of 2016 and 2017 that result from the sale of a property no longer required, the EBITA margin stands at 6.9% (previous year 7.2%).

Procurement costs rapidly increased due to a general rise in raw material prices and the depreciation of the Swiss franc, but these higher costs could be passed on to customers only after a certain time lag. That delay had a negative effect

### Key figures Distribution & Logistics

in CHF million

	2017 SGF*	2017 IFRS	+/- PY	2016 IFRS	2015 IFRS
Third party sales	322.9	322.9	3.2%	312.8	309.3
Sales growth comparable <sup>1</sup>			3.1%		
Net sales	328.9	328.9	3.2%	318.6	314.8
EBITDA	35.9	35.9	6.2%	33.8	26.5
As a % of net sales	10.9	10.9		10.6	8.4
EBITA	30.0	30.0	10.7%	27.1	18.8
As a % of net sales	9.1	9.1		8.5	6.0
Net operating assets	134.2	143.1	2.0%	140.3	151.9
Investments	10.4	10.4	166.7%	3.9	1.6
Employees (FTE)	655	655	4.8%	625	643
RONOA (%) <sup>2</sup>	22.4	20.9		19.3	12.3
ROCE (%) <sup>3</sup>	21.3	21.3		19.0	12.5

<sup>1</sup> at constant exchange rates and on the same scope of consolidation

<sup>2</sup> return (EBITA) in % of net operating assets

<sup>3</sup> return (EBITA) in % of average capital employed without intangible assets

\*SGF = Swiss GAAP FER



Distribution & Logistics underpins its logistics systems competence with the acquisition of more than 20 new customers.

on the margin. Selective recruitment of additional staff to strengthen overall competitiveness also led to a slight increase in the segment's operating costs.

### Further expansion of product portfolio

The Distribution & Logistics segment implemented extensive measures during the year under review to expand its product range and improve its operating performance. It entered an attractive and growing market segment by adding personal protective equipment to its product range. This additional product category is now offered through every sales channel and was well received by customers.

The number of products offered over the electronic distribution channels is being steadily expanded. Sheet metal working customers, for example, can use a new configuration tool ([www.meinblech.ch](http://www.meinblech.ch)) to quickly and easily select the shape, size and color of the products they want to order. SFS further strengthened its online presence with the launch of the new online shop ([www.sfs.ch](http://www.sfs.ch)) in February 2018.

An important factor differentiating SFS from the competition are the multiple sales channels it offers to its customers: These range from the above-mentioned online channels to direct sales to a chain of specialty retail shops (HandwerkStadt). The opening of a new HandwerkStadt store in the Zurich metropolitan area at the turn of the year increased the number of stores to 28.

### Logistics infrastructure improved

SFS must ensure timely delivery services even with higher order volumes and an expanded range of products. Therefore, its warehouse in Rebstein (CH) is being significantly enlarged at an investment volume of about CHF 11 million. This expansion project will also produce productivity gains.

Looking ahead to 2018, the Distribution & Logistics segment expects its sales to continue to grow amid a generally positive economic environment. The segment also expects an improvement in its earnings.

In Rebstein (CH) the logistics infrastructure is being significantly expanded at an investment volume of about CHF 11 million.

## Distribution & Logistics

The Distribution & Logistics segment offers a range of products in the areas of fastening technology, tools and architectural hardware, and innovative logistics solutions with significant customer benefit. Under the SFS 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 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.

Modern, economical logistics infrastructure allows the Distribution & Logistics segment to deliver its products quickly, reliably and efficiently.



# From three to one

## Engineered Components

**SFS developed an innovative, technically and economically attractive solution in collaboration with a leading manufacturer of mechatronic components for the automotive industry, which include electric seat adjustment solutions. This solution satisfies SFS' claim – "Inventing success together" – 100%.**



**Sophisticated product for electric seat adjustment**

To lower development and production costs for its electric seat adjustment, the customer hosted an event and invited a number of suppliers to explore and discuss a range of ideas and suggestions. Ultimately, SFS was awarded a major contract for having understood the customers requirements precisely and implementing them in an innovative solution that convinced both technically and economically.

**Economic and technical benefits achieved**

SFS specialists investigated the full range of seat adjustment applications together with the customer. Optimization potential in the overall application was identified after a thorough examination. Instead of building the module with three separate components, SFS suggested that these components should be merged into a single part. The resulting cold formed part offers a challenging geometry and provides tangible commercial benefits as it entails no additional logistics, storage or assembly costs.

**New production line set up in the USA**

SFS's global production platform enables local customer delivery with just one supplier. Thus, the technology can be transferred to other locations to exploit synergies - as was also the case with this seat adjustment product, millions of units of which are already being produced in Heerbrugg (CH) and Turnov (CZ).

In light of SFS's international presence and the high customer demand, the customer commissioned SFS to set up a third production line. This involves setting up machinery, transferring know-how and training employees in the course of 2017 and 2018. Following product release, SFS will be able to supply the new product to the customers plant in America from its Medina (USA) site instead of from Heerbrugg.

**SFS wins award**

Moreover, SFS had the privilege of accepting an award on behalf of all SFS employees involved in this project, which is further proof of SFS's extraordinary achievement.

SFS worked in close collaboration with its customer on this project to "invent" a new and better solution for an existing product. Thereby, the SFS value proposition "Inventing success together" was impressively applied.

**Value added for the customer**

- Brainstorming and development of an innovative solution
- Realization of an economically and technically interesting solution
- Close collaboration with customer
- Local supply thanks to SFS's global production platform



Success stories

# Comprehensive product offering

## Fastening Systems

Istanbul's new airport is set to be one of the world's largest. More than 30,000 workers are busy getting the airport ready for inauguration in October 2018. SFS developed solutions for this prestigious construction project in close collaboration with the customer, true to our value proposition: "Inventing success together".



**SFS delivered comprehensive range of products and services**

To protect installation crews from serious falls while working on airport’s roof, airport officials reviewed roof safety systems with a variety of suppliers before eventually opting for SFS’s innovative “Soter” fall protection system. As many as 2,200 Soter units with a customized glossy surface finish, attached to each other with stainless steel cables running to a length of 18km, have now been installed on the airport’s 400,000 m2 standing seam roof. The system was fastened using GESIPA® PowerBird® tools, ideal for this purpose because of their fast cycle times, robustness and ergonomic design. SFS’s contribution to Istanbul New Airport also includes various fastening solutions for the building envelope (roof and walls) adapted specifically for this project. With a projected annual capacity of up to 200 million passengers, the new airport promises to be one of the world’s largest transport hubs.

**Tailored customer solution developed**

Istanbul New Airport is a successful example of our value proposition “Inventing success together” put into practice. Close customer contacts and the international teamwork of SFS employees from Turkey and the UK resulted in the design and development of a bespoke solution for the customer – including a system layout that matches the roof’s geometry. Expert site management and on-the-spot technical support as well as rapid product deliveries to the construction site were decisive factors in favor of SFS.

With this project, SFS has reinforced its position as a specialist for building envelope fastening technology. With a comprehensive range of products and services, expert implementation of bespoke modifications and rapid execution times, SFS clearly created value added for the customer.

**Value added for the customer**

- Comprehensive range of products and services
- Close collaboration with customers
- Expert construction site management and on-the-spot consultation
- Bespoke customer modifications
- Rapid implementation and delivery times



**Success stories**

# Launch of **new** **online store**

**Distribution & Logistics**

**SFS launched a new, modern and user-friendly online store for customers in the manufacturing and skilled trades sectors. Working hand in hand with customers and external partners, SFS created an online platform that is centered on the needs of the buyers.**



**Omni-channel concept**

SFS's Distribution & Logistics segment serves the domestic Swiss market, where it offers professionals in the skilled trades and manufacturing sector an attractive range of fastening systems, architectural hardware, and tools. Customers throughout the country profit from the segment's extensive network of physical sales and distribution points, which include 28 HandwerkStadt retail shops, and can also order the entire product range online.

**Full range of high-quality items**

In early 2018 SFS launched a new online shop at [www.sfs.ch](http://www.sfs.ch) that focuses on user friendliness and on optimal support in the ordering process of our customer. Based on numerous discussions with customers and feedback from external partners, SFS analyzed and assessed the most important features and elements of the new e-shop in 2017 and then integrated them into the project concept. The result is a modern, easy-to-use platform with more than 150,000 top-quality items for professionals in the manufacturing sector and skilled trades.

SFS's online store also serves as a source of information on the vast range of products and services offered by Distribution & Logistics, such as bespoke logistics solutions, and allows customers to place an express order that can then be collected in-store at one of the HandwerkStadt locations a mere two hours later.

**High customer value**

This optimized omni-channel concept enhanced by the new online shop is very convenient for professionals from the manufacturing and skilled trades sectors, as it takes a



variety of individual needs into consideration: the modern online store offers a quick and easy ordering process and 24-hour availability, while professional, personal support and advice is available at the physical stores.

Thanks to its close collaboration with key customers, SFS was able to launch this modern online store that supports the success of both SFS and its customers – true to its credo of "Inventing success together."

**Value added for the customer**

- Comprehensive range of products that meet market needs
- Modern and user-friendly platform
- Express orders ready for pick-up within two hours
- Omni-channel concept



**Success stories**

# Sharpening of production profiles

**SFS internal**

**“Inventing success together” – that promise guides us in all our actions, internal as well as external. For example, it played a crucial role in our successful efforts to master the challenges posed by the appreciation of the Swiss franc.**



### Challenge for Swiss manufacturing sites

The sudden and strong surge in the value of the Swiss franc in January of 2015 posed a tremendous challenge in particular to SFS' manufacturing sites in Switzerland. More than 90% of their output is exported and export prices are usually quoted in euros. To restore their competitiveness and secure employment levels over the long run, a wide range of measures was developed together with inputs from employees.

To mitigate these negative effects, SFS employees contributed with longer working hours and reduced annual leave. That vital contribution was augmented by salary cuts for members of the Board of Directors and the Group Executive Board as well as strict cost management.

### Focus on knowledge-intensive processes

In an effort to leverage the strengths of the Swiss-based operations and rebalance their operations taking into consideration the new exchange-rate environment, SFS sharpened the focus of its Swiss production sites on knowledge and capital-intensive products and processes that offer substantial value-added and have a high degree of automation. Projects in the Automotive and Industrial divisions meet these criteria the best. Simultaneously, manufacturing operations for products that do not meet these criteria (e.g. products for the construction industry) have been transferred to more suitable locations outside Switzerland. This, in turn, has freed up room and resources in Switzerland that can be used to realize the many new projects under way in the Automotive and Industrial divisions.

Thanks to these measures, significant productivity gains were already achieved in 2016 and SFS's competitiveness has been restored. These projects to sharpen the production profiles are scheduled to be completed by the end of 2018. The level of employment was not only successfully defended, but selectively increased in order to be able to realize ongoing growth projects.

### Investing in Swiss sites

SFS will also invest about CHF 36 million to increase capacity and productivity at its major sites in Switzerland by the summer of 2018. Logistics infrastructure is being modernized and heat-treating capacity is being expanded. These investments will similarly strengthen the competitive profile of SFS.



### Process of continuous improvement

This example demonstrates clearly that "Inventing success together" also applies and is practiced in-house: the disadvantage stemming from the Swiss franc's sudden appreciation was turned into an advantage thanks to our constant quest for improvement, the loyalty and solidarity of our employees, and our courage to explore and embrace change.

### Value added

- Competitive advantages consequently exploited
- Space and capacity created for growth projects
- Spirit of partnership cultivated, staffing levels maintained

## Sustainability

# Clear objectives

**After identifying the key themes that have a bearing on SFS's sustainable development, clear objectives and actions have now been drawn up.**

### Human rights

#### Structures established

The Corporate Principles and the Code of Conduct are two key documents on the subject of sustainability at SFS. The Corporate Principles sets out our common values, while the Code of Conduct defines the basic rules by which we conduct our business activities. Both these documents remain applicable. Compliance-relevant processes and organizational units have been continually strengthened following the adoption of the Code of Conduct in 2014. SFS now has effective structures in place that sensitize employees about critical issues and which they can use to report suspected violations of the Code of Conduct.

Based on the group-wide compliance testing results reported as of 30 September 2017, there is no specific need to take action within the area of human rights. Nevertheless, as an internationally active company that employs people of different nationalities, religious faiths and ethnicities, there is a latent risk that human rights might be violated. As a preventive measure, everyone on the SFS workforce completed an e-learning module or other appropriate training on the Code of Conduct in 2017. The training content raised employee awareness of ethical behavior, which includes respecting human rights, and also informed employees of their obligation to report known or suspected violations of workplace ethics.

Considerable importance is attached to the Corporate Principles and the Code of Conduct during the onboarding of new employees and in our vocational training programs by means of a training right after joining SFS. This ensures that the contents of these documents are understood by new SFS employees early on and then reflected back into the organization on a continual basis.

#### Compliance as a managerial responsibility recognized

Compliance structures and awareness-raising measures in the broader workforce can come into full force and effect only with an unconditional and authentic management commitment to compliance issues. Tangible leadership from management is particularly important with respect to human rights. During the reporting period, a number of managers underwent 360-degree feedback reviews in a pilot project that also covered issues relating to integrity and role model of managers in their interaction with employees and the company in ethical behavior. Use of the 360-degree feedback tool will be intensified during coming years in all divisions.

### Anti-corruption efforts

#### Commitment to fighting corruption reinforced

SFS's anti-corruption policy came into effect in 2016 and corresponding training on issues that are particularly exposed to this risk, were provided via an e-learning program. This training concept is now firmly established and part of the onboarding process for new employees in sales, procurement, finance and accounting roles. In 2017, employees throughout SFS Group frequently contacted the Compliance Officer with ethics-related questions regarding invitations to certain events and the offering or accepting of gifts and hospitality. The increase in the number of such queries is a clear indication that employee awareness of corruption issues has risen and this is regarded as a positive development.

## Labor standards

### Diversity seen as an opportunity

SFS Group has been committed to the principles of the UN Global Compact since joining in 2010. SFS strongly condemns forced labor and child labor of any kind whatsoever and upholds the right to freedom of association and collective bargaining throughout the organization. Due to the inclusion of these principles in its conditions of purchase, SFS Group demands its business partners to share these values.

Given the international presence and size of SFS, a distinctive diversity is a natural outcome that is embraced as positive and enriching. The internships of several weeks that SFS apprentices are offered in other cultural and language regions, and the international training programs for management, which SFS has successfully conducted for the past several years to promote intercultural collaboration, are examples of how SFS champions diversity. It follows that discrimination of any kind whatsoever will not be tolerated during the recruitment process or anywhere in the workplace.

It is a matter of concern to SFS that diversity is maximized in the organization's administration, management, supervisory bodies and interdisciplinary teams in terms of age, gender, educational and professional background. However, in the materiality assessment passed by the Group Executive Board on December 7, 2016 this topic was not accorded priority by any of the participating stakeholder groups. As we want to focus our efforts on the most important goals and measures (see page 34), there are currently no specific concepts being developed or implemented to foster diversity.



Every year, apprentices from the US and Switzerland are offered the opportunity of an internship of several weeks in other cultural and language regions.

### Selected employee key figures of SFS in Switzerland\*

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

	Unit	31.12.2017	31.12.2016	31.12.2015
Number of employees	Number (headcount)	2,415	2,321	2,292
Female employees	Number (headcount)	465	446	437
	Share in %	19	19	19
Fluctuation of employees	Share in %	5.0	6.0	5.1
Apprentices	Number (headcount)	156	153	152
Workplace injuries	Number	105	109	131
Rate of injuries	per 1000 employees	44	47	57
Absence rate, work-related and non-work related	Number	20,203	19,725	19,259
	Share in % of total working days	3.5	3.5	3.4

\*without Stamm AG

**Environment**

**Environmental management system certified**

Since 2016 all Automotive division sites have been ISO 14001-certified. Every manufacturing site of the Electronics division and a number of the Industrial and Riveting divisions' sites have since received ISO 14001 certification, and improved their environmental performance. Certification of further sites is planned.

ISO 14001 certification commits a site to set specific environmental objectives each year and define environmental policies on that basis. ISO 14001 requirements are now a firm part of SFS Group's quality management system and both systems form an overarching business management system.

Compliance with environmental legislation is assessed every year. In addition, SFS Group collects information on environmental and safety indicators for its databases, and it plans to train experts for ISO 14001 certification.

In 2017, all 15 commissioners of the Environmental and Safety teams at the Heerbrugg site participated in a two-day course on selected environmental issues. These commissioners are responsible for the compliance and implementation of these guidelines in their respective organizational unit. Moreover, they ensure communication between employees, line managers and the responsables for environmental issues and contribute to prevent workplace injuries as well as to improve environmental protection. An e-learning program on quality, environment and safety policies was also rolled out worldwide.

**Solutions to meet environmental goals established**

SFS seeks and supports solutions that preserve the environment during the course of the business operations at all our sites worldwide. As representative examples, this report takes a closer look at our efforts in Switzerland and India.



All ISO14001-certified sites define specific environmental objectives each year. Moreover, SFS plans to train experts for ISO 14001 certification at the sites.

**Switzerland**

A range of measures implemented in Heerbrugg in 2017 have significantly reduced the site’s environmental impact. Modernization of ventilation systems in a section of the production operations is saving energy and improving air quality at the same time. New LED-based lighting with state-of-the-art control systems has significantly reduced energy consumption and, additionally, the new system is easier to maintain. Relocating the offices of SFS intec and SFS unimarket employees to a single, shared site has produced energy savings of about 20% and reduced traffic. Similarly, the switch from pneumatics to servomechanisms for certain metal-forming processes in assembly operations has cut energy consumption by a factor of 50. This technology is currently being tested in a pilot project. Generated heat is also being better utilized in Heerbrugg, thanks to the modification of the hydraulics of its heating supply system. And a new heat treatment system, the first to be deployed with low-emission flameless oxidation (FLOX) burners, has reduced CO<sup>2</sup> and other exhaust emissions.

A mobility concept called “mobility@SFS” was launched in Switzerland during the reporting period. The aim of the concept is to improve commuter behavior of SFS employees and thereby increase motivation, satisfaction and health. Moreover, it protects the environment and makes more efficient use of company cars and parking facilities. Following an analysis of commuter flows and the needs of employees in Switzerland, these employees were offered the opportunity

to buy an electric bicycle for half the usual price. SFS and bicycle specialists involved in the scheme pay the other half. The campaign drew a huge response – about 40% of employees took advantage of the opportunity and about 1,000 e-bikes were ordered. An incentive system to promote more ecological commuter behavior on a general level will be launched in 2018.

**India**

In India, Indo Schöttle, that was acquired by SFS in 2014, received a “Best Overall Sustainable Performance Award” from Mahindra, India’s largest vehicle manufacturer. This important award was presented in recognition of achievements in the utilization of alternative energies, energy conservation and corporate social responsibility. Mahindra singled out Indo Schöttle’s outstanding sustainability initiatives, which included new solar and hybrid power generation installations at the Pune site, a rain water harvesting system at Belgaum, an investment in four high-volume ventilators and a campaign to plant some 500 trees.



The new heat treatment system, now equipped with low-emission flameless oxidation (FLOX) burners, reduces CO<sup>2</sup> emissions.

## Materiality assessment

### Progress through greater focus

SFS elaborated a materiality matrix in accordance with the widely recognized GRI Standards. This matrix compares the company’s perspective, represented by the Group Executive Board, with those of other internal and external stakeholders. The results of this matrix showed us which sustainability issues were the most important ones. The dialogue with the stakeholders will be continued and the materiality assessment updated over the coming years.

To ensure that we achieve measurable progress in each of the six priority topics identified in the matrix, specific goals and action plans according to GRI were drawn up for each topic and approved by the Group Executive Board. These goals and action plans are outlined in the following section.

**1**

#### Customer satisfaction

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

We periodically measure the satisfaction of our key accounts and identify potential for further improvement. In 2018, we intend to consolidate the existing divisional approaches and to harmonize the efforts.

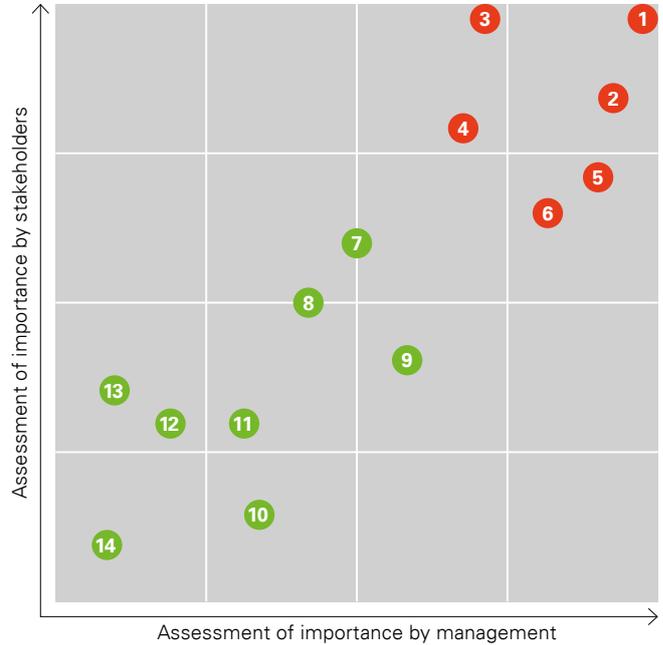
**2**

#### Economic value creation and distribution to stakeholders

This criterion essentially mirrors the fair partnerships between SFS and its various stakeholder groups. SFS’s commitment to fair partnership is part of its corporate DNA and is anchored in its Corporate Principles. Stakeholder value is created in various ways, in the form of the wages the company pays to its employees, for example, or through the dividends that shareholders receive or the taxes that the company pays into the public purse. We refrain from aggressive tax avoidance practices.

Besides maintaining a balanced distribution of value among the various stakeholder groups, we want to expand the aggregate amount of value created. Doing so will increase the various stakeholder groups’ share of value in absolute terms.

Materiality matrix of the SFS Group



#### Most important topics for a sustainable development of SFS

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

#### Further relevant topics

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

SFS's future financial goals will be defined in the mid-term plan 2020 to 2025 that will be prepared in 2018/2019. We will also analyze the share of value distributed to each of the various stakeholder groups during the past several years. The results of this analysis will provide reference points for the distribution of value going forward.

3

### Occupational health and safety

At a manufacturing company like SFS where performance and success are largely attributable to its highly motivated workforce, employee safety and health is a top priority. We promote employee well-being by endorsing a healthy work-life balance and by seeking to avoid workplace injuries.

In 2018, we will take action to further improve safety at all sites currently certified to ISO 14001, among other measures. Quantitative goals will be verified and new goals formulated.

Furthermore, other initiatives stemming from SUVA, Switzerland's national occupational accident insurance agency, will be implemented at Heerbrugg, Switzerland, the largest SFS site, along with an improved absence management program. Absence management will help to draw a supervisor's attention to potential health problems and encourage a proactive dialog with the employee. The employee satisfaction surveys we conduct on a periodic basis also give us valuable feedback on employee safety, health and satisfaction. The results of these surveys lay the cornerstone for further improvements in (workplace) conditions.

4

### Regular performance and career development reviews

SFS's sustained success is largely the work of its employees. Considerable importance is therefore attached to continual performance evaluations and talent development activities.

Every employee is invited to a performance review at least once or twice a year, at which straightforward professional development and performance goals are defined for the coming year.

We aim to fill 70% of all open managerial positions with internal candidates. Besides the aforementioned performance reviews, the implementation of a structured employee development program helps us to achieve this ambitious target.

5

### Programs for skill management and lifelong learning

We want to make sure that our employees are capable of performing their jobs correctly. In addition to individual new employee onboarding plans, every employee can take advantage of an increasing range of professional development opportunities.

Peer groups are also an important platform where knowledge can be exchanged on a continual, internal basis. There are 11 such peer groups, consisting of one representative from each division. They meet at regular intervals physically or virtually to discuss new developments, crucial information and the latest news pertaining to specific topics (such as social media or procurement matters). These groups are a very useful and efficient means of sharing knowledge within SFS Group and leveraging that knowledge selectively in the various divisions to bring about improvements.

Employee satisfaction surveys are also conducted on a regular basis to obtain feedback on the professional employee education and training programs and on how they can be improved.

6

### Training and education

SFS is already actively involved in professional development activities. The importance attached to this topic by the stakeholder groups fosters our resolve to continue on the path we have taken. In Switzerland, every employee is entitled to invest on average four days a year in training and development. The range of training programs offered will continue to be expanded. Besides more e-learning units, i. e. a new "Sales Excellence Training" will be introduced for selected employees.

The "International Leadership Development Program" (ILDLP) for SFS executives and specialists will be continued as well. Fostering intercultural cooperation within SFS Group is an important aspect of the ILDP.

The dual education and training system is vital to our efforts to develop young talents. We would like 5–7% of the worldwide workforce to be apprentices enrolled in such programs. To reach this target, we will intensify our efforts to promote dual education programs internationally.

**Technology**

# Extensive technology portfolio

**SFS's widely recognized cutting-edge technological and process expertise provides a sturdy foundation for innovative solutions.**

**Cold forming****High productivity and material efficiency**

Ever since its production activities began in 1960, SFS has opted for the beneficial properties of cold forming. Starting with a blank – usually a wire cut-off – a formed part is produced in two to six forming stages, during which the metal workpiece takes the shape of the die into which it is pressed. Material loss is extremely low compared with alternative production methods such as machining. The high productive capacity of up to 600 workpieces per minute also makes the cold forming process very cost-effective for high-volume production runs.

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

**Deep drawing technology****Ideal complement to cold forming technology**

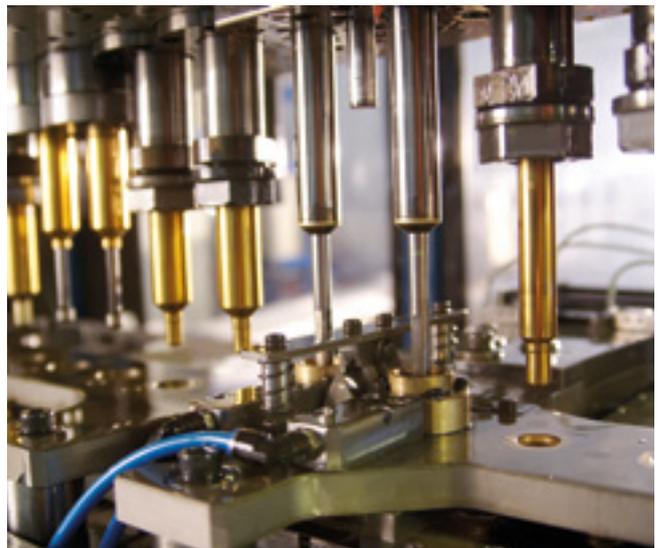
Deep drawing is a technique used to produce very thin-walled precision parts that cannot be produced through cold forming. Flat blanks serve as the starting material for deep-drawn parts. They are shaped into hollow bodies with diverse functions, undergoing as many as 22 different forming and shaping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

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

**Precision machining****The stepping stone to ready-to-fit components**

Precision machining technology, such as milling, turning or grinding, is usually offered as a complementary option to cold forming technology to satisfy customer needs for ready-to-fit components.

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



With high production volumes in particular, cold forming (above) offers economic advantages. Deep drawing (below) is an ideal complement to it.

**Plastic injection molding**

**Comprehensive expertise**

SFS has years of experience and a vast range of skills in plastic injection molding. Thermoplastics are used in a wide range of solutions that would not be possible with formed metal parts, or only with certain limitations. Superior solutions often result from the realization of components made of both metal and plastic. SFS extended its plastic injection molding competencies with the acquisition of Stamm AG in 2016, who is a precision manufacturing specialist for small and micro-sized molded parts. Micro molding technology is used to fabricate ultra-small parts with high precision tolerances. Super-small geometries and micro structures can, depending on the material used, be engineered with high reproducibility and tolerances in the micrometer range. And at attractive total costs.

More information on plastic injection molding (video)

**Mechanical fastening technology**

**Fastener and installation device as complete system**

SFS focuses on the holistic optimization of the fastening process in its constant quest to generate extra value for the customer. We make the fastening process more ergonomic, reliable and efficient. By developing application-specific installation devices and tools, customers benefit from tailor-made comprehensive systems solutions. Rivets (blind rivets and blind rivet nuts) are a viable option when screws do not meet the specified requirements, or only inadequately so. Minimal wear, high installation quality, short processing cycles and a long service life are the hallmarks of these cost-effective installation machines and tools.

More information on fastening technology (video)

More information on riveting technology (video)

**Laser processing technology**

**Modern technology for medical device industry**

With the acquisition of Tegra Medical, SFS acquired a comprehensive portfolio comprising machining and cleaning technologies, as well as cutting-edge manufacturing tools such as laser welding, cutting, drilling, abrasion and marking. Tegra Medical's deep process knowledge and its ability to find innovative solutions for complex issues help customers to develop new and improved medical devices and instruments. These are mainly used in orthopedics and in the treatment of cardiovascular diseases or minimally surgical interventions.

More information on Tegra Medical (video)

**Logistics solutions**

**Significant reductions in the cost of C class logistics**

Sourcing costs associated with C parts are often higher than the actual cost of the parts themselves, due to the related administrative tasks, intricate flows of information and complex movements of goods. SFS has developed and implemented numerous solutions under the "M2M by SFS" label for optimizing C class inventory management processes to address this situation. These solutions lower customers' process costs and required inventory levels while increasing supply availability. They are at the cutting edge of currently available technology for sensors and wireless communications functionality. With these innovative logistics solutions, SFS underscores its technology leadership.

More information on logistics solutions from SFS (video)



Using laser technology, a core competence of Tegra Medical, innovative solutions for customers can be realized.



# Corporate Governance

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

The structure of the following Corporate Governance report follows the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange AG (DCG). All figures apply to 31 December 2017, unless otherwise stated.

## 1 Group structure and shareholders

### 1.1 Group structure

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

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

### Group structure and Group Executive Board

(since 1 January 2018)

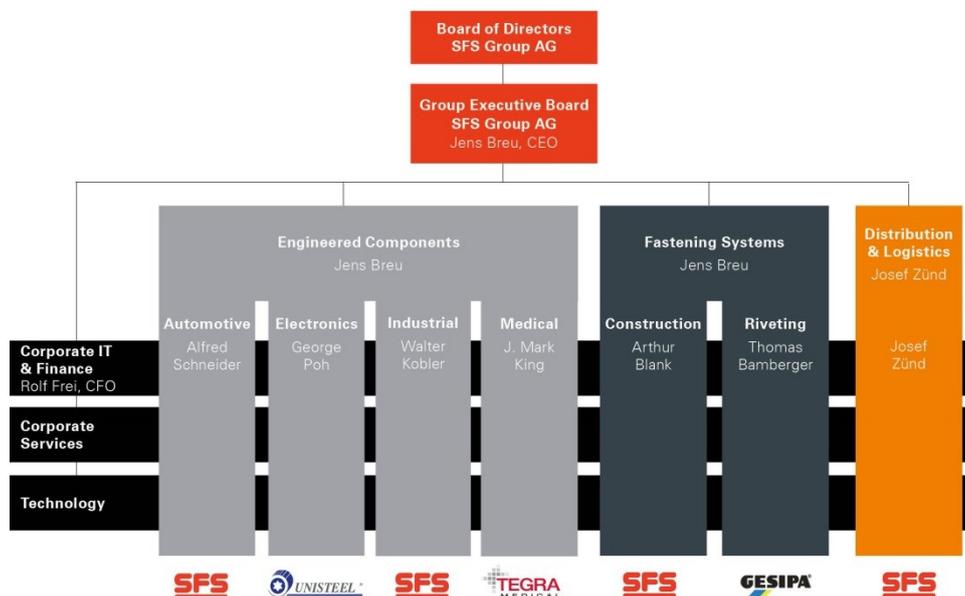
The Board of Directors and Group Executive Board are supported in their management and supervisory functions by the corporate cross-functions Technology (technology and knowledge transfer, operations, business development), Corporate IT & Finance (information technology, finance, controlling, tax, legal & compliance) and Corporate Services (human resources, communication, marketing and corporate development).

The parent company of SFS Group is SFS Group AG, domiciled in Heerbrugg, municipality of Au/SG, Switzerland. It is incorporated under Swiss law and listed on the SIX Swiss Exchange AG under the Swiss Reporting Standard (security number 23.922.930, ISIN CH 023 922 930 2). Its share capital is CHF 3,750,000 (PY 3,750,000) and its market capitalization was CHF 4,245.0 million (PY 3,116.3) as at 31 December 2017.

An overview of all affiliated companies in the scope of consolidation can be found in the appendix of the Financial Report, note 29. The scope of consolidation does not contain any other listed companies besides SFS Group AG.

### 1.2 Significant shareholders

The founding families of SFS Group AG, Huber and Stadler/Tschan, form an organized group according to Art. 12 of the Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FINMA Financial Market Infrastructure Ordinance, FMIO-FINMA).



## Share capital and voting rights

	31.12.2017	31.12.2016
Founding families	55.0%	55.0%

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

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

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

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

### 1.3 Cross-shareholdings

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

## 2 Capital structure

### 2.1 Capital

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

### 2.2 Authorized and conditional capital

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

### 2.3 Changes in capital

There were no additional changes in capital over the last three reporting years.

### 2.4 Shares and participation certificates/dividend right certificates

The share capital of SFS Group AG is divided into 37,500,000 registered shares with a nominal value of CHF 0.10 each. The share capital is fully paid in and entitled to dividend. Each share represents one voting right at the Annual General Meeting. SFS Group AG has issued no participation certificates or dividend right certificates.

### 2.5 Limitations on transferability and nominee listings

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

Persons not expressly declaring themselves to be holders of shares for their own account in their application for entry in the share register or on request by the Company (nominees) are 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 are entered in the share register with voting rights only if the nominee declares the names, addresses and shareholdings of the persons for whose account they are holding 0.3% or more of the share capital outstanding at that time, and provided that they comply with the disclosure requirement stipulated by the Stock Exchange Act. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements.

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

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

The Company may in special cases approve exceptions to the above restrictions. After due consultation with the persons concerned, the Company is further authorized to delete entries in the share register as shareholder with voting rights with retroactive effect if they were effected on the

basis of false information or if the respective person does not provide the information requested. The person concerned must be informed of the deletion.

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

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

## 2.6 Convertible bonds and options

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

## 3 Board of Directors

### 3.1 Members of the Board of Directors

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

Over the last three years, the external members of the Board of Directors have not had any material business relationship with SFS Group with the exemption of the below mentioned transactions.

In the reporting period, the property held by SFS at Nefenstrasse 30, 9435 Heerbrugg, was sold to an external body member or a related party. The property estimate by an independent expert formed the basis for determination of the price, made plausible by various purchase offers submitted by third parties.

The SFS Group rendered services for information technology, finance and human resources to external body members or related parties based on internal group rates. In addition and based on usual market conditions, goods were exchanged and property was rented or leased.

### 3.2 Other activities and vested interests

The profiles of the members of the Board of Directors give an overview of other activities and vested interests. Beyond

that, no member of the Board of Directors belongs to any important body, is permanent head of or consultant to important interest groups, has public functions or holds public office.

### 3.3 Permitted additional activities

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

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

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

### 3.4 Election and terms of office

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

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

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



From left: Urs Kaufmann, Thomas Oetterli, Nick Huber, Heinrich Spoerry, Bettina Stadler, Jörg Walther

#### **Heinrich Spoerry**

- Chairman of the Board of Directors (BoD) since 1999
- External member since 2016
- Chief Executive Officer 1999 – 2015
- Member of the BoD of several SFS Group companies
- With SFS from 1981 – 1986 and since 1998
- Swiss citizen, born 1951

#### **Other activities**

- Mikron Holding AG, Chairman of the BoD since 2010
- Bucher Industries AG, member of the BoD since 2006
- Frutiger AG, Chairman of the BoD since 2016

#### **Qualifications**

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

#### **Nick Huber**

- External member since 2017
- With SFS from 1995 – 2016 in various management positions
- Family shareholder Huber
- Swiss citizen, born 1964

#### **Other activities**

- COLTENE Holding AG, Chairman of the BoD since 2005
- HUWA Finanz- und Beteiligungs AG, Member of the BoD since 1997
- Gurit Holding AG, member of the BoD since 1995
- IBM (Schweiz) AG, Account Manager 1990 – 1995

#### **Qualifications**

- Stanford Executive Program, Stanford University 2013
- SKU, Advanced Management Program, Switzerland 2003
- Matura type E in economics 1984

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**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, Chairman of the BoD since 2017
- HUBER + SUHNER AG, deputy of the BoD 2014 – 2017 and Chief Executive Officer 2002 – 2017
- Schaffner Holding AG, Chairman of the BoD since 2017
- Vetropack Holding AG, member of the BoD since 2017
- SWISSMEM, member of the Executive Committee since 2012
- Technorama Winterthur, member of the Foundation Board since 2010
- Müller Martini Holding AG, member of the BoD since 2009
- Gurit Holding AG, member of the BoD since 2006

**Qualifications**

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

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**Thomas Oetterli**

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

**Other activities/professional background**

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

**Qualifications**

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

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**Bettina Stadler**

- External member since 2017
- Family shareholder Stadler/Tschan
- Swiss citizen, born 1967

**Other activities**

- POLYGENA AG, Head of HR and member of the Executive Board since 2016
- PWB AG, Human Resources manager since 2003, member of the Executive Board since 2008
- Frauenhof Immobilien AG, member of the BoD since 2016

- Residenz Frauenhof AG, Chairman of the BoD since 2015, member of the BoD and Managing Director since 2007
- WISTAMA Finanz- und Beteiligungs AG, member of the BoD since 2011
- Raiffeisenbank Oberes Rheintal, member of the BoD 2006 – 2011
- Raiffeisenbank Lüchingen Altstätten, member of the BoD 2002 – 2006

**Qualifications**

- Swiss Board School, IMP-HSG, University of St. Gallen 2015
- Degree in business administration HF 1995

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**Jörg Walther**

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

**Other activities/professional background**

- Partner at Schärer Attorneys at law since 2010
- HUBER + SUHNER AG, member of the BoD since 2016
- Zehnder Group AG, member of the BoD and Chairman of the Audit Committee since 2016
- Sika AG, Chairman of the Special Expert Committee of Sika AG since 2015
- AEW Energie AG, member of the BoD since 2014
- Proderma AG, Chairman of the BoD since 2014
- Kraftwerk Augst AG, member of the BoD since 2015
- Immobilien AEW AG, member of the BoD since 2015
- Resun AG, General Counsel and Head Corporate Services, member of the Executive Committee 2010 – 2012
- Novartis International AG, Global Head Legal M&A and Antitrust, member of the Group Legal Executive Committee 2001 – 2009
- ABB Asea Brown Boveri AG, Group Vice President M&A 1999–2001
- ABB Schweiz AG, Senior Legal Counsel 1995 – 1998
- Danzas Management AG, Senior Legal Counsel and Head Legal Services 1991 – 1995

**Qualifications**

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

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**Hans Huber**

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

### 3.5 Internal organizational structure

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

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

#### Board of Directors' procedures

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

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

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

#### Lead Director

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

from the deliberation and decision taking if the following items are on the agenda:

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

#### Committees constitution and procedures

The committees areas of authority and responsibility are defined in Section 5 of the Organizational Regulations of SFS Group. Available on the SFS Group website: [http://www.sfs.biz/en/web/investoren/corporate\\_governance/corporate\\_governance\\_1.html](http://www.sfs.biz/en/web/investoren/corporate_governance/corporate_governance_1.html)

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

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

#### Nomination and Compensation Committee

Urs Kaufmann	Chairman
Nick Huber since April 2017	Member
Heinrich Spoerry	Member

#### Audit Committee

Thomas Oetterli	Chairman
Bettina Stadler since April 2017	Member
Jörg Walther	Member

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

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

#### Nomination and Compensation Committee

The committee consists of a Chairman and at least one additional member with a maximum of four members of the Board of Directors. The committee members are elected by the General Meeting on a yearly basis by request of the Board of Directors. The Nomination and Compensation Committee constitutes itself. The committee prepares all relevant decisions related to the nomination and compensation of the members of the Board of Directors and the Group Executive Board.

The 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 four meetings, each lasting about three hours.

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

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

The motions of the committee are proposed to the Board of Directors as a whole. Further functions of the Nomination

and Compensation Committee are defined in Section 5.3 of the Organizational Regulations.

#### Audit Committee

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

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

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

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

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

### 3.6 Definition of areas of responsibility

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

The Board of Directors deals with all matters that are not delegated to the General Meeting or another body of the Company either by law, its Articles of Associations or the Organizational Regulations. Pursuant to the Articles of Association and the Organizational Regulations, the Board of Directors has delegated corporate management responsibility to the Group Executive Board.

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

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

During the Board of Directors' meeting, the Chief Executive Officer and the Chief Financial Officer give information on the current state of business, the most important business transactions of the segments, the divisions and the subsidiaries (management units) and the execution of functions delegated to the Group Executive Board.

The management information system of SFS Group works as follows: the balance sheet, income statement, cash flow statement and key figures of the management units are set up and consolidated on a quarterly, half-yearly and yearly basis, and compared with the previous year's figures and budget. The budget is reviewed based on the quarterly financials in the form of a latest best estimate on the reachability of each unit and on a consolidated basis. The Board of Directors is provided with a monthly overview of the development of the group sales and a quarterly estimate of financial results for the whole reporting year.

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

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

The internal audit is executed by the Corporate Controlling team and since 2015 in cooperation with an external partner. Although the Head of Corporate Controlling is subordinate to the Chief Financial Officer, he reports directly to the Audit Committee in regard to these activities. The internal audit of SFS Group is aligned with the size of the group. Based on financial risk considerations approved by the Audit Committee, the group companies are audited every two to four years depending on the risk assessment. The written internal audit report is discussed with the management of the companies concerned and the most significant measures are agreed. Material findings of the internal audit and the audit reports are presented to and discussed in the Audit Committee. Internal audit attends the meetings of the Audit Committee. In the reporting period, 11 (PY three) internal audits took place within the group, two of which were performed by the external partner.

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

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

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

## 4 Group Executive Board

### 4.1 Members of the Group Executive Board

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

Board of Directors. The heads of the segments, divisions and corporate cross-functions are responsible for the outline and achievement of their business objectives and for the autonomous management of their units.

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



From left: Walter Kobler, Thomas Bamberger, J. Mark King, George Poh, Josef Zünd, Jens Breu, Arthur Blank, Rolf Frei, Alfred Schneider

### **Jens Breu**

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

#### **Functions within SFS Group**

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

#### **Qualifications**

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

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### **Thomas Bamberger**

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

#### **Functions within SFS Group**

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

#### **Qualifications**

- Stanford Executive Program, Stanford University 2013
- Degree in mechanical engineering, University of Applied Sciences, Darmstadt 1989

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### **Arthur Blank**

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

#### **Functions within SFS Group**

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

#### **Qualifications**

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

### **Rolf Frei**

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

#### **Functions within SFS Group**

- Member of the BoD of several SFS Group companies
- Head of Corporate Controlling 1994 – 2003
- Corporate Controller 1981 – 1994

#### **Further functions**

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

#### **Qualifications**

- Stanford Executive Program, Stanford University 2010
- SKU Advanced Management Program, Switzerland 1995
- Swiss certified expert for accounting and controlling 1987
- Degree in business administration, FHS St. Gallen 1981

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### **J. Mark King**

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

#### **Functions within SFS Group**

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

#### **Further functions**

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

#### **Qualifications**

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

**Walter Kobler**

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

**Functions within SFS Group**

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

**Qualifications**

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

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**George Poh**

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

**Functions within SFS Group**

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

**Qualifications**

- MBA, University of Hull, UK 1998
- Bachelor of Engineering (B.Eng.), mechanical engineering, University of Sheffield, UK 1988
- Diploma mechanical engineering, Singapore Polytechnic 1983

**Alfred Schneider**

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

**Functions within SFS Group**

- Member of the BoD of several SFS Group companies
- Member of the BoD of the joint venture in China, Sunil SFS intec since 2008
- General Manager Automotive Products 2008 – 2013
- General Manager Industrial Products 2002 – 2008

**Qualifications**

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

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**Josef Zünd**

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

**Functions within SFS Group**

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

**Further functions**

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

**Qualifications**

- SKU Advanced Management Program, Switzerland 1995
- Federally certified sales manager, Kaderschule St. Gallen 1986

#### 4.2 Other activities and vested interests

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

#### 4.3 Permitted additional activities

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

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

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

#### 4.4 Management contracts

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

### 5 Compensation, shareholdings and loans

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

### 6 Shareholders' participation

#### 6.1 Voting rights and representation restrictions

Shareholders' participation rights are detailed in Art. 11 of the Articles of Association.

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

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

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

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

#### 6.2 Independent Proxy

Each shareholder may be represented by the Independent Proxy.

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

The Annual General Meeting of 26 April 2017 elected *bürki bolt németh Rechtsanwälte*, 9435 Heerbrugg, as Independent Proxy until the next Annual General Meeting.

#### 6.3 Statutory quorums

For:

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

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

#### 6.4 Convocation of the Annual General Meeting

No regulations deviate from the relevant statutory provisions.

#### 6.5 Inclusion of items on the agenda

The Board of Directors states the items on the agenda.

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

## 6.6 Registration in the share register

No registrations are made in the share register in the 10 days before and the five days after the date of the Annual General Meeting. The exact dates are set out in the invitation to the Annual General Meeting. In the reporting year, the Board of Directors has granted no exceptions to this rule (PY none).

## 7 Changes of control and defense measures

### 7.1 Duty to make an offer

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

### 7.2 Clauses on changes of control

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

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

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

## 8 Auditing body

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

PricewaterhouseCoopers AG, St. Gallen, has been the independent auditor of SFS Group AG and several subsidiaries since 1993. The independent auditor is elected by the Annual General Meeting for a period of one year. The lead auditor in the present mandate, Thomas Illi, took office at the Annual General Meeting of 2016.

### 8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.8 million (PY 0.7) for the audit of

SFS Group AG, the Group financial statements and several subsidiaries.

### 8.3 Additional fees

PricewaterhouseCoopers AG and affiliated companies raised invoices for audit-related services in the reporting period in the amount of CHF 0.1 million (PY none). For additional services related to tax compliance and other tax consulting services, a total amount of CHF 0.4 million (PY 0.3) was paid to PricewaterhouseCoopers AG and affiliated companies in 2017.

### 8.4 Informational instruments pertaining to an external audit

The Audit Committee briefs the Board of Directors on the work done by and the working relation with the external auditor at least once a year.

Each year, the external auditor submits an audit plan and a comprehensive report on the financials for the attention of the Board of Directors and the Audit Committee. The report contains conclusions on financial accounting, the internal control system and the process and results of the audit.

For the Half-Year Report 2017, PricewaterhouseCoopers performed an analytical review. The Audit Committee evaluates the scope of the annual audit and the audit plans, and discusses audit results with the external auditor. In the reporting period, the external and internal auditors were present at three meetings of the Audit Committee.

The Audit Committee makes an annual assessment of the effectiveness, performance, independence and fees paid to the external auditor, and provides the Board of Directors with a proposal for the election of the auditor by the General Meeting.

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

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

## 9 Information policy

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

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

[http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen\\_1/finanzpublikationen\\_1.html](http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen_1/finanzpublikationen_1.html)

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

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

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

[http://www.sfs.biz/en/web/maillinglist/maillingliste\\_addon.html](http://www.sfs.biz/en/web/maillinglist/maillingliste_addon.html)

All media releases, Annual Reports and Half-Year Reports, volume notifications, media and analyst conference, etc., go online simultaneously with publication on the following website:

[http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/medienmitteilungen\\_1/newsoverview.html](http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/medienmitteilungen_1/newsoverview.html)

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

[http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen\\_1/finanzpublikationen\\_1.html](http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen_1/finanzpublikationen_1.html)

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

The following information is available on the SFS Group website [www.sfs.biz](http://www.sfs.biz)

#### **Investor information**

[http://www.sfs.biz/en/web/investoren/investoren\\_1.html](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](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](http://www.sfs.biz/en/web/investoren/corporate_governance/corporate_governance_1.html)

#### **Company news and ad hoc announcements**

[https://www.sfs.biz/en/web/investoren/aktionaersinformation/en/medienmitteilungen\\_1/newsoverview.html](https://www.sfs.biz/en/web/investoren/aktionaersinformation/en/medienmitteilungen_1/newsoverview.html)

#### **Financial reports**

[http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen\\_1/finanzpublikationen\\_1.html](http://www.sfs.biz/en/web/investoren/aktionaersinformation/en/finanzpublikationen_1/finanzpublikationen_1.html)

#### **Corporate Communications/Investor Relations**

Claude Stadler  
Rosenbergsaustrasse 8  
9435 Heerbrugg, Switzerland  
+41 71 727 51 85  
[corporate.communications@sfs.biz](mailto:corporate.communications@sfs.biz)

### **10 Non-applicability/negative statement**

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



# Compensation report

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## 1 Introduction

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

This Compensation Report satisfies the provisions of the Ordinance Against Excessive Compensation in Listed Companies (OAEC) in effect as of January 2014 and the pertinent provisions of the Swiss Code of Obligations in connection therewith. The structure of this report basically follows the provisions set forth in the Directive on Information relating to Corporate Governance (DCG dated 1 January 2016) issued by SIX Swiss Exchange AG and the Articles of Association of SFS Group AG.

## 2 Fundamental principles of the compensation system

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

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

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

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

Responsibility for revision of the compensation system and proposal of the amounts of compensation to be paid lies with the Nomination and Compensation Committee (NCC). Its proposals are submitted to the entire Board of Directors. The composition, tasks and duties and working methods of the NCC are disclosed in the Corporate Governance Report. The NCC comprises a chairman and at least one other

member of the Board of Directors. Members of the NCC are elected annually by the General Meeting.

### 2.1 Compensation of the Board of Directors

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

An additional bonus, as specified in Art. 25 of the Articles of Association, was not awarded during the year under review or during the previous year. Compensation of the members of the Board of Directors is subject to approval by the General Meeting.

### 2.2 Compensation of the Group Executive Board

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

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

The compensation comprises the following components:

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

1) base salary

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

2) variable cash compensation

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

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

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

The financial targets are set in advance for a one-year period of service. For the 2017 financial year the financial targets at Group level pertained to sales growth, the EBITA margin and operating free cash flow. At segment level, sales growth, EBITA margin and net working capital as a percentage of the net sales or the operating free cash flow were set as the target parameters.

b) the achievement of individual annual targets

These compensation-relevant targets for the Chief Executive Officer are defined and determined by the Board of Directors; in respect of all other GEB members, they are defined and determined individually by the Chief Executive Officer. Ongoing projects, the established strategic targets and sustainable corporate development serve as guidelines in this process. A floor value is determined for each of the defined targets, below which there is no entitlement to compensation. A cap value determines the maximum amount of variable compensation for each target.

c) discretionary judgment regarding leadership conduct

Leadership, values and conduct are also evaluated when determining entitlement to variable cash compensation. Performance in this respect is evaluated through the sole and absolute discretion of the immediate line manager (in the case of the Chief Executive Board, the Board of Directors; for the other GEB members, the Chief Executive Officer).

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

	CEO and CFO	Other members of GEB
Financial targets SFS Group	60%	30%
Financial targets segments	-	30%
Individual targets	20%	20%
Leadership, values, conduct	20%	20%

3) variable SFS share compensation

A second part of the variable compensation is paid out in the form of SFS shares. The Board of Directors determines a certain number of SFS shares to be awarded to each member every year at the beginning of the performance period. The value of the shares at this time should correspond to between 10% and 30% of the base salary paid to the Chief Executive Officer and to other members of the GEB. At the end of the performance period, the Board of Directors will determine at its own discretion how many SFS shares will be granted based on the proposal submitted by the NCC, taking into consideration the market environment (inflation, economic activity, industry developments, etc.), the execution of Company strategy and the Company's financial situation. A factor of 0% to 150% may be applied. The SFS shares are transferred to the members at the end of the General Meeting at which this compensation is confirmed. These SFS shares are blocked for a period of at least three years. Shares awarded to a member of the GEB shall remain their property on separation from the Company.

### 2.3 Stock ownership plan

SFS Group can periodically sell company shares to key and long-standing employees at a price 5% to 10% below the volume-weighted average price on the stock market over a 30-day period. Members of the Board of Directors and the Group Executive Board may be allowed to participate in this plan. The SFS shares acquired through this plan will be blocked for at least three years. There was no stock ownership plan in 2017.

### 3 Process used to determine compensation

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

Compensation of the Board of Directors and the variable compensation of the Group Executive Board is determined every year in February after the close of the financial year by the full Board of Directors based on the proposals of the NCC, subject to approval by the General Meeting. The base salary of the Group Executive Board for 2018 was determined in December of the previous year by the full Board of Directors at the request of the NCC.

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

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

Responsibility for determination of variable compensation and aggregate compensation is shown in the following table:

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

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

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

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

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

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

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

#### 4 Compensation in the year under review and in the previous year

This section is subject to inspection by the auditors.

The compensation shows gross amounts that include employee social security contributions and employee contributions related to occupational pension plans

##### 4.1 Compensation of the Board of Directors 2017

Gross statement in CHF except number of shares	Base salary gross in cash	Number of SFS shares	Value of SFS shares <sup>1</sup> gross	Social contribu- tions <sup>2</sup>	Total
Heinrich Spoerry, Chairman	254,384	1,500	156,382	26,412	437,178
Nick Huber since April 2017	56,874	500	52,519	8,389	117,782
Ruedi Huber until April 2017	28,437	0	0	2,375	30,812
Urs Kaufmann	85,311	500	52,519	10,545	148,375
Thomas Oetterli	85,311	500	52,519	10,561	148,391
Bettina Stadler since April 2017	56,874	500	52,519	8,387	117,780
Karl Stadler until April 2017	27,805	0	0	1,893	29,698
Jörg Walther	85,311	500	52,519	10,561	148,391
<b>Total Board of Directors</b>	<b>680,307</b>	<b>4,000</b>	<b>418,977</b>	<b>79,123</b>	<b>1,178,407</b>

<sup>1</sup> The exchange value of the SFS shares at the time of the allocation of the number of shares on 4 May 2017 was CHF 98.50 per share. Employee contributions to social security had been added to compensation "gross" numbers.

<sup>2</sup> Employer contributions to social security schemes.

##### 4.2 Compensation of the Board of Directors 2016

Gross statement in CHF except number of shares	Base salary gross <sup>1</sup> in cash	Number of SFS shares	Value of SFS shares gross <sup>2</sup>	Stock ownership plan <sup>3</sup>	Social contribu- tions <sup>4</sup>	Total
Heinrich Spoerry, Chairman	270,272	1,500	113,938	4,686	43,600	432,496
Ruedi Huber	82,467	500	37,044	4,686	9,026	133,223
Urs Kaufmann	82,467	500	37,044	4,686	9,026	133,223
Thomas Oetterli	82,467	500	37,044	4,686	9,026	133,223
Karl Stadler	80,603	500	36,364	4,686	6,347	128,000
Jörg Walther	82,467	500	37,044	4,686	9,026	133,223
<b>Total Board of Directors</b>	<b>680,743</b>	<b>4,000</b>	<b>298,478</b>	<b>28,116</b>	<b>86,051</b>	<b>1,093,388</b>

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

<sup>2</sup> The exchange value of the SFS shares at the time of the allocation at the meeting of the Board of Directors on 27 April 2016 was CHF 69.75 per share. Employee contributions to social security and occupational pension plans had been added to compensation "gross" numbers.

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

<sup>4</sup> Employer contributions to social security schemes and occupational pension plans.

The following net statement 2016 allows a comparison with last year's compensation report.

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

- <sup>1</sup> The base salary was reduced by 10% during the period from 1 January 2016 to 30 April 2016 in response to exchange rate developments.
- <sup>2</sup> The exchange value of the SFS shares at the time of the allocation at the meeting of the Board of Directors on 27 April 2016 was CHF 69.75 per share.
- <sup>3</sup> Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount.
- <sup>4</sup> Employee and employer contributions to social security schemes and occupational pension plans.

#### 4.3 Compensation of the Group Executive Board 2017

Gross statement in CHF except number of shares	Base salary gross in cash	Variable cash com- pensation gross	Number of SFS shares	Value of SFS shares <sup>1</sup> gross	Social contri- butions <sup>2</sup>	Total
Jens Breu, CEO	520,000	236,100	2,500	304,351	131,097	1,191,548
Other members of GEB	2,601,854	747,291	6,139	754,099	469,753	4,572,997
<b>Total GEB</b>	<b>3,121,854</b>	<b>983,391</b>	<b>8,639</b>	<b>1,058,450</b>	<b>600,850</b>	<b>5,764,545</b>

- <sup>1</sup> The exchange value of the shares at the time of the allocation at the meeting of the Board of Directors on 23 February 2018 was CHF 110.00 per share. Employee contributions to social security had been added to compensation "gross" numbers.
- <sup>2</sup> Employer contributions to social security schemes and occupational pension plans.

#### 4.4 Compensation of the Group Executive Board 2016

Gross statement	Base salary gross <sup>1</sup> in cash	Variable cash compensation gross	Number of SFS shares	Value of SFS shares gross <sup>2</sup>	Stock ownership plan <sup>3</sup>	Social contributions <sup>4</sup>	Total
in CHF except number of shares							
Jens Breu, CEO	456,950	262,080	1,750	176,150	4,686	116,693	1,016,559
Other members of GEB	2,211,444	590,573	5,339	545,210	16,401	446,237	3,809,865
<b>Total GEB</b>	<b>2,668,394</b>	<b>852,653</b>	<b>7,089</b>	<b>721,360</b>	<b>21,087</b>	<b>562,930</b>	<b>4,826,424</b>

<sup>1</sup> The base salary was reduced by 10% during the period from 1 January 2016 to 30 June 2016 in response to exchange rate developments.

<sup>2</sup> The exchange value of the SFS shares at the time of the allocation at the meeting of the Board of Directors on 20 February 2017 was CHF 92.00 per share. Employee contributions to social security had been added to compensation "gross" numbers.

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

<sup>4</sup> Employer contributions to social security schemes and occupational pension plans.

The following net statement 2016 allows a comparison with last year's compensation report.

Net statement	Base salary net <sup>1</sup> in cash	Variable cash compensation net	Number of SFS shares	Value of SFS shares <sup>2</sup>	Stock ownership plan <sup>3</sup>	Social contributions <sup>4</sup>	Total
in CHF except number of shares							
Jens Breu, CEO	413,954	237,420	1,750	161,000	4,686	199,499	1,016,559
Other members of GEB	1,973,915	523,876	5,339	491,188	16,401	804,485	3,809,865
<b>Total GEB</b>	<b>2,387,869</b>	<b>761,296</b>	<b>7,089</b>	<b>652,188</b>	<b>21,087</b>	<b>1,003,984</b>	<b>4,826,424</b>

<sup>1</sup> The base salary was reduced by 10% during the period from 1 January 2016 to 30 June 2016 in response to exchange rate developments.

<sup>2</sup> The exchange value of the SFS shares at the time of the allocation at the meeting of the Board of Directors on 20 February 2017 was CHF 92.00 per share.

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

<sup>4</sup> Employee and employer contributions to social security schemes and occupational pension plans.

#### 4.5 Loans and credit facilities

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

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

### 5.1 Board of Directors

	Number of shares <b>31.12.2017</b>	Number of shares 31.12.2016
Heinrich Spoerry, Chairman, external member	195,980	194,480
Nick Huber, external member since April 2017	246,372	n/a
Ruedi Huber, external member until April 2017	n/a	247,404
Urs Kaufmann, external, independent member	8,280	7,780
Thomas Oetterli, external, independent member	6,280	5,780
Bettina Stadler, external member since April 2017	390,420	n/a
Karl Stadler <sup>1</sup> , external member until April 2017	n/a	2,522,580
Jörg Walther, external, independent member	3,280	2,780
<b>Total Board of Directors</b>	<b>850,612</b>	<b>2,980,804</b>

<sup>1</sup> The numbers of shares held by Karl Stadler in 2016 include privately held shares and shares of Wistama Finanz- und Beteiligung AG, which is under his control.

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

### 5.2 Group Executive Board

	Number of shares <b>31.12.2017</b>	Number of shares 31.12.2016
Thomas Bamberger, Head of Division Riveting	2,558	1,870
Arthur Blank, Head of Division Construction	13,965	13,340
Jens Breu, Chief Executive Officer	9,330	7,580
Rolf Frei, Chief Financial Officer	48,750	62,850
J. Mark King, Head of Division Medical	0	0
Walter Kobler, Head of Division Industrial	20,625	20,000
George Poh, Head of Division Electronics	52,843	51,780
Alfred Schneider, Head of Division Automotive	15,505	14,880
Josef Zünd, Head of Segment Distribution & Logistics	20,103	19,290
<b>Total Group Executive Board</b>	<b>183,679</b>	<b>191,590</b>

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

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

We have audited chapter 4 of the compensation report dated 8 March 2018 of SFS Group AG for the year ended 31 December 2017.

## ***Board of Directors' responsibility***

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

## ***Auditor's responsibility***

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

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

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

## ***Opinion***

In our opinion, the compensation report of SFS Group AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Thomas Illi  
Audit expert  
Auditor in charge



Martin Bettinaglio  
Audit expert

St. Gallen, 8 March 2018



# Financial report

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# Consolidated balance sheet

<b>Assets in CHF million</b>	Notes	<b>31.12.2017</b>		31.12.2016	
Cash and cash equivalents	5	112.8		163.8	
Trade receivables	6	324.0		283.6	
Other current receivables	7	37.0		24.8	
Inventories	8	311.2		275.1	
Prepayments and accrued income		9.7		9.6	
<b>Current assets</b>		<b>794.7</b>	<b>52.3%</b>	756.9	51.5%
Property, plant and equipment	9	638.2		592.1	
Intangible assets	10	13.0		50.0	
Financial assets	11	59.0		54.6	
Deferred tax assets	16	14.1		16.1	
<b>Non-current assets</b>		<b>724.3</b>	<b>47.7%</b>	712.8	48.5%
<b>Assets</b>		<b>1,519.0</b>	<b>100.0%</b>	1,469.7	100.0%

<b>Liabilities and equity in CHF million</b>	Notes	<b>31.12.2017</b>		31.12.2016	
Trade payables	12	126.9		94.1	
Current borrowings	13	34.8		27.8	
Other current payables	14	64.4		54.2	
Accrued liabilities and deferred income		78.9		78.8	
<b>Current liabilities</b>		<b>305.0</b>	<b>20.1%</b>	254.9	17.3%
Non-current borrowings	13	43.3		135.5	
Pension benefit obligations	24	4.7		7.6	
Non-current provisions	15	16.5		14.4	
Deferred tax liabilities	16	62.5		69.5	
<b>Non-current liabilities</b>		<b>127.0</b>	<b>8.3%</b>	227.0	15.5%
<b>Liabilities</b>		<b>432.0</b>	<b>28.4%</b>	481.9	32.8%
Share capital		3.8		3.8	
Capital reserves		145.0		210.6	
Retained earnings		933.0		763.1	
<b>Equity attributable to SFS</b>	17	<b>1,081.8</b>	<b>71.2%</b>	977.5	66.5%
Non-controlling interests		5.2		10.3	
<b>Total equity</b>		<b>1,087.0</b>	<b>71.6%</b>	987.8	67.2%
<b>Liabilities and equity</b>		<b>1,519.0</b>	<b>100.0%</b>	1,469.7	100.0%

The notes on pages 71 to 95 are an integral part of these consolidated financial statements.

# Consolidated income statement

in CHF million	Notes	2017		2016	
<b>Net sales</b>	18	<b>1,634.8</b>	<b>100.0%</b>	1,436.7	100.0%
Other operating income	19	23.1		25.4	
Change in work in progress and finished goods		15.5		-4.5	
Material expenses		-610.1		-515.4	
<b>Contribution margin</b>		<b>1,063.3</b>	<b>65.0%</b>	<b>942.2</b>	<b>65.6%</b>
Personnel expenses	20	-480.6		-411.8	
Other operating expenses	21	-259.2		-224.2	
Depreciation property, plant and equipment	9	-83.6		-83.7	
Amortization of intangible assets	10	-42.2		-62.7	
<b>Total operating expenses</b>		<b>-865.6</b>	<b>-52.9%</b>	<b>-782.4</b>	<b>-54.5%</b>
<b>Operating profit (EBIT)</b>		<b>197.7</b>	<b>12.1%</b>	<b>159.8</b>	<b>11.1%</b>
Financial result	22	1.3		-3.5	
Share of profit /(loss) from related entities		-0.2		0.0	
<b>Earnings before tax</b>		<b>198.8</b>		<b>156.3</b>	
Income taxes	23	-39.7		-31.5	
<b>Net income</b>		<b>159.1</b>	<b>9.7%</b>	<b>124.8</b>	<b>8.7%</b>
Attributable to non-controlling interests		0.0		0.2	
Attributable to owners of SFS Group AG		159.1		124.6	
<b>Earnings per share of the owners of SFS Group (in CHF) basic and diluted</b>	17	<b>4.24</b>		<b>3.32</b>	

The notes on pages 71 to 95 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

in CHF million	Notes	Share capital	Capital reserves	Goodwill offset against equity	Cash flow hedging	Currency translation adjustments	Other retained earnings	Retained earnings	Equity attributable to SFS	Non-controlling interests	Total equity
Balance as at 31.12.2015 IFRS	2.2	3.8	-	-	-2.6	-60.0	1,843.1	1,780.5	1,784.3	8.3	1,792.6
Reclassifications											
Swiss GAAP FER	2.2	-	266.9	-	-	-	-266.9	-266.9	-	-	-
Offsetting of currency translation adjustments	2.2	-	-	-	-	60.0	-60.0	-	-	-	-
Adjustments Swiss GAAP FER	2.2	-	-	-699.2	-	-	33.3	-665.9	-665.9	-	-665.9
<b>Balance as at 1.1.2016 Swiss GAAP FER</b>		<b>3.8</b>	<b>266.9</b>	<b>-699.2</b>	<b>-2.6</b>	<b>-</b>	<b>1,549.5</b>	<b>847.7</b>	<b>1,118.4</b>	<b>8.3</b>	<b>1,126.7</b>
Changes of cash flow hedges		-	-	-	2.4	-	-	2.4	2.4	-	2.4
Acquisitions	27	-	-	-207.9	-	-	-	-207.9	-207.9	2.4	-205.5
Currency translation adjustments		-	-	-	-	-3.7	-	-3.7	-3.7	-	-3.7
Net income		-	-	-	-	-	124.6	124.6	124.6	0.2	124.8
Dividend for 2015		-	-56.3	-	-	-	-	-	-56.3	-0.6	-56.9
<b>Balance as at 31.12.2016</b>		<b>3.8</b>	<b>210.6</b>	<b>-907.1</b>	<b>-0.2</b>	<b>-3.7</b>	<b>1,674.1</b>	<b>763.1</b>	<b>977.5</b>	<b>10.3</b>	<b>987.8</b>
Changes of cash flow hedges		-	-	-	-3.0	-	-	-3.0	-3.0	-	-3.0
Acquisitions	27	-	-	-	-	-	-	-	-	-4.4	-4.4
Sale of investments		-	-	-	-	-	-	-	-	-0.3	-0.3
Currency translation adjustments		-	-	-	-	13.4	-	13.4	13.4	-0.2	13.2
Net income		-	-	-	-	-	159.1	159.1	159.1	-	159.1
Dividend for 2016		-	-65.6	-	-	-	-	-	-65.6	-0.2	-65.8
Other changes		-	-	-1.5	-	-	1.9	0.4	0.4	-	0.4
<b>Balance as at 31.12.2017</b>		<b>3.8</b>	<b>145.0</b>	<b>-908.6</b>	<b>-3.2</b>	<b>9.7</b>	<b>1,835.1</b>	<b>933.0</b>	<b>1,081.8</b>	<b>5.2</b>	<b>1,087.0</b>

The notes on pages 71 to 95 are an integral part of these consolidated financial statements.

The capital reserves stem from the capital contribution reserves of SFS Group AG.

# Consolidated cash flow statement

in CHF million	Notes	2017	2016
Net income		159.1	124.8
Income taxes		39.7	31.5
Financial result		-1.3	3.5
Depreciation / amortization	9, 10	125.8	146.4
Interest paid	22	-4.4	-2.9
Income tax paid		-43.0	-33.8
Changes in provisions and allowances		-0.4	-1.1
Other non-cash expenses / income		4.9	-9.1
Profit (-) / loss (+) from disposal of property, plant and equipment		-8.4	-10.9
<b>Cash flow before changes in net working capital</b>		<b>272.0</b>	<b>248.4</b>
Changes in trade receivables		-40.7	-25.0
Changes in other receivables and prepayments and accrued income		-12.4	-4.6
Changes in inventories		-32.0	-1.6
Changes in trade payables		31.1	14.6
Changes in other current liabilities, accrued liabilities and deferred income		8.6	10.9
Changes in net working capital		-45.4	-5.7
<b>Cash flow from operating activities</b>		<b>226.6</b>	<b>242.7</b>
Purchases of property, plant and equipment	9	-128.8	-83.5
Proceeds from sale of property, plant and equipment		12.0	23.4
Purchases of intangible assets	10	-8.2	-1.1
Proceeds from government grants	10	4.2	-
Acquisition of subsidiaries, net of cash acquired	27	-10.2	-250.6
Proceeds from disposal of subsidiaries		-	0.2
Purchases of financial assets		-	-4.4
Changes in loans granted		-4.3	0.3
Dividends from joint ventures and associates		0.5	0.1
Proceeds from interest and securities		2.2	1.0
<b>Cash flow from investing activities</b>		<b>-132.6</b>	<b>-314.6</b>
Proceeds / repayment from / of current borrowings		15.8	8.8
Proceeds / repayment from / of non-current borrowings		-95.9	127.4
Dividends to the shareholders		-65.6	-56.3
Dividends to non-controlling interests		-0.2	-0.6
<b>Cash flow from financing activities</b>		<b>-145.9</b>	<b>79.3</b>
Translation adjustment on cash and cash equivalents		0.9	-0.6
<b>Changes in cash and cash equivalents</b>		<b>-51.0</b>	<b>6.8</b>
Cash and cash equivalents at beginning of period	5	163.8	157.0
<b>Cash and cash equivalents at end of period</b>	5	<b>112.8</b>	<b>163.8</b>

The notes on pages 71 to 95 are an integral part of these consolidated financial statements.



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## 1 General information

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

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 for the first time in accordance with Swiss GAAP FER. The prior year figures have been restated to allow comparison. Swiss GAAP FER provides a true and fair view of the financial position of the SFS Group and of its financial performance and cash flows.

### 2.2 First – time adoption of Swiss GAAP FER

As already announced in the media release of 21 July 2017, the Board of Directors decided to apply Swiss GAAP FER for the 2017 annual report. These accounting standards are more practical for SFS Group than IFRS, which is becoming increasingly complex, in particular IAS 19r post-employment benefits. This leads to unwarranted volatility in the equity, the income statement and the statement of comprehensive income. These fluctuations are largely eliminated under Swiss GAAP FER. Additional non-mandatory disclosures shall continuously ensure high transparency.

The significant changes in accounting and valuation principles applied due to the conversion to Swiss GAAP FER are the following:

Goodwill and intangible assets in connection with acquisitions are offset against equity at acquisition date. As a result, amortization of intangible assets will gradually decline to virtually zero from 2018 onwards. One of the effects going forward will be that EBIT and EBITA almost equalize from 2018 onwards.

For Swiss pension plans, an economic obligation or benefit is determined in accordance with Swiss GAAP FER 16 based on the financial statements of the pension fund applying Swiss GAAP FER 26.

These two major changes effect deferred taxes in the balance sheet as well as in the income statement.

As of 1 January 2016 the currency translation adjustments are offset against retained earnings. The impacts of the conversion are summarized in the table below:

<b>Adjustments in equity</b> in CHF million	<b>31.12.2016</b>	<b>1.1.2016</b>
<b>Equity IFRS</b>	<b>1,860.3</b>	<b>1,792.6</b>
Offset goodwill from acquisitions	-597.1	-502.1
Offset intangible assets resulting from purchase price allocations	-301.5	-188.6
Offset intangible assets from equity valuation	-8.5	-8.5
Adjustment of pension assets and liabilities	67.6	42.2
Reversal of amortization (net) and currency translation adjustments	-33.0	-8.9
<b>Equity Swiss GAAP FER</b>	<b>987.8</b>	<b>1,126.7</b>

<b>Adjustment net income</b> in CHF million	<b>2016</b>
<b>Net income IFRS</b>	<b>122.2</b>
Adjustment of amortization of intangible assets	-1.1
Adjustment of personnel expenses and income in connection with pension plans	4.9
Other items	1.7
Deferred income taxes	-2.9
<b>Net income Swiss GAAP FER</b>	<b>124.8</b>

### 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 controlled by SFS Group AG are included in the consolidated financial statements. Control is assumed when SFS Group AG directly or indirectly holds more than 50% of the voting rights of a subsidiary. Equity and profit or loss attributable to third parties are presented as separate line items in the consolidated balance sheet and consolidated income statement. 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.

Intercompany transactions, balances, income and expenses between Group companies are eliminated. Intercompany 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 offset against equity. In case of disposal, acquired goodwill offset with equity at an earlier date is to be considered at original cost to determine the profit or loss recognized in the income statement.

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 no control. These are divided into joint ventures and associates.

Joint control of Joint ventures is established by contractual agreement. Strategic, financial and operating decisions require unanimous consent. SFS is entitled to its proportional share of the net assets. Goodwill (if any) is offset against equity. Subsequent measurement is performed based on the equity method.

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, from 20% to 50% of the voting rights.

Associates and joint ventures are initially recognized at cost of acquisition, which includes the proportion of net assets acquired. Goodwill (if any) is offset against equity. Subsequent measurement is performed based on the equity method.

## 2.4 Foreign currency translation

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

the presentation currency. Assets and liabilities on each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet. Income and expenses on each income statement are translated at average exchange rates. All resulting conversion differences are recognized in equity.

Foreign exchange differences resulting from long-term intercompany loans in a foreign currency that form part of SFS Group's net investment in the subsidiary are recognized in equity and reversed through profit and loss upon disposal of the entity or upon repayment of the loan.

## 2.5 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.

## 2.6 Marketable securities and financial assets

Marketable securities and financial assets are measured at market value through profit or loss. In absence of a market value, marketable securities and financial assets are measured at historical costs less any impairment.

## 2.7 Receivables

Current receivables are carried at nominal value, less appropriate provisions for debtors' risks. Factors such as information on financial difficulties experienced by the debtor or an overdue of payments are taken into consideration.

## 2.8 Derivative financial instruments

The SFS Group uses derivative financial instruments to reduce the risks from interest and foreign currency fluctuations on business and financial transactions. To hedge foreign currency exposures, usually cash flow hedges are used. To reduce the earnings volatility in the income statement, changes in the fair value of derivatives are recognized in equity. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the income statement or the future cash flow is no longer expected to occur.

## 2.9 Inventories

Inventories are generally 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. Cash

discounts from suppliers are deducted from costs of purchase.

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

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

## 2.10 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Value-added expenditures, which lead to an extension of useful life or increased production capacity, are capitalized. Interest expenses incurred when the asset was under construction, are included in the historical costs, if material. Depreciation is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

	Years
<b>Buildings</b>	
Buildings	20 - 33
Infrastructure	10 - 15
<b>Machines and equipment</b>	
Machinery	5 - 15
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.

Government grants related to assets are offset against the historical costs of the asset concerned, as long as SFS Group has no obligation for repayment.

## 2.11 Intangible assets

Goodwill and intangible assets related to acquisitions are offset against equity at acquisition date. The effects of theoretical capitalization and amortization over five years, including any impairments, are shown in a shadow statement in the notes. If a contract is concluded, transaction costs are part of acquisition costs. Earn out payments are offset against equity as well. As goodwill is immediately offset against equity at acquisition date, an impairment of goodwill will not impact the income statement, but the theoretical impact will be shown in the shadow accounting.

Intangible assets are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the costs over the assets' estimated useful lives, as follows:

	Years
Customers, brands, technology	3 - 5
Software	3 - 10
Building leases (maximum)	50
Patents	3 - 5

Intangible assets related to individuals are amortized over a lifetime of five years.

Intangible assets generated internally can only be recognized as an asset if they meet all of the following conditions at the time of the initial recognition:

They are identifiable and they are controlled by the organization. They will yield a measurable benefit for the organization over several years. Expenses which arise from the creation of the intangible assets generated internally can be recognized and measured separately. It is likely that the resources needed to complete the intangible assets are available or will be made available.

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.

## 2.12. Liabilities

Liabilities are recognized in the balance sheet at nominal value.

## 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 are created for pension plans, severance payments, anniversaries, warranty claims, pending tax procedures and lawsuits. If time is considered to be material, future cash flows in connection with the provision are discounted.

## 2.14 Employee benefits

### Pension plans

SFS Group maintains pension plans in several countries. Most plans are own legal entities, that are financially independent from the SFS Group. These are compliant with local requirements and the employees and SFS usually fund the plan in equal parts.

The economic impact of the pension plans on SFS Group is reassessed annually. The valuation of a surplus or deficit is based on the plan's financial statement in accordance with Swiss GAAP FER 26 (Swiss plans) or based on an established methodology in the respective jurisdiction (non-Swiss plans). An economic benefit exists if it is permitted and intended to use the surplus to decrease the employer contributions. Surpluses which SFS Group can use as contributions at any time are recognized as assets in SFS Group's balance sheet. In the case of a deficit, an economic obligation exists if the conditions for establishing a provision are met. The change from the previous year in economic benefit and economic obligation is recognized (together with the expenses relating to the business period) as personnel expenses in the result of the period.

### 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".

In addition, SFS maintains a share purchase program for its employees. Usually, every other year shares of the SFS Group AG are sold to key management members and specialists at a discount, which is charged to the income statement.

## 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 values determined according to tax law of assets and liabilities and their

carrying amounts in the consolidated financial statements. Deferred tax assets are recognized for tax loss carry forwards and on other temporary differences to the extent that is expected to be realizable within the next five years. 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 recognized when 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 start of the lease 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 are recognized as liabilities.

Lease payments from operating leases 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 income realized from subleasing.

## 2.17 Share capital and treasury shares

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. The profit or loss realized by sales of treasury shares is recognized as a reduction of capital reserves, net of any related income taxes.

## 2.18 Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the year.

## 2.19 Dividend

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

## 2.20 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. Cash discounts and rebates granted to customers are treated as a reduction of sales. The risk of warranty payments is adequately recognized in the provisions.

## 2.21 Research and development costs

Research costs are recognized as an expense as incurred. Development costs are capitalized only if the criteria according to Swiss GAAP FER are met.

## 2.22 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, are added to the cost of those assets. All other borrowing costs are recognized in financial expenses in the period in which they incurred.

## 2.23 Off-balance sheet transactions

Contingent liabilities are mainly due to potential warranty claims, guarantee obligations and liens in favor of third parties. Intercompany items are eliminated. Contingent liabilities are assessed on the basis of the likelihood and the amount of the potential future liabilities and are disclosed in the notes.

## 2.24 Transactions with related parties

Transaction with related parties are generally conducted based on usual market conditions.

## 3 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgments 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.

The main estimates are in connection with the valuation of the inventory, the determination of useful lives of fixed assets, as well the capitalization and valuation of tax liabilities and tax assets.

All estimates and judgments are continually reviewed and are based on historical experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances.

## 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 EBIT, EBITA as well as on operating profit before amortization and before depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on internal group rates.

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

Segment assets less segment liabilities are the net operating assets (NOA). Intercompany transactions, balances, income and expenses between segments are eliminated and reported in the "Corporate" column.

### 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, it aims to be the preferred development partner for customer specific components and assemblies. By focusing on selected customer groups, it ensures high application expertise and can therefore operate in business units or key account structures. Within its applied technologies and industries, Engineered Components is seeking to occupy a leading position.

### Fastening Systems

The Fastening Systems segment combines the principles of threaded fastening and riveting technologies. Cold forming, and injection molding as well as the related secondary operations are applied in the production of application-optimized products. By combining the basic fasteners with innovative and efficient installation tools and logistic solutions, they support 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 at competitive cost levels. Furthermore, value is added by providing tailor-made supply chain management solutions, which employ state-of-the-art e-business, warehouse and IT technologies.

## Corporate

In addition to the elimination of intercompany transactions, the "Corporate" column contains corporate revenues and expenses relating to Technology, the cross-functions Corporate Services as well as Corporate IT & Finance.

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

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

	Notes	Engineered Components	Fastening Systems	Distribution & Logistics	Total segments	Corporate	Total SFS Group
<b>2017</b>							
Third party sales	18	925.8	384.0	322.9	1,632.7	-	1,632.7
<b>Net sales</b>	18	<b>938.2</b>	<b>401.0</b>	<b>328.9</b>	<b>1,668.1</b>	<b>-33.3</b>	<b>1,634.8</b>
<b>EBITDA</b>		<b>243.3</b>	<b>47.1</b>	<b>35.9</b>	<b>326.3</b>	<b>-2.8</b>	<b>323.5</b>
EBITDA in % of net sales		25.9	11.7	10.9	19.6		19.8
- Depreciation		-57.3	-16.1	-5.9	-79.3	-4.3	-83.6
<b>EBITA</b>		<b>186.0</b>	<b>31.0</b>	<b>30.0</b>	<b>247.0</b>	<b>-7.1</b>	<b>239.9</b>
EBITA in % of net sales		19.8	7.7	9.1	14.8		14.7
- Amortization		-40.1	-0.6	-0.1	-40.8	-1.4	-42.2
<b>Operating profit (EBIT)</b>		<b>145.9</b>	<b>30.4</b>	<b>29.9</b>	<b>206.2</b>	<b>-8.5</b>	<b>197.7</b>
EBIT in % of net sales		15.6	7.6	9.1	12.4		12.1
Capital expenditure		80.3	30.6	10.4	121.3	11.5	132.8
Operating assets		793.3	316.5	169.6	1,279.4	67.8	1,347.2
Operating liabilities		174.7	75.7	35.4	285.9	63.1	349.0
Net operating assets		618.6	240.8	134.2	993.5	4.7	998.2
of which net working capital		242.2	106.2	90.2	438.6	-22.0	416.6
2016							
Third party sales	18	768.1	355.6	312.8	1,436.5	-	1,436.5
<b>Net sales</b>	18	<b>781.5</b>	<b>370.8</b>	<b>318.6</b>	<b>1,470.9</b>	<b>-34.2</b>	<b>1,436.7</b>
<b>EBITDA</b>		<b>218.9</b>	<b>49.4</b>	<b>33.8</b>	<b>302.1</b>	<b>4.1</b>	<b>306.2</b>
EBITDA in % of net sales		28.0	13.3	10.6	20.5		21.3
- Depreciation		-53.5	-15.8	-6.7	-76.0	-7.7	-83.7
<b>EBITA</b>		<b>165.4</b>	<b>33.6</b>	<b>27.1</b>	<b>226.1</b>	<b>-3.6</b>	<b>222.5</b>
EBITA in % of net sales		21.2	9.1	8.5	15.4		15.5
- Amortization		-60.4	-0.4	-0.1	-60.9	-1.8	-62.7
<b>Operating profit (EBIT)</b>		<b>105.0</b>	<b>33.2</b>	<b>27.0</b>	<b>165.2</b>	<b>-5.4</b>	<b>159.8</b>
EBIT in % of net sales		13.4	9.0	8.5	11.2		11.1
Capital expenditure		48.2	27.2	3.9	79.3	5.3	84.6
Operating assets		751.1	274.2	162.7	1,188.0	62.6	1,250.6
Operating liabilities		155.3	67.9	31.7	254.9	62.8	317.7
Net operating assets		595.8	206.3	131.0	933.1	-0.2	932.9
of which net working capital		209.7	90.8	86.6	387.1	-20.9	366.2

During the reporting period no customer exceeded the reportable threshold of 10% of third party sales (PY none).

## Sales by region

	Notes	2017		2016	
Switzerland		340.9	20.9%	325.3	22.6%
Germany		251.5	15.4%	242.2	16.9%
Other Europe		400.4	24.5%	359.7	25.0%
America		281.4	17.2%	201.1	14.0%
China		214.5	13.1%	184.9	12.9%
Other Asia		139.5	8.6%	118.7	8.3%
Africa, Australia		4.6	0.3%	4.6	0.3%
<b>Third party sales</b>		<b>1,632.7</b>	<b>100.0%</b>	1,436.5	100.0%
Not assigned items		2.1		0.2	
<b>Total net sales</b>	18	<b>1,634.8</b>		1,436.7	

Gross sales to third parties are allocated to the countries of the receiving party. Non assigned items includes invoiced freight, hedged foreign currency fluctuations effects and cash discounts.

## Sales by industries

	Notes	2017		2016	
Automotive		427.1	26.2%	391.2	27.2%
Construction		413.3	25.3%	388.0	27.0%
Electronics		335.9	20.6%	284.4	19.8%
Medical		103.9	6.3%	26.9	1.9%
Other industries		352.5	21.6%	346.0	24.1%
<b>Third party sales</b>		<b>1,632.7</b>	<b>100.0%</b>	1,436.5	100.0%
Not assigned items		2.1		0.2	
<b>Total net sales</b>	18	<b>1,634.8</b>		1,436.7	

## Reconciliation of segments to income statement and balance sheet

Income statement	Notes	2017	2016
<b>Operating profit (EBIT)</b>		<b>197.7</b>	159.8
Financial result	22	1.3	-3.5
Share of profit from related entities		-0.2	0
<b>Earnings before tax</b>		<b>198.8</b>	156.3

### Assets

<b>Operating assets</b>		<b>1,347.2</b>	1,250.6
+ Cash and cash equivalents	5	112.8	163.8
+ Derivative financial instruments	7	-	0.7
+ Financial assets	11	59.0	54.6
<b>Assets</b>		<b>1,519.0</b>	1,469.7

### Liabilities and equity

<b>Operating liabilities</b>		<b>349.0</b>	317.7
+ Current borrowings	13	34.8	27.8
+ Long-term borrowings	13	43.3	135.5
+ Derivative financial instruments	14	4.9	0.9
<b>Liabilities</b>		<b>432.0</b>	481.9
<b>Equity (Net assets)</b>		<b>1,087.0</b>	987.8

## 5 Cash and cash equivalents

	2017	2016
Cash at bank and on hand	108.2	154.7
Current bank deposits	4.6	9.1
<b>Total cash and cash equivalents</b>	<b>112.8</b>	163.8

## 6 Trade receivables

	2017	2016
From third parties	326.8	285.4
From associates/joint ventures	0.1	0.9
From related parties	0.3	-
Valuation allowances	-3.2	-2.7
<b>Total</b>	<b>324.0</b>	283.6

### Ageing analysis

Not yet due	263.7	229.9
Overdue 1 to 30 days	49.2	42.9
Overdue 31 to 90 days	12.2	12.1
Overdue more than 91 days	2.1	1.4
<b>Trade receivables - gross</b>	<b>327.2</b>	286.3
Valuation allowances	-3.2	-2.7
<b>Trade receivables - net</b>	<b>324.0</b>	283.6

## 7 Other receivables

	2017	2016
VAT and withholding tax	16.9	11.7
Other receivables	20.1	12.4
Derivative financial instruments	-	0.7
<b>Total</b>	<b>37.0</b>	24.8

## 8 Inventories

	2017	2016
Raw materials	30.9	27.2
Consumables	7.3	6.6
Work in progress	84.6	70.3
Finished goods	227.9	208.1
Valuation allowances	-39.5	-37.1
<b>Total</b>	<b>311.2</b>	275.1

## 9 Property, plant and equipment

	Undeveloped property	Land and buildings	Machines and equipment	Assets under construction	Total
Cost as at 1.1.2016	10.2	603.6	878.5	30.9	1,523.2
Changes in scope of consolidation	-	11.3	36.7	0.4	48.4
Additions	-	3.5	44.3	35.7	83.5
Disposals	-	-23.4	-47.4	-	-70.8
Reclassification	-	4.3	20.7	-27.1	-2.1
Exchange differences	-	-2.8	-1.6	-0.5	-4.9
Cost as at 31.12.2016	10.2	596.5	931.2	39.4	1,577.3
Changes in scope of consolidation	-	-0.9	-1.7	-	-2.6
Additions	-	22.5	48.7	57.6	128.8
Disposals	-0.9	-19.1	-39.1	-	-59.1
Reclassification	-	5.7	40.9	-49.0	-2.4
Exchange differences	-	9.9	6.9	0.8	17.6
<b>Cost as at 31.12.2017</b>	<b>9.3</b>	<b>614.6</b>	<b>986.9</b>	<b>48.8</b>	<b>1,659.6</b>
Accumulated depreciation as at 1.1.2016	-	-317.7	-629.5	-	-947.2
Changes in scope of consolidation	-	2.3	-17.2	-	-14.9
Depreciation	-	-23.9	-59.8	-	-83.7
Disposals	-	14.6	43.4	-	58.0
Exchange differences	-	1.2	1.4	-	2.6
Accumulated depreciation as at 31.12.2016	-	-323.5	-661.7	-	-985.2
Changes in scope of consolidation	-	0.9	1.6	-	2.5
Depreciation	-	-20.3	-63.3	-	-83.6
Disposals	-	17.0	38.6	-	55.6
Reclassification	-	-0.4	0.7	-	0.3
Exchange differences	-	-5.6	-5.4	-	-11.0
<b>Accumulated depreciation as at 31.12.2017</b>	<b>-</b>	<b>-331.9</b>	<b>-689.5</b>	<b>-</b>	<b>-1,021.4</b>
Net book value as at 1.1.2016	10.2	285.9	249.0	30.9	576.0
Net book value as at 31.12.2016	10.2	273.0	269.5	39.4	592.1
<b>Net book value as at 31.12.2017</b>	<b>9.3</b>	<b>282.7</b>	<b>297.4</b>	<b>48.8</b>	<b>638.2</b>

The book value of assets under construction includes down payments to suppliers of CHF 14.0 million (PY 14.2).

In order to collateralize borrowings, assets amounting to CHF 27.0 million (PY 19.2) have been pledged with CHF 19.1 million (PY 18.8), of which CHF 8.7 million (PY 13.1) have been drawn.

The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 56.0 million (PY 29.1).

## 10 Intangible assets

	Customers, brands, technology	Software	Building leases, patents	Total
Cost as at 1.1.2016	302.2	58.7	2.5	363.4
Changes in scope of consolidation	-	0.6	-	0.6
Additions	-	1.1	-	1.1
Disposals	-2.4	-1.5	-0.3	-4.2
Reclassification	0.4	2.0	0.1	2.5
Exchange differences	8.7	-	-0.1	8.6
Cost as at 31.12.2016	308.9	60.9	2.2	372.0
Additions	-	2.9	1.1	4.0
Disposals	-	-0.4	-	-0.4
Reclassification	-	2.4	-	2.4
Exchange differences	-13.0	0.2	0.1	-12.7
<b>Cost as at 31.12.2017</b>	<b>295.9</b>	<b>66.0</b>	<b>3.4</b>	<b>365.3</b>
Accumulated amortization as at 1.1.2016	-202.1	-52.2	-0.6	-254.9
Changes in scope of consolidation	-	-0.5	-	-0.5
Amortization	-59.9	-2.8	-	-62.7
Disposals	2.1	1.4	0.3	3.8
Exchange differences	-7.8	-	0.1	-7.7
Accumulated amortization as at 31.12.2016	-267.7	-54.1	-0.2	-322.0
Amortization	-39.8	-2.3	-0.1	-42.2
Disposals	-	0.4	-	0.4
Exchange differences	11.6	-0.1	-	11.5
<b>Accumulated amortization as at 31.12.2017</b>	<b>-295.9</b>	<b>-56.1</b>	<b>-0.3</b>	<b>-352.3</b>
Net book value as at 1.1. 2016	100.1	6.5	1.9	108.5
Net book value as at 31.12.2016	41.2	6.8	2.0	50.0
<b>Net book value as at 31.12.2017</b>	<b>-</b>	<b>9.9</b>	<b>3.1</b>	<b>13.0</b>
Intangible assets generated internally	-	1.3	-	1.3

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

In 2017, the SFS Group has CHF 0.8 million (PY 1.1) of future commitments to purchase software or software-related projects.

## Theoretical asset register – goodwill

Goodwill in connection with acquisitions are offset against equity at acquisition date. The effects of theoretical capitalization and amortization, including any impairments, are shown in the shadow statement below. A useful life of 5 years is applied:

	<b>2017</b>	2016
Balance as at 1.1.	828.6	600.3
Acquisitions	-	207.9
Adjustments	1.5	-0.6
Exchange differences	-29.8	21.0
Balance as at 31.12.	800.3	828.6
Accumulated amortization as at 1.1.	-528.5	-384.6
Amortization	-124.0	-129.1
Exchange differences	21.5	-14.8
Accumulated amortization as at 13.12.	-631.0	-528.5
<b>Theoretical value of goodwill as at 31.12.</b>	<b>169.3</b>	300.1
<b>Theoretical equity</b>		
Equity attributable to SFS	1,087.0	987.8
Theoretical value of goodwill	169.3	300.1
<b>Theoretical shareholders' equity as at 31.12.</b>	<b>1,256.3</b>	1,287.9
<b>Theoretical net income</b>		
Net income	159.1	124.8
Amortization of goodwill	-124.0	-129.1
<b>Theoretical net income / (-loss)</b>	<b>35.1</b>	-4.3

## 11 Financial assets

	<b>2017</b>	2016
Loans to third parties	1.1	0.9
Financial assets from associates/joint ventures	33.9	31.2
Assets from employer contribution reserves	9.6	9.3
Economic benefit from pension plans	13.4	13.1
Other financial assets	1.0	0.1
<b>Total</b>	<b>59.0</b>	54.6

## 12 Trade payables

	2017	2016
Against third parties	126.8	94.1
Against associates/joint ventures	0.1	0.0
<b>Total</b>	<b>126.9</b>	94.1

## 13 Borrowings

	2017		2016	
	CHF	Interest	CHF	Interest
Bank borrowings	34.8	4.0%	27.8	3.8%
<b>Current borrowings</b>	<b>34.8</b>	<b>4.0%</b>	27.8	3.8%
of which CHF	20.0	0.6%	-	0.0%
of which EUR	1.8	1.8%	1.2	2.7%
of which USD	0.6	4.9%	19.1	1.7%
of which other currencies	12.4	9.7%	7.5	9.3%
Bank borrowings	43.2	2.2%	135.2	1.4%
Non-current borrowings against third parties	0.1	2.0%	0.3	2.0%
<b>Non-current borrowings</b>	<b>43.3</b>	<b>2.2%</b>	135.5	1.4%
of which CHF	0.1	2.0%	0.3	2.0%
of which EUR	3.3	1.3%	7.5	1.3%
of which USD	39.9	2.2%	127.7	1.4%
<b>Total borrowings</b>	<b>78.1</b>	<b>3.0%</b>	163.3	1.8%

The financial liabilities have the following maturities:

	Total	in 3 months	in 4 - 12 months	in 13 - 24 months	later
<b>Cash-outflows</b>					
Borrowings	78.1	25.7	9.1	3.6	39.7
Interest payments	3.4	0.6	1.3	0.9	0.6
<b>Financial liabilities as at 31.12.2017</b>	<b>81.5</b>	<b>26.3</b>	<b>10.4</b>	<b>4.5</b>	<b>40.3</b>

	Total	in 3 months	in 4 - 12 months	in 13 - 24 months	later
Borrowings	163.3	21.4	6.4	7.9	127.6
Interest payments	5.8	0.7	1.6	1.8	1.7
Financial liabilities as at 31.12.2016	169.1	22.1	8.0	9.7	129.3

## Syndicated loan

A new loan contract was negotiated with five banks in August 2014. The original term of the syndicated loan was five years. In 2015, SFS Group exercised an option to extend the final maturity by one year. Hence, the syndicated loan matures as of 25 August 2020. The committed and uncollateralized revolving credit line amounts to CHF 150.0 million and is drawn down 39% (PY 95%) at the end of 2017. It may be increased by a maximum amount of an additional CHF 150.0 million, provided the lenders agree to the application of the SFS Group. This option may be exercised until three months prior to 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

## 14 Other liabilities

	2017	2016
VAT and other liabilities	32.4	27.9
Tax liabilities	27.1	25.4
Derivative financial instruments	4.9	0.9
<b>Total</b>	<b>64.4</b>	<b>54.2</b>

## 15 Provisions

	Anniversaries, severance payments	Other provisions	Total
Balance as at 1.1.2016	9.8	4.4	14.2
Changes in scope of consolidation	-	0.1	0.1
Additions	0.9	0.3	1.2
Used amounts	-0.4	-	-0.4
Unused amounts reversed	-	-0.6	-0.6
Exchange differences	-	-0.1	-0.1
Balance as at 31.12.2016	10.3	4.1	14.4
Additions	1.4	0.5	1.9
Used amounts	-0.7	-	-0.7
Unused amounts reversed	-	-0.1	-0.1
Reclassifications	0.2	-0.2	-
Exchange differences	0.9	0.1	1.0
<b>Balance as at 31.12.2017</b>	<b>12.1</b>	<b>4.4</b>	<b>16.5</b>
of which non-current	12.1	4.4	16.5

Various countries are obliged to recognize provisions as the employees are entitled to receive severance payments following the termination of employment. These are classified as contribution-based and disclosed in the "Anniversaries, severance payments" column. The "Other provisions" column contains provisions for warranty claims and business risks. Obligations arising from product liability are covered by the SFS Group's insurance policies. In addition to this, provisions are recognized for warranty claims based on historical experience and amount to CHF 3.7 million (PY 3.2). For other business risks, CHF 0.7 million (PY 0.9) are deferred.

## 16 Deferred tax assets (-) / liabilities (+)

Deferred taxes have been calculated using the applicable tax rates of the respective tax jurisdictions.

<b>Net deferred tax balances</b>	<b>31.12.2017</b>	31.12.2016
Deferred tax assets	-14.1	-16.1
Deferred tax liabilities	62.5	69.5
<b>Total</b>	<b>48.4</b>	53.4

<b>Movement in net deferred tax balances</b>	<b>2017</b>	2016
Balance as at 1.1.	53.4	58.1
Changes in scope of consolidation	-	2.3
Charged/(credited) to income statement	-4.5	-9.4
Charged/(credited) to equity	-0.9	2.1
Exchange differences	0.4	0.3
<b>Balance as at 31.12.</b>	<b>48.4</b>	53.4

The table below shows the tax loss carry forwards:

<b>Tax loss carry forwards</b>	recognized		unrecognized	
	<b>2017</b>	2016	<b>2017</b>	2016
Expiry within 3 years	-	0.2	1.0	1.0
Expiry in 4 to 7 years	0.8	0.2	7.4	2.2
Expiry after 7 years	4.9	4.9	23.6	6.8
<b>Total</b>	<b>5.7</b>	5.3	<b>32.0</b>	10.0

## 17 Equity and earnings per SFS share

As of 31 December 2017, 37,500,000 (PY 37,500,000) registered shares at CHF 0.10 are issued and outstanding. There are no dilutive effects. Statutory and legal reserves that may not be distributed amount to CHF 66.9 million (PY 66.7) as of 31 December 2017.

	<b>2017</b>	2016
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	159.1	124.6
<b>Earnings per share (in CHF) basic and diluted</b>	<b>4.24</b>	3.32

As in the previous year, there are no dilutive effects.

The payout of CHF 1.90 (PY 1.75) per registered share, amounting to a total of CHF 71.2 million (PY 65.6), will be proposed at the Annual General Meeting.

## 18 Net sales

	2017	2016
Third party sales	1,632.7	1,436.5
Other items	2.1	0.2
<b>Total</b>	<b>1,634.8</b>	1,436.7

Third party sales increased by 13.7% (PY 4.4). The growth due to changes in the scope of consolidation amounts to 5.8% (PY 1.5). Based on a like-for-like view and ignoring foreign currency effects, sales rose by 7.4% (PY 2.0). The currency translation effect amounts to 0.5% (PY 0.9).

## 19 Other operating income

	2017	2016
Sales of services	7.2	7.8
Lease income	1.2	1.6
Own-built machinery	5.2	4.3
Gain on disposals of assets	9.5	11.7
<b>Total</b>	<b>23.1</b>	25.4

## 20 Personnel expenses

	2017	2016
Wages and salaries	379.0	327.5
Profit sharing	7.2	7.7
Social security	81.1	66.1
Other employment expenses	13.3	10.5
<b>Total</b>	<b>480.6</b>	411.8

## 21 Other operating expenses

	2017	2016
Tools, energy, maintenance	131.7	110.5
Selling and distribution	84.2	76.5
Other operating expenses	43.3	37.2
<b>Total</b>	<b>259.2</b>	224.2

"Other operating expenses" include operating lease expenses amounting to CHF 11.8 million (PY 9.2). The total costs for research and development recognized during the reporting period amount to CHF 33.8 million (PY 30.6). The main items responsible for those costs include the fields development, tools, sampling and preparation for large-lot production. The research and development costs are recognized within different line items in the income statement as the requirements for capitalization according to Swiss GAAP FER have not been met.

## 22 Financial result

	2017	2016
Interest expenses	-4.6	-2.7
Loss on financial investments	-	-1.9
<b>Financial expenses</b>	<b>-4.6</b>	-4.6
Interest income	2.1	1.1
Gain on financial investments	3.8	-
<b>Financial income</b>	<b>5.9</b>	1.1
<b>Financial result</b>	<b>1.3</b>	-3.5

## 23 Income taxes

	2017	2016
Current income tax	44.2	40.9
Deferred income tax	-4.5	-9.4
<b>Income tax expense</b>	<b>39.7</b>	31.5
<b>Reconciliation:</b>		
Earnings before tax	198.8	156.3
Expected tax rate	17.4%	17.4%
<b>Expected income tax</b>	<b>34.6</b>	27.2
Variance in tax rates	4.6	6.2
Impact of change in tax rate on deferred taxes	1.2	-
Items not subject to tax	-0.8	-1.4
Changes in tax loss carry-forwards	1.0	-0.1
Adjustment in respect of prior years and other items	-0.9	-0.4
<b>Income tax</b>	<b>39.7</b>	31.5
<b>Effective tax rate</b>	<b>20.0%</b>	20.1%

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

The expected income tax has been calculated based on the future expected tax rate of 17.4% (PY 17.4%) and corresponds to the maximum tax rate for legal entities in the canton of St. Gallen.

## 24 Pension benefit obligations

### Swiss plans

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, Survivors' and Disability Pension Plans (BVG). The SFS Pension Fund is a foundation, which is legally separated from the SFS Group. As per 31 December 2017, the SFS Pension Fund has an expected coverage ratio according to the OPA of 119.1% (PY 116.3%). The present challenge is the sustainable financing of future retirement pensions, which is hard to meet due to an ongoing increase of life expectancy and a rather low interest rate environment. The trustees of the SFS Pension Fund therefore decided to reduce the conversion rate gradually to 5.8% until 2020. The determination of the economic impact on the SFS Group is based on the preliminary financial statements of the SFS Pension Fund and the Patronage Fund. The SFS patronage Fund holds 27,169 shares (PY 596) in SFS Group AG.

### Non-Swiss plans

For non-Swiss plans, an external actuarial report is used to determine the impact on the SFS Group. Depending on the mix of insured persons (employees, retirees), the present value of benefit obligations is calculated using an interest rate of 1.5% to 2.5% (PY 0.8% to 2.2%).

Employer contribution reserve (ECR)	Nominal value	Waiver of use 2017	Balance sheet	Accumulation 2017	Balance sheet	Result from ECR in personnel expenses	
	31.12.2017		31.12.2017		31.12.2016	2017	2016
Patronage Fund	8.2	-	8.2	0.2	8.0	-	-
SFS Pension Fund	1.4	-	1.4	0.1	1.3	-	-
<b>Total</b>	<b>9.6</b>	<b>-</b>	<b>9.6</b>	<b>0.3</b>	<b>9.3</b>	<b>-</b>	<b>-</b>

An economic benefit is capitalized in SFS Group's balance sheet coming from uncommitted employer contribution reserves as well as from the Patronage fund's non-committed liabilities. It intends to use the surplus to decrease the employer contributions.

Economic benefit/economic obligation and pension benefit expenses	Surplus/deficit	Economical part of SFS		Change to prior year	Contribution concerning 2017	Pension benefit expenses within personnel expenses	
	31.12.2017	31.12.2017	31.12.2016			2017	2017
Patronage Fund	13.4	13.4	13.1	-0.3	-	-0.3	-1.2
Pension Funds							
without surplus / deficit	-	-	-	-	21.7	21.7	20.1
with deficit	-2.3	-2.3	-5.3	-3.0	6.0	3.0	1.3
without own assets	-2.4	-2.4	-2.3	0.1	-	0.1	-
<b>Total</b>	<b>8.7</b>	<b>8.7</b>	<b>5.5</b>	<b>-3.2</b>	<b>27.7</b>	<b>24.5</b>	<b>20.2</b>

Pension Funds "without surplus/deficit" includes the SFS Pension Fund. At balance sheet date, no non-committed funds exist. Therefore, neither an economic benefit nor an economic obligation is capitalized in SFS Group's balance sheet. Furthermore, foreign contribution-based plans are included in this category.

Pension Funds "with deficit" includes plans whose benefit obligations exceed the plan's assets. As of 31 December 2017 as well as of 31 December 2016 this is the case for plans in Germany, UK and Austria. The frozen plan in the US has been settled and it will be liquidated in 2018.

Pension Funds "without own assets" includes two plans in Germany. They are treated in the same way as the deficits of pension plans in the "with deficit" category.

## 25 Derivative financial instruments

Forward foreign exchange contracts	Contract value					Market CHF
	CHF	EUR	USD	CNY	MYR	
<b>2017</b>						
EUR sale/CHF purchase	122.0	-108.7	-	-	-	-4.8
CHF sale/EUR purchase (FX-Swap)	-3.5	3.0	-	-	-	0.0
CHF sale/USD purchase (FX-Swap)	-2.0	-	2.0	-	-	0.0
USD sale/MYR purchase	-	-	-1.0	-	4.1	0.0
<b>2016</b>						
EUR sale/CHF purchase	58.3	-53.8	-	-	-	0.7
USD sale/EUR purchase	-	2.9	-4.0	-	-	-0.9
USD sale/MYR purchase	-	-	-1.5	-	6.7	0.0

As in the previous year, derivatives have been purchased exclusively for hedging purposes.

## 26 Transactions with related parties and companies

### Business relationships with related parties

Business transactions with members of the Board of Directors and of the Group Executive Board as well as related companies are summarized in the table below:

	<b>2017</b>	2016
Sales of goods and services	2.8	3.1
Purchases of goods and services	1.3	1.2
Receivables	0.3	0.3
Sale properties	10.1	-

In December 2017, SFS Group sold a property to HeBe Immobilien AG, a company owned by the founding family.

### Business relationship with Pension Funds

SFS Group charges CHF 0.6 million (PY 0.6) in connection with the administration of the SFS Pension Fund and the Patronage fund.

### Business relationship with Associates and Joint ventures

	<b>2017</b>	2016
Sales of goods and services	2.5	1.3
Sales of machines and tools	0.2	2.1
Purchase of goods and services	3.7	0.3
Receivables	0.1	0.9
Liabilities	0.1	-
Loans to related entities	10.8	8.4
Bank guaranties for related entities	11.6	11.0

## 27 Changes in scope of consolidation

	2017	2016	thereof Tegra Medical
<b>Acquisition of subsidiaries</b>			
Cash and cash equivalents	-	10.8	3.9
Trade receivables	-	15.3	11.1
Inventories	-	14.9	9.2
Other current assets	-	1.2	0.8
Property, plant & equipment and software	-	33.6	26.3
Current liabilities	-	-11.8	-6.0
Non-current liabilities	-	-4.4	-1.6
<b>Acquired net assets</b>	-	59.6	43.7
Goodwill offset against equity	-	207.9	162.9
Purchase non-controlling interests	4.4	-	-
<b>Purchase price incl. acquisition cost</b>	<b>4.4</b>	267.5	206.6
Cash and cash equivalents	-	-10.8	-3.9
Contingent consideration resp. final payment	5.8	-6.1	-0.5
<b>Consideration in cash flow statement</b>	<b>10.2</b>	250.6	202.2

The purchase of non-controlling interests consists of the increase in the shareholding of Indo Schöttle Auto Parts Pvt. Ltd. and Tegra Medical.

The contingent consideration in 2017 is due to final purchase price payments for Stamm AG, Ncase Ltd. and Tegra Medical.

	2017	2016
<b>Disposal of subsidiaries</b>		
Cash and cash equivalents	-	0.2
Trade receivables	0.6	0.5
Inventories	0.3	0.4
Other current assets	0.2	-
Property, plant and equipment	0.1	0.5
Current liabilities	-1.2	-1.4
Non-current liabilities	-	-1.2
<b>Disposed net assets</b>	-	-1.0

### 2017

In February 2017, SFS Group Fastening Technology Mexico S.A. was founded in Monterrey (Mexico). The new corporation will form part of the Riveting division and operates a sales office primarily for the Mexican market selling blind rivets and blind rivet tools.

With regard to the establishment of a new production platform of the Electronics division in Nantong (China), Unisteel Technology (China) Co., Ltd was founded in May 2017. Over the next two to three years, all production facilities operating in China will be bundled in Nantong.

Due to a portfolio adjustment, SFS Group divested its majority stake in Singapore-based Sonic Clean Pte. at the end of July 2017. In 2016, Sonic Clean Pte. achieved revenue of around CHF 1.8 million with 30 employees.

Furthermore, in September 2017 the investment in Pusalkar Fluid Power Pvt. Ltd was sold to the former minority shareholder. In 2016, Pusalkar Fluid Power Pvt. Ltd generated revenue of CHF 0.7 million and employed 50 employees.

2016

On 11 February 2016, SFS Group acquired a 100% stake in Stamm AG, incorporated in Hallau, Switzerland. In 2015, Stamm AG generated a turnover of roughly CHF 15 million and is part of the Engineered Components segment. The contingent consideration was settled in 2017.

In July 2016, SFS Group completed the acquisition of Ncase Ltd, incorporated in Welwyn Garden City, north of London. Ncase is active in the fastening system market and sells high-quality cladding subframes. In 2015, Ncase generated a turnover of CHF 8 million with 22 employees. The contingent consideration was settled in 2017.

In July 2016, SFS Group sold the stake in its subsidiary Unibolt A/S Denmark to a management-related party. Turnover in the 2015 financial year amounted to around CHF 4 million.

On 11 November 2016, SFS Group completed the acquisition of Tegra Medical, incorporated in Franklin (USA). Tegra Medical is a premier medical device contract manufacturer. In 2015, Tegra Medical generated a turnover amounting to approximately USD 80 million and its workforce numbered 700 employees. Tegra Medical forms part of the newly created Medical division within the Engineered Components segment. The contingent consideration was settled in 2017.

## 28 Exchange rates

		Balance sheet		Income statement	
		2017	2016	2017	2016
China	CNY 100	14.994	14.670	14.619	14.784
EU	EUR 1	1.170	1.074	1.109	1.090
United Kingdom	GBP 1	1.319	1.254	1.266	1.325
Singapore	SGD 1	0.730	0.705	0.708	0.714
USA	USD 1	0.976	1.019	0.984	0.986

## 29 Group companies

### Subsidiaries (fully consolidated)

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2017	2016		(,000)	
Austria	Korneuburg	SFS Group Austria GmbH	100.0	100.0	EUR	146	V, P
	Wien	GESIPA Blindnietvertriebs GmbH	-	100.0	-	-	-
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	V, P
Czech Republic	Brno	GESIPA CZ s.r.o.	-	100.0	-	-	-
	Turnov	SFS Group CZ s.r.o.	100.0	100.0	CZK	205,000	V, P
China	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	100.0	100.0	CNY	93,959	V, P
	Nantong	Unisteel Technology (China) Co., Ltd	100.0	-	CNY	66,973	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100,688	V, P
	Suzhou	Unisteel Precision (Suzhou) Co., Ltd	100.0	100.0	CNY	89,095	V, P
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	98.8	98.1	USD	0	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	SFS Group SAS	100.0	100.0	EUR	3,078	V, P
Germany	Mörfelden-Walldorf	GESIPA Blindniettechnik GmbH	100.0	100.0	EUR	5,000	V, P
		SFS intec GmbH	100.0	100.0	EUR	5,000	V, P
	Oberursel	SFS intec Beteiligungen GmbH & Co. KG	99.0	99.0	EUR	4,000	H
Hungary	Janossomorja	GESIPA Hungary Kft.	-	100.0	-	-	-
		SFS Group Hungary Kft.	100.0	100.0	HUF	412,500	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	94.7	88.8	INR	46,654	V, P
		Pusalkar Fluid Power Pvt. Ltd	-	88.8	-	-	-
Italy	Pordenone	SFS intec S.r.l. unipersonale	100.0	100.0	EUR	10,000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P
	Labuan	Unisteel Technology International Ltd	100.0	100.0	USD	379,850	V, H
Mauritius		Unisteel International Pte Ltd	100.0	100.0	USD	1	V
Mexico	Monterrey	SFS Group Fastening Technology Mexico S.A.	100.0	-	MXN	50	V
Netherlands	Helmond	Afast Holding B.V.	100.0	100.0	EUR	18	V, P
Norway	Lorenskog	SFS intec AS	100.0	100.0	NOK	2,500	V
Poland	Legionowo	GESIPA Polska Sp. z o.o.	100.0	100.0	PLN	1,000	V
	Poznan	SFS intec Sp. z o.o.	100.0	100.0	PLN	8,600	V
Portugal	Malveira	SFS Group Fastening Technology. (Iberica), S.A.U.	100.0	100.0	EUR	n/a	V
Singapore	Singapore	Unisteel Technology Limited	100.0	100.0	SGD	8,033	V
		Sonic Clean Pte. Ltd	-	63.0	-	-	-
Spain	Arrigorriaga	SFS Group Fastening Technology (Iberica), S.A.U. Sucursal em Portugal	100.0	100.0	EUR	975	V
Sweden	Strängnäs	SFS intec AB	100.0	100.0	SEK	200	V, P

DL = Services

P = Production

V = Sales

H = Holding

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2017	2016		(,000)	
Switzerland	Heerbrugg municipality of Au/SG and Widnau	SFS intec Holding AG	100.0	100.0	CHF	5,400	H
		SFS intec AG	100.0	100.0	CHF	6,550	V, P
		SFS unimarket AG	100.0	100.0	CHF	12,550	V, P
		SFS services AG	100.0	100.0	CHF	100	DL
	Bäretswil	Allchemet AG	100.0	100.0	CHF	340	V
	Hallau	Stamm AG	100.0	100.0	CHF	500	V, P
Taiwan	Kaohsiung	Unisteel Technology Limited Taiwan Branch	100.0	100.0	NT\$	n/a	DL
Turkey	Torbali-Izmir	SFS intec Bağlantı Teknolojileri Sanayi ve Ticaret A.Ş.	91.4	91.4	TRY	3,000	V, P
United Kingdom	Keighley	GESIPA Blind Riveting Systems Ltd	-	100.0	100.0	-	-
	Leeds	QBM Distributors Ltd	100.0	100.0	GBP	100	V
		SFS intec Ltd	-	100.0	-	-	-
		SFS Group Fastening Technology Ltd	100.0	100.0	GBP	2,000	V, P
		Ncase Ltd	100.0	100.0	GBP	0	H
		Ekoklad Ltd	-	100.0	-	-	-
		Kladfix Ltd	-	100.0	-	-	-
	Nvelope Rainscreen Systems Ltd	100.0	100.0	GBP	0	V	
USA	Wyomissing, PA	SFS Group USA, Inc.	100.0	100.0	USD	34,000	V, P
		SFS Acquisition Holding, Inc.	98.8	98.1	USD	140,000	H
	Franklin, MA	Tegra-CTW Holdings, LLC	98.8	98.1	USD	41,473	H
		Tegra Medical, LLC	98.8	98.1	USD	23,465	V, P
		Tegra Medical CR, LLC	98.8	98.1	USD	0	H
	Hernando, MS	Tegra Medical (MS), LLC	98.8	98.1	USD	17,275	V, P
	Seattle, WA	Nvelope Rainscreen Systems Corporation	-	100.0	-	-	-

DL = Services

P = Production

V = Sales

H = Holding

The closing date of all companies is December 31, with the exception of Indo Schöttle Auto Parts Pvt. Ltd.

## 2017

During the course of the internal project "one Country, one Company", the respective subsidiaries of GESIPA and SFS intec merged in Austria, Hungary, the United Kingdom and the Czech Republic. Furthermore, the recently acquired Ncase Group underwent some adjustments in its legal structure. Ekoklad Ltd. and Kladfix Ltd. were merged with Nvelop Rainscreen Systems Ltd. (all incorporated in Welwyn Garden City). Nvelop Rainscreen Systems Corp., headquartered in Seattle (USA), was merged with SFS Group USA, Inc. The shareholding in Indo Schöttle Parts Pvt. Ltd was increased to 94.7% (PY 88.8). The shareholdings in SFS Acquisition Holding, Inc., Tegra-CTW Holdings, LLC, Tegra Medical, LLC, Tegra Medical CR, LLC, Tegra Medical (MS), LLC und Tegra Medical Costa Rica S.A. was increased to 98.8% (PY 98.1).

## 2016

The business activities of the former SFS unimarket SAS in France are undertaken in Switzerland. The company is no longer economically active and was closed in 2016. W+O Niettechnik GmbH in Germany was merged with GESIPA Blindniettechnik GmbH as of 1 January 2016. As part of a further tightening up of the company's legal structure, the subsidiaries of GESIPA and SFS intec merged both in France and the US.

## Joint ventures

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2017	2016		(,000)	
China	Tianjin	Sunil SFS intec Automotive Parts (Tianjin) Co., Ltd	50.0	50.0	CNY	165,711	V, P

## Associates

Country	Registered Office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2017	2016		(,000)	
Germany	Schramberg	Ludwig Hettich GmbH & Co. KG	30.0	30.0	EUR	2,510	V, P

## 2017

Shareholdings as well as the share capital related to associates remains unchanged from the previous year.

## 30 Off-balance sheet transactions

	<b>2017</b>	2016
Debt guarantee obligations and liens in favor of third parties	12.9	11.5
Other quantifiable commitments with a contingent character	3.2	0.9
<b>Future aggregate minimum lease payments</b>	<b>2017</b>	2016
No later than 1 year	11.1	10.9
Later than 1 year and no later than 5 years	27.6	26.3
Later than 5 years	7.4	4.6
<b>Total</b>	<b>46.1</b>	41.8

## 31 Events after the reporting period

SFS is not aware of events that occurred after the balance sheet date that could have a material impact on the consolidated statements for the financial year ended 31 December 2017.

The consolidated financial statements of the SFS Group were approved by the Audit Committee and the Board of Directors on 8 March 2018 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 25 April 2018.



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

## ***Report on the audit of the consolidated financial statements***

### ***Opinion***

We have audited the consolidated financial statements of SFS Group AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 66 to 95) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

### ***Basis for opinion***

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

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

## **Our audit approach**

### **Overview**



Overall Group materiality: CHF 10,000,000

We concluded full scope audit work at twelve Group companies in nine countries. Additionally, we concluded reviews at a further four reporting units in four countries.

These Group companies represented 83% of the group's revenue.

As key audit matter the following area of focus has been identified:

Valuation of inventories

### **Audit scope**

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

We tailored the scope of our audit in order to cover the significant subsidiaries with a full scope audit or review. For the other companies, we relied on the results of completed statutory audits and on analyses of significant changes. In particular, we checked for these companies the reconciliation of the statutory financial statements to Swiss GAAP FER. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion on the consolidated financial statements. Our involvement included, for example, meetings and telephone conferences during the audit planning stage and after completion of the local audits.

### **Materiality**

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

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

<i>Overall Group materiality</i>	CHF 10,000,000
<i>How we determined it</i>	5% of earnings before tax
<i>Rationale for the materiality benchmark applied</i>	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, earnings before tax is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 500,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### **Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

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

## Valuation of inventories

### *Key audit matter*

Inventories as at 31 December 2017 amount to CHF 311.2 million. This represents 20.5% of total assets.

The inventories of SFS Group AG comprise raw materials used in production, supplies and consumables, semi-finished goods produced in-house or bought in (work in progress) and finished goods produced in-house or bought in. Basically, inventories are recognised at the lower of average acquisition cost (especially, raw materials, supplies and consumables, and purchased finished goods) or production cost (especially, semi-finished and finished goods) and net realisable value. Production costs comprise direct material and labour costs and a proportion of production overheads. The latter are based on normal operating capacity utilisation.

Required write-downs are based on valuations of individual items. The inventory quantity of each item is compared with its consumption over the past twelve months. In general, first year's consumption is assessed as 100% recoverable. If the inventory level is higher than one year's consumption, the excess stock equivalent to a second year's consumption is written down by 50%. Any remaining stock is fully written down. New products added within the last 18 months are not written down.

We consider the valuation of inventories a key audit matter. In particular, the following risks exist in connection with the valuation of inventories:

- Inventories are not stated at the lower of acquisition or production cost and net realisable value.
- Write-downs for obsolescent inventory or stock that exceeds usual turnover (i.e. slow moving or excess inventory) are inadequate.

Further details regarding inventories can be found in notes 2.9 and 8.

### *How our audit addressed the key audit matter*

A process has been defined to check the average acquisition or production costs and determine the write-downs necessary for non-marketable inventory.

As part of this process, Management tests each year the standard costs used and the average acquisition or production costs. Further, Management checks that the principle of lower of cost and net realisable value has been applied.

We performed the following audit procedures:

- Sample-based testing of whether inventories were stated at acquisition or production costs in accordance with Swiss GAAP FER. We compared the acquisition costs used for the valuation of raw materials, supplies and consumables, and purchased finished goods with the latest purchase prices or other evidence. We tested the additional costs included in the production costs of semi-finished and finished goods, in particular using overhead recovery variance analysis or alternative methods.
- Sample-based testing of compliance with the use of the principle of lower of acquisition or production cost and net realisable value.
- Sample-based testing of the mathematical correctness and appropriateness of Management's calculation of write-downs of obsolescent inventory.

The results of our audit support Management's valuation of the inventories as at 31 December 2017.

### ***Responsibilities of the Board of Directors for the consolidated financial statements***

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

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

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

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

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

## ***Report on other legal and regulatory requirements***

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

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

PricewaterhouseCoopers AG



Thomas Illi  
Audit expert  
Auditor in charge



Martin Bettinaglio  
Audit expert

St. Gallen, 8 March 2018

# Financial statements SFS Group AG

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# Balance sheet

<b>Assets in CHF million</b>	<b>31.12.2017</b>	31/12/2016
Cash and cash equivalents	12.1	14.6
Other current receivables from Group companies	8.0	49.5
<b>Current assets</b>	<b>20.1</b>	64.1
Financial assets	0.1	0.1
Financial assets from Group companies	804.1	738.8
Shareholdings	90.8	90.8
<b>Non-current assets</b>	<b>895.0</b>	829.7
<b>Assets</b>	<b>915.1</b>	893.8

<b>Liabilities and equity in CHF million</b>		
Interest-bearing borrowings	20.0	0.0
Interest-bearing borrowings from Group companies	19.9	22.6
Deferred income and accrued expenses	0.8	0.7
<b>Current liabilities</b>	<b>40.7</b>	23.3
Interest-bearing borrowings from Group companies	30.1	33.6
<b>Non-current liabilities</b>	<b>30.1</b>	33.6
Share capital	3.8	3.8
Statutory capital reserves	145.0	210.6
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	418.5	345.5
<b>Total equity</b>	<b>844.3</b>	836.9
<b>Liabilities and equity</b>	<b>915.1</b>	893.8

# Income statement

<b>Income in CHF million</b>	<b>2017</b>	2016
Investment income	68.0	66.0
Interest income	5.9	5.4
Currency gain financial assets (net)	0.1	0.0
<b>Total income</b>	<b>74.0</b>	71.4
<b>Expenses in CHF million</b>		
Interest expense	-0.2	-0.4
Administration expenses	-0.4	-0.4
<b>Total expenses</b>	<b>-0.6</b>	-0.8
<b>Net income before taxes</b>	<b>73.4</b>	70.6
Direct taxes	-0.4	-0.4
<b>Net income</b>	<b>73.0</b>	70.2

## 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.

### 2 Number of employees

The company does not have any employees.

### 3 Shareholdings

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

	<b>2017</b>		2016	
	Share capital	Share-holding <sup>1</sup>	Share capital	Share-holding <sup>1</sup>
SFS intec Holding AG, Heerbrugg, municipality of Widnau, Switzerland	5.4	100%	5.4	100%
SFS unimarket AG, Heerbrugg, municipality of Widnau, Switzerland	12.6	100%	12.6	100%
SFS services AG, Heerbrugg, municipality of Widnau, Switzerland	0.1	100%	0.1	100%

The significant indirect shareholdings are disclosed in note 29 of the consolidated financial report.

<sup>1</sup> each share represents one voting right

#### 4 Share capital

The share capital is divided into 37,500,000 registered shares each with a par value of CHF 0.10. No conversion and option rights have been issued.

#### 5 Significant shareholders

The founding families of SFS Group AG, Huber and Stadler/Tschan, form an organized group according to art. 12 of the Ordinance of the Swiss Financial Supervisory Authority on financial market infrastructures and market behavior in securities and derivatives trading.

<b>Share capital and voting rights</b>	<b>31.12.2017</b>	31.12.2016
Founding families	<b>55.0%</b>	55.0%

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

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

#### 6 Board of Directors' and Group Executive Board's shareholdings.

The following tables provide information with regard to the shareholdings of the Board members:

	Number of shares <b>31.12.2017</b>	Number of shares 31.12.2016
<b>Board of Directors</b>		
Heinrich Spoerry, Chairman, external member	195,980	194,480
Nick Huber, external member since April 2017	246,372	n/a
Ruedi Huber, external member until April 2017	n/a	247,404
Urs Kaufmann, independent, external member	8,280	7,780
Thomas Oetterli, independent, external member	6,280	5,780
Bettina Stadler, external member since April 2017	390,420	n/a
Karl Stadler, external member until April 2017	n/a	2,522,580
Jörg Walther, independent, external member	3,280	2,780
<b>Total</b>	<b>850,612</b>	2,980,804

In 2016 the number of shares of Karl Stadler include privately held shares and shares of Wistama Finanz- und Beteiligungs AG, which is under his control.

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

	Number of shares <b>31.12.2017</b>	Number of shares 31.12.2016
<b>Group Executive Board</b>		
Thomas Bamberger, Head of Division Riveting	2,558	1,870
Arthur Blank, Head of Division Construction	13,965	13,340
Jens Breu, Chief Executive Officer	9,330	7,580
Rolf Frei, Chief Financial Officer	48,750	62,850
J. Mark King, Leiter Division Medical	0	0
Walter Kobler, Head of Division Industrial	20,625	20,000
George Poh, Head of Division Electronics	52,843	51,780
Alfred Schneider, Head of Division Automotive	15,505	14,880
Josef Zünd, Head of Segment Distribution & Logistics	20,103	19,290
<b>Total</b>	<b>183,679</b>	191,590

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

#### 7 Statutory capital reserves

The disclosed statutory capital reserves amount to CHF 145,049,250 (PY 210,674,250) and result from the share premiums in connection with the share capital increase and the initial public offering. Statutory capital reserves of CHF 311,994,597.50 have been approved by the Federal Tax Administration (FTA) on 12 June 2015. The FTA did not accept the IPO and capital expenses of CHF 11,179,652.50 as statutory capital reserves. In this context, the SFS Group AG is still of the opinion that the share premium before deduction of the IPO and capital expenses qualify to the full extent as statutory capital reserves.

#### 8 Contingent liabilities

Apart from the warranty obligations there are no contingent liabilities.

<b>Contingent liabilities</b>	<b>31.12.2017</b>	31.12.2016
Warranty obligations to Group companies	220.5	214.7
Warranty obligations to third parties	12.3	10.9
Of which used	85.4	168.5

# Proposed appropriation of retained earnings and statutory capital reserves

## Proposed appropriation of retained earnings

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

<b>Retained earnings</b> in CHF million	<b>31.12.2017</b>	31.12.2016
Profit carry forward	345.5	275.3
Net income	73.0	70.2
Earnings available for distribution	418.5	345.5
<b>Carry forward to retained earnings</b>	<b>418.5</b>	345.5

## Proposed appropriation of statutory capital reserves

The Board of Directors proposes to the Annual General Meeting to approve the payment from statutory capital reserves of CHF 1.90 (PY 1.75) per registered share with a nominal of CHF 0.10 per share.

<b>Statutory capital reserves</b> in CHF million	<b>31.12.2017</b>	31.12.2016
Carry forward	145.0	210.6
<b>Payout from statutory capital reserves</b>	<b>-71.2</b>	-65.6
Carry forward to statutory capital reserves	73.8	145.0



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

## ***Report on the audit of the financial statements***

### ***Opinion***

We have audited the financial statements of SFS Group AG which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 102 to 106) as at 31 December 2017 comply with Swiss law and the articles of incorporation.

### ***Basis for opinion***

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

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

### ***Our audit approach***

#### ***Audit scope***

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

### **Materiality**

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

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

<i>Overall materiality</i>	CHF 4,200,000
<i>How we determined it</i>	0.5% of total equity
<i>Rationale for the materiality benchmark applied</i>	We chose total equity as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 210,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

We have no key audit matters to report.

### **Responsibilities of the Board of Directors for the financial statements**

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

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

### ***Report on other legal and regulatory requirements***

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

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

PricewaterhouseCoopers AG



Thomas Illi  
Audit expert  
Auditor in charge



Martin Bettinaglio  
Audit expert

Zurich, 8 March 2018



# Information for shareholders

The registered shares of the SFS Group AG of CHF 0.10 each are listed on the SIX Swiss Exchange AG since 7 May 2014. In 2017 the consolidated financial statements have been prepared in accordance with Swiss GAAP FER for the first time.

<b>Swiss GAAP FER</b>	<b>31.12.2017</b>	31.12.2016	31.12.2015
Number of registered shares (in 1,000)	37,500	37,500	37,500
Number of shares ranking for dividend (in 1,000)	37,500	37,500	37,500
Weighted average number of shares (in 1,000)	37,500	37,500	37,500
Number of shareholders	7,530	6,641	6,941
<b>Stock exchange quotation (in CHF)</b>			
Year high	123.50	83.15	79.00
Year low	82.55	60.45	56.90
Year-end price	113.20	83.10	70.00
<b>Share key data</b>			
Earnings per share in CHF	4.24	3.32	2.39
Cash earnings per share in CHF	5.14	4.66	3.68
Distribution per share in CHF	1.90	1.75	1.50
Payout ratio in % of consolidated net income	44.8	52.6	62.7
Price/earnings ratio (year-end price)	26.7	24.9	29.3
Cash price/earnings ratio (year-end price)	22.0	17.8	19.0
<b>Market capitalization</b>			
In CHF million (year-end price x number of shares ranking for dividend)	4,245.0	3,116.3	2,625.0
As a % of net sales	259.7	216.9	191.4
As a % of equity	390.5	315.5	233.0

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 192.8 million (PY 174.8).

## Agenda

Friday, 9 March 2018	Publication results business year 2017
Wednesday, 25 April 2018	25th Annual General Meeting of SFS Group AG
Friday, 20 July 2018	Publication half year results 2018

Security-no.	23.922.930
ISIN	CH 023 922 930 2
SIX Swiss Exchange AG	SFSN
Reuters	SFSN.S
Bloomberg	SFSN SW
Fact Set:	SFSN-CH

<b>Swiss GAAP FER (SGF)</b>	<b>2017</b>	2016	2015	2014	2013
<b>Income statement</b> in CHF million	<b>audited</b>	audited	unaudited	unaudited	unaudited
Gross sales	1,632.7	1,436.5	1,376.3	1,383.0	1,330.6
Change to previous year in %					
At actual exchange rates	13.7	4.4	-0.5	3.9	11.5
At constant exchange rates	13.2	3.5	4.6	4.8	11.1
Net sales	1,634.8	1,436.7	1,371.8	1,381.8	1,330.4
EBITDA	323.5	306.2	253.8	272.9	273.0
As a % of net sales	19.8	21.3	18.5	19.7	20.5
EBITA	239.9	222.5	173.0	196.9	198.6
As a % of net sales	14.7	15.5	12.6	14.2	14.9
EBITA adjusted <sup>1</sup>	235.8	213.0	173.0	196.9	180.3
As a % of net sales	14.4	14.8	12.6	14.2	13.5
Operating profit (EBIT)	197.7	159.8	111.5	138.0	138.7
As a % of net sales	12.1	11.1	8.1	10.0	10.4
Net income	159.1	124.8	89.7	106.2	83.0
As a % of net sales	9.7	8.7	6.5	7.7	6.2
Cash net income <sup>2</sup>	192.8	174.8	137.9	153.9	129.3
As a % of net sales	11.8	12.2	10.1	11.1	9.7

#### **Balance sheet** in CHF million

Assets	1,519.0	1,469.7	1,437.3	1,520.6	1,513.4
Net cash / debt	34.7	0.5	127.5	87.7	-248.5
Average Capital Employed	927.0	800.0	840.5	810.8	849.6
Invested Capital I	1,052.3	948.0	999.2	1,037.6	981.2
Invested Capital II	1,960.9	1,692.2	1,698.4	1,729.7	1,643.5
Equity	1,087.0	987.8	1,126.7	1,125.3	732.7
As a % of assets	71.6	67.2	78.4	74.0	48.4

#### **Cash flow statement** in CHF million

Cash flow from operating activities	226.6	241.5	211.3	199.8	216.0
Purchase of property, plant, equipment and software	-132.8	-84.6	-90.4	-97.6	-76.6
Acquisitions of subsidiaries, net of cash	-10.2	-250.6	-7.2	-37.9	-10.6

#### **Employees**

Full-time equivalents (FTE)	9,478	9,021	8,330	8,688	7,000
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#### **Financial key ratios (unaudited)**

ROE in % (Return on equity)	16.1	11.1	8.0	14.5	11.6
ROCE in % <sup>3</sup> (Return on capital employed)	25.9	27.8	20.6	24.3	23.4
ROIC I in % <sup>4</sup> (Return on invested capital)	15.0	13.5	8.7	10.8	10.9
ROIC II in % <sup>5</sup> (Return on invested capital)	9.8	10.5	8.0	9.2	9.4

#### **Share key ratios**

Earnings per share in CHF	4.24	3.32	2.39	2.97	2.56
Payout per share in CHF	1.90 <sup>6</sup>	1.75	1.50	1.50	1.00
Payout in CHF million	71.2	65.6	56.3	56.3	32.4
Payout ratio in %	44.8	52.6	62.7	50.6	39.1

<sup>1</sup> adjusted for special items

<sup>2</sup> net income before amortization of intangible assets net of deferred taxes (cash net income)

<sup>3</sup> EBITA in % of the average capital employed in conformity with IFRS less intangible assets

<sup>4</sup> EBIT less tax in % of invested capital I (equity less net cash as of year end)

<sup>5</sup> EBITA less tax in % of invested capital II (equity before goodwill offset less net cash as of year end)

<sup>6</sup> proposed payout to SFS Group's Annual General Meeting held on 25 April 2018

<b>International Financial Reporting Standards (IFRS)</b>	<b>2017</b>	2016	2015	2014	2013
<b>Income statement</b> in CHF million	<b>unaudited</b>	audited	audited	audited	audited
Gross sales	1,632.7	1,436.5	1,376.3	1,383.0	1,330.6
Change to previous year in %					
At actual exchange rates	13.7	4.4	-0.5	3.9	11.5
At constant exchange rates	13.2	3.5	4.6	4.8	11.1
Net sales	1,634.8	1,436.7	1,371.8	1,381.8	1,330.4
EBITDA	320.9	300.5	267.4	271.4	269.8
As a % of net sales	19.6	20.9	19.5	19.6	20.3
EBITA	237.3	216.8	186.6	195.4	195.4
As a % of net sales	14.5	15.1	13.6	14.1	14.7
EBITA adjusted <sup>1</sup>	233.2	207.3	171.7	195.4	177.1
As a % of net sales	14.3	14.4	12.5	14.1	13.3
Operating profit (EBIT)	167.8	155.1	129.1	141.5	142.3
As a % of net sales	10.3	10.8	9.4	10.2	10.7
Net income	133.0	122.2	105.0	110.2	86.5
As a % of net sales	8.1	8.5	7.7	8.0	6.5
Cash net income <sup>2</sup>	188.1	172.1	151.1	154.6	128.2
As a % of net sales	11.5	12.0	11.0	11.2	9.6

#### **Balance sheet** in CHF million

Assets	2,431.4	2,436.8	2,169.7	2,246.1	2,133.0
Net cash / debt	34.7	0.5	127.5	87.7	-248.5
Average Capital Employed	927.0	800.0	840.5	810.8	849.6
Invested Capital	1,912.3	1,657.6	1,665.1	1,717.3	1,584.9
Equity	1,947.0	1,860.3	1,792.6	1,805.0	1,336.4
As a % of assets	80.1	76.3	82.6	80.4	62.7

#### **Cash Flow statement** in CHF million

Cash flow from operating activities	226.6	241.5	211.3	199.8	216.0
Purchase of property, plant, equipment and software	-132.8	-84.6	-90.4	-97.6	-76.6
Acquisitions of subsidiaries, net of cash	-10.2	-249.2	-7.2	-37.9	-10.6

#### **Employees**

Full-time equivalents (FTE)	9,478	9,021	8,330	8,688	7,000
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#### **Financial key ratios (unaudited)**

ROE in % (Return on equity)	7.1	6.8	5.8	8.2	6.9
ROCE in % <sup>3</sup> (Return on capital employed)	25.6	27.1	22.2	24.1	23.0
ROIC in % <sup>4</sup> (Return on invested capital)	9.8	10.6	9.0	9.4	9.7

#### **Share key ratios**

Earnings per share in CHF	3.55	3.25	2.78	3.07	2.67
Payout per share in CHF	1.90 <sup>5</sup>	1.75	1.50	1.50	1.00
Payout in CHF million	71.2	65.6	56.3	56.3	32.4
Payout ratio in %	53.6	53.7	53.6	51.0	37.5

<sup>1</sup> adjusted for special items

<sup>2</sup> net income before amortization of intangible assets net of deferred taxes (cash net income)

<sup>3</sup> EBITA in % of the average capital employed less intangible assets

<sup>4</sup> EBITA less tax in % of invested capital (equity less net cash as of year end)

<sup>5</sup> proposed payout to SFS Group's Annual General Meeting held on 25 April 2018

### **Annual report 2017**

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

### **Exclusion of liability**

This annual report includes forward looking statements. These statements reflect the SFS Group's current assessment of market conditions and future events. The statements are therefore subject to risks, uncertainties and assumptions. Unforeseen events may lead to deviations

of the actual results from the forecasts and estimates made in this presentation and in other published information. To this extent, all forward looking statements in this annual report are subject to such limitations.

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