

Management report (summary)
 Financial statement SFS Group
 Financial statement SFS Group AG

Table of contents

Financial overview and highlights	2
Management report (summary)	4
Strategy and markets	6
Sustainability	7
Segment reports	8
Engineered Components	8
Fastening Systems	10
Distribution & Logistics	11
Financial statement of SFS Group	12
Financial statement of SFS Group AG	16
Information for shareholders	18



Financial overview

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

Balance sheet in CHF million

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

Cash flow statement in CHF million

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

Employees

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

Financial key ratios

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

Share key ratios

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

¹ adjusted for special impact due to IAS 19r (2015: CHF 14.9 million) and for book gains on the disposal of non-core assets (2016: CHF 9.5 million / 2013: CHF 18.3 million / 2012: CHF 4.6 million)

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

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

⁴ EBITA in % of net operating assets both adjusted for acquisition of Tegra Medical as at 1 December 2016

⁵ EBITA in % of average capital employed without intangible assets

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

Highlights of SFS Group

Solid organic growth in core business

+5.9%

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

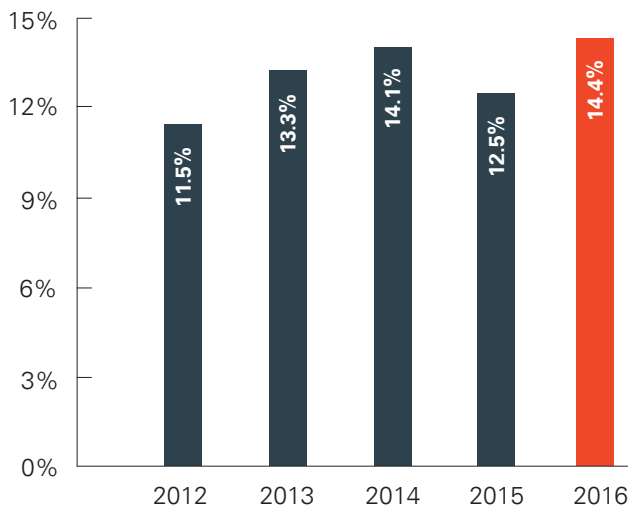
Targeted improvement in productivity achieved

+15.9%

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

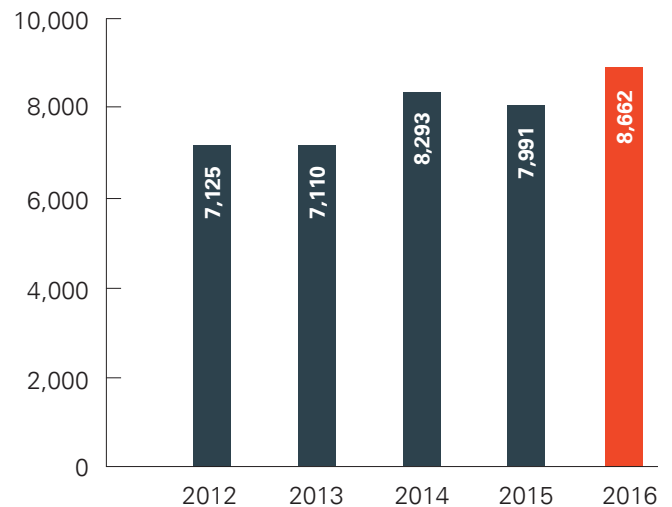
Significant improvement in profitability

Adjusted EBITA margin



More employees due to acquisitions

Number of employees at year-end (headcount)



Positioning in medical device industry significantly expanded

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



Management report

Summary

—

SFS increased profitability significantly

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

Dear shareholders,

Good momentum in core business

—

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

Significant improvement in profitability achieved

After the currency-induced decline in profitability in 2015, we managed to surpass our previous levels of profitability. The adjusted EBITA margin excluding the accounting gains on the sale of company property amounted to 14.4%. This represents a significant increase in profitability compared to 2015 (adjusted EBITA

margin of 12.5%). We attribute this improvement to the market success of our innovative products, the realization of economies of scale in the wake of higher production capacity utilization, and the effectiveness of the measures taken after the substantial appreciation of the Swiss franc. Net income including the proceeds of property disposals amounted to CHF 122.2 million (previous year: CHF 105.0 million).

Competitive strength restored

—

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

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

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

Expansion of position in medical device market

—

SFS has significantly expanded its position in the growing medical device sector through the acquisitions of Tegra

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

Successful developments in core business

All segments contributed to this growth. They maintained and expanded their market positions. Thanks to the scale-up of key customer projects, the Engineered Components segment reported sales of CHF 768.1 million, an increase of 3.8% versus the previous year. The segment's EBITA margin was widened by 350 basis points to 21.2%.

The Fastening Systems segment sustained its good momentum throughout the second half and generated full-year sales of CHF 355.6 million (+8.8%, comparable +7.5%). Profitability improved significantly, lifting the EBITA margin to 9.0% (+220 basis points).

The Distribution & Logistics segment (SFS unimarket) demonstrated its competitive edge by winning key projects for digitalized warehouse management systems ("M2M" by SFS). Segment sales increased 1.1% to CHF 312.8 million and the EBITA margin rose from 6.0% to 8.5% in the 2016 financial year.

Changes in the Board of Directors and Group Executive Board

The representatives of the founding families on the Board of Directors, Ruedi Huber and Karl Stadler, will not stand for re-election at the Annual General Meeting on 26 April 2017. We thank them for their many years of service and their contribution to the successful development of SFS Group. The Board of Directors will propose the election of Nick Huber and Bettina Stadler to the Board of Directors as new representatives of the founding families.

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

A word of thanks

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

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


Pay-out to shareholders

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

Outlook for the 2017 financial year

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

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


Heinrich Spoerry **Jens Breu**
Chairman of the Board CEO

Strategy and markets

Inventing success daily

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

SFS is with you 24/7

SFS is a reliable companion in your daily life. However, most people are unaware of this since our precision components and mechanical fastening systems are embedded in the top-quality products of our customers, where they are often critical for product performance. Whether in a car, a smartwatch or a plane: SFS know-how is everywhere.

The direct costs of SFS products often account for less than 1% of an end product's overall cost, but the related secondary costs at the customer end, such as logistics, are several times the direct product costs. With this in mind, we always try to put ourselves in the shoes of our customers and look for ways to optimize overall costs. This approach unlocks significantly higher cost-savings potential, produces sustainable value, makes us even more distinctive and deepens the partnerships with our customers.

Innovation and acquisition-driven growth

SFS has a promising pipeline of new products, which has been strengthened in the year under review. Besides innovations, acquisitions are also an integral part of our growth strategy. Targeted acquisitions broaden our access to new markets, customers and applications that will fuel future organic growth.

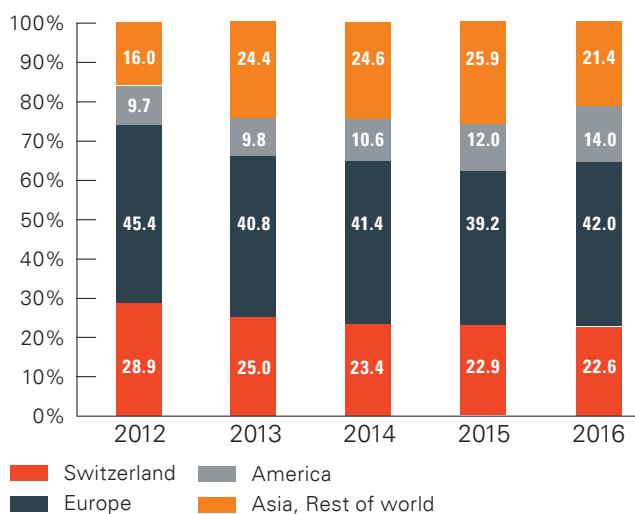
Thanks to our positions in fast-growing markets, close partnerships with the leaders in these markets and our strong innovation skills, our targeted growth rate over the

next few years lies well above the projected growth of the world economy.

Sales in North America continue to grow

North America was once again the region with the fastest relative growth (+22%) due to the good economic environment, the scale-up of new products for customers in the automotive industry and the first-time consolidation of Tegra Medical. The decline in sales at the Electronics division resulting from the run-off of the trading activities had a direct impact on Asia's share of total sales. Europe's share of consolidated sales grew thanks to broadly based market demand as well as the success of numerous new projects in the automotive and aircraft industries.

Share of sales by region 2012–2016 in %



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

Sustainability

Key topics identified

—

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

The topics mentioned in the annual report 2015, that are based on the principles of the UN Global Compact, were further developed in 2016.

Human rights

Compliance processes and organization strengthened

—
In 2016, considerable attention was devoted to strengthening the compliance processes and organization. With the successful completion of the compliance reporting, SFS documents to have implemented effective structures for reporting suspected breaches of the Code of Conduct.

Labor

Vocational education programs made even more attractive

—
In 2016 various measures were taken to further develop vocational training activities. For the first time, a group of apprentices had the opportunity to spend several weeks at the Medina factory (USA) as part of their vocational training and gather valuable international experience. In 2017, more apprentices will be given this opportunity also in order to enhance the attractiveness and show the advantages of the vocational education programs within the SFS Group. With respect to internal training and development, a new "International Leadership Development Program (ILDLP)" was launched; fostering intercultural cooperation within SFS Group is an important aspect of the ILDP.

Environment

All Automotive sites now ISO 14001 certified

—
After the certification of our plant in Medina (USA) all the operating sites in the Automotive division are now ISO 14001 certified. Moreover, the third and final stage of the solar photovoltaic system on the roof of the factory building in Heerbrugg (CH) was completed. Total capacity now stands at 1.9 GWh, which would be enough to provide electricity for about 400 households.

Anti-corruption

Anti-corruption policies implemented

—
An anti-corruption policy has been drawn up alongside the Code of Conduct and implemented with effect from 1 January 2016. This policy is to raise employee awareness of corruption. There are plans to incorporate this policy into a standardized international HR process for onboarding new employees.

Materiality assessment

Intensifying our dialog with stakeholders

—
In future, the sustainability report will follow the G4 Sustainability Reporting Guidelines issued by GRI (Global Reporting Initiative). Therefore, we have developed the materiality assessment, as it is a key GRI requirement. The matrix compares the business perspective, represented by the Group Executive Board, with the perspectives of other internal and external stakeholders. This provides the basis for identifying the sustainability issues that are genuinely relevant to the organization. The most important topics for a sustainable development at SFS are:

- Customer satisfaction
- Value creation and distribution to stakeholders
- Occupational health and safety
- Regular performance and career development reviews
- Programs for skill management and lifelong learning
- Training and education

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

Engineered Components

Position in growth markets strengthened

Thanks to the success of key projects and the acquisition of Stamm and Tegra Medical, the Engineered Components segment greatly expanded its position in the relevant growth markets and increased its profitability.

Key figures Engineered Components

in CHF million

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

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

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

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

Solid growth trends in core business

The Engineered Components segment reported sales of CHF 768.1 million, an increase of 3.8% versus the previous year. Sales of the core business activities, i.e. excluding the trading activities of the Electronics division as well as consolidation and exchange-rate effects, showed an increase of 8.0% on a comparable basis. Stamm AG, a specialist in the field of micro injection moulding was consolidated as

A platform for growth in attractive market segments created

The medical device market is growing rapidly around the globe. As cost pressure in the medical device industry mounts, companies such as Tegra Medical and Stamm can offer customers significant value added benefits due to their profound technology and manufacturing expertise. Like SFS Group, both these firms are trusted development partners that are embedded in their customers' product development process at an early stage; both embrace close and lasting partnerships with customers and set high standards for precision manufacturing of complex components.

Tegra Medical

Tegra Medical develops and manufactures primarily disposable products made of metal and plastic for leading global medical device OEMs. These parts are used in orthopedics, interventional therapies and minimally-invasive surgery. Tegra Medical's product range includes surgical fasteners, stylets and cannulas, implants and instruments. Tegra Medical develops and manufactures products near to key customers located in premier global medtech clusters. Tegra Medical's integration into SFS Group allows it to offer its customers a wider selection of production technologies. Tegra Medical operates independently as the Medical division within the Engineered Components segment.

Stamm

Stamm specializes in developing and manufacturing high-precision small and micro-sized plastic parts for a wide variety of demanding applications. Stamm's customer portfolio largely complements SFS's customer portfolio and provides further access to top-rate companies in the medical device and other industries.

of 1 January 2016. Sales from Tegra Medical, a recently acquired leading development, manufacturing and supply partner for the medical device industry, were consolidated for the first time as of December 2016. The increase in the number of employees in the Engineered Components segment (+10.3%) is mostly due to the acquisition of Tegra Medical.

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

Automotive division

Attractive growth sustained

–

The Automotive division maintained its strong organic growth momentum in 2016 thanks to the successful ramp-up of numerous new products and the backdrop of a good market environment. Trends towards greater comfort, safety and efficiency and, from an overall perspective, towards autonomous driving, are innovation drivers. A particularly promising growth opportunity is the increasing electrification of brake systems. Numerous new projects that were acquired in 2016 and in the previous years are likely to generate further momentum in the coming years. The Automotive division expects to deliver attractive growth in 2017 in particular thanks to specific new projects. The substantial expansion of heat-treating capacity and other capital expenditure projects are necessary to successfully scale-up customer projects and to increase productivity.

Electronics division

Market position in core business expanded

–

2016 was a transitional year for the Electronics division. Although it managed to again increase its market position in its core business, sales were sharply lower in 2016 due to the run-off of trading activities. The Electronics division has successfully implemented measures to lower the negative impact on the development of the EBITA margin. In

2016, major wins were collected from Chinese OEMs in the smartphone business. Besides the steady advancement of its market position, in 2017 the Electronics division will focus on the launch of new products and on leveraging the opportunities offered by cold forming technology.

Industrial division

Good growth in aerospace

–

The Industrial division achieved solid growth in 2016. Once again, aerospace served as the number one growth driver, thanks in large measure to the production ramp-up of the Airbus A350, for which SFS has developed fastening solutions for the cabin interior. Another key growth driver were the activities in the medical device industry. The acquisition of Stamm (see text box page 8) significantly strengthened SFS Group's position in this market by broadening its customer base and expanding its range of technological competencies. Stamm is not part of the newly created Medical division, but potential synergies are being explored and they will be systematically exploited. The focus of the Industrial division in the coming financial year will be on the launch of new products, deepening its business ties with existing customers and on the acquisition of new customers.

Medical division

Share-of-wallet successfully increased

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Sales of Tegra Medical were consolidated for the first time in December 2016. In the past, the Medical division experienced a high growth rate, capitalizing on its close partnerships with leading OEMs in the medical device industry. Tegra Medical collaborates early in the product development cycle to ensure efficient, cost-effective and high quality manufacturing and assembly of the end product at reduced cost and time-to-market for its customers. The Medical division expanded its capabilities in clean-room molding, assembly and packaging, serving as single vendor to its customers and successfully increasing its share-of-wallet. In 2017, through increased automation and efficiency, as well as by expanding its facilities, the Medical division aims to broaden its range of capabilities.

Fastening Systems

Attractive growth achieved with innovative products

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

Key figures Fastening Systems

in CHF million

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

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

² return (EBITA) in % of net operating assets

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

Competitive position further strengthened

Fastening Systems generated sales of CHF 355.6 million in 2016, which represents an increase of 8.8% from the previous year. Thanks to its innovative products, the Fastening Systems segment widened its market share and sharpened its competitive edge. The acquisition of Ncase (consolidation as of 1 July 2016) enhanced the range of products and services on offer. The Fastening Systems segment increased profitability significantly versus the previous year

Ncase

In July 2016 SFS acquired Ncase, which develops, produces and markets high-quality subframes for rain-screen cladding systems under the Nvelope and Kladfix brands. Customers can now turn to a single source for a comprehensive fastening solution for exterior walls – subframes, fastening elements and engineering services.

to 9.0%, which is largely attributable to the good demand for innovative products, economies of scale and numerous optimization projects throughout the supply chain.

Construction division

Innovative products placed in the market

The Construction division managed to gain more market share and thereby strengthen its competitive position. Trends toward greater safety and environmental sustainability formed the basis for market success with innovative products. Moreover, the Construction division profited from good market momentum. Sharpening the production profiles is crucial for raising the bar on operational performance and efficiency, and has already improved the segment's profitability significantly. In 2017, the Construction division will focus on the launch of major product innovations, take advantage of the good market environment and carry out measures to improve its operating performance.

Riveting division

Solid growth achieved

Growth in the second half of the year did not quite reach the reported growth rate from the first half, but the good momentum in the relevant core business activities was sustained. Applications for industrial customers and OEMs in the automotive industry confirmed their role as growth drivers. GESIPA® also documented its leadership in blind rivet setting technology with the launch of its "Flow Drilling Rivet®" technology. In 2017, the Riveting division will concentrate in particular on capturing additional market potential. Attention will also be focused on the successful execution of projects to sharpen the division's production profiles.

Distribution & Logistics

Important projects won thanks to logistics expertise

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

Key figures Distribution & Logistics

in CHF million

	2016	± PY	2015	2014
Third party sales	312.8	1.1%	309.3	319.1
Sales growth comparable ¹		0.9%		
Net sales	318.6	1.2%	314.8	326.0
EBITDA	33.8	27.6%	26.5	33.7
As a % of net sales	10.6		8.4	10.3
EBITA	27.1	44.4%	18.8	26.0
As a % of net sales	8.5		6.0	8.0
Net operating assets	140.3	-7.6%	151.9	146.6
Investments	3.9	143.8%	1.6	4.0
Employees (FTE)	625	-2.8%	643	626
RONOA (%) ²	19.3		12.3	17.7
ROCE (%) ³	19.0		12.5	18.8

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

² return (EBITA) in % of net operating assets

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

Positive results in a demanding market environment

Demand from the construction industry has held steady at a high level, but the repercussions of the strong Swiss franc are still affecting demand from industrial sectors. In this challenging market environment, the Distribution & Logistics segment achieved sales of CHF 312.8 million. Compared to the previous year, this represents an increase

of CHF 3.5 million or 1.1%. Thanks to the broad product range and the segment's strong competencies in C class logistics ("M2M"), several major new projects were acquired in 2016 and reputable names were added to the customer base. At the same time, customer acceptance of its electronic sales channels rose, leading to further growth in its online sales

Healthy level of profitability restored

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

Competitive edge sharpened with M2M

Export-oriented manufacturers in Switzerland need efficiency-enhancing solutions to remain competitive. SFS unimarket offers its partners an optimal solution to meet this challenge with its digitalized warehouse management system "M2M by SFS", which allows the transformation towards Industry 4.0. "M2M" enables its customers to minimize the process costs associated with C class inventory management, while improving parts availability and reducing inventory levels. The "M2M" product range comprises a wide range of new features, such as mobile device connectivity as well as delivery status updates.

The strong competitive standing of the "M2M" products can also be traced to their lower system costs and scalability, which allows the integration of other suppliers into the SFS system. Moreover, through collaboration with capable business partners or networking with SFS sites, internationally active strategic customers can also profit from the advantages the "M2M" system offers on a global scale.

Consolidated balance sheet SFS Group

Assets in CHF million	31.12.2016		31.12.2015	
Cash and cash equivalents	163.8		157.0	
Trade receivables	283.6		243.9	
Other receivables	34.4		29.2	
Inventories	275.1		258.1	
Current assets	756.9	31.1%	688.2	31.7%
Property, plant and equipment	592.1		576.0	
Intangible assets	1,028.4		850.2	
Financial assets	9.4		10.1	
Investments in related entities	26.4		27.1	
Deferred income tax assets	23.6		18.1	
Non-current assets	1,679.9	68.9%	1,481.5	68.3%
Assets	2,436.8	100.0%	2,169.7	100.0%
Liabilities and Equity in CHF million	31.12.2016		31.12.2015	
Trade payables	94.1		77.0	
Current income tax liabilities	25.4		18.4	
Other payables	107.6		93.6	
Current borrowings	27.8		17.2	
Current liabilities	254.9	10.5%	206.2	9.5%
Non-current borrowings	135.5		12.3	
Deferred income tax liabilities	104.9		106.2	
Provisions	81.2		52.4	
Non-current liabilities	321.6	13.2%	170.9	7.9%
Liabilities	576.5	23.7%	377.1	17.4%
Share capital	3.8		3.8	
Reserves	1,846.2		1,780.5	
Equity attributable to SFS	1,850.0	75.9%	1,784.3	82.2%
Non-controlling interests	10.3		8.3	
Total equity	1,860.3	76.3%	1,792.6	82.6%
Liabilities and equity	2,436.8	100.0%	2,169.7	100.0%

Consolidated income statement SFS Group

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

Consolidated statement of comprehensive income SFS Group

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

Consolidated statement of changes in equity SFS Group

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

Consolidated cash flow statement SFS Group

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

Balance sheet SFS Group AG

Assets in CHF million	31.12.2016	31.12.2015
Cash and cash equivalents	14.6	19.3
Other current receivables from Group companies	49.5	52.5
Current assets	64.1	71.8
Financial assets	0.1	0.1
Financial assets from Group companies	738.8	696.8
Shareholdings	90.8	90.8
Non-current assets	829.7	787.7
Assets	893.8	859.5
Liabilities and equity in CHF million		
Interest-bearing borrowings from Group companies	22.6	21.6
Deferred income and accrued expenses	0.7	0.7
Current liabilities	23.3	22.3
Interest-bearing borrowings from Group companies	33.6	14.2
Non-current liabilities	33.6	14.2
Share capital	3.8	3.8
Statutory capital reserves	210.6	266.9
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	345.5	275.3
Total equity	836.9	823.0
Liabilities and equity	893.8	859.5

Income statement SFS Group AG

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

Proposed appropriation of retained earnings and statutory capital reserves

Proposed appropriation of retained earnings

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

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

Proposed appropriation of statutory capital reserves

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

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

Information for shareholders

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

	31.12.2016	31.12.2015	31.12.2014
Number of registered shares	37,500,000	37,500,000	37,500,000
Number of shares ranking for dividend	37,500,000	37,500,000	37,500,000
Weighted average number of shares	37,500,000	37,500,000	35,814,167
Number of shareholders	6'641	6,941	6,778
Stock exchange quotation (in CHF)			
Year high	83.15	79.00	79.30
Year low	60.45	56.90	62.50
Year-end price at	83.10	70.00	79.10
Share key data			
Earnings per share in CHF	3.25	2.78	3.07
Cash earnings per share in CHF	4.59	4.03	4.32
Distribution per share in CHF	1.75	1.50	1.50
Payout ratio in % of consolidated net income	53.7	53.6	51.0
Price/earnings ratio (year-end price)	25.6	25.2	25.8
Cash price/earnings ratio (year-end price)	18.1	17.4	18.3
Market capitalization			
In CHF million (year-end price x number of shares ranking for dividend)	3,116.3	2,625.0	2,966.3
As a % of net sales	216.9	191.4	214.7
As a % of equity	167.5	146.4	164.3

Cash earnings per share is derived from the net income before amortization of intangible assets net of deferred taxes divided by the weighted average number of shares. Cash net income amounts to CHF 172.1 million (PY 151.1).

Agenda

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

Security-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

Annual report 2016

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

Exclusion of liability

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

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