SFS Group AG
Annual report 2018

Inventing success together

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Financial overview

Stable growth

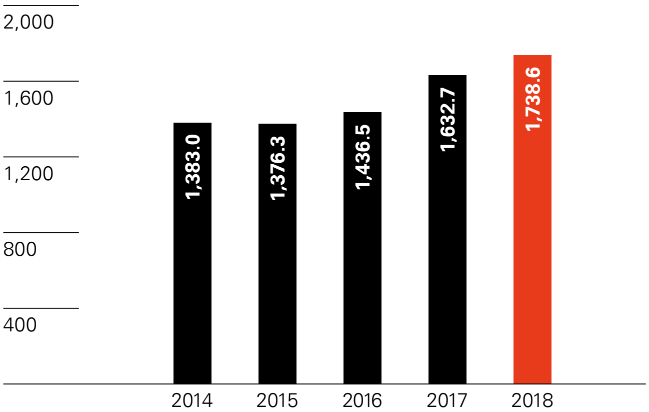
Income statement in CHF million	**2018 audited**	2017 audited	2016 audited	2015 unaudited	2014 unaudited
Third party sales	1,738.6	1,632.7	1,436.5	1,376.3	1,383.0
Change to previous year in %	6.5	13.7	4.4	–0.5	3.9
currency impact	1.4	0.5	0.9	–5.1	–0.9
change in scope	0.8	5.8	1.5	2.1	1.0
organic growth	4.3	7.4	2.0	2.5	3.8
Net sales	1,736.9	1,634.8	1,436.7	1,371.8	1,381.8
EBITDA	332.8	323.5	306.2	253.8	272.9
As a % of net sales	19.2	19.8	21.3	18.5	19.7
Operating profit (EBIT)	243.1	197.7	159.8	111.5	138.0
As a % of net sales	14.0	12.1	11.1	8.1	10.0
Operating profit (EBIT) adjusted[1]	243.1	233.3	210.1	174.3	197.2
As a % of net sales	14.0	14.3	14.6	12.6	14.3
Net income	193.9	159.1	124.8	89.7	106.2
As a % of net sales	11.2	9.7	8.7	6.5	7.7
Balance sheet in CHF million					
Assets	1,619.3	1,519.0	1,469.7	1,437.3	1,520.6
Net cash (+)/-debt (–)	59.1	34.7	0.5	127.5	87.7
Average Capital Employed	1,070.8	927.0	800.0	840.5	810.8
Invested Capital[2]	2,058.2	1,960.9	1,692.2	1,698.4	1,729.7
Equity	1,204.6	1,087.0	987.8	1,126.7	1,125.3
As a % of assets	74.4	71.6	67.2	78.4	74.0
Cash flow statement in CHF million					
Cash flow from operating activities	263.5	226.6	241.5	211.3	199.8
Purchase of property, plant, equipment and software	–149.1	–132.8	–84.6	–90.4	–97.6
Acquisition (–)/Disposal (+) of subsidaries, net of cash	–9.6	–10.2	–250.6	–7.2	–37.9
Employees					
Full-time equivalents (FTE)	10,231	9,478	9,021	8,330	8,688
Financial key ratios (unaudited)					
ROE in % (Return on equity)	17.8	16.1	11.1	8.0	14.5
ROCE in %[3] (Return on capital employed)	22.7	25.9	27.8	20.6	24.3
ROIC in %[4] (Return on invested capital)	9.7	9.5	9.9	7.5	9.4
Share key ratios					
Earnings per share in CHF	5.14	4.24	3.32	2.39	2.97
Payout per share in CHF	2.00[5]	1.90	1.75	1.50	1.50
Payout in CHF million	75.0	71.2	65.6	56.3	56.3
Payout ratio in %	38.7	44.8	52.6	62.7	50.6

[1] Adjusted for amortization customer relationship Unisteel, for book gains on the disposal of non-core assets and other items
[2] Equity before goodwill offset less net cash
[3] EBIT adjusted in % of average capital employed
[4] EBIT adjusted less tax in % of invested capital
[5] Proposed payout to SFS Group’s Annual General Meeting held on 1 May 2019

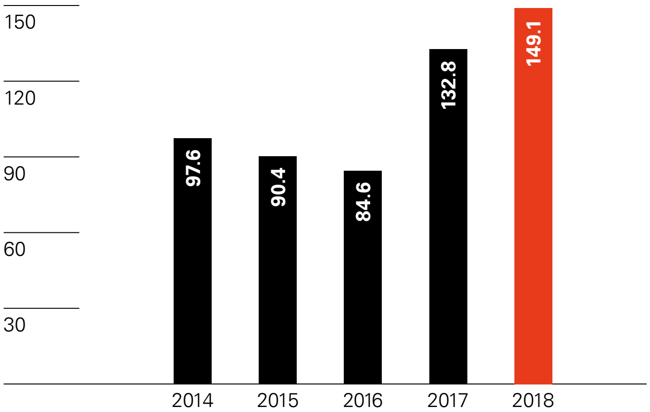
Key takeaways

Broad base

Stable growth development
Gross sales in CHF million



Investment in future growth
in CHF million



Operating profit increased
EBIT margin

14.0%

Operating profit increased to CHF 243.1 million (like-for-like +4.2%). The resulting EBIT margin stands at 14.0%, which is slightly less than the comparable year-ago margin of 14.3%.

Increase in headcount
Employees at year-end (FTE)

10,231

SFS welcomed 753 new employees in 2018. Of these, 363 are new employees in Europe and 344 are new employees in Asia.

Strengthening the global production platform
The extensive projects to sharpen the production profiles have laid an important basis for future increased efficiency:

- Project Rochade: Transfers from Switzerland to other locations of the Construction division in Europe. This creates space to realize future growth for the Automotive division in Switzerland.
- Project Evotion: Location Mörfelden-Walldorf (DE) is now focusing on equipment production, while the Thal (DE) site focuses on the production of fasteners.
- Nantong (CN): The new production platform allows to consolidate locations and technologies and to expand capacities north of Shanghai.

Well-balanced position
Share of sales by end markets

Teaser – success stories

Creating value for the customer

Engineered Components
Tiny parts, huge impact
Page 26

Pushing the boundaries of what's possible: that's exactly what SFS did when it created a miniature 0.5 mm thread-forming screw. In the spirit of "Inventing success together", SFS and Sonova Group created this innovative solution together.

Fastening Systems
A riveting challenge
Page 28

The sophisticated state-of-the art façade system was designed and erected by Roschmann Group. Working in close cooperation with GESIPA®, Roschmann developed an innovative and economical solution for the assembly of the extraordinary mesh-like exterior construction.

Distribution & Logistics
Industry 4.0 Menzi Muck AG
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Menzi Muck AG adopted the innovative M2M ("Machine to Machine") logistics solution in close collaboration with SFS. The result was yet another success story for the company, which was able to cut costs and reduce required storage space to a minimum. And another example of how SFS is "Inventing success together" with its customers.

SFS internal
Higher, faster, further
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The expansion of a site in Hungary with a new 3,000 m² production hall and a modern material flow concept ensures harmonious and efficient production. In addition to time and cost savings, this success story, for inside door opening mechanism modules also impresses with the greatly reduced reject rate achieved with the new assembly system.

Management report

Solid business performance

SFS Group achieved organic growth of 5.0% in its core business for 2018. The attractive sales growth was broadly based in terms of end markets and geographies. The Fastening Systems segment's above-average performance was particularly pleasing. The projects to sharpen the production profiles of our operating sites neared completion in 2018. Operating profit reached 14.0% of net sales and stays with CHF 243.1 million 4.2% above the comparable prior-year figure.


Heinrich Spoerry


Jens Breu

Dear shareholders,

SFS Group achieved solid sales growth of 6.5% in the financial year 2018. Thus, it increased sales to CHF 1,739 million. Sales growth was fuelled by an organic growth of 5.0% in the company's core business. This growth reflects SFS' strong position as a provider of customer-specific solutions in selected niche markets. Growth for the period was broadly based and the Fastening Systems segment showed the strongest development. Second-half growth was weaker than in the first half: this can be traced to a challenging comparison base – sales in the second half of 2017 were strong – and to an unexpected decline in demand during the fourth quarter, in particular from customers in the automotive and electronics industries.

Changes in the scope of consolidation contributed 0.8% to top-line growth and reflect mainly the first-time consolidation of HECO in the second half. Positive currency movements had an effect of 1.4%.

Operating profit increased

Operating profit increased on a comparable basis by 4.2% to CHF 243.1 million. Profitability improved considerably during the second half (EBIT margin 14.4%) compared with the first half (EBIT margin 13.6%). The EBIT margin for the year as a whole stood at 14.0% slightly less than the comparable year-ago margin of 14.3%. This contraction is attributed primarily to sales mix effects arising, for example, from the stronger growth rates of the Fastening Systems and Distribution & Logistics segments, and the strong decline in demand during the final quarter of the year. Reported net profit grew by 21.9% to CHF 193.9 million, which corresponds to 11.2% of net sales.

Broadly based growth
SFS has established a broad, balanced presence in its various geographies and the sales mix in the individual regions showed stable trends. Growth in Europe (+9.6%) stemmed from solid organic growth and positive consolidation and currency effects. The good performance in the Americas (+9.3%) can be traced to strong demand in the construction, industrial and medical device sectors. Sales growth in Switzerland (+3.8%) was fuelled by innovation and promising new customer wins. Due to subdued market demand in the electronics sector, sales rose 1.1% in Asia.

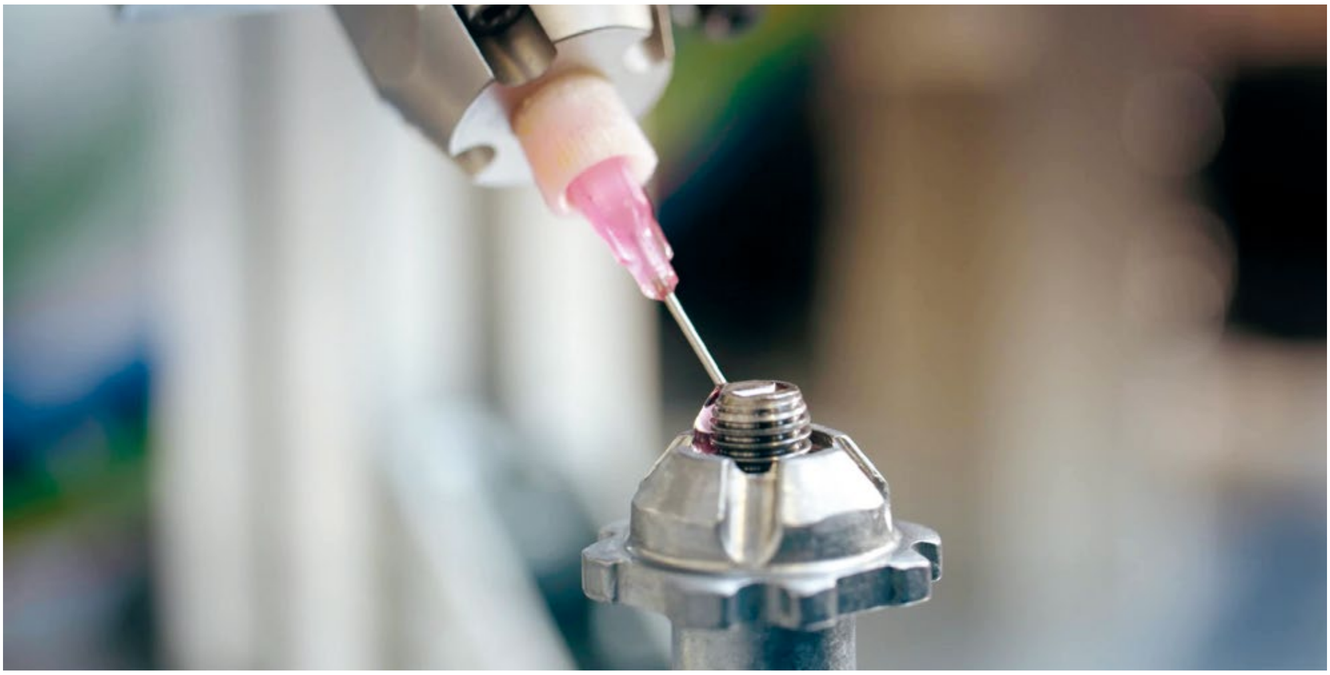
The deliberate focus on different end markets is reflected in the stable sales mix. In the construction sector, SFS further strengthened its market position through the developed market successes and the first-time consolidation of HECO. Sales climbed 11.2% to CHF 459.4 million, which represents 26.5% of consolidated sales. Sales in the medical device industry returned to a pleasing growth trajectory, advancing 9.4% to CHF 113.7 million. This corresponds to 6.5% of Group sales. Sales with customers in the automotive sector grew 6.9% and once again topped the growth rate of the underlying market. Its share of Group sales remained steady at 26.3%. Business with customers in the electrical and electronics industries showed soft development of +2.1% compared to the previous year and achieved a share of 19.7%.

Increase in headcount
SFS Group employed a workforce of 10,231 (full-time equivalents) at the end of 2018 (previous year 9,478). In addition to new hires in response to organic growth (+80 FTE) and the consolidation of HECO (+331 FTE), temporary employees in the Electronics division (+342 FTE) increased the headcount and were included for the first time in the calculation. The average number of FTE over the year stood at 10,025. We are pleased to welcome all these new employees to the SFS family.

Engineered Components

Solid growth generated
The Engineered Components segment (EC) generated sales of CHF 967.0 million despite a challenging market environment. This corresponds to an increase of 4.4% versus the previous year. All divisions contributed to the sales growth, which reflects largely the launch and ramp-up of new projects.

Sales momentum in the EC segment experienced some unexpected weakness in the fourth quarter. Besides a strong comparison base, this can be traced to diverse factors such as delays in the homologation of new engines in the automotive industry, a general market saturation in the smartphone business, and increasing uncertainty among market participants caused by US-China trade tensions. Profitability was



Basis for success are our high application and technology competence.

affected by substantial preparatory expenses for future growth projects and higher raw materials costs, particularly in the first half. After a significant improvement in the second half, the full-year EBIT margin stood at an attractive level of 18.2% (previous year 19.8%, adjusted).

EC maintained its high level of capital investment in project-related plant and equipment and in projects that will fuel its future growth. Capital expenditure for the year amounted to CHF 116.3 million or 12.0% of net segment sales. For the construction of the new manufacturing platform in Nantong (an hour's drive north of Shanghai, China) CHF 30 million have been invested in the year under review.

Fastening Systems

Strong growth achieved

Thanks to its innovative products, the Fastening Systems (FS) segment strengthened its competitive position and captured more market share. Sales grew by 13.8% year-on-year to CHF 437.1 million. The launch of new products was a strong sales driver, with additional support coming from the good market environment. Organic growth amounted to 5.6% year-on-year.

SFS increased its stake in HECO to 51% to further strengthen this strategic partnership. Consequently, HECO has been consolidated by SFS Group since 1 July 2018 and contributed 5.8% to the FS segment's sales growth.

Fastening Systems made considerable progress towards improving its profitability during the period under review. At 9.8% (previous year 7.6%), the segment EBIT margin for the reporting period nearly matched the mid-term target margin of 10%. This margin expansion can be traced to the market success of innovative products and the pass-through of higher raw material costs. Projects to sharpen the production profiles, which still had a negative impact on profitability during the period under review, were almost completed by the end of 2018 as scheduled. They lay the groundwork for a further improvement in the segment's profitability.

Distribution & Logistics

Accelerated growth momentum

Sales in the Distribution & Logistics (D&L) segment rose by 3.6% year-on-year to CHF 334.5 million. Organic sales growth, taking into consideration the divestment of the segment's security systems business, amounted to 5.1%, which clearly exceeds growth rate of Switzerland's gross domestic product (a key benchmark in measurment of the performance of D&L). Tools and the construction-related product groups displayed strong growth.

D&L addresses the varying needs of its customers and sets itself apart in the market by offering customers a choice of sales channels. Besides the renewed and strengthened electronic sales channel (www.sfs.ch), the attractiveness of the 28 retail pick-up points (HandwerkStadt shops) was enhanced.

Profitability improved during the year under review. EBIT rose to CHF 25.8 million, which corresponds to an EBIT margin of 7.6% (previous year 6.9%, adjusted). An increase in procurement costs and a time lag in passing these higher costs through to the customers had a negative impact on profitability in the first half.

Potential risks evaluated

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 likelihood of occurrence and the severity of the potential consequences.

During the year under review potential risks and action to contain these risks were again discussed. This year's risk assessment focused on investment-related risks associated with major projects, cyber security risks, risks associated with acquired companies, warranty risks arising from product recalls, company exposure to the global economic environment, compliance and currency-related risks.

Development and innovation activities intensified

SFS Group's mission is to create value for its customers by providing them innovative products and solutions. To accomplish this goal, SFS Group invests considerable resources in the ongoing development of its core technologies, the launch of new products and systems and continuous process improvement. SFS aims to fully grasp the customer's perspective and identify ways to optimize overall cost. Working closely with our customers, we are often able to enhance the efficiency of their value chains and thereby "invent" mutual success – true to our motto of "Inventing success together".

Expenditure on research and development amounted to CHF 37.9 million in 2018 (previous year CHF 33.8 million) and was expensed in full in the income statement for the period. These investments in the future will improve SFS Group's operating performance and lay the basis for further growth.

Expenditure on property, plant and equipment for the period under review amounted to CHF 149.1 million, or 8.6% of net sales. Much of that was spent on construction of the new production platform in Nantong, China and installation of production capacity for growth projects, particularly in the Automotive and Electronics divisions.

Shareholder payout

In view of the robust earnings, very solid balance sheet and the guardedly optimistic outlook for future business activity, the Board of Directors will propose an increase in the payout to CHF 2.00 per share (previous year: CHF 1.90) at the pending Annual General Meeting. The distribution will include the remaining capital contribution reserves (CHF 1.66 per share) and an ordinary dividend payout (CHF 0.34 per share) from retained earnings. The payout from capital contribution reserves is not subject to withholding or income tax for natural persons whose tax domicile is in Switzerland.

Outlook for financial year 2019

Our focus in 2019 will be on strengthening our position with existing customers and on the selective expansion of our customer base. We also intend to enter new application areas, launch significant new projects and extract greater synergies from the transformational projects currently under way at SFS Group. We expect the market environment in 2019 to be volatile in view of the trade tensions between the US and China and the perceived slowdown in global economic activity. Thanks to our healthy project pipeline, we expect robust sales growth of 3%–5% in 2019, despite the challenging environment. In view of the uncertain economic development, we expect the adjusted EBIT margin within the range of 13%–15% in the fiscal year 2019. Expenditures related to the commissioning of the new manufacturing platform in Nantong will result in one-off costs in the low double-digit millions in 2019. Conversely, accounting gains on the disposal of property are likely to be recognized. These one-time effects are likely to burden reported EBIT in 2019 with a high single-digit to low double-digit million amount.

In memory of Hans Huber

Hans Huber, Honorary Chairman and co-founder of SFS Group, passed away on 5 August 2018. He was a remarkable entrepreneur and served SFS Group and its predecessor organizations from 1949 to 1999, for many of those years as CEO and Chairman of the Board of Directors. Together with his business partners, he built a successful and sound corporate group from modest beginnings. The following section pays tribute to Hans Huber and recaps the milestones and highlights of his many years of active service with SFS Group.

Thank you

A big thank-you goes out to all employees of SFS Group. It is thanks to them that 2018 was another successful year for SFS Group. Employees throughout the company demonstrated high levels of competence, creativity and dedication, and delivered outstanding results. We thank our customers for partnering with us and for their trust in working with us to develop and produce sustainable, value-added solutions. We also thank our loyal shareholders. Their continuing support is important for the stability and sustainability of the company and is very much appreciated.

Heinrich Spoerry Chairman of the Bord of Directors	Jens Breu CEO

SFS

Obituary

On the passing of Hans Huber

Honorary Chairman of SFS Group

An unbeatable career: from apprentice to successful entrepreneur
Hans Huber was born the son of a shoemaker in 1927. He was seven years old when his father died. He grew up in very modest family circumstances and after leaving secondary school took an apprenticeship as an ironmonger with the small hardware store Stadler in Altstätten.

Taking over the first branch opening
While learning his trade, Hans Huber realized the value of the maxim "We serve before we deserve" and that principle accompanied him for the rest of his life. His aim was to be entrepreneurial active as soon as he could. Anna Stadler, who was his master during his apprenticeship, recognized his ability and in 1949 asked him to set up a branch in Heerbrugg. In stages over the following years, Hans Huber acquired shares of this trading business.

In the boom years of the post-war period, shortages in the supply of screws led Hans Huber and Josef Stadler to set up their own manufacturing firm in 1960. This laid the foundations for the establishment of SFS Group as an industrial and technology company.

Sharing the thought of entrepreneurship
True to his guiding principle that "Every employee is an entrepreneur", many of Hans Huber's and Josef Stadler's employees became shareholders in the company as early as the 1960s. This meant that they had an interest in the risks and opportunities of their young company and therefore made every effort to ensure it would succeed.

One achievement in particular is quite remarkable: the group was built up using only self-employed funds, i.e. no external financing was used to increase capitalization until its IPO in 2014. Nevertheless from the second business year onwards, a dividend was always paid. In the current year, Hans Huber's life's work has generated sales of more than CHF 1.7 billion and employs about 10,000 people worldwide.

The success of Hans Huber as an entrepreneur was based firmly on his ability to inspire people to strive for mutual, often visionary objectives. He had an excellent sense of customer requirements and market opportunities. Even after handing over the role of CEO and the mandate of Chairman of the Board of Directors of SFS Group to his successors in 1999, Hans Huber continued his entrepreneurial ways.

Dual education system strongly supported
Based on his own life experience, he had a high regard for promotion of the Swiss dual education system, which combines on-the-job training with formal education. Therefore, he founded the Hans Huber Stiftung in 1997 and supported this charity with considerable funds. One of the early actions of the Hans Huber Stiftung was to make a contribution to raising awareness of the value of this form of vocational education in Switzerland.

Hans Huber remained closely connected with SFS Group as its Honorary Chairman and main shareholder. He followed the development of the company with the greatest interest right up until a few weeks before his death.

With the passing of Hans Huber, the SFS Group has not only lost its co-founder, long-serving CEO, Chairman of the Board of Directors and Honorary Chairman, but also a thoroughly fine and generous person, and a good friend.

Inventing success together

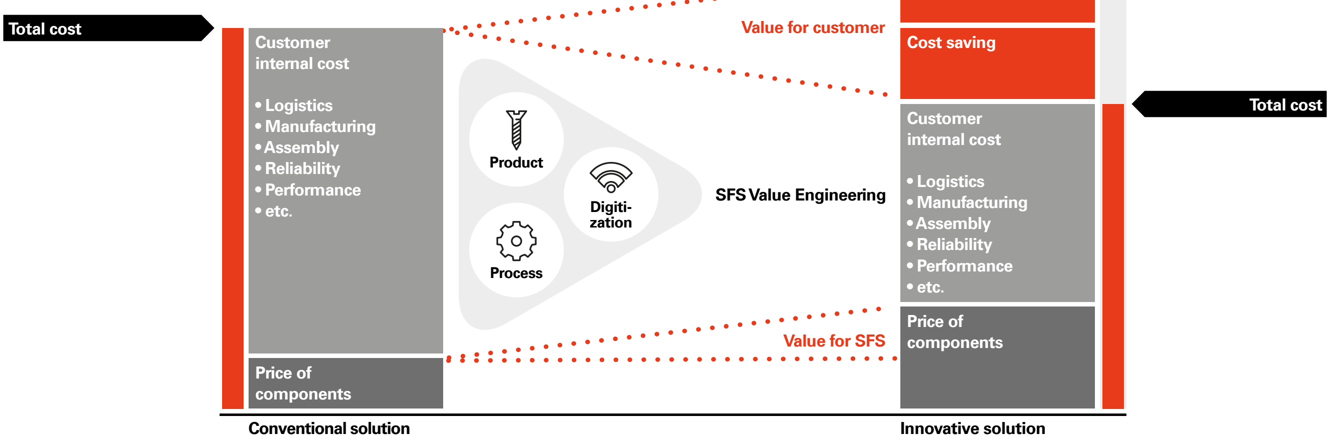
Creating value for the customer and inventing success together in close partnership is our number one goal. We achieve this through our in-depth application and technology skills. Through our SFS Value Engineering, these skills are applied on a daily basis to develop new solutions for our customers.

Surrounded by SFS
SFS is a reliable companion throughout your day, from early in the morning to late at night, seven days a week. Not many people realize this, since our precision components and mechanical fastening systems are embedded in the top-quality products of our customers, where they often perform critical functions.

You first come into contact with SFS products in the morning when you get up, if you use a coffee machine or your smartphone for example. Driving to work, you are surrounded by numerous SFS products embedded in your car's safety systems, ranging from seatbelts and airbags to braking systems. These SFS products help to save lives in an emergency. At work, hard disc drives contain high-precision miniature components made by SFS. The next time you are on board a modern airbus and are surprised at how quiet it is, think of SFS fastening solutions: they reduce cabin vibration and noise significantly. SFS products can also be found in many lifestyle electronics products such as adventure cameras, smart watches and smart home devices. In the health care, our instruments and components such as bone screw fasteners, dental implant fixation solutions and components for surgical instruments help to improve quality of life.

Creating value for the customer
The cost of SFS components embedded into a customer's product often account for less than 1% of the total product cost. But the secondary costs at the customer end arising from procurement, logistics or handling operations can be several times the actual cost of these components. That is why we are not interested primarily in reducing our direct product costs and differentiating ourselves on price – there is just not enough operating leverage. Instead, our main goal is to optimize the overall product-related costs of our customers, as shown in the "value proposition" graph below. This approach generates significantly more cost-savings potential and allows us to create true value for our customers.

Value proposition of SFS Group



Our value engineering model focuses on product design, the fastening processes and workflows, and on data aggregation and mining. The result: customer-specific products and intelligent solutions that give our customers a competitive edge. Thus, the developed SFS solutions lead to greater differentiation and stronger collaborative partnerships. Our aim of continuous improvement as we seek to create value for the customer can be achieved only with a strong work ethic: an unwavering commitment by the SFS Value Engineers to "invent success together." That is our corporate DNA.

Brand values defined
The SFS brand reflects smart, dedicated and inventive qualities. These values define the company's beliefs, how it conducts itself and what it stands for. They make our corporate culture an integral part of our business practices and our internal and external communications. Our brand values also ensure stability, consistency and continuity in everything we do. By living our declared commitments and values, we strengthen and broaden SFS' leadership position in the global market.

The company's visual identity reflects these values and makes the SFS brand visible and more tangible for employees, customers and the general public.

Brand essence defined
Our brand's essence – "Inventing success together" was derived from the defined brand values. It is an abbreviated mission statement that sums up the SFS brand personality. More than anything else, "Inventing success together" stands for the close collaboration that distinguishes our relationships with customers, colleagues and our suppliers. It is only through close collaboration that we can explore and push back the boundaries of what's technically feasible. Such collaboration results in optimal, customized solutions that create lasting value for both the customer and SFS.

Brand structure simplified
The latest realignment of our branding strategy also entailed a simplification of the brand structure. The SFS intec and SFS unimarket brands were replaced with the brand SFS. This brand consolidation makes our communications much more effective and efficient. The SFS brand is more distinctive and permits even better competitive differentiation of our services and solutions. The consolidation of our brands is reflected in our new corporate design.

Brands such as GESIPA®, Unisteel, Tegra Medical and Indo Schöttle will continue to be used. Their strategic and cultural association with SFS is emphasized with the tagline "A member of SFS".

Transformation process largely completed
Top performance is impossible without an unerring focus and in keeping with this maxim, we have numerous transformative projects largely completed at our production sites. By sharpening our production profile to leverage the specific competitive advantages each site offers, we have improved overall plant performance and laid the foundation for the realization of further economies of scale. After more than two years of intense effort, these projects are largely completed. The entire organization stands to benefit from them.

SFS in brief

SFS is a leading global provider 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 (EC), SFS partners with customers to develop and manufacture customer-specific precision components, mechanical fastening solutions and assemblies. This segment comprises the Automotive, Electronics, Industrial and Medical divisions, and it sells its products and services under the SFS (Automotive, Industrial), Unisteel (Electronics) and Tegra Medical (Medical) brands.

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

Distribution & Logistics
In the Distribution & Logistics (D&L) segment, SFS positions itself as the leading sales and logistics partner for C-parts, tools and fasteners for manufacturers, the skilled trades, speciality retailers and other customers in Switzerland. The segment also offers customized logistics solutions that significantly improve the competitiveness of its customers.

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 1'739 million in financial year 2018 with a workforce of approximately 10,000 (FTE).

Global manufacturing platform expanded
The financial year 2018 was distinguished by significant investment in our future growth. These investments aim at ramping up production activities for major new projects over the next few months and years, realizing the necessary cost-savings potential and achieving lasting productivity gains. SFS Group's largest and most far-reaching capital expenditure project is in Nantong, north of Shanghai (China) and nearing completion. During spring of this year, the first of several building complexes will become operational. Over the next two years, in close coordination with our customers all production activities at SFS Group's four manufacturing sites currently in operation in the Shanghai megapolis will be transferred to this new site in Nantong and production will be ramped-up. The new location will ultimately be SFS Group's second largest site after its Heerbrugg headquarters (Switzerland). All manufacturing technologies, that are relevant for the Chinese market, will eventually be available at the Nantong site. This significant enlargement of the Group's manufacturing platform represents a milestone in the development of the Electronics and Automotive division's business activities.

Using the digital revolution
The digital revolution is one of the key mega trends that SFS is strategically addressing with products from every segment (EC, FS and D&L). This strategic positioning entails proprietary digital solutions (e.g. e-commerce platform) and smart tools (e.g. the iBird device from GESIPA®). The product portfolio is complemented by precision parts that facilitate the autonomous driving and smart home systems. Additionally, we use the powers of digitization to improve the entire value chain of our customers; for example, through advanced logistics solutions (M2M).

Profiting from economic globalization
Economic globalization is another mega-trend. Thanks to its global network of manufacturing sites, SFS is strategically well positioned for this trend in terms of its production and services capabilities, with operations at more than 80 locations around the world. A global footprint allows us to manage and execute projects worldwide as a local partner, which international customers in particular appreciate.

Taking advantage of demographic change
Another mega trend is the ongoing change in consumer behavior pushed forward by demographic trends. Good health and wellness are becoming increasingly important themes. The Medical division offers innovative and future-ready product solutions for this trend that meet these needs precisely. Its large product portfolio includes medical instruments and components for a variety of medical and dental applications. Growing cost pressure is further accelerating outsourcing rates by OEMs. As a value engineering specialist with years of experience in the industrialization of products, SFS has proven time and again that it can create substantial value added for its customers.

Generating growth through innovation
Innovation and the continuous quest for improvement are integral elements of SFS' corporate DNA. Innovation is often pushed forward by changes in the market landscape attributable, for example, to societal change or to demands for greater efficiency. SFS therefore attaches great importance to maintaining a close relationship with its customers in all its targeted markets and acting as a trusted innovation partner during the early stages of a project. SFS has an extremely robust innovation and new project pipeline that actually grew stronger during the year under review. We aim to grow our sales in the coming years at a much faster rate than the projected growth of the world economy by virtue of our international manufacturing footprint, our focus on fast-growing markets, our close partnerships with the leaders in these markets and our strong innovation skills.

Growth through acquisitions
Besides organic growth, acquisitions are also important for the ongoing development of SFS Group. Selective acquisitions give us access to new markets, customers and applications, which in turn lays the groundwork for our future organic growth. The acquisition of large companies is not our primary objective. Instead, we focus on the performance-enhancing aspects of a potential takeover candidate and are thus attracted to well-positioned, well-managed small to mid-sized companies that do business with blue-chip customers, have an attractive range of products and which are highly profitable.

Strategic priorities in 2019

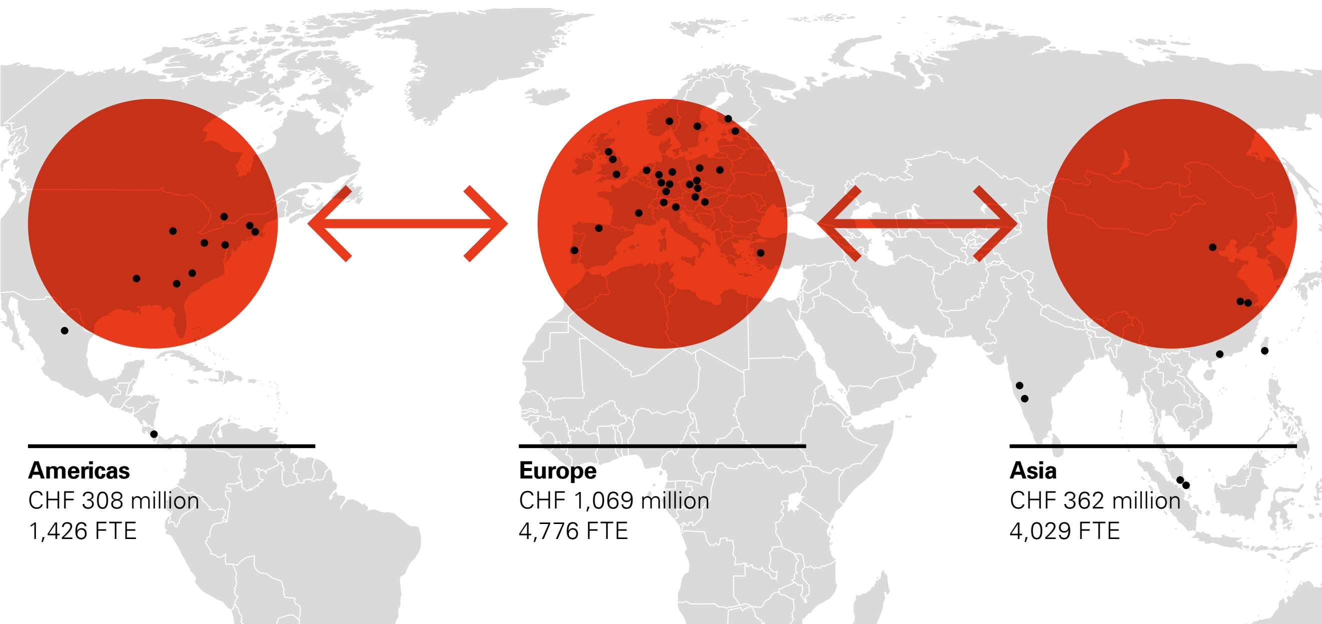
- Continued selective investment in future growth projects
- Gradual ramp-up of production at the new site in Nantong
- Further development and increase of the innovation rate in the identified mega trends
- Strengthened position with existing customers by a focus on their needs
- Selective broadening of our customer base and entry into new niche markets
- Successful launch of various new product ramp-up's
- Greater exploitation of technology synergies
- Prudent management of the cost base to sustain high profitability

Tense trade relations identified as a risk factor
Political developments around the world became more erratic last year. Nationalistic trends have taken root in many countries. A more confrontational attitude on international trade is being viewed increasingly as a risk factor. The potential consequences of rising trade tensions can not be predicted with any accuracy. We are preparing for a further increase in uncertainty on the political and economic fronts during the coming months. Growing uncertainty is likely to make global economic activity more volatile.

Close customer relationships a competitive advantage
Despite these challenges, SFS offers a guardedly optimistic view of the future. As a value engineering specialist that creates lasting value for its customers, often in selective niche application where we provide critical precision-made products, we pride ourselves on our long-standing close ties with customers. They fuel our innovation and internationalization efforts and are reflected in our global presence. Standardized manufacturing capacity makes us highly flexible – a quality that can quickly become a critical competitive advantage in a worst-case scenario.

For example, we are scrutinizing scenarios in which supply chains for the electronics industry could be shifted to locations outside China and have discussed these possibilities with our customers. SFS already has alternative production platforms thanks to its established sites in Malaysia and India. Our strong footing in various niche applications puts us in a good position to cushion the impact of negative developments in any one market.

Strengthening our profitability
SFS is pleased with its good profitability. We view a healthy level of profitability as confirmation that we are pursuing the right market strategy and successfully delivering on our value proposition of "Inventing success together." Good profitability is the cornerstone of a solid balance sheet and guarantees our long-term entrepreneurial freedom. We aim to further improve our EBIT margin and our return on equity over the medium term. Above-average growth in profitable business areas, further improvements to our operating performance, and the successful realization of innovative products will help us to achieve this goal.



SFS is strategically well positioned with the global manufacturing platform and therefore is in a position to serve our international customers locally and to realize their projects.

Markets

Strong position

SFS continues to expand its position in key application areas. Broad sales growth led to a robust sales mix in terms of regions and end markets.

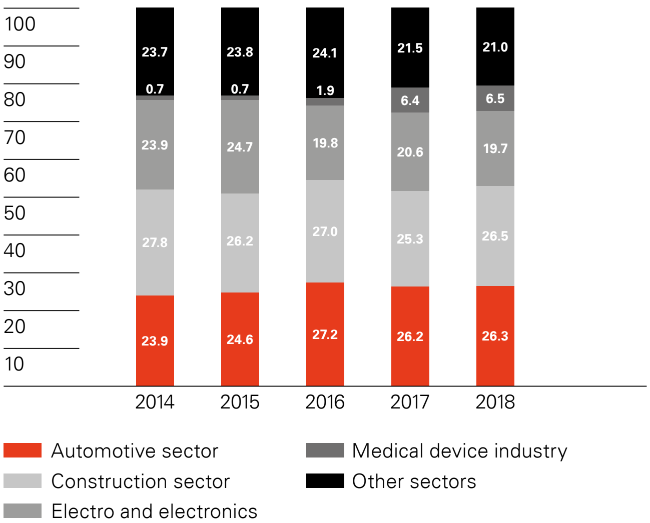
Development by end market

Market position in construction sector strengthened
Amid a positive market environment, SFS strengthened its position thanks to the success of innovative products and the first-time consolidation of HECO (Ludwig Hettich Holding GmbH & Co. KG). Trends towards more safety, energy efficiency, aesthetics and individualization are particularly important drivers of innovation for the Construction division. The divisions Riveting and D&L also expanded their market share in their construction-related business. Sales grew by 11.2% and accounted for 26.5% of total SFS Group sales.

Sustained strong momentum in the automotive sector
The automotive sector's good growth momentum over the past several years remained intact during 2018. Sales rose by 6.9% and accounted for 26.3% of consolidated sales. Vehicle electrification is driving sales growth in the Automotive division and creating new application areas for SFS, such as autonomous driving with components for the electronic driving brake and development of camera housings for sensors. Other promising innovations are in the pipeline. Judging by the stable innovation trends and the projects in the pipeline, we expect this growth trend to continue.

Medical device industry back on growth track
In the medical devices market, which contributed 6.5% of consolidated sales, SFS gained momentum as the year progressed and increased its sales in this business by 9.4%. Sales in minimally invasive and neurosurgical applications were particularly animated. At the same time, the project pipeline was developed steadily and solid sales growth in 2019 is expected.

Share of sales by end markets 2014–2018
in %



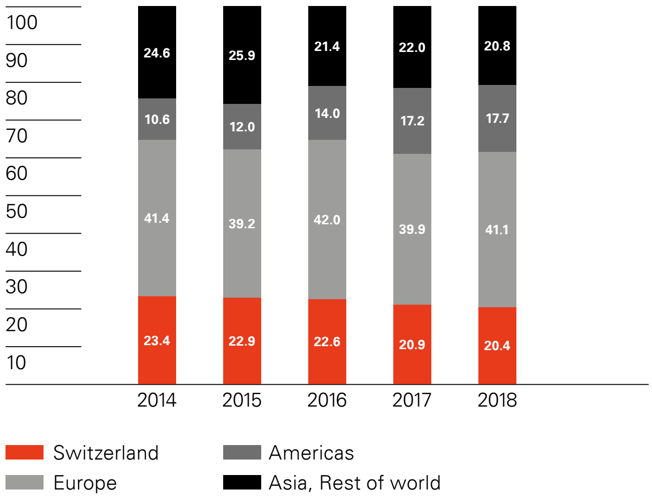
Development by region

Stable regional sales trends
SFS is broadly-based in terms of both end markets and geographies. Sales were stable across its various regional markets compared with the previous year.

Positive trend in Europe and Switzerland
Supported by a year-on-year increase in sales of 9.6%, Europe's share of total Group sales rose to 41.1%. In addition to solid organic growth, this pleasing result is made up of positive consolidation and currency effects. The first-time consolidation of HECO added 3.2% to this pleasing development in Europe. In Switzerland, the positive trend of 3.8% is due to innovations and promising new customers.

Americas' share of sales grew
The market successes in the construction, industrial and medical sectors were the sales drivers in the Americas. Sales grew by 9.3% and reached a sales share of 17.7%. In a demanding market environment, SFS succeeded in setting benchmark accents for domestic and foreign competitors, through winning significant projects in key accounts.

Share of sales by region 2014–2018
in %



Worldwide sales offices and production sites

An extensive distribution and production network across Americas, 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.

Segment reports – Engineered Components

Solid growth momentum

The Engineered Components segment generated organic growth of 3.2% amid a challenging market environment. All divisions contributed to this growth, which was largely driven by the launch and ramp-up of new projects.

Growth at all four divisions

The Engineered Components segment recorded sales of CHF 967.0 million in 2018, which represents an increase of 4.4% versus the previous year. All divisions contributed to this growth. Sales momentum weakened particularly in the fourth quarter, compared with the prior-year period.

This can be traced to, inter alia delays in the homologation of new engines in the automotive industry, a general market saturation in the smartphone business and an increasing uncertainty among market participants caused by US-China trade tensions.

Sales in the aircraft business at the Industrial division remained slow and fell short of the prior-year level due to low demand for the Airbus A380 and a flatter than expected production ramp-up for the Airbus A350. The Medical division, meanwhile, returned to the growth track as anticipated and displayed growing momentum.

Currency translation had a declining effect as the year progressed and contributed 1.3% to reported sales growth, while changes in the scope of consolidation were marginal at -0.1%. Organic sales growth of 4.4% in the core business was generated primarily by the launch and ramp-up of various new projects.

Attractive profitability confirmed

Profitability was burdened in the first half by increased raw material costs and high advance payments in new projects. These two negative factors had less of an impact in the second half. The cost increases were passed through to customers and successful innovations led to first serial deliveries to customers. Receding sales momentum during the second half held back the expected increase in profitability. EBIT for the period under review amounted to CHF 176.6 million, which fell short of the adjusted prior-year level (CHF 185.7 million), but the resulting EBIT margin of 18.2% remained attractive compared with industrial sector benchmarks.

Key figures Engineered Components
in CHF million

	2018	+/– PY	2017	2016
Third party sales	967.0	4.4%	925.8	768.1
Sales growth comparable		3.2%		
Net sales	972.5	3.7%	938.2	781.5
EBITDA	234.8	–3.5%	243.3	218.9
As a % of net sales	24.1		25.9	28.0
Operating profit (EBIT)	176.6	21.0%	145.9	105.0
As a % of net sales	18.2		15.6	13.4
Operating profit (EBIT) adjusted[1]	176.6	–4.9%	185.7	164.8
As a % of net sales	18.2		19.8	21.1
Average Capital Employed	652.1	9.6%	595.1	569.2
Investments	116.3	44.9%	80.3	48.2
Employees (FTE)	6,977	7.5%	6,492	6,217
ROCE (%)[2]	27.1		31.2	28.9

[1] Adjusted for amortization customer relationship Unisteel
[2] EBIT adjusted in % of average capital employed

The growth of the Automotive division is strongly based on the launch and ramp-up of innovative customer projects.

Investment activities continued
Engineered Components maintained its high level of investments in project-specific plant and equipment and in projects that will fuel its future growth. Capital expenditure for the year amounted to CHF 116.3 million or 12% of segment sales. Construction of the new production platform in Nantong (north of Shanghai, China) remains on schedule and contributed in the year under review about a quarter of total capex, at CHF 30 million. Production at the new site is scheduled to commence during the spring of 2019. After the completion of this major project, the segment's investment activity will be scaled back to a lower level in 2019.

Automotive division

Growth course continued
Growth in the Automotive division was fueled by the launch and ramp-up of innovative customer projects. Although strong growth was recorded during the first half, growth momentum slowed down during the second half and in particular during the fourth quarter. Sales trends reflected both the strong Swiss franc and the introduction of a new pan-European test cycle ("Worldwide harmonized Light vehicles Test Procedure", WLTP). The Automotive division also observed a decline in demand in China due to the country's ongoing trade tensions with the US.

Growing faster than the market
Despite the slower pace of growth during the second half, the Automotive division again grew much faster than the market. The trend is towards more comfort, improved safety and increased efficiency, and thus more importantly, the electrification of vehicles. Autonomous driving is an important growth driver and the Automotive division is benefiting from it. These innovative trends are increasing the division's market penetration rates, and as a consequence its shipment volumes of previously launched product solutions are growing as well. Furthermore, new projects are being launched to develop the next generation of products.

Innovation skills enhanced
The acquisition of new projects underlines the high competitiveness of the Automotive division. SFS' manufacturing platform around the world is a major factor in its competitiveness. This creates the opportunity to realize new projects or follow-up projects at different locations, and to supply international customers locally with the required identical components. Another decisive factor when it comes to the acquisition of new projects is SFS' proven innovation capability, which rests on its impressive manufacturing technology expertise and specific application knowledge. Customers clearly appreciate this and SFS was pleased to receive Bosch's "Crazy for SuCCess" award for the second time in the short history of this award,

Adjustment for plant layout is planed
The relocation of Construction division production capacity at the Heerbrugg (Switzerland) site to foreign sites over the past 18 months has freed up some floorspace that the Automotive division will use to pursue its growth strategy. Numerous adjustments will be made to the plant's layout until the end of 2020. This will require additional costs initially, but lead to significant efficiency and productivity gains in the medium term.

Positive outlook expected
In view of the pending production ramp-up of new projects, the Automotive division expects to generate renewed growth in 2019, although the overall market is expected to be flat.

SFS

Electronics division

Slight sales increase achieved
The Electronics division achieved soft sales growth in 2018 and strengthened its market position in the mobile devices business. In 2018, Electronics once again demonstrated its distinctive ability to ramp up production of new products (time-to-volume) in the shortest time possible. Its growth momentum eased somewhat during the last quarter in the wake of decreasing market momentum.

Customer relationships broadened
In the Lifestyle Electronics business (smart watches and smart home applications), the Electronics division's Unisteel brand enjoyed a string of successes. It steadily expanded its customer portfolio, acquired innovative new projects and confirmed its critical role as a development partner. The hard disk drive business continued to grow despite the ongoing decline in total addressable market. Thanks to its high reliability and stringent quality standards, the division was able to grow its share of content and broaden its supply spectrum: for example, it succeeded in expanding its manufacturing contract with a key account to include precision plastic components.

Successfully entered new application area
The Electronics division made substantial preparatory investment in connection with a new targeted application area. Initial sales from this project were recorded during the second half of the year, in line with the original project plan. The precision parts are manufactured by cold forming, a manufacturing technology that is not yet widely used in the electronics industry. Through this project, the division also broadened its machine tool development and manufacturing knowledge. The launch of these new products marked another milestone in the positioning of Unisteel as a trusted partner in the development of precision components for the electronics industry. Unisteel celebrated its 30th corporate anniversary this year, and the evolution of its services and products over the years closely resembles that of the entire SFS Group. Originally operating as a distributor, it became a manufacturer of mechanical fastening systems and is now a trusted engineering partner for precision parts, backed by high technology competence and application knowledge.

Manufacturing technologies united under one roof
Construction of the new manufacturing platform in Nantong (north of Shanghai, China) is on schedule. Various sites in the Shanghai area will be progressively relocated to this new site. On completion, it will be SFS Group's second-largest site. All SFS' major manufacturing technologies will be available at this one location. This is an important precondition to ensure the continuing successful development of the Electronics division's business activities as well as that of the other divisions of SFS Group (amongst others division Automotive). Manufacturing operations at the new site will gradually commence in the first half of 2019.

Nantong – One site, multiple technologies

- Manufacturing platform in Nantong, north of Shanghai
- Total investment volume > CHF 40 million
- Start of production in spring of 2019
- Production and office space 77,000 m^2 (> 800,000 sq. ft.)
- Center of competence for manufacturing mechanical precision components
- SFS Group's second-largest site

Good outlook forecasted
The basic outlook for 2019 is positive: the Electronics division expects increased sales growth in the second half of the year, particularly with the planned ramp-up of new product applications. Sales in the hard disk drive business are expected to decline due to a continued contraction in market demand. Non-recurring expenses for product transfers to the new manufacturing site in Nantong will have a material effect on divisional profits.

Industrial division

Stable development achieved
The Industrial division experienced stable sales trends compared with the previous year. The various industries served by the division showed mixed trends.

Success with new projects realized
The division's fasteners for cutting tools sold well as did several of its micro-molding solutions, but the aircraft business stagnated due to lower demand for the Airbus A380 and a flatter than expected production ramp-up for the Airbus A350. However, there have been signs of a change in trend. The division was also successful in acquiring new projects and it continued to upgrade its manufacturing activities at Heerbrugg, Switzerland over the course of the year.

Expansion planed
Sales in 2019 are expected to be slightly higher thanks to the attractive project pipeline and higher order backlog in the aircraft business. In connection with pending growth projects, it is planed to expand the Stamm's site in Hallau (Switzerland) in 2019 and 2020.

Medical division

Growth dynamic strenghtened
The Medical division is back on a growth track. Its growth momentum improved over the course of the year. Standardized manufacturing platforms are a competitive advantage for this division, wich are located in the US and Costa Rica. There they operate as local suppliers to leading clusters of the medtech industry.

Project pipeline further strengthened
Business of products used in minimally invasive and neurosurgical applications continued to grow. The Medical division demonstrated its expertise in manufacturing hybrid parts made of plastic and metal. However, some delays were experienced at the customer end during the production ramp-up of certain projects for orthopaedic applications. The launch of numerous new projects and the associated initial launch expenses had a negative effect on divisional profitability. Overall the Medical division's project pipeline continued to grow.

Productivity gains still targeted
In view of the growing project pipeline, the Medical division expects to deliver solid growth in 2019. Targeted investments will be made in connection with these growth projects. These and other measures will boost automation and efficiency.

Enhanced capabilities of efficiency in the Medical division by commissioning another clean room in Costa Rica.

SFS

Segment reports – Fastening Systems

Important progress made

The Fastening Systems segment's successful business trends from the prior year continued in 2018. Growth accelerated and profitability clearly improved amid a challenging market environment.

Strong sales growth realized
Thanks to its innovative products, the Fastening Systems segment strengthened its competitive position and captured more market share. Sales grew by 13.8% to CHF 437.1 million. New product launches fueled much of this sales growth, with additional support coming from the good market environment. Organic sales growth for the period amounted to 5.6%. Currency effects and changes in the scope of consolidation contributed 2.4% and 5.8% respectively to the reported top-line growth rate.

Profitability increased
Fastening Systems made considerable progress towards improving its profitability during the period under review. At 9.8% (previous year 7.6%), the EBIT margin almost achieved the medium-term target of 10%. This improvement can be traced to the market success of innovative products, the pass-through of higher raw material costs and the first success of projects implemented to sharpen the production profiles. These effects will continue to have a positive impact on profit margins.

Sharpening of production profiles completed
Major projects designed to sharpen the production site profiles have laid a sound foundation for future productivity gains. The Rochade project (Construction division) had been completed to a large extent by the end of 2018. The objective of this project was to transfer production operations with lower levels of knowledge and capital intensity, and processes that are difficult to automate to SFS sites outside of Switzerland.

The Evotion Project (Riveting division) was also completed by the end of 2018. Two of the Riveting division's most important sites in Germany, Mörfelden-Walldorf and Thal, were reconfigured in this context. The Mörfelden-Walldorf site is now focused on the manufacture of rivet setting tools, while the production of fasteners will be concentrated at the significantly expanded site in Thal. This greater emphasis on

Key figures Fastening Systems
in CHF million

	2018	+/– Vj.	2017	2016
Third party sales	437.1	13.8%	384.0	355.6
Sales growth comparable		5.6%		
Net sales	452.4	12.8%	401.0	370.8
EBITDA	63.2	34.2%	47.1	49.5
As a % of net sales	14.0		11.7	13.3
Operating profit (EBIT)	44.2	45.1%	30.4	33.2
As a % of net sales	9.8		7.6	9.0
Average Capital Employed	273.6	18.3%	231.2	210.2
Investments	16.5	–46.1%	30.6	27.2
Employees (FTE)	2,267	13.8%	1,992	1,885
ROCE (%)[1]	16.1		13.2	15.8

[1] EBIT in % of average capital employed

To further strengthen the strategic partnership, SFS increased its stake in HECO, the specialist for structural timber work construction, to 51%.

production site specialization with the required critical size will increase efficiency gains in the future and thus help to improve profitability.

Construction division

Market position strengthened
The Construction division again generated good sales growth. Amid a supportive market environment, it widened its share of the market thanks to the success of its innovative products, systems and services. Trends towards more safety, energy efficiency, aesthetics and individualization are key innovation triggers for the Construction division.

Success regionally anchored
The positive results reported by the Construction division were broadly based in terms of regions and product groups, with major successes achieved in both North America and Europe. The concentration of screw production and custom assembly in Europe has been largely completed, this will bring economies of scale and a stronger focus in the future. In North America, market entry of substructures for high-quality facades has been successful.

Interest in HECO unleashed growth and synergy potential
In August of 2015, HECO and SFS established a close strategic alliance. SFS acquired a minority interest of 30% in HECO as part of this alliance and subsequently increased this interest to 51% as of July 2018. Both companies are active in the structural timber work market and have built strong reputations for quality and innovation. By combining their largely complementary product portfolios, the two partners can offer customers a wider range of products and services. This broad market coverage is provided by two distribution channels: the wholesale channel for the HECO brand and the direct sales channel for the SFS brand. Merger of the production of wood screws leads to great synergies. Thanks to the increase in SFS' stake to 51%, the growth and synergy potential, as well as the core competencies of each partner, are now exploited even more effectively.

Declining demand from Turkey
The difficult economic environment in Turkey has had an impact on SFS' sales site in the country, with local demand from Turkish customers declining. The freed-up production capacities have since been used increasingly for products for export to SFS companies, which has compensated for the decline in domestic demand.

Positive development expected
The outlook for 2019 is cautiously positive. The division expects positive sales growth amid a stable market environment.


Estudio Herreros/Kultur og idrettsbygg, Oslo kommune, Norway

Munch Museum – Innovative façade substructure

- The new building for the Munch Museum in Oslo, dedicated to the world-famous Norwegian painter Edvard Munch, is due to open its doors in June 2020. Munch bequeathed all the works that were still in his possession to the city of Oslo: the donation included more than 28,000 paintings, sketches, photographs and sculptures.
- The new building has been designed by the Spanish architect Juan Herreros, and the design with its predominantly glass façade is intended to integrate the surrounding fjord landscape into the interior areas.
- SFS has supplied the façade substructure and the required fasteners. The technical competence, high-quality products, on-site training and high availability made the difference in favor of SFS.

SFS

Riveting division

Growth broadly based
The Riveting division reported solid sales and higher profits amid a healthy market environment. Growth was broadly based: several European markets and China displayed positive trends, while the division's GESIPA® brand delivered good results in various application areas.

Broad market spectrum covered
The division's success in innovative products is an important support of its sales growth. The electrification of industrial assembly lines and 100% monitoring of setting processes are game-changing market trends. New product launches such as the iBird® Pro, a rivet setting tool that can be connected to smartphones, tablets or computers using an app, have created future growth potential. Another example is the new FDR® (Flow Drilling Rivet) blind rivet. The division Riveting offers a comprehensive range of rivet setting products, from hand tools and networked cordless devices to fully automated solutions with process monitoring and control functionality, all from a single source.

Site in China excelled
The operational challenges that arose in connection with the consolidation of two locations in the US, and which had a detrimental impact on 2017 results, were resolved largely during the period under review. Meanwhile, the factory in Nansha (China) performed very well, doubling its sales output from the previous year and topping expectations.

Solid business trends expected
Looking ahead to 2019, the division expects solid sales trends amid a cautiously positive market environment.

iBird® Pro – Smart and digitally connected

The iBird® Pro is a networkable, cordless rivet setting device that can be connected to smartphones, tablets or a customer's IT infrastructure via a free GESIPA® app using a Wi-Fi or Bluetooth connection.

Facts und Figures
- Connectable to smartphones, tablets or computers using an app
- Software-based setting process assistant for rivet setting processes
- Device controls, user-friendly and provides information in real-time (operating state, counter, etc.)
- Monitoring and control of riveting process, process safety, status and service display

Segment reports – Distribution & Logistics

Accelerated growth

The Distribution & Logistics (D&L) segment showed attractive sales trends. Primary sales drivers were the new online shop (www.sfs.ch) and the tools business. Profitability also showed a positive development.

Attractive growth achieved

Sales rose by 3.6% from the prior year to CHF 334.5 million. Taking the divestment of the security systems business into account, organic growth was at 5.1%, well above the increase in Switzerland's gross domestic product, which serves as an important reference for assessment of development of the D&L segment. In particular, the tools business and construction-related product areas achieved strong growth. Sales activity in the second half was slightly weaker compared with the first half of the year. In addition to softer demand, this slight decline can be traced to the divestment of the D&L segment's security systems business in the first half of 2018.

Multi-channel activities strengthened

D&L addresses the varying needs of its customers and establishes a distinct profile in the market by offering a choice of sales channels. During the period under review, D&L strengthened its presence and activities in the online sales channel. In February 2018, it launched the new online store (www.sfs.biz). With this website, SFS offers professionals in the construction, industrial and skilled trades sectors a modern and user-friendly platform. The new online store was eagerly welcomed by established and new customers and delivered some pleasing growth.

Besides the digital sales channel, the segment's network of retail pick-up points was improved with the inauguration of a new HandwerkStadt store (retail shop) in Zurich-Altstetten and a new modern corporate design in line with the renovation of several other pick-up points. The now 28 pick-up points were also integrated into the online offering: for example, express orders placed online can be picked up at the chosen pick-up point within two hours.

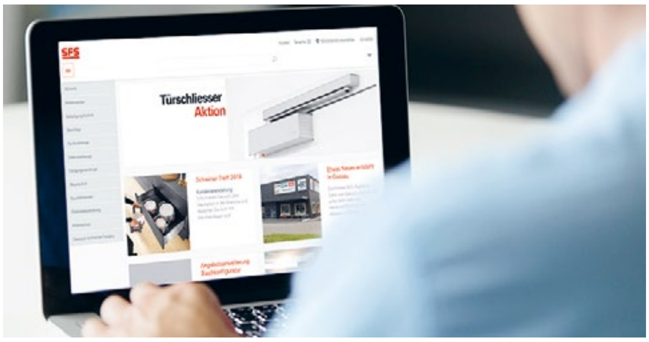
Profitability increased

Profitability improved during the year under review. EBIT rose to CHF 25.8 million, which corresponds to an EBIT margin of 7.6% (previous year 6.9%, adjusted). An increase in procurement costs and a time lag in passing these higher costs

Key figures Distribution & Logistics
in CHF million

	2018	+/– Vj.	2017	2016
Third party sales	334.5	3.6%	322.9	312.8
Sales growth comparable		5.1%		
Net sales	339.7	3.3%	328.9	318.6
EBITDA	31.7	–11.4%	35.8	33.8
As a % of net sales	9.3		10.9	10.6
Operating profit (EBIT)	25.8	–13.9%	29.9	27.0
As a % of net sales	7.6		9.1	8.5
Operating profit (EBIT) adjusted[1]	25.8	13.9%	22.6	22.8
As a % of net sales	7.6		6.9	7.2
Average Capital Employed	142.2	0.9%	140.8	142.7
Investments	6.2	–39.9%	10.4	3.9
Employees (FTE)	621	–5.2%	655	625
ROCE (%)[2]	18.1		16.1	18.9

[1] Adjusted for book gains on the disposal of non-core assets and other items
[2] EBIT adjusted in % of average capital employed



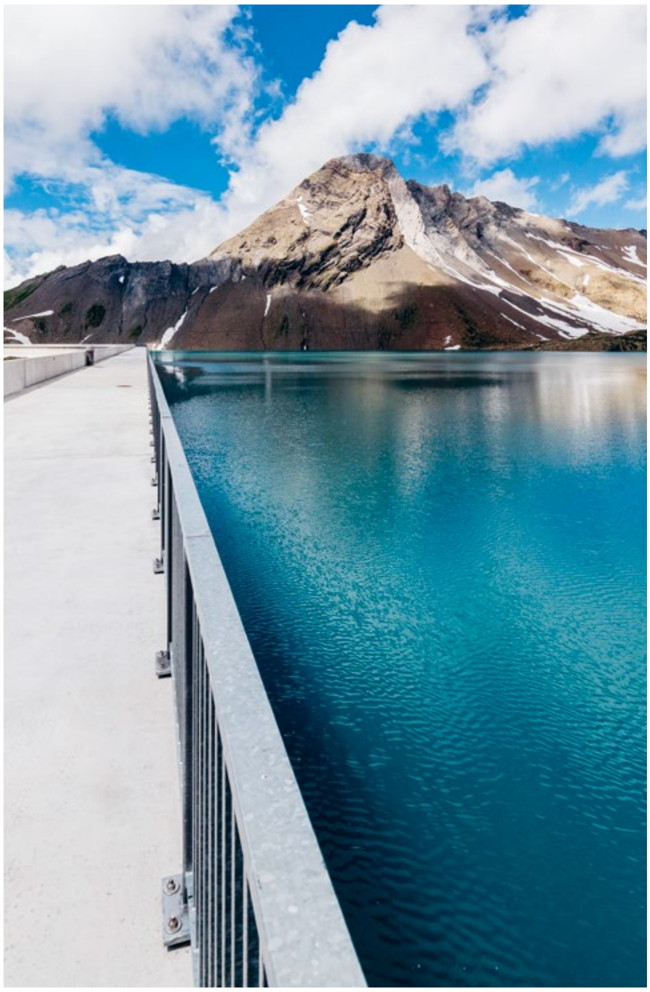
In February 2018, SFS launched the new online store, which offers a modern and user-friendly shopping platform.

through to the customer had a negative impact on profitability in the first half.

Integration of mobile end devices enabled
D&L's logistics solutions became even more attractive during the course of 2018 thanks to well-coordinated efforts to improve the integration and use of mobile end devices. For example, a new app was rolled out that allows product and order information to be viewed on mobile devices anytime, anywhere. Once again, the obvious appeal of SFS logistics solutions attracted many new customers over the year. The logistics systems are easily scalable and can be rolled out internationally on customer request. Synergies are also created through the multiplication of these systems, which are compatible and deployable with customers from other product areas; e.g. for architectural hardware.

Performance expanded
The logistics infrastructure at the central warehouse in Rebstein (Switzerland), one of the most modern logistics centres in Europe, was expanded significantly during the year under review. The new building provides space for an additional 5,000 pallets and 27,000 receptacles. Built at a total cost of about CHF 11 million, which have been effected within the last three years, it has improved supply availability and efficiency, and thus productivity, at the Rebstein site.

Cautiously positive outlook expected
The segment expects a positive development in 2019, notwithstanding the increasing uncertain economic environment.



The Lake Mutt dam – A project of superlative

Facts and Figures
- The 680 railing posts that secure the walkway along the dam wall were securely anchored with the fischer Superbond fastening system from SFS
- Europe's highest reservoir at 2,473 metres (8,000 feet) above sea level is located in Glarnerland (Switzerland)
- Construction of the 1,050 metre-long dam took seven years and cost CHF 2.1 billion
- Lake Mutt's original storage capacity of 9 million cubic metres was increased to 24 million cubic metres

Success stories

Tiny parts, huge impact

Engineered Components

Pushing the boundaries of what's possible: that's exactly what SFS did when it created a miniature 0.5 mm thread-forming screw for one of its customers. In the spirit of "Inventing success together", SFS and Sonova Group, a global leader in hearing aid products, created an innovative miniature fastener for battery contact points.

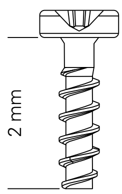
Sonova engineers were proud to unveil a globally unique rapid-charging hearing aid with a long battery life that pushes back the boundaries of miniaturization. Sonova relied on SFS to develop a fastening solution for the battery contact points and the hearing aid case. The extensive exchange of expertise and close collaboration rooted in trust helped to ensure the successful implementation of this demanding project.

Perfect fusion of aesthetics and functional design
Given the tight space constraints, the screws used to fasten the hearing aid case had to be less than 0.5 mm in diameter. To ensure flawless assembly, the fastening element also had to be screwed directly and securely into the plastic enclosure without causing any damage.

Small but effective – pushing the limits of engineering
SFS' REMFORM® Ø 0.5×2.0 mm rust-proof fastening solution is the world's smallest thread-forming screw manufactured by precision cold forming. Adjustments were made throughout the manufacturing process to produce this revolutionary screw. New, stricter requirements were placed on the machine tool manufacturers, the cold forming manufacturing process and the thread rolling machines. This manufacturing project pushed the limits of technical feasibility and resulted in a flawless fastener with high reproducible quality, which in turn led to significant productivity gains during assembly at Sonova's site.

Miniature plastic parts as part of the overall solution
With its injection molding expertise, Stamm, a reliable partner for micro-injection molding technology and a member of SFS Group, has been making complex miniature plastic parts for Sonova for years. A collaborative partnership and trusting exchange of knowledge allowed Stamm to meet the highly demanding functional and design specifications.

Various manufacturing technologies from a single source
SFS is a one-stop manufacturer of miniature fasteners made using cold forming or micromolding technology. This reduces the number of suppliers with which customers must work and ensures a balanced view of the tasks at hand: an optimal solution devised in close collaboration with the customer – true to SFS' claim of "Inventing success together."



SFS REMFORM® Ø0.5 × 2.0 mm
Scale: 10:1

The hearing aid, with the world's smallest thread-forming screw from SFS, impresses with its functional design.

Success stories

Riveting technology

Fastening Systems

The evening sky over Augsburg, Germany, lights up in the colors of Augsburg Football Club (FCA). On view since the summer of 2017, the spectacle is thanks to the new outer shell of the WWK Arena stadium. The sophisticated state-of-the art façade system was designed and erected by Roschmann Group. Working in close cooperation with GESIPA®, Roschmann developed an innovative and economical solution for the assembly of the extraordinary mesh-like exterior construction fabricated with aluminium and translucent plastic pipes.

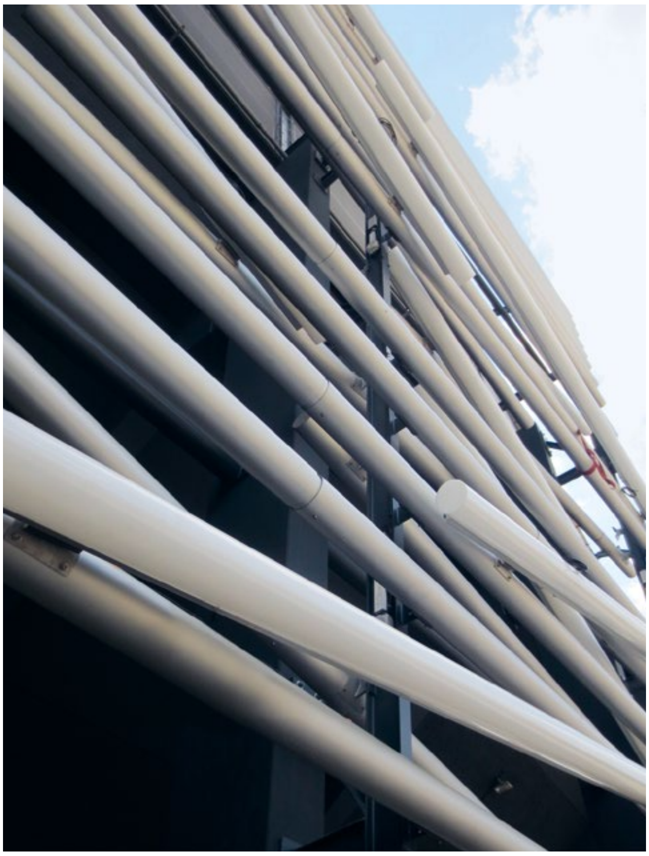
The German based Roschmann Group was contracted to build the new outer shell of the stadium in August 2016. The result is a sophisticated modern construction with aluminum pipes cocooning the stadium on multiple levels. Roschmann Group approached a number of suppliers with the challenge of developing a suitable fastening solution. The proposal by GESIPA® to use blind rivets as fasteners ticked all the client's boxes, notably in terms of cost-effectiveness, technical safety, reliability and easy assembly. Specialists from both companies then came together to devise a joint solution for safe and efficient installation of the structure.

Challenging assembly implemented
The goal was to integrate 135 translucent plastic pipes with LED lighting heads in 20 kilometres of interlaced aluminium pipes, and safely secure the structure to the façade substructure of the WWK (a German insurance group) Arena stadium. To meet the challenge, a team of specialists from GESIPA® and Roschmann began by identifying a suitable fastening system. Since fastening systems with blind rivet nuts are not addressed in building code regulations, Roschmann secured a special one-off permit to use them. Load tests on the fasteners for the aluminium pipes were carried out in a program that included pull-out tests, shear tests and component tests in collaboration with Labor für Stahl- und Leichtmetallbau GmbH and gbd LAB GmbH, two accredited testing and inspection specialists. M8 blind rivet nuts in A4 stainless steel in combination with FireFox® 2 blind rivet nut guns were found to be the ideal fastening system. Next, GESIPA® designed a customized assembly manual specifically for the client in order to make the process of working with the blind rivet nuts as efficient, continuous and easy as possible.

Trust created by customer proximity
GESIPA® professionals worked hand in hand with the customer from development of the best solution to rigorous testing of the fastening system (M8 blind rivet nuts in high-grade A4 stainless steel), processing and assembly – true to its value proposition, "Inventing success together"

«The cooperation with GESIPA® went smoothly. Thanks to the technical support, the fastening systems at the WWK Arena were implemented and ultimately managed economically and effectively. Almost 22,000 GESIPA® blind rivet nuts guarantee a secure hold of approx. 20,000 metres of aluminium tubing.»

Michael, Skopp, Technical Director, Roschmann Group



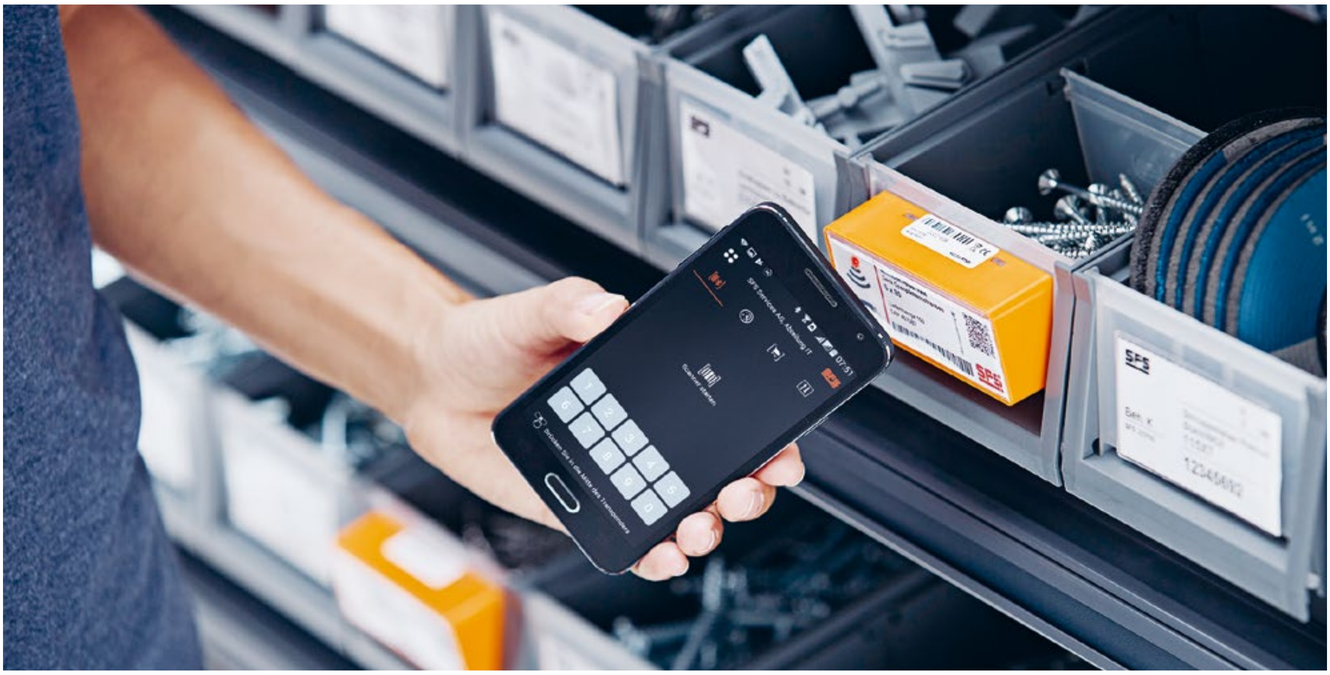
The new outer shell – a modern construction of aluminium pipes – wraps around the WWK Arena like a cocoon.

Success stories

Industry 4.0 Menzi Muck AG

Distribution & Logistics

Menzi Muck AG is a manufacturer of walking spider excavators based in Switzerland's Rhine valley and a global market leader offering top-of-the-line technology and quality. It adopted the innovative M2M ("Machine to Machine") logistics solution in close collaboration with SFS. The result was yet another success story for the company, which was able to cut costs and reduce required storage space to a minimum. And another example of how SFS is "Inventing success together" with its customers.



SFS and Menzi Muck AG's successful collaboration on numerous projects dates back to 1997. In 2011 the customer decided to work with one of SFS's competitors, but a dedicated SFS project team nevertheless maintained contact with the valued former customer and informed Menzi Muck AG regularly about the constant stream of SFS innovations. Menzi Muck AG was eventually drawn back to SFS by the new M2M logistics system.

Logistics system M2M by SFS installed

SFS' innovative M2M system transmits inventory data automatically between all integrated end devices at the customer and SFS sites. Automated M2M communications minimizes inventory costs (procurement, logistics and handling costs) for C-parts, such as nuts, bolts, washers and screws, and keeps inventory levels lower, while optimising the availability of items in stock at the customer's end.

Opening the door to Industry 4.0

After a successful pilot test of the new logistics system, the SFS project team began to work on the full installation at the end of 2016. Less than two months later, the digital turn-LOG®2 inventory management system was fully installed at the customer's site. Working hand in hand with Menzi Muck AG, SFS experts then set up the required warehouse hardware over a three-day period. In total, 320 inventory items were transferred to new receptacles equipped with turnLOG®2 transponders. The master electronic control device for the "M2M by SFS" logistics system was mounted on the customer's warehouse ceiling. This controller modulates all communication between warehouse infrastructure, hand-held terminal devices and ERP systems.

Successful project conclusion

After the successful implementation of the latest-generation M2M by SFS system with the integrated turnLOG®2 functionality, Menzi Muck AG expressed complete satisfaction with the new logistics solution. It was particularly pleased with the reduction in warehouse space and inventory costs, and with the professionalism of SFS' project managers.

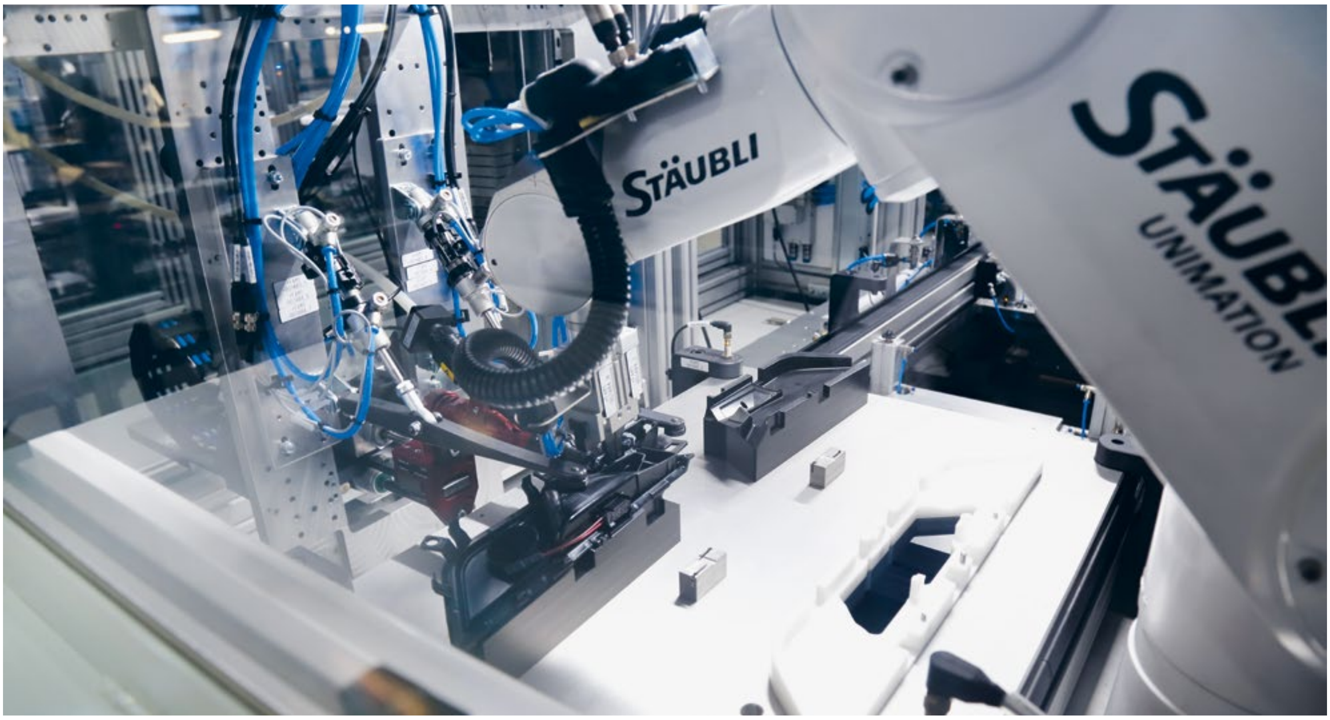
Within two months, the digital turn-LOG®2 inventory management system was fully installed at the customer's site (above). The professionals for the development and production of walking spider excavators benefit i.a. from saving storage area (below).

Success stories

Higher, faster, further

SFS internal

The expansion of a site in Hungary with a new 3,000 m² production hall and a modern material flow concept ensures harmonious and efficient production. In addition to time and cost savings, this success story, for inside door opening mechanism modules (TIB) also impresses with the greatly reduced reject rate achieved with the new assembly system.



Customer requirements in the automotive industry change constantly. Demand for the inside door opening mechanism with additional integrated modules, such as loudspeakers, switches and lighting, has risen sharply. Increasing product variability makes manual assembly highly error-prone and time-consuming. SFS therefore decided to set up a fully automated assembly line, which necessitated the site expansion.

Fully automated assembly line in operation
Jánossomorja, a small town in northwestern Hungary, is where the Automotive division’s new 3,000 m² construction project is located. Externally, the new production hall appears ordinary, but inside it is futuristic. All components are assembled into component groups by robots at the various assembly stations and the assembly steps performed by the 6-axis robots are interlinked and fully automated.

High level of flexibility achieved
Today’s inside door opening modules vary in configuration, depending on the vehicle model and car interior design. With its modern assembly system, SFS has optimally positioned itself to address the needs of the automotive industry and is capable of producing up to 30 assembly variants for a single project in the shortest possible time.

SFS value proposition guaranteed
The final assemblies are monitored and inspected by cameras and sensors at every assembly station to ensure quality, aesthetics and dimensional accuracy, resulting in a significantly lower defect rate. At the end of the manufacturing process, a laser engraves each item with a unique code and date of assembly, thus ensuring seamless traceability. When operating at full capacity, up to 1,800,000 control units per year will be assembled at the Jánossomorja site. With this project, SFS has once again delivered on its claim of “Inventing success together” from both an internal and external perspective.

When operating at full capacity, up to 1,800,000 control units per year will be assembled at the Jánossomorja site.

Sustainability

Improvements achieved

Sustainability is a key aspect of SFS' daily business activities. Continuous dialogue with our partners is the basis of our mutual progress and success. SFS Group intensified its dialogue with its stakeholders during the year under review.

Progress was made in the six key themes that were identified within the scope of the materiality assessment. These topics are most crucial to SFS' sustainable development and are listed below:

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

Focus on implementation
SFS elaborated the materiality matrix (right) in 2016 in accordance with the widely recognized GRI Standards. During the year under review, efforts were focused primarily on the improvement of the sustainable performance of the six priority topics and on establishing and further strengthening the pertinent management structures.

Our dialogue with all stakeholders will be expanded in 2019 and will ensure that SFS Group's materiality matrix is continuously updated and improved.

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 litigations about environmental impact

1 Customer satisfaction

Our primary objective is to collaborate closely with customers to achieve mutual success – true to our claim "Inventing success together" – and to create sustainable value for our customers. Close partnerships presume a spirit of mutual trust. Customer trust is earned by maintaining high levels of customer satisfaction with our products and engaging in a continuous dialogue.

We measure the satisfaction of our key accounts periodically and identify potential for improvement. In view of the heterogeneous target industries, there are considerable differences in the defining characteristics of each division's business activities and customers. The objective in the year under review was to consolidate the various divisional methods for measuring customer satisfaction and to harmonize them wherever possible. To this end – and in order to draw even greater attention to this issue – a group guideline for measuring customer satisfaction was formulated and was approved by the Group Executive Board in 2018. The process owner is the CEO of SFS Group.

Concept to measure customer satisfaction formulated
Every division has reviewed its existing methods of measuring customer satisfaction with reference to the newly implemented group guideline and has elaborated a concept to measure that will be implemented in the next reporting period. In view of the different target customer groups, the divisional concepts vary. Measurement methods range from a scorecard, used in the Automotive division, to online surveys, used by the Electronics division.

Customer relationships built on trust
The awards that SFS won during the year under review are also an expression of customer satisfaction. For example, SFS was pleased to receive the Robert Bosch GmbH "Crazy for SuCCess" award at the end of 2018. This was the second time that SFS has received this prestigious award in the short history of the prize. With it, Bosch honors the six most valuable and reliable suppliers, from a total of more than 1,000 suppliers to the Chassis Systems Control Division. New project acquisitions are another proof of the close, partnership-oriented relationships that SFS maintains with its customers, since a high level of trust is a prerequisite for early integration into its customers' new product development projects. It takes a high level of service excellence, reliability and quality to build that kind of trust.

Priorities set for 2019
The focus for 2019 is on implementation of the divisional concepts with the objective of evaluating customer satisfaction and formulating the right corrective measures based on the findings.

2 Economic value creation and distribution to stakeholders

This criterion essentially mirrors the fair partnerships between SFS and its various stakeholder groups. Stakeholder value is created in various ways, in the form of the salaries 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. SFS refrains from aggressive tax practices and structures, and pays taxes where the economic value is generated. Since 2017, SFS Group has reported the required tax payment per country to the federal tax administration as part of country-by-country reporting.

Overall economic value creation increased
SFS strives to maintain fair partnerships – with its customers, suppliers, employees and shareholders. Therefore, it attaches great importance to maintaining a fair and balanced distribution of value among the various stakeholder groups. During the period 2014–2018, SFS increased its value added (gross) by 27.7% in total. The value created for the various stakeholder groups increased by the significant amount of 33.4% during the same period. The percentage shares of each stakeholder group remained relatively stable. After the initial public offering of SFS Group in the spring of 2014 and in response to market expectations, the dividend payout was increased. This payout to shareholders has shown a stable development since then.

Priorities set for 2019
In conjunction with the preparation of the medium-term business plan, we will set target ranges for the future distribution of economic value added in 2019. Profitable growth should allow SFS Group to continue to increase the distribution of value among its stakeholders.

Development and distribution of value added
in CHF million

	2018	2017	2016	2015	2014
Value added gross	853.0	814.4	721.2	641.8	668.0
As a % of net sales	49.1%	49.8%	50.2%	46.8%	48.3%
Depreciation/amortization	–89.7	–125.8	–146.4	–142.3	–134.9
As a % of net sales	–10.5%	–15.4%	–20.3%	–22.2%	–20.2%
Value added net	763.3	688.6	574.8	499.5	533.1
As a % of net sales	43.9%	42.1%	40.0%	36.4%	38.6%

Distribution of value added net

Employees	68.0%	69.8%	71.6%	75.6%	72.8%
Personal expenses	519.3	480.6	411.8	377.5	387.9
Government	6.0 %	6.4%	6.1%	5.8%	5.0%
Income taxes, fees	45.8	44.0	35.2	29.0	26.7
Capital provider	10.4%	11.0%	12.0%	11.9%	12.8%
Dividends to shareholders	75.0	71.3	65.6	56.3	56.3
Interest expenses	4.3	4.9	3.0	3.2	12.2
Company	15.6%	12.8%	10.3%	6.7%	9.4%
Retained earnings	118.9	87.8	59.2	33.5	50.0

SFS

3 Occupational health and safety

In an industrial company such as SFS where performance and success depend essentially on a highly motivated workforce, occupational health and safety are high-priority issues. SFS promotes employee health by encouraging a healthy work-life balance and taking steps to prevent work-related injuries.

Introduction of ISO 45001
It was decided in 2018 to launch preparations for ISO 45001 certification, the management system for occupational health and safety. The plan is to develop the SFS processes at the Heerbrugg (Switzerland) headquarters, followed by a successive global roll-out and certification at production sites.

Strengthening the ranks of the GQES team
An EHS (Environment, Health and Safety) manager is to strengthen the ranks of GQES team (Global Quality, Environment, Safety) in 2019. This was decided during the reporting year in recognition of the fact that prevention of work-related injuries, development and improvement of the SFS system, mitigation of emissions and reduction of waste continue to present challenging goals. The new organization, including the group-level EHS manager, will be developed further in 2019 and the first measures to achieve these goals implemented.

Work safety improvements implemented
The regular employee survey helps to monitor how employees rate occupational safety and health on an individual level. This in turn provides a basis for identifying and implementing improvements in the workplace.

An anonymous survey conducted at all German sites of the Riveting division with external support investigated the risk impact of mental stress at work. Workshops based on the results were held and improvements were developed that are now entering the implementation stage.

We have various initiatives in place in Switzerland to promote occupational health and safety. SFS also collaborates closely in this area with external partners, such as health and accident insurance providers and the social counselling services provided free of charge for our employees. The program includes measures in the areas of prevention, maintenance of health and performance, and assistance and support if problems arise.

Occupational safety is also an important issue in Asia. Unisteel in Malaysia took part in a one-year program designed to improve workplace health organized by the Malaysian government. The aim was to support participating companies in complying with applicable workplace health regulations, particularly in chemicals management, ergonomics and hearing protection. Unisteel implemented the measures on a continuous basis to improve occupational safety in areas such as noise, chemicals and ergonomics. Unisteel was audited several times in 2018, culminating in a "Chemical Best Practice" award in July 2018.

Absence management tool implemented
A software-based absence management process was introduced in Switzerland at the start of 2018. The system helps management to detect employee health issues based on absenteeism patterns, to engage in a proactive dialogue with employees, and to jointly develop timely corrective actions. The objective is clear: healthy and productive employees. Management feedback on the tool has been positive, but the structured approach adds to management workload.

EcoPoints successfully launched
As part of the "mobility@SFS" concept, SFS supports employee efforts to green their commute. With the new EcoPoints bonus and incentive system, anyone who cycles, walks, or uses public transport or car sharing to get to work collects points that they can cash in for attractive bonuses or donate to a good cause. Since the launch in early September 2018, 950 SFS employees – about 40% of the Swiss workforce – have commuted a distance of more than 116,000 km on a bicycle, 10,200 km on foot, 61,000 km by public transport and 29,000 in car pools. This adds up to a carbon reduction of almost 40,000 kg and a saving of approximately CHF 100,000 from non-use of the car.

Priorities set for 2019
SFS has set its sights on a further 10% reduction in work-related injuries in 2019. Moreover, an SFS Group Occupational Health & Safety roadmap and SFS Group Safety Rules are in preparation for approval by the Group Executive Board.

4 Regular performance and career development reviews

SFS' continued positive development depends mainly on its employees. Consequently, regular employee performance review and employee development tools are another high priority.

Performance goals updated regularly
One example is performance assessment, with reviews taking place at least once a year for every employee. Clear development and performance targets for the coming year should be defined in these meetings and two questions in the Swiss Employer Award (see box p. 40) show that this is the case, with 88% of employees answering in the affirmative (My goals for the current year were discussed with me / My performance was assessed on the basis of the agreed goals at my last performance review). The ratings indicate 0% difference in comparison with the last survey and are 9% higher than the average industry score for 2018.

Management positions filled in-house
We aim to fill approximately 70% of management and key personnel vacancies with in-house candidates. We achieve this ambitious goal with the aid of a Structured Employee Development Program (SEDP). The objective is to identify employees with the potential for additional tasks and responsibilities and prepare them for their new roles with medium and long-term training and further education. Divisional leaders identify the areas where successors will need to be found in the next few years. Suitable candidates who have both the will and the potential are identified, then specific measures are defined and integrated in the individual performance review process.

In the reporting year, this method enabled replacements to be nominated for 66% of vacancies in key positions (head of division as well as site managers).

Endorsement in Swiss Employer Award
Of respondents in the Swiss Employer Award survey, 70% answered the career development question in the affirmative (I have good opportunities for career development in my division). This represents 0% difference in comparison with the last survey and is 5% higher than the average industry score for 2018.

Priorities set for 2019
Efforts in the current year will focus on maintaining the pleasing high standard. A number of approaches are planned in order to achieve this goal: first, the employee survey will be extended to include the Automotive, Riveting and Construction divisions. Second, departmental career development projects (technical specialists and executive management career paths) and group guidelines for high employee retention will be established. The current average employee retention period on an international scale is about 12 years.

An important aspect of the training in the "International Leadership Development Program" (ILDP) is the promotion of intercultural collaboration.

5 Skills management and continuous learning processes

The value proposition "Inventing success together" applies both internally and externally. It is a commitment to a continuous quest for improvement. In addition to an individual onboarding plan for new employees, every employee has access to a comprehensive further training program. That's because we want to ensure that our employees have the capability to meet their tasks as best as they can and are able to fulfil their potential.

Enabling cross-divisional exchange
Internal PeerGroups (PeG) are an important platform for exchanging knowledge on a continuous basis. A total of 13 internal PeGs have been set up consisting of representatives from the divisions to which their respective topics are relevant. They meet at regular intervals either in person or virtually to discuss new developments, crucial information and the latest news pertaining to specific topics (such as finance and control or digitization). These groups are very useful and efficient in terms of sharing knowledge within the SFS Group and selectively leveraging that knowledge in the various divisions to bring about improvements. Four new PeGs were created during the year under review. There are very limited plans to expand the number of PeGs in 2019. Rather, the focus will be more on exploring topics in greater depth in the existing PeGs. The success of the PeGs is evident in the fact that several intradivisional exchange groups have been set up under that umbrella, facilitating dialogue and improvements on current topics. This shows that the PeG concept is workable as an integral part of the daily business.

SFS is heavily involved in the training of young talents and has the goal that 5-7% of all employees worldwide are apprentices.

Qualification and skills matrix piloted
A pilot project is in progress at the Heerbrugg, Switzerland site with the aim of enabling structured and effective monitoring of existing and newly acquired employee qualifications via a skills matrix. The main focus is on the production employees. This skills matrix will support effective use and planning of human resources.

Priorities set for 2019
Various improvement projects are planned for 2019. The onboarding process is to be restructured and re-established. This process creates the coherence necessary to ensure that newcomers globally all receive the same information relevant to the corporate Group. Continuous expansion of the e-learning program is one measure being implemented to facilitate access to the course content.

6 Training and education

SFS is already actively involved in professional development and educational activities. The importance attached to this topic by the stakeholder groups supports our resolve to continue on our path.

In Switzerland, every employee attends four days of training every year. Outside Switzerland, the average employee attends about two days of training every year.

Further training program expanded
The training and further education program is improved and updated on a continuous basis to meet the needs of the divisions. Thus, content and conceptual changes will be implemented in 2019. The aim is to achieve more consistency in the international implementation of further training opportunities. The number of e-learning modules on offer, which can be completed at any time and anywhere by employees, will also be increased to support smaller sites in their further training activities.

In Switzerland, an online tool enabling qualitative feedback and evaluation based on various criteria for selected employee training and development courses was launched during the year under review. Initial experience is being gathered. An extended usage of the tool is scheduled in 2019. An example of further training for sales staff in the Automotive and Industrial divisions is the "Aiming for Sales Excellence" program. The first modules have been rolled out to consistently positive feedback.

Periodic employee satisfaction surveys elicit feedback on training and further education opportunities in order to facilitate their systematic improvement. This is demonstrated by an affirmative reply of 77% rate to the relevant question in the Swiss Employer Award poll (I can attend the internal and external training and further education courses I need for my work). This corresponds to the value in the 2016 survey and is 6% better than the industry average in 2018.

Talent promotion
The "International Leadership Development Program" (ILDP) for leaders and specialists continued in the year under review. Fostering intercultural collaboration within SFS Group is an important aspect of the ILDP. SFS invests heavily in dual education of younger talents and has set a global target for apprentices to have 5%–7% of all employees (in 2018 the share was at 5.8%). We will strengthen our commitment to the promoting of dual education schemes on a global scale and advance these efforts by means of an international PeG.

Exchange program a proven success
A trainee exchange program between the site of Medina, US and Heerbrugg, Switzerland has been flourishing for years. The program gives two to four apprentices the opportunity to experience work in a foreign country. Apprentices receive extensive mentoring during the exchange in addition to thorough preparation beforehand including language training and general cultural exploration. To be able to improve and increase the benefit of the program on a continuous basis, we stay in touch with the apprentices after the program and elicit specific qualitative feedback. The participants also act as "ambassadors" for the next group.

Priorities set for 2019
In 2019, the aim will continue to ensure that apprentices comprise 5%–7% of all employees, or increase that proportion depending on the needs of an individual site. KPIs will be established and used to measure the successful development of the apprentices.

The scholarship program, which enables young members of the workforce to gain work experience abroad for a period of six months within the first few years after completing their apprenticeship, has also been expanded. Three young people at the start of their professional careers will have the opportunity to take part in this program in 2019.

In addition to further improvements of the educational program, international cooperation will be intensified via PeG, creating additional opportunities for exchange.

Dialogue with employees continued

Intensive dialogue with employees is important to SFS. Employee feedback serves as a basis for analysis of the status quo and definition and implementation of appropriate corrective action. In addition to individual employee performance review meetings, employee surveys are conducted regularly throughout SFS Group and discussed with the workforce.

In 2018, the Distribution & Logistics segment, the Industrial division and the Services units (more than 1,200 SFS workers in total) participated in the Swiss Employer Award. The 46,130 employees from 140 enterprises in Switzerland and Liechtenstein who took part in the survey rated their employer on key workplace issues, job satisfaction and commitment. SFS Group took third place in the large company category (1,000 or more employees), retaining its top three position since the company's last participation in 2016.

In 2019, using the methods underlying the Swiss Employer Award, we plan to conduct an employee survey for another 2,600 SFS workers at the largest plants in the Automotive and Riveting divisions and the Construction division in Switzerland.

Clear roles and responsibilities

Sustainable development of SFS is very important to us. The CEO and the entire Group Executive Board devote their attention to the issue of sustainable development on a regular basis, set priorities and review the progress made. On behalf of the Group Executive Board, an interdisciplinary team of environment and safety, compliance, HR and communications representatives coordinates and consolidates the various sustainability activities. To address the diverse factors involved and maximize effectiveness, the job of implementing the activities falls to the respective divisional management teams. Wherever possible, sustainability is integrated into the regular management processes and reports using standardized performance indicators (for example, work safety).

SFS

UN Global Compact Communication on Progress

SFS continues to remain engaged in other areas as well. For instance, it is a signatory to the UN Global Compact and has upheld the ten principles embodied in this corporate sustainability initiative since 2010. Progress on this front is described below.

Human rights

Previous initiatives continued
The Corporate Principles (see → dna) and the Code of Conduct (see → compliance) are two key documents on the subject of sustainability at SFS and in terms of business practices that uphold human rights. The Corporate Principles set out our common values, while the Code of Conduct defines the basic rules by which we conduct our business activities. Both documents continue to apply. Robust and effective compliance processes are in place to ensure enforcement of the Code of Conduct. The information contained in our Corporate Principles and Code of Conduct is imparted to all new employees and apprentices as soon as they join the company through formal instruction or e-learning. Awareness of these themes is part of the basic skill-set that every SFS employee must have, and this awareness should guide them shape their development from the start.

SFS strives to introduce the Code of Conduct as quickly as possible to any new enterprise integrated into SFS Group. During the year under review, for example, it was done at all the Medical division's operating sites, the most recent addition to the Group. Even the Group's suppliers must respect basic human rights unconditionally. Respect for human rights is a mandatory criterion when screening potential business partners, since it is an integral part of SFS' general procurement terms and conditions. World trade relationships during the year under review were marked in particular by trade sanctions, embargoes and massively increased customs tariffs. SFS plays its part in international legal order by fully complying with such sanctions and informing its employees about their scope and repercussions.

Establishing compliance at leadership levels
The conviction that a compliance system can be effective only if management lives the values and complies with them unconditionally prompted SFS to highlight this issue in targeted management team workshops in 2018. A survey conducted in the same year showed that employees expect their managers to be role models on compliance issues, in particular observation of human rights, and that their expectations are being met. To ensure that future managers receive proper training in this area, a workshop on integrity and compliance is now an integral part of the ILDP.

Priorities set for 2019
In 2019, an online course on the topic of "personal integrity violations" will be launched for all employees. Respectful interaction at every level of the organization is demanded and promoted throughout SFS Group and this message will be emphasized in this online course.

Anti-corruption efforts

The anti-corruption policy taught to employees with the greatest potential exposure in a mandatory e-learning module was delivered as usual to all new employees in our sales, procurement and finance units in the reporting year.

We are glad to report that no corruption cases occurred in SFS Group in the year under review. The fact that more and more people are requesting advice when doubtful situations arise indicates an increasing awareness of corruption as an issue. Another sign is that the internal Code of Conduct is increasingly cited and referred to: for example, refusal of invitations from business partners to certain events. SFS also expects unconditional rejection of corruption in any form from third parties, in particular on the part of SFS (external) sales consultants. A standard clause to this effect is included in cooperation agreements with these consultants.

Priorities set for 2019
A new edition of the e-learning module for anti-corruption training is planned for 2019 to keep pace with the latest developments in this area. This e-learning is mandatory for management as well as all employees in the sales, procurement and finance units.

SFS

Labor standards

Highlighting the value of diversity
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. As these principles are an integral part of SFS' general conditions of purchase, SFS suppliers are similarly required to uphold these values.

SFS Group's international presence and size make diversity a natural feature of the workforce and it is viewed as positive and enriching. The regular internships that SFS apprentices complete at different sites and the international training programs for management to promote intercultural collaboration are examples of how SFS champions diversity. All forms of discrimination during the recruitment process or in employment are expressly prohibited.

Priorities set for 2019
Although the topic of diversity was not given the highest priority in the materiality analysis in 2016, SFS views diversity in the workforce as a key factor in its success. For this reason, diversity and the advantages it brings were selectively addressed in internal communication during the year under review. They will be pursued in more detail through specific initiatives in 2019. The aim will be to counter and prevent all forms of discrimination and highlight the tangible value of diversity.

Environmental protection

ISO14001 certification for more sites
All the audits conducted during the reporting year at the 16 certified sites were completed without any meaningful discrepancies identified by the certification organizations. Although the company has already achieved full environmental compliance with all applicable laws and guidelines, all sites are still encouraged and committed to engaging in continuous improvement of their environmental performance. A dedicated program for each site with individual targets will be drawn up for this purpose. It is hoped this will meet the increasing expectations of customers of every division for compliance with ever tougher environmental requirements (e.g. life-cycle environmental impact, conflict minerals, REACH).

Targeted measures to reduce environmental impact introduced
Effective measures to boost environmental protection were implemented in 2018 at various sites. Here are two selected examples:

Heerbrugg, Switzerland
Two mobility initiatives with the dual goals of reducing environmental impact and promoting health were implemented at the Swiss sites in 2017 and 2018. More than 1,000 e-bikes were sold at half price to employees. In addition, employees who greened their commute were able to collect bonus points, which they could then convert into vouchers or donate to a good cause.

A groundwater cooling system was launched at the Heerbrugg site, which has boosted energy efficiency significantly. The groundwater cooling system is now being used

Selected employee key figures (international) of SFS Group
Given the international presence and size of SFS, a distinctive diversity is a natural outcome that is embraced as positive and enriching. The dual education and therefore share of apprentices among the SFS family are of particular interest to SFS. With a share of 5.8% of the total workforce being apprentices in 2018, we are within the targeted range of 5%–7%.

In an industrial company such as SFS where performance and success depend essentially on a highly motivated workforce, occupational health and safety are high-priority issues. We have set the target to reduce the number of work accidents in 2019 by 10% compared to the 2018 numbers.

	Unit	31.12.2018
Employees	Number	**9,550**
Of which female employees*	Share in %	**26.5***
Of which apprentices*	Share in %	**5.8***
Workplace injuries*	Number	**140***
Rate of injuries*	Number of days	**1,942***
Absence rate*	Number of days	**0.3***

* Data covers approximately 75% of emplyees

instead of an environmentally harmful coolant to cool machinery in three production facilities, thus reducing the use of electricity. These measures led to a 30% increase in overall energy efficiency.

Other energy conservation gains have been achieved from the conversion of outdoor lighting to LED technology with corresponding control systems. The new systems require less maintenance. Improved waste separation, specifically the recovery of useful metals, is another example of our ongoing environmental protection efforts.

Moreover, SFS invested in the improvement of internal communication. By using more often state of the art (lifesize) video conferencing, a reduction in travel costs and environmental impacts have been achieved.

Korneuburg, Austria
A switch to a greener dry ice blasting system to clean tools not only reduced the use of chemical cleaning agents, secondary waste and rejection rates, but also proved to be gentler on the tools. The new method is also more economical: it reduces production downtimes and enables on-site cleaning without the requirement to dismantle the machine tools.

Following modernization of the primary power supply system (process water from manufacturing operations) and heat recovery, Korneuburg now uses fresh air to cool the process water (air blast cooler) and as a result has cut its electricity usage. Moreover, the heat generated in production processes is now used to heat the building, which has lowered the site's gas consumption and carbon emissions.

The entire lighting system in the production areas has been switched to LED technology, which not only saves electricity but also reduces the generation of hazardous waste (neon tubes).

Priorities set for 2019
In the Riveting division, the Walldorf, Olpe and Thal plants in Germany, Keighley in the UK and Nansha in China are set to receive ISO14001 certification in 2019. The groundwork began in 2018.

SFS

Technology

Extensive technology portfolio

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

Cold forming

Precisely shaped with high pressure

Ever since its production activities began in 1960, SFS has opted for the high productivity and material efficiency as 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

Complex moulded parts made from sheet metal

Deep drawing is the ideal complement to cold forming technology. This technique is used to produce very thinwalled 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.

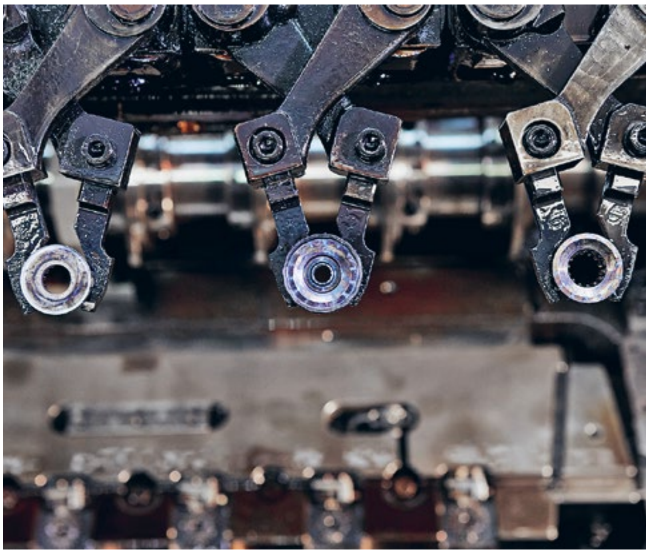
→ More information on deep drawing (video)

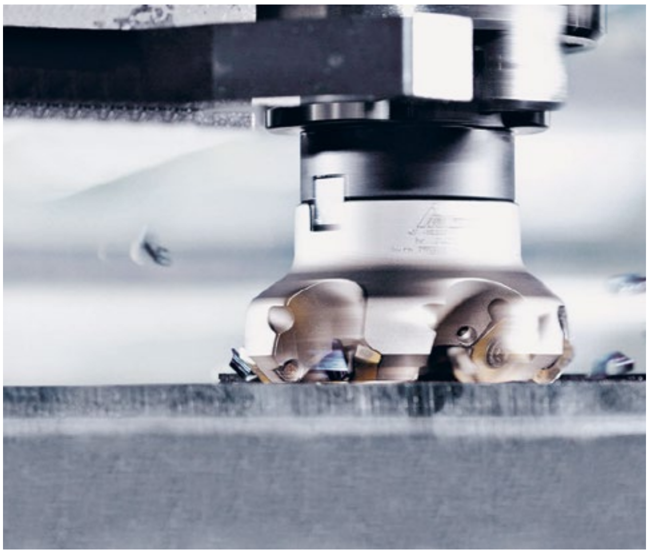
Precision machining

Delivery of 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. Precision machining (below) is an ideal complement to it.

Plastic injection molding

Innovative moulded parts made from plastic

SFS has years of comprehensive 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

Holistic optimization of the fastening process

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 tailormade 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 expanded

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 realize 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)

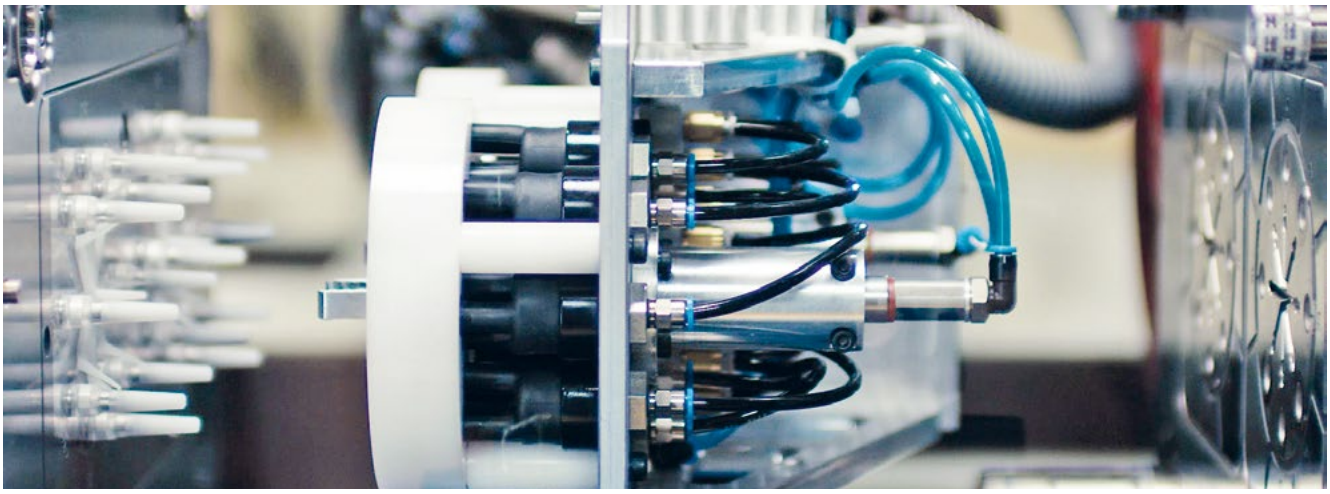
Logistics solutions

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)

Robot removal from a two-component injection mold of Stamm AG.



Corporate Governance

Corporate Governance

Transparency achieved

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 2018, unless otherwise stated.

1 Group structure and shareholders

1.1 Group structure

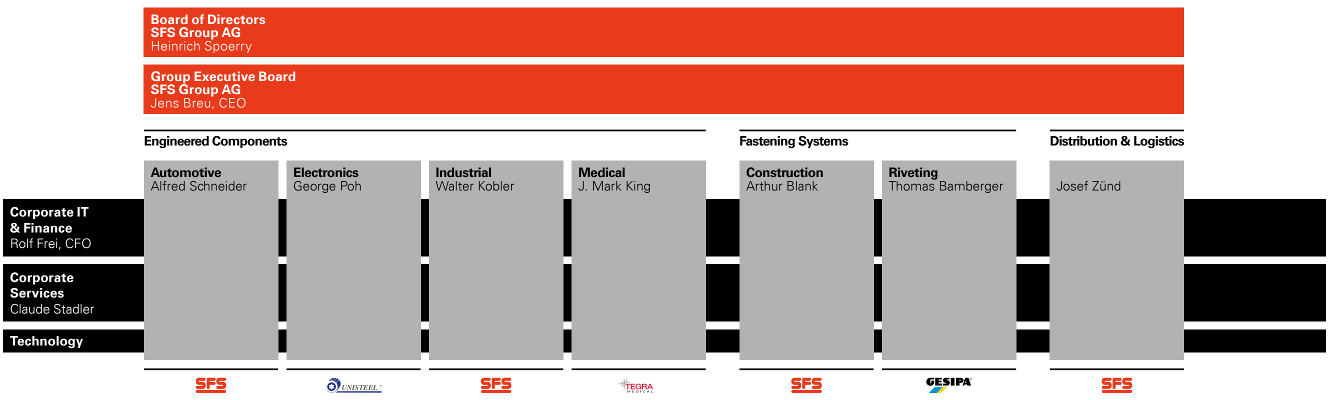
SFS Group is organized in three segments: Engineered Components, Fastening Systems and Distribution & Logistics. Engineered Components develops, manufactures and sells precision components and special screws in four divisions. Fastening Systems combines the principles of threaded fastening and riveting 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 2019)

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 Widnau/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 2,861.3 million (PY 4,245.0) as at 31 December 2018.

An overview of all affiliated companies in the scope of consolidation can be found in section 5.2 of the appendix of the Financial Report. 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

	31.12.2018	31.12.2017
Founding families	54.8%	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: Significant Shareholders →

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 changes in capital over the last three reporting years.

2.4 Shares and participation 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.

2.5 Dividend right certificates

SFS Group AG has issued no dividend right certificates.

2.6 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.

2.7 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 (PY six).

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 2017, 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.

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
- 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

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
- Müller Martini Holding AG, member of the BoD since 2009
- Gurit Holding AG, member of the BoD since 2006
- SWISSMEM, member of the Executive Committee since 2012
- Swiss Employer's Association (SAV), member of the Executive Committee since 2018
- Technorama Winterthur, member of the Foundation Board since 2010

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

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

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 2008–2018
- 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

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, Member of the Audit Committee
- Zehnder Group AG, member of the BoD and Chairman of the Audit Committee since 2016
- AEW Energie AG, member of the BoD since 2014, Member of the Audit Committee
- 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
- Care & Cure AG, member of the BoD since 2018
- 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

SFS

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.

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 (PY eight) ordinary and two (PY none) extraordinary Board meetings took place in the reporting year. Two ordinary and the two extraordinary meetings lasted less than two hours, five meetings lasted for a day and a strategy workshop lasted for two days. The ordinary 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: Corporate Governance →

The committees support the Board of Directors in its supervisory and control capacities and act mainly as consulting, assessment and preparation bodies. The committees have final decision competence only in the topics explicitly mentioned below.

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

Nomination and Compensation Committee

Urs Kaufmann	Chairman
Nick Huber	Member
Heinrich Spoerry	Member

Audit Committee

Thomas Oetterli	Chairman
Bettina Stadler	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 Head of Human Resources attend the meetings of the committee unless their own nomination or compensation is being discussed. In the reporting period, the committee held four meetings (PY four), 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 (PY four), 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 Organizational Regulations are reviewed and amended by the Board of Directors on a regular basis.

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-a-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 1.5 to 2 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 in cooperation with an external specialized partner. Although the Head of Internal Audit 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, six (PY eleven) internal audits took place within the group, one of which was 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 due to recalls;
- 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

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

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

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

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

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

Qualifications
- SKU Advanced Management Program, Switzerland 2000
- International management program with focus on 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

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

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

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

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

SFS

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.

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 25 April 2018 elected burki bolt nemeth Rechtsanwälte, 9435 Heerbrugg, as Independent Proxy until the next Annual General Meeting.

6.2 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 (Quorums);

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.

6.3 Convocation of the Annual General Meeting
No regulations deviate from the relevant statutory provisions.

6.4 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.

6.5 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 of two years is not applicable if employment is terminated due to a change of control.

8 Auditing body

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

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

8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.7 million (PY 0.8) 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 0.1). For additional services related to tax compliance and other tax consulting services, a total amount of CHF 0.3 million (PY 0.4) was paid to PricewaterhouseCoopers AG and affiliated companies in 2018.

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.

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.

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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: Financial publications →

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 every other year 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: Mailing list subscription →

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: Financial publications →

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

The following information is available on the SFS Group website www.sfs.biz
Investor information →
Organizational regulation →
Articles of Association →
Company news and ad hoc announcements →
Financial publications →

Corporate Communications/Investor Relations
Claude Stadler
Rosenbergsaustrasse 8
9435 Heerbrugg Switzerland
T +41 71 727 51 85
corporate.communications@sfs.biz

10 Non-applicability/negative statement

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

Compensation report

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 in conjunction with its IPO in 2014 and revised it in the year under review 2018.

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 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 and market-based
- 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. In line with the revision of the Articles of Association in 2018 the Articels 25, 26 and 29 had been defined more precise and flexible.

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 at least two but not more than four members out of the Board of Directors 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 a compensation component focused on long-term success 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 compensation, 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.

In principal, there will be no payments to pension funds or similar institutions for the members of the Board of Directors. In exceptional cases such payments may be made upon request of the Nomination and Compensation Committee and subject to the approval by the General Meeting if the members in question do not have other insurable income from subordinate employment.

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 which according to the Articles of Association may not exceed an amount equal to 100% of the base salary. For the Chief Executive Officer, the variable target cash compensation is limited to 40% to 60%, and for the other GEB members to 20% to 40% of the base salary. 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 2018 financial year the financial targets at Group, segment and divisional level pertained to sales and the EBIT margin. For the 2017 financial year the financial targets at Group level pertained to sales, the EBITA margin and operating free cash flow. At segment and divisional 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 immediate line manager and approved by the responsible management body.

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 and divisions	–	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 number of the shares should be for the Chief Executive Officer within a target range of 1,500 to 2,500 shares and for the other members of the GEB within a target range of 250 to 1,000 shares. 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 (economic activity, industry developments, etc.), the execution of Company strategy, the Company's financial situation as well as the individual performance. 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 offer company shares to selected and long-standing employees at conditions to be determined by the full Board of Directors based on the proposal of the Nomination and Compensation Committee. The Board of Directors issued a regulation addressing the following elements in particular: Determination of the purchase price, granting of a potential discount on the purchase price, maximum reference value (valued upon allocation) in relation to the individual annual base compensation as well as a possible blocking period of the shares. Members of the Board of Directors and the executive management may be included in this programme. The SFS shares acquired through this plan will be blocked for at least three years. There was a stock ownership plan in 2018 but none in the previous year.

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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 2019 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 a regular 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.

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 2018

in CHF except number of shares	Base salary gross in cash	Number of SFS shares	Value of SFS shares gross[1]	Other benefits[2]	Total
Heinrich Spoerry, Chairman	233,194	1,500	179,838	26,573	439,605
Nick Huber	85,311	500	60,219	10,607	156,137
Urs Kaufmann	85,311	500	60,411	11,156	156,878
Thomas Oetterli	85,311	500	60,411	11,174	156,896
Bettina Stadler	85,311	500	60,411	11,156	156,878
Jörg Walther	85,311	500	60,411	11,174	156,896
Total Board of Directors	**659,749**	**4,000**	**481,701**	**81,840**	**1,223,290**

[1] The exchange value of the SFS shares at the time of the allocation of the number of shares on 3 May 2018 was CHF 113.30 per share. Employee contributions to social security had been added to compensation "gross" numbers.
[2] Employer contributions to social security schemes.

4.2 Compensation of the Board of Directors 2017

in CHF except number of shares	Base salary gross in cash	Number of SFS shares	Value of SFS shares gross[1]	Other benefits[2]	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
Total Board of Directors	**680,307**	**4,000**	**418,977**	**79,123**	**1,178,407**

[1] 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.
[2] Employer contributions to social security schemes.

4.3 Compensation of the Group Executive Board 2018

in CHF except number of shares	Base salary gross in cash	Variable cash compensation gross	Number of SFS shares	Value of SFS shares gross[1]	Discount stock ownership plan[3]	Other benefits[2]	Total
Jens Breu, CEO	559,000	222,000	3,000	279,044	0	125,758	1,185,802
Other members of GEB	2,652,243	797,667	6,730	634,986	9,510	469,242	4,563,648
Total GEB	**3,211,243**	**1,019,667**	**9,730**	**914,030**	**9,510**	**595,000**	**5,749,450**

[1] The exchange value of the shares at the time of the allocation at the meeting of the Board of Directors on 26 February 2019 was CHF 84.65 per share. Employee contributions to social security had been added to compensation "gross" numbers.
[2] Employer contributions to social security schemes and occupational pension plans
[3] Granted discount for members of GEB based outside Switzerland.

4.4 Compensation of the Group Executive Board 2017

in CHF except number of shares	Base salary gross in cash	Variable cash compensation gross	Number of SFS shares	Value of SFS shares gross[1]	Other benefits[2]	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
Total GEB	**3,121,854**	**983,391**	**8,639**	**1,058,450**	**600,850**	**5,764,545**

[1] 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 110.40 per share. Employee contributions to social security had been added to compensation "gross" numbers.
[2] Employer contributions to social security schemes and occupational pension plans.

4.5 Loans and credit facilities

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

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

5.1 Board of Directors

	Number of shares **31.12.2018**	Number of shares 31.12.2017
Heinrich Spoerry, Chairman, external member	197,960	195,980
Nick Huber, external member	332,932	246,372
Urs Kaufmann, external, independent member	9,260	8,280
Thomas Oetterli, external, independent member	7,260	6,280
Bettina Stadler, external member	391,400	390,420
Jörg Walther, external, independent member	4,140	3,280
Total Board of Directors	**942,952**	850,612

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

5.2 Group Executive Board

	Number of shares **31.12.2018**	Number of shares 31.12.2017
Thomas Bamberger, Head of Division Riveting	3,366	2,558
Arthur Blank, Head of Division Construction	14,830	13,965
Jens Breu, Chief Executive Officer	12,310	9,330
Rolf Frei, Chief Financial Officer	50,130	48,750
J. Mark King, Head of Division Medical	800	0
Walter Kobler, Head of Division Industrial	21,250	20,625
George Poh, Head of Division Electronics	54,386	52,843
Alfred Schneider, Head of Division Automotive	16,610	15,505
Josef Zünd, Head of Segment Distribution & Logistics	17,916	20,103
Total Group Executive Board	**191,598**	183,679

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, Gemeinde Au/SG

We have audited chapter 4 of the compensation report dated 7 March 2019 of SFS Group AG for the year ended 31 December 2018.

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 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thoams Illi	Martin Bettinaglio
Audit expert Auditor in charge	Audit expert

St. Gallen, 7 March 2019

Financial report

Consolidated income statement

in CHF million	Notes	**2018**		2017		+/- %
Net sales	2.2	**1,736.9**	**100.0%**	1,634.8	100.0%	6.2%
Other operating income	2.3	19.8		23.1		
Change in work in progress and finished goods		10.4		15.5		
Material expenses		-643.2		-610.1		
Contribution margin		1,123.9	64.7%	1,063.3	65.0%	5.7%
Personnel expenses	2.4	-519.3		-480.6		
Other operating expenses	2.5	-271.8		-259.2		
Depreciation property, plant and equipment	3.4	-86.5		-83.6		
Amortization of intangible assets	3.5	-3.2		-42.2		
Total operating expenses		**-880.8**	**-50.7%**	-865.6	-52.9%	1.8%
Operating profit (EBIT)		**243.1**	**14.0%**	197.7	12.1%	23.0%
Financial result	2.6	-7.2		1.3		
Share of profit/(loss) from associates/joint ventures		-0.8		-0.2		
Earnings before tax		**235.1**		198.8		18.3%
Income taxes	2.7	-41.2		-39.7		
Net income		**193.9**	**11.2%**	159.1	9.7%	21.9%
Attributable to non-controlling interests		1.1		0.0		
Attributable to owners of SFS Group AG		192.8		159.1		
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	4.6	**5.14**		4.24		21.2%

The notes on pages 75 to 103 are an integral part of these consolidated financial statements.

Consolidated balance sheet

Assets in CHF million	Notes	**31.12.2018**		31.12.2017		+/-%
Cash and cash equivalents	4.1	129.7		112.8		
Trade receivables	3.1	314.5		324.0		
Other current receivables	3.2	38.1		37.0		
Inventories	3.3	342.2		311.2		
Prepayments and accrued income		11.1		9.7		
Current assets		**835.6**	**51.6%**	794.7	52.3%	5.1%
Property, plant and equipment	3.4	706.5		638.2		
Intangible assets	3.5	14.8		13.0		
Financial assets	4.2	43.8		59.0		
Deferred tax assets	3.11	18.6		14.1		
Non-current assets		**783.7**	**48.4%**	724.3	47.7%	8.2%
Assets		**1,619.3**	**100.0%**	1,519.0	100.0%	6.6%

Liabilities and equity in CHF million	Notes	**31.12.2018**		31.12.2017		+/-%
Trade payables	3.7	122.9		126.9		
Current borrowings	4.3	22.0		34.8		
Other current payables	3.8	64.2		64.4		
Accrued liabilities and deferred income		74.6		78.9		
Current liabilities		**283.7**	**17.5%**	305.0	20.1%	-7.0%
Non-current borrowings	4.3	48.6		43.3		
Pension benefit obligations	3.9	5.8		4.7		
Non-current provisions	3.10	14.1		16.5		
Deferred tax liabilities	3.11	62.5		62.5		
Non-current liabilities		**131.0**	**8.1%**	127.0	8.3%	3.1%
Liabilities		**414.7**	**25.6%**	432.0	28.4%	-4.0%
Share capital		3.8		3.8		
Capital reserves		73.8		145.0		
Retained earnings		1,104.5		933.0		
Equity attributable to SFS	4.6	**1,182.1**	**73.0%**	1,081.8	71.2%	9.3%
Non-controlling interests		22.5		5.2		
Total equity		**1,204.6**	**74.4%**	1,087.0	71.6%	10.8%
Liabilities and equity		**1,619.3**	**100.0%**	1,519.0	100.0%	6.6%

The notes on pages 75 to 103 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 1.1.2017		**3.8**	**210.6**	-907.1	-0.2	-3.7	1,674.1	**763.1**	**977.5**	**10.3**	**987.8**
Changes of cash flow hedges		**-**	**-**	-	-3.0	-	-	**-3.0**	**-3.0**	**-**	**-3.0**
Acquisitions	5.1	**-**	**-**	-	-	-	-	**-**	**-**	**-4.4**	**-4.4**
Disposal 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**
Balance as at 31.12.2017		**3.8**	**145.0**	-908.6	-3.2	9.7	1,835.1	**933.0**	**1,081.8**	**5.2**	**1,087.0**
Changes of cash flow hedges		**-**	**-**	-	4.4	-	-	**4.4**	**4.4**	**-**	**4.4**
Acquisitions	5.1	**-**	**-**	-4.2	-	-	-	**-4.2**	**-4.2**	**17.1**	**12.9**
Currency translation adjustments		**-**	**-**	-	-	-20.8	-	**-20.8**	**-20.8**	**0.3**	**-20.5**
Net income		**-**	**-**	-	-	-	192.8	**192.8**	**192.8**	**1.1**	**193.9**
Dividend for 2017		**-**	**-71.2**	-	-	-	-	**-**	**-71.2**	**-1.2**	**-72.4**
Other changes		**-**	**-**	-	-	-	-0.7	**-0.7**	**-0.7**	**-**	**-0.7**
Balance as at 31.12.2018		**3.8**	**73.8**	-912.8	1.2	-11.1	2,027.2	**1,104.5**	**1,182.1**	**22.5**	**1,204.6**

The notes on pages 75 to 103 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	**2018**	2017	+/-%
Net income		193.9	159.1	
Income taxes		41.2	39.7	
Financial result		7.2	-1.3	
Depreciation/amortization	3.4/3.5	89.7	125.8	
Interest paid	2.6	-4.4	-4.4	
Income tax paid		-42.0	-43.0	
Changes in provisions and allowances		5.0	-0.4	
Other non-cash expenses/income		-0.8	4.9	
Profit (-)/loss (+) from disposal of property, plant and equipment		-1.3	-8.4	
Cash flow before changes in net working capital		288.5	272.0	6.1%
Changes in trade receivables		9.7	-40.7	
Changes in other receivables and prepayments and accrued income		4.0	-12.4	
Changes in inventories		-24.9	-32.0	
Changes in trade payables		-2.1	31.1	
Changes in other current liabilities, accrued liabilities and deferred income		-11.7	8.6	
Changes in net working capital		-25.0	-45.4	-44.9%
Cash flow from operating activities		**263.5**	226.6	16.3%
Purchases of property, plant and equipment	3.4	-146.1	-128.8	
Proceeds from sale of property, plant and equipment		4.3	12.0	
Purchases of intangible assets	3.5	-3.0	-8.2	
Proceeds from government grants	3.4	-	4.2	
Acquisition of subsidiaries, net of cash acquired	5.1	-9.6	-10.2	
Changes in loans granted		-0.2	-4.3	
Investment in/dividends from associates/joint ventures		-1.0	0.5	
Proceeds from interest and securities		1.0	2.2	
Cash flow from investing activities		**-154.5**	-132.6	16.5%
Proceeds/repayment from/of current borrowings		1.3	15.8	
Proceeds/repayment from/of non-current borrowings		-18.9	-95.9	
Dividends to the shareholders		-71.2	-65.6	
Dividends to non-controlling interests		-1.2	-0.2	
Cash flow from financing activities		**-90.0**	-145.9	
Translation adjustment on cash and cash equivalents		-2.1	0.9	
Changes in cash and cash equivalents		**16.9**	-51.0	
Cash and cash equivalents at beginning of period	4.1	112.8	163.8	
Cash and cash equivalents at end of period	4.1	**129.7**	112.8	

The notes on pages 75 to 103 are an integral part of these consolidated financial statements.

Notes

1 General information
SFS Group AG is a limited company according to Swiss law, incorporated and domiciled in Heerbrugg, municipality of Widnau/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.

In 2018, SFS Group revised the content and structure of its financial report. The aim was to structure the content according to relevance and significance. In addition, charts and tables are intended to increase reader-friendliness. The structure of the notes is as follows:

1 General information
2 Performance
3 Capital employed
4 Financing and risk management
5 Group structure
6 Events after the balance sheet date

1.1 Summary of significant accounting policies
The consolidated financial statements have been prepared in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. Swiss GAAP FER provides a true and fair view of the financial position of the SFS Group and of its financial performance. The financial statements are based on the principle of historical acquisition costs (except for securities and derivative financial instruments recognized at fair value) and are based on the going concern principle. The consolidated financial statements for the year ended 31 December 2018 comprise the company and its subsidiaries and the group's interest in associates and joint ventures. The directives under the accounting standards (Swiss GAAP FER) have not changed in the reporting period.

1.2 Consolidation principles and currency conversion
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. Associates are those entities in which the Group exerts significant influence, but does not control the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, between 20% and 50% of the voting rights. SFS is entitled to its proportional share of the net assets. Goodwill (if any) is offset against equity.

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). 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 are translated at the closing exchange rate at the date of that balance sheet. Income and expenses are translated at average exchange rates. All resulting conversion differences are recognized in equity.

Foreign exchange differences resulting from intercompany equity loans in a foreign currency are recognized in equity and reversed through profit and loss upon disposal of the entity or upon repayment of the loan.

1.3 Critical accounting estimates and judgments

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

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.

2 Performance

This chapter comprises the performance and segment information as well as selected income and expense items.

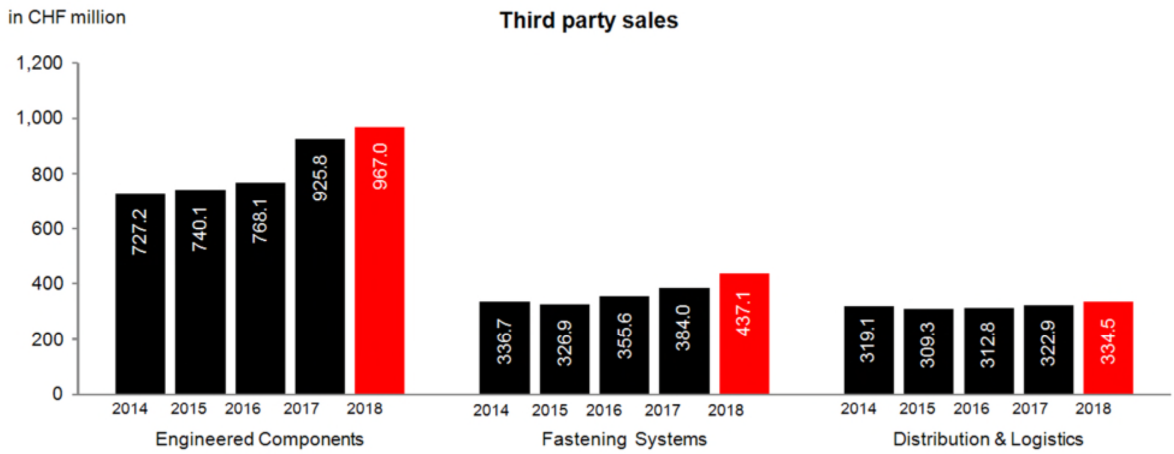
2.1 Segment information

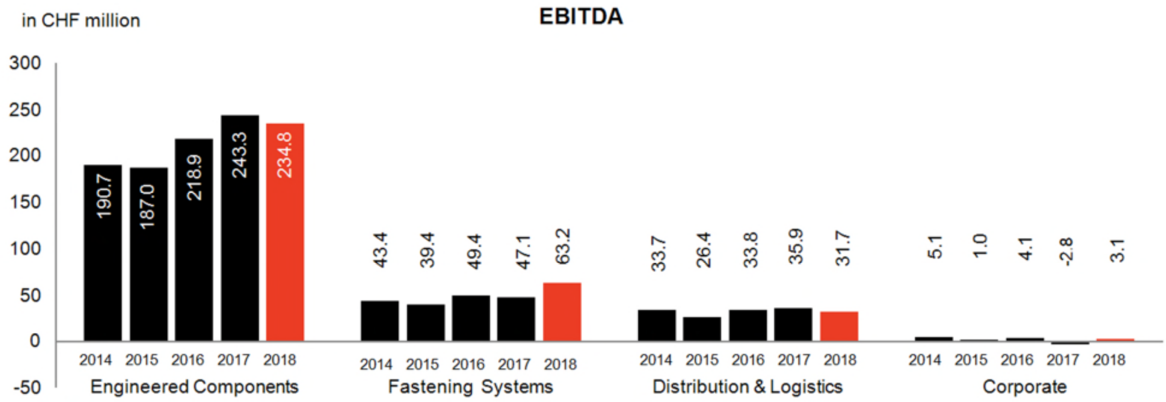
The SFS Group is divided into three segments: Engineered Components, Fastening Systems and Distribution & Logistics.

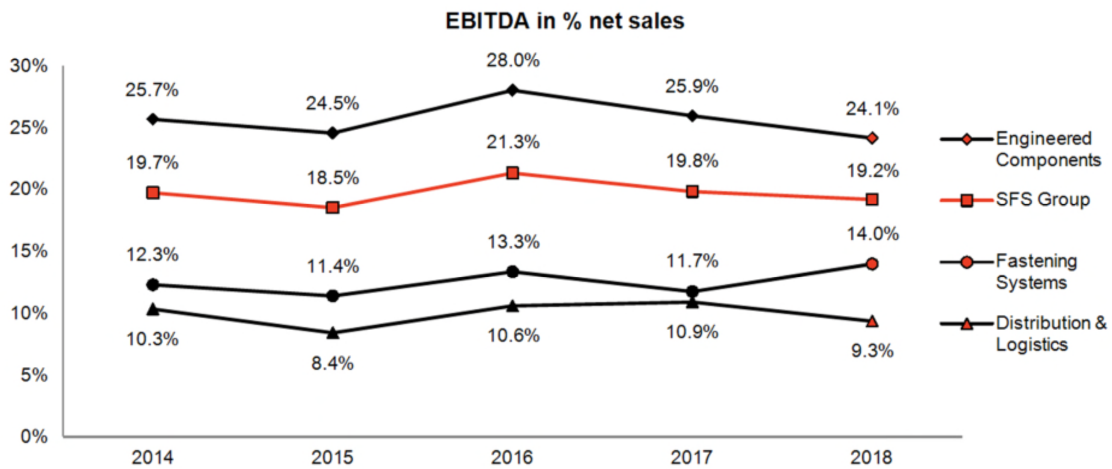
The financial performance of the segments is monitored based on EBIT as well as on operating profit before amortization and depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on internal group rates.

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. Financial assets are not allocated to a segment. The segment liabilities include directly attributable payables, accrued liabilities and deferred income, pension benefit obligations, non-current provisions as well as deferred tax liabilities.

Segment assets less segment liabilities adds up to capital employed. Intercompany transactions, balances, income and expenses between segments are eliminated and reported in the «Corporate» column.







The 2014 and 2015 figures in the chart are unaudited.

2018	Notes	Engineered Components	Fastening Systems	Distribution & Logistics	Corporate	Total SFS Group
Third party sales	2.2	967.0	437.1	334.5	-	1,738.6
Increase to previous year in %		4.5	13.8	3.6	-	6.5
Net sales	2.2	**972.5**	**452.4**	**339.7**	**-27.7**	**1,736.9**
EBITDA		**234.8**	**63.2**	**31.7**	**3.1**	**332.8**
In % of net sales		24.1	14.0	9.3		19.2
Operating profit (EBIT)		**176.6**	**44.2**	**25.8**	**-3.5**	**243.1**
In % of net sales		18.2	9.8	7.6	-	14.0
Capital expenditure		116.3	16.5	6.2	10.1	149.1
Operating assets		851.5	357.7	167.6	66.6	1,443.4
Operating liabilities		181.8	73.0	34.8	54.5	344.1
Capital employed		669.7	284.7	132.8	12.1	1,099.3
of which net working capital		240.2	129.5	87.3	-15.2	441.8

2017						
Third party sales	2.2	925.8	384.0	322.9	-	1,632.7
Increase to previous year in %		20.5	8.0	3.2	-	13.7
Net sales	2.2	**938.2**	**401.0**	**328.9**	**-33.3**	**1,634.8**
EBITDA		**243.3**	**47.1**	**35.9**	**-2.8**	**323.5**
In % of net sales		25.9	11.7	10.9		19.8
Operating profit (EBIT)		**145.9**	**30.4**	**29.9**	**-8.5**	**197.7**
In % of net sales		15.6	7.6	9.1	-	12.1
Capital expenditure		80.3	30.6	10.4	11.5	132.8
Operating assets		793.3	316.5	169.6	67.8	1,347.2
Operating liabilities		174.7	75.7	35.4	63.1	349.0
Capital employed		618.6	240.8	134.2	4.7	998.2
of which net working capital		242.2	106.2	90.2	-22.0	416.6

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

Sales by region

	Notes	**2018**		2017	
Switzerland		354.0	20.4%	340.9	20.9%
Germany		278.8	16.0%	251.5	15.4%
Other Europe		435.8	25.1%	400.4	24.5%
America		307.6	17.7%	281.4	17.2%
China		215.9	12.4%	214.5	13.1%
Other Asia		142.1	8.2%	139.5	8.6%
Africa, Australia		4.4	0.2%	4.6	0.3%
Third party sales	2.2	**1,738.6**	**100.0%**	1,632.7	100.0%
Not assigned items		-1.7		2.1	
Total net sales	2.2	**1,736.9**		1,634.8	

Gross sales to third parties are allocated to the countries of the receiving party. Not assigned items include invoiced freight, hedged foreign currency fluctuations effects and cash discounts.

Sales by industries

	Notes	**2018**		2017	
Automotive		456.5	26.3%	427.1	26.2%
Construction		459.4	26.5%	413.3	25.3%
Electronics		343.1	19.7%	335.9	20.6%
Medical		113.7	6.5%	103.9	6.4%
Other industries		365.9	21.0%	352.5	21.5%
Third party sales	2.2	**1,738.6**	**100.0%**	1,632.7	100.0%
Not assigned items		-1.7		2.1	
Total net sales	2.2	**1,736.9**		1,634.8	

Reconciliation of segments to income statement and balance sheet

Income statement	Notes	**2018**	2017
Operating profit (EBIT)		**243.1**	197.7
Financial result	2.6	-7.2	1.3
Share of profit from associates/joint ventures		-0.8	-0.2
Earnings before tax		**235.1**	198.8
Assets			
Operating assets		**1,443.4**	1,347.2
+ Cash and cash equivalents	4.1	129.7	112.8
+ Derivative financial instruments	4.7	2.4	-
+ Financial assets	4.2	43.8	59.0
Assets		**1,619.3**	1,519.0
Liabilities and equity			
Operating liabilities		**344.1**	349.0
+ Current borrowings	4.3	22.0	34.8
+ Long-term borrowings	4.3	48.6	43.3
+ Derivative financial instruments	4.7	-	4.9
Liabilities		**414.7**	432.0
Equity (Net assets)		**1,204.6**	1,087.0

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 in business units and 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 installation site. Having a worldwide network of sales locations, customer demands can be met through local consulting and delivery services.

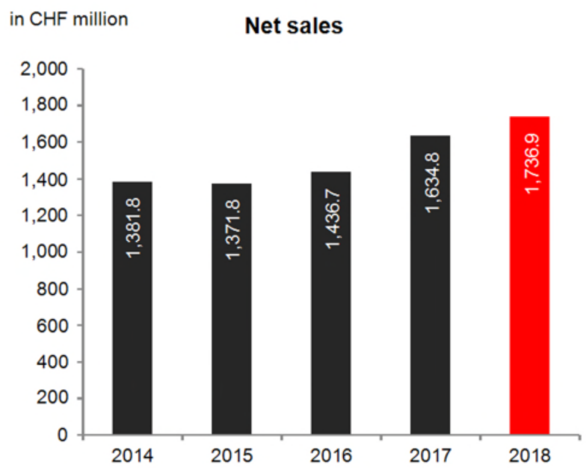
Distribution & Logistics
The Distribution & Logistics segment is a leading national supply partner for fasteners, tools, architectural hardware and related products to industrial customers, professional trade, wholesalers and DIY centers. Through international alliances and sourcing, Distribution & Logistics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

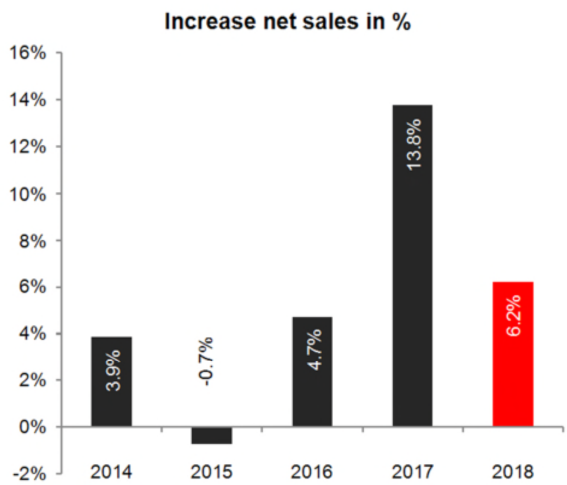
Corporate
In addition to the elimination of intercompany transactions, the «Corporate» column contains the corporate numbers relating to Technology and Services.

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

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

2.2 Net sales





	2018	2017	+/- %
Third party sales	1,738.6	1,632.7	6.5%
Other items	-1.7	2.1	
Net sales	**1,736.9**	1,634.8	6.2%

Third party sales increased by 6.5% (PY 13.7). The growth due to changes in the scope of consolidation amounts to 0.8% (PY 5.8). Based on a like-for-like view and ignoring foreign currency effects, sales rose by 4.3% (PY 7.4). The currency translation effect amounts to 1.4% (PY 0.5).

The service revenues account for less than 1% of total revenue (PY less than 1%). It does not comprise interest, user fees or dividends.

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.

2.3 Other operating income

	2018	2017
Revenue from services	10.2	7.2
Lease income	1.0	1.2
Own-built machinery	6.2	5.2
Gain on disposals of assets	2.4	9.5
Total	**19.8**	23.1

2.4 Personnel expenses

	2018	2017
Wages and salaries	412.2	379.0
Profit sharing	9.0	7.2
Social security	85.2	81.1
Other employment expenses	12.9	13.3
Total	**519.3**	480.6

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.

2.5 Other operating expenses

	2018	2017
Tools, energy, maintenance	141.4	131.7
Selling and distribution	86.8	84.2
Other operating expenses	43.6	43.3
Total	**271.8**	259.2

«Other operating expenses» include operating lease expenses amounting to CHF 14.7 million (PY 11.8). The total costs for research and development recognized during the reporting period amount to CHF 37.9 million (PY 33.8). 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 under different line items in the income statement as the requirements for capitalization according to Swiss GAAP FER have not been met.

Development cost are only capitalized in case the future income covers the capitalized amount and if the other criteria required by Swiss GAAP FER are met.

2.6 Financial result

	2018	2017
Interest expenses	-4.3	-4.6
Loss on financial investments	-4.0	-
Financial expenses	**-8.3**	-4.6
Interest income	1.1	2.1
Gain on financial investments	-	3.8
Financial income	**1.1**	5.9
Financial result	**-7.2**	1.3

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.

2.7 Income taxes

	2018	2017
Current income tax	46.4	44.2
Deferred income tax	-5.2	-4.5
Income tax expense	**41.2**	39.7
Reconciliation:		
Earnings before tax	235.1	198.8
Expected tax rate	17.4%	17.4%
Expected income tax	**40.9**	34.6
Variance in tax rates	3.3	4.6
Impact of change in tax rate on deferred taxes	-0.3	1.2
Items not subject to tax	1.4	-0.8
Changes in tax loss carry-forwards	-4.0	1.0
Adjustment in respect of prior years and other items	-0.1	-0.9
Income tax	**41.2**	39.7
Effective tax rate	**17.5%**	20.0%

The income tax expense 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.

3 Capital employed

«Capital employed» consists of operating assets less operating liabilities. Operating assets include all assets directly attributable to the segments such as receivables, inventories, prepaid expenses, property, plant and equipment, intangible assets and deferred tax assets. Operating liabilities comprise all liabilities directly attributable to the segments such as accrued liabilities, pension benefit obligations, provisions and deferred tax liabilities.

3.1 Trade receivables

	2018	2017
From third parties	317.3	326.8
From associates/joint ventures	0.1	0.1
From related parties	0.3	0.3
Valuation allowances	-3.2	-3.2
Total	**314.5**	324.0

Ageing analysis	2018	2017
Not yet due	251.6	263.7
Overdue 1 to 30 days	49.8	49.2
Overdue 31 to 90 days	12.5	12.2
Overdue more than 91 days	3.8	2.1
Trade receivables - gross	**317.7**	327.2
Valuation allowances	-3.2	-3.2
Trade receivables - net	**314.5**	324.0

Current receivables are carried at nominal value, less appropriate provisions for debtors' risks.

3.2 Other current receivables

	2018	2017
VAT and withholding tax	16.0	16.9
Other receivables	19.7	20.1
Derivative financial instruments	2.4	-
Total	**38.1**	37.0

3.3 Inventories

	2018	2017
Raw materials	41.8	30.9
Consumables	8.5	7.3
Work in progress	88.4	84.6
Finished goods	248.2	227.9
Valuation allowances	-44.7	-39.5
Total	**342.2**	311.2

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 valuation allowances 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 quantity in inventory is higher than annual consumption, the excess inventory for the second annual consumption is written down to 50% of the value. All inventories 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.

3.4 Property, plant and equipment

	Un-developed property	Land and buildings	Machines and equipment	Assets under construction	Total
Cost as at 1.1.2017	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
Cost as at 31.12.2017	9.3	614.6	986.9	48.8	1,659.6
Changes in scope of consolidation	-	24.8	29.8	4.0	58.6
Additions	-	8.8	56.3	81.0	146.1
Disposals	-3.2	-2.1	-47.1	-	-52.4
Reclassification	-	8.5	39.4	-49.0	-1.1
Exchange differences	-	-10.4	-18.0	-1.9	-30.3
Cost as at 31.12.2018	**6.1**	**644.2**	**1,047.3**	**82.9**	**1,780.5**
Accumulated depreciation as at 1.1.2017	-	-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
Accumulated depreciation as at 31.12.2017	-	-331.9	-689.5	-	-1,021.4
Changes in scope of consolidation	-	-9.5	-19.9	-	-29.4
Depreciation	-	-21.3	-65.2	-	-86.5
Disposals	-	1.7	47.6	-	49.3
Exchange differences	-	4.4	9.6	-	14.0
Accumulated depreciation as at 31.12.2018	**-**	**-356.6**	**-717.4**	**-**	**-1,074.0**
Net book value as at 1.1.2017	10.2	273.0	269.5	39.4	592.1
Net book value as at 31.12.2017	9.3	282.7	297.4	48.8	638.2
Net book value as at 31.12.2018	**6.1**	**287.6**	**329.9**	**82.9**	**706.5**

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:

Buildings	Years
Buildings	20–33
Infrastructure	10–15
Machines and equipment	
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.

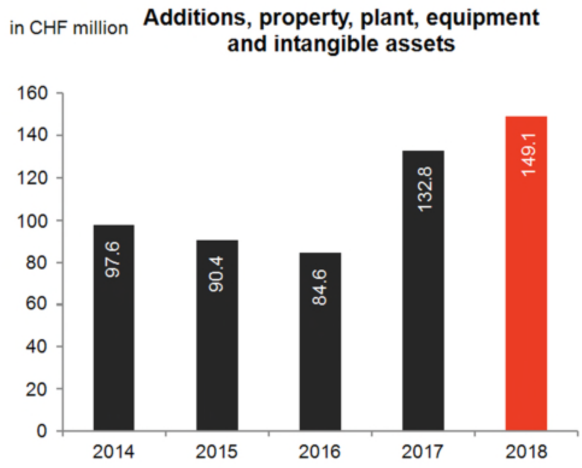
The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Government grants related to assets are offset against the historical costs of the asset concerned, as long as SFS Group has no obligation for repayment.

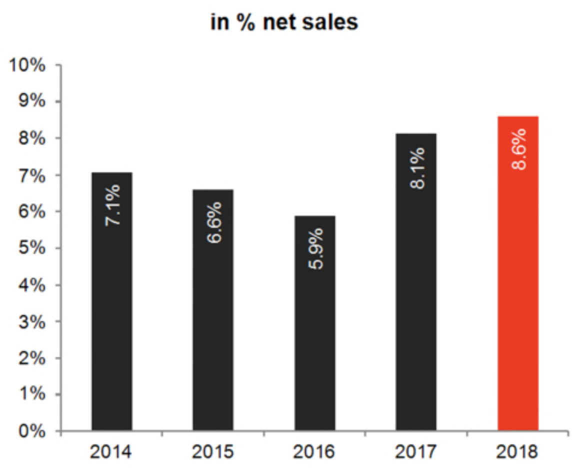
The book value of assets under construction includes down payments to suppliers to CHF 15.3 million (PY 14.0)

In order to collateralize borrowings, assets amounting to CHF 37.1 million (PY 27.0) have been pledged with CHF 31.2 million (PY 19.1), of which CHF 15.7 million (PY 8.7) have been drawn.

The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 29.0 million (PY 56.0).

The following charts show the additions to tangible and intangible assets from the notes 3.4 and 3.5:





3.5 Intangible assets

	Customers, brands, technology	Software	Building leases, patents	Total
Cost as at 1.1.2017	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
Cost as at 31.12.2017	295.9	66.0	3.4	365.3
Changes in scope of consolidation	-	2.8	0.1	2.9
Additions	-	3.0	-	3.0
Disposals	-	-0.1	-	-0.1
Reclassification	-	1.1	-	1.1
Exchange differences	2.4	-0.2	-0.2	2.0
Cost as at 31.12.2018	**298.3**	**72.6**	**3.3**	**374.2**
Accumulated amortization as at 1.1.2017	-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
Accumulated amortization as at 31.12.2017	-295.9	-56.1	-0.3	-352.3
Changes in scope of consolidation	-	-1.7	-	-1.7
Amortization	-	-3.1	-0.1	-3.2
Disposals	-	0.1	-	0.1
Exchange differences	-2.4	0.2	-0.1	-2.3
Accumulated amortization as at 31.12.2018	**-298.3**	**-60.6**	**-0.5**	**-359.4**
Net book value as at 1.1. 2017	41.2	6.8	2.0	50.0
Net book value as at 31.12.2017	-	9.9	3.1	13.0
Net book value as at 31.12.2018	**-**	**12.0**	**2.8**	**14.8**
Intangible assets generated internally	-	0.8	-	0.8

The purchased intangible assets in the «Customers, brands, technology» column include the assets from the Unisteel Technology acquisition.

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, controlled by the organization, they will yield a measurable benefit for the organization over several years, expenses can be recognized and measured separately and 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.

In 2018, the SFS Group had no (PY 0.8) future commitments to purchase software or software-related projects.

3.6 Theoretical goodwill

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 below. 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 would not impact the income statement, but the theoretical impact would be shown in the shadow accounting.

	2018	2017
Balance as at 1.1.	800.3	828.6
Acquisitions	4.2	-
Derecognition	-553.8	-
Adjustments	-	1.5
Exchange differences	-1.9	-29.8
Balance as at 31.12.	248.8	800.3
Accumulated amortization as at 1.1.	-631.0	-528.5
Amortization	-49.4	-124.0
Derecognition	553.8	-
Exchange differences	1.5	21.5
Accumulated amortization as at 13.12.	-125.1	-631.0
Theoretical value of goodwill as at 31.12.	**123.7**	169.3
Equity attributable to SFS	1,204.6	1,087.0
Theoretical value of goodwill	123.7	169.3
Theoretical shareholders' equity as at 31.12.	**1,328.3**	1,256.3
Net income	193.9	159.1
Amortization of goodwill	-49.4	-124.0
Theoretical net income	**144.5**	35.1

The derecognitions of CHF 553.8 million relates to the fully amortized goodwill from the Unisteel acquisition in 2012.

3.7 Trade payables

	2018	2017
Against third parties	122.9	126.8
Against associates/joint ventures	-	0.1
Total	**122.9**	126.9

Liabilities are recognized in the balance sheet at nominal value.

3.8 Other current payables

	2018	2017
VAT and other liabilities	32.4	32.4
Tax liabilities	31.8	27.1
Derivative financial instruments	-	4.9
Total	**64.2**	64.4

3.9 Pension benefit obligations

SFS Group maintains pension plans in several countries. Most plans are legal entities, that are financially independent from the SFS Group. They 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.

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 (OPA). The SFS Pension Fund is a foundation, which is legally separated from the SFS Group. As per 31 December 2018, the SFS Pension Fund has an expected coverage ratio according to the OPA of 111.8% (PY 119.2%). 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 31,380 shares (PY 27,169) 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 0.7 % to 2.9% (PY 1.5% to 2.5%).

Employer contribution reserve (ECR)	Nominal value 31.12.2018	Waiver of use 2018	Balance sheet 31.12.2018	Accumula-tion 2018	Balance sheet 31.12.2017	Result from ECR in personnel expenses 2018	2017
Patronage Fund	18.4	-	18.4	10.2	8.2	-	-
SFS Pension Fund	1.2	-	1.2	-0.2	1.4	-	-
Total	19.6	-	19.6	10.0	9.6	-	-

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.

In the reporting period, non-committed reserves of the Patronage Fund have been reclassified as employer contribution reserves amounting to CHF 10.0 million.

Economic benefit/economic obligation and pension benefit expenses	Surplus/deficit	Economical part of SFS		Change to	Contribution concerning	Pension benefit expenses within personnel expenses	
	31.12.2018	31.12.2018	31.12.2017	prior year	2018	2018	2017
Patronage Fund	1.6	1.6	13.4	11.8	-10.0	1.8	-0.3
Pension Funds							
without surplus/deficit	-	-	-	-	23.4	23.4	21.7
with deficit	-2.0	-2.0	-2.3	-0.3	-	-0.3	3.0
without own assets	-3.8	-3.8	-2.4	1.4	-	1.4	0.1
Total	-4.2	-4.2	8.7	12.9	13.4	26.3	24.5

Pension Funds «without surplus/deficit» includes the SFS Pension Fund. At balance sheet date, no non-committed reserves 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 2018 as well as of 31 December 2017 this is the case for plans in Germany and UK. The frozen plan in the US has been settled and was 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.

3.10 Non-current provisions

	Anniversaries, severance payments	Other provisions	Total
Balance as at 1.1.2017	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
Balance as at 31.12.2017	12.1	4.4	16.5
Changes in scope of consolidation	-	1.2	1.2
Additions	1.1	0.8	1.9
Used amounts	-1.0	-1.2	-2.2
Unused amounts reversed	-	-2.9	-2.9
Exchange differences	-0.4	-	-0.4
Balance as at 31.12.2018	**11.8**	**2.3**	**14.1**
of which non-current	11.8	2.3	14.1

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 1.7 million (PY 3.7). For other business risks, CHF 0.6 million (PY 0.7) are deferred.

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.

3.11 Deferred tax assets (-)/liabilities (+)

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

Net deferred tax balances	31.12.2018	31.12.2017
Deferred tax assets	-18.6	-14.1
Deferred tax liabilities	62.5	62.5
Total	**43.9**	48.4

Movement in net deferred tax balances	2018	2017
Balance as at 1.1.	48.4	53.4
Changes in scope of consolidation	-1.8	-
Charged (+)/credited (-) to income statement	-5.2	-4.5
Charged (+)/credited (-) to equity	0.9	-0.9
Exchange differences	1.6	0.4
Balance as at 31.12.	**43.9**	48.4

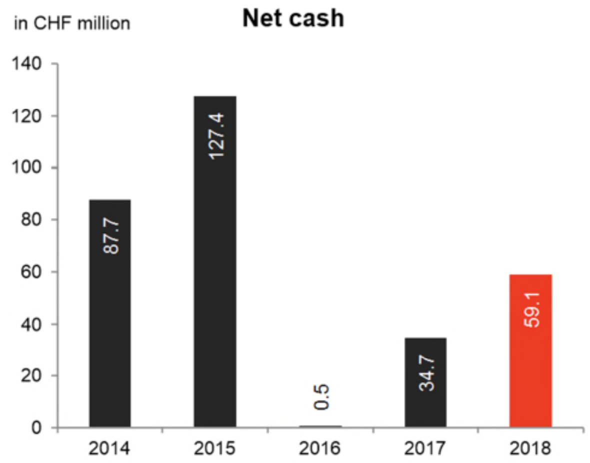
The table below shows the tax loss carry forwards:

	recognized		unrecognized	
Tax loss carry forwards	**2018**	2017	**2018**	2017
Expiry within 3 years	0.1	-	3.2	1.0
Expiry in 4 to 7 years	2.1	0.8	3.6	7.4
Expiry after 7 years	19.0	4.9	21.1	23.6
Total	**21.2**	5.7	**27.9**	32.0

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 all temporary differences arising between the values determined according to tax law 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.

4 Financing and risk management

This chapter describes the management of the capital structure and its financial risks. The aim is to optimize profits in relation to equity plus net debt, to secure liquidity and to minimize currency risks.



4.1 Cash and cash equivalents

	2018	2017
Cash at bank and on hand	123.2	108.2
Current bank deposits	6.5	4.6
Total cash and cash equivalents	**129.7**	112.8

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.

4.2 Financial assets

	2018	2017
Loans to third parties	1.0	1.1
Financial assets from associates/joint ventures	21.0	33.9
Assets from employer contribution reserves	19.6	9.6
Economic benefit from pension plans	1.6	13.4
Other financial assets	0.6	1.0
Total	**43.8**	59.0

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. In the reporting period part of the economic benefit from pension plans has been reclassified to assets from employer contribution reserves in the amount of CHF 10 million.

4.3 Borrowings

	2018		2017	
	CHF million	Interest	CHF million	Interest
Bank borrowings	22.0	13.0%	34.8	4.0%
Current borrowings	**22.0**	**13.0%**	34.8	4.0%
of which CHF	-	-	20.0	0.6%
of which EUR	6.6	1.9%	1.8	1.8%
of which USD	0.5	5.1%	0.6	4.9%
of which other currencies	14.9	18.2%	12.4	9.7%
Bank borrowings	48.1	0.9%	43.2	2.2%
Non-current borrowings against third parties	0.5	0.0%	0.1	2.0%
Non-current borrowings	**48.6**	**0.9%**	43.3	2.2%
of which CHF	40.1	0.6%	0.1	2.0%
of which EUR	8.5	2.3%	3.3	1.3%
of which USD	-	-	39.9	2.2%
Total borrowings	**70.6**	**4.7%**	78.1	3.0%

The financial liabilities have the following maturities:

Cash-outflows	**Total 2018**	in 3 months	in 4 bis 12 months	in 13 bis 24 months	later
Borrowings	70.6	6.6	15.4	42.2	6.4
Interest payments	3.7	0.8	2.4	0.3	0.2
Financial liabilities as at 31.12.2018	**74.3**	**7.4**	**17.8**	**42.5**	**6.6**

	Total 2017	in 3 months	in 4 bis 12 months	in 13 bis 24 months	later
Borrowings	78.1	25.7	9.1	3.6	39.7
Interest payments	3.4	0.6	1.3	0.9	0.6
Financial liabilities as at 31.12.2017	81.5	26.3	10.4	4.5	40.3

Syndicated loan

A 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 million and is drawn down 27% (PY 39%) at the end of 2018. It may be increased by a maximum amount of an additional CHF 150 million, provided the lenders agree to the application of the SFS Group. This option may be exercised until three months prior to 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 2.5x

4.4 Leasing

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.

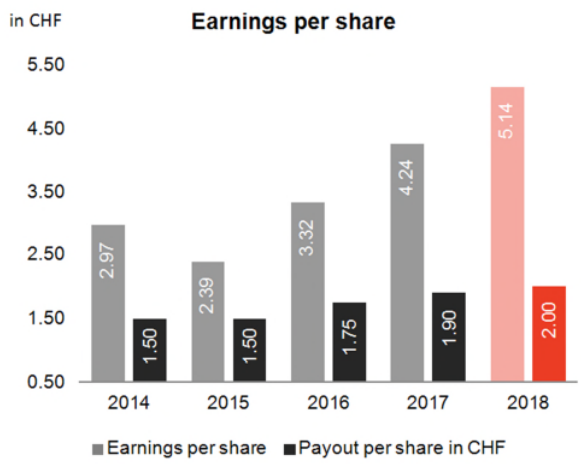
Future aggregate minimum lease payments	**2018**	2017
No later than 1 year	11.2	11.1
Later than 1 year and no later than 5 years	25.4	27.6
Later than 5 years	5.9	7.4
Total	**42.5**	46.1

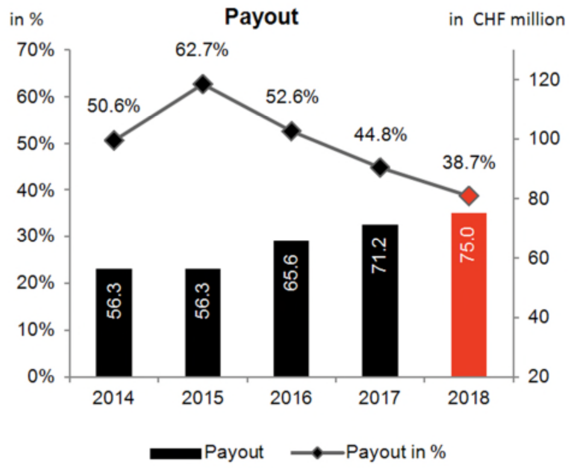
4.5 Off-balance sheet transactions

	2018	2017
Debt guarantees	1.2	0.6
Guarantee obligations	11.4	12.3
Other commitments	2.2	3.2

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 above.

4.6 Equity and earnings per SFS share





The 2014 and 2015 figures in the chart are unaudited.

The payout of CHF 2.00 (PY 1.90) per registered share, amounting to a total of CHF 75.0 million (PY 71.2), will be proposed at the Annual General Meeting of SFS Group AG on 1 May 2019. A payout from retained earnings and statutory capital reserves will be realized and accounted in the books after the approval of the Annual General Meeting.

	2018	2017
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	192.8	159.1
Earnings per share (in CHF) basic and diluted	**5.14**	4.24

As of 31 December 2018, 37,500,000 (PY 37,500,000) registered shares at CHF 0.10 are issued and outstanding. There are no dilutive effects. There is no authorized or conditional capital as of the balance sheet date (PY none). Statutory and legal reserves that may not be distributed amount to CHF 55.7 million (PY 66.9) as of 31 December 2018.

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 and separately disclosed (if any). The profit or loss realized by sales of treasury shares is recognized as a reduction of capital reserves, net of any related income taxes. SFS Group holds no treasury shares (PY none).

4.7 Derivative financial instruments

Forward foreign exchange contracts	Contract value				Market value
2018	CHF	EUR	USD	MYR	CHF
EUR sale/CHF purchase	75.3	-64.9	-	-	2.4
CHF sale/EUR purchase (FX-Swap)	-6.8	6.0	-	-	0.0
CHF sale/USD purchase (FX-Swap)	-4.5	-	4.5	-	0.0
2017					
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

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 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. Derivatives are held in 2018 and 2017 exclusively for the purpose of currency hedging.

4.8 Exchange rates

		Balance sheet		Income statement	
		2018	2017	**2018**	2017
China	CNY 100	14.310	14.994	14.687	14.619
EU	EUR 1	1.127	1.170	1.155	1.109
United Kingdom	GBP 1	1.260	1.319	1.307	1.266
Singapore	SGD 1	0.723	0.730	0.725	0.708
USA	USD 1	0.984	0.976	0.978	0.984

5 Group structure

This chapter provides an overview of the Group structure. Changes and related detailed information are explained. Transactions with related parties are also disclosed.

5.1 Changes in scope of consolidation

Acquisition of subsidiaries	**2018**	2017
Cash and cash equivalents	0.4	-
Trade receivables	5.9	-
Inventories	17.4	-
Other current assets	5.2	-
Property, plant, equipment and software	30.3	-
Other non-current assets	2.6	-
Current liabilities	-11.7	-
Non-current liabilities	-15.2	-
Acquired net assets	**34.9**	-
Thereof non-controlling interest	-17.1	-
Formerly acquired shares	-12.0	-
Purchase non-controlling interests	-	4.4
Goodwill offset against equity	4.2	-
Purchase price incl. acquisition cost	**10.0**	4.4
Cash and cash equivalents	-0.4	-
Final payment of contigent consideration	-	5.8
Consideration in cash flow statement	**9.6**	10.2

2018
SFS Group increased its share in HECO Group from 30% to 51% with effect of 1 July 2018. The HECO Group, reported in segment Fastening Systems, with head office in Schramberg (Germany) achieved a turnover of EUR 41 million with 322 employees in 2017. Subsequent HECO is no longer reported as associates but as fully consolidated entity since 1 July 2018.

2017
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.

Disposal of subsidiaries	**2018**	2017
Trade receivables	-	0.6
Inventories	-	0.3
Other current assets	-	0.2
Property, plant and equipment	-	0.1
Current liabilities	-	-1.2
Disposed net assets	**-**	-

2018
In May 2018, SFS unimarket AG (Segment Distribution & Logistics) disposed the activities of the security system that generated a turnover of 10 million (in 2017) with 26 employees.

2017
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.

5.2 Group companies

Subsidiaries

Country	Registered office	Name of the company	Shareholding in % 2018	2017	Share capital in local currency	(,000)	Activities
Austria	Korneuburg	SFS Group Austria GmbH	100.0	100.0	EUR	146	V, P
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	V, P
Czech Republic	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	100.0	CNY	242,986	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	98.8	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
	Sain-Projet	HECO France Sarl	51.0	30.0	EUR	8	V
Germany	Mörfelden-Walldorf	GESIPA Blindniettechnik GmbH	100.0	100.0	EUR	5,000	V, P
	Oberursel	SFS intec GmbH	100.0	100.0	EUR	5,000	V, P
		SFS intec Beteiligungen GmbH & Co. KG	99.0	99.0	EUR	4,000	H
	Schramberg	Ludwig Hettich Holding GmbH & Co. KG	51.0	30.0	EUR	2,500	H
		Ludwing Hettich Verwaltungs-GmbH	51.0	30.0	EUR	26	H
		HECO Schrauben GmbH & Co. KG	51.0	30.0	EUR	1,220	V, P
Hungary	Janossomorja	SFS Group Hungary Kft.	100.0	100.0	HUF	412,500	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	94.7	94.7	INR	46,654	V, P
Italy	Pordenone	SFS intec S.r.l. unipersonale	100.0	100.0	EUR	10,000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P
	Labuan	Unisteel Technology International Ltd	100.0	100.0	USD	379,850	V, H
Mauritius		Unisteel International Pte Ltd	100.0	100.0	USD	1	L
Mexico	Monterrey	SFS Group Fastening Technology Mexico S.A.	100.0	100.0	MXN	50	V
Netherlands	Helmond	Guardian 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	PLN	-	-
	Poznan	SFS Group Sp. z o.o.	100.0	100.0	PLN	11,937	V
Portugal	Malveira	SFS Group Fastening Technology (Iberica), S.A.U. Sucursal em Portugal	100.0	100.0	EUR	n/a	V
Romania	Campia Turzii	HECO Schrauben S.r.l.	51.0	30.0	RON	12,737	P
Singapore	Singapore	Unisteel Technology Limited	100.0	100.0	SGD	8,033	V
Spain	Arrigorriaga	SFS Group Fastening Technology (Iberica), S.A.U.	100.0	100.0	EUR	975	V
Sweden	Strängnäs	SFS intec AB	100.0	100.0	SEK	200	V, P

Country	Registered office	Name of the company	Shareholding in % 2018	2017	Share capital in local currency	(,000)	Activities
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
	Emmenbrücke municipality of Emmen	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	NTD	n/a	DL
Turkey	Torbali-Izmir	SFS intec Bağlanti Teknolojileri Sanayi ve Ticaret A.Ş.	91.4	91.4	TRY	3,000	V, P
United Kingdom	Leeds	QBM Distributors Ltd	100.0	100.0	GBP	100	V
		SFS Group Fastening Technology Ltd	100.0	100.0	GBP	2,000	V, P
		Ncase Ltd	100.0	100.0	GBP	0	H
		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	98.8	USD	140,000	H
	Franklin, MA	Tegra-CTW Holdings, LLC	98.8	98.8	USD	41,473	H
		Tegra Medical, LLC	98.8	98.8	USD	23,465	V, P
		Tegra Medical CR, LLC	98.8	98.8	USD	0	H
	Hernando, MS	Tegra Medical (MS), LLC	98.8	98.8	USD	17,275	V, P

DL = Services
P = Production
V = Sales
H = Holding
L = in Liquidation

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

2018

In 2018 an increase in share to 51% of the HECO Group lead to disclose of their companies in Germany (Schramber), France (Sain-Projet) and Romania in the table «subsidiaries» above.

The two companies GESIPA Polska Sp. z o.o. and SFS intec Sp. z o.o. became merged in 2018 and renamed into SFS Group Sp. z o.o.

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).

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.

Joint ventures

Country	Registered office	Name of the company	Shareholding in % **2018**	2017	Share capital in local currency	(,000)	Activities
China	Tianjin	Sunil SFS intec Automotive Parts (Tianjin) Co., Ltd	50.0	50.0	CNY	178,942	V, P

SFS Group has committed to pay in half of a capital increase amounting to USD 5.0 million to Sunil SFS intec to finance investments in 2019.

Associates

Country	Registered Office	Name of the company	Shareholding in % **2018**	2017	Share capital in local currency	(,000)	Activities
Germany	Schramberg	Ludwig Hettich GmbH & Co. KG	-	30.0	-	-	V, P

2018
With the increase in the shareholding from 30% to 51% as of 1 July 2018, Ludwig Hettich GmbH & Co. KG and its subsidiaries are fully consolidated and as a consequence no longer disclosed under «Associates».

2017
Shareholdings as well as the share capital related to associates remains unchanged from the previous year.

5.3 Transactions with related parties

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

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:

	2018	2017
Sales of goods and services	2.9	2.8
Purchases of goods and services	0.6	1.3
Receivables	0.3	0.3
Sale of properties	-	10.1

The sale of goods and services mainly involves IT & finance services to companies owned by the founding families. 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

	2018	2017
Sales of goods and services	0.9	2.5
Sales of machines and tools	0.3	0.2
Purchase of goods and services	4.0	3.7
Receivables	0.1	0.1
Liabilities	-	0.1
Loans	10.3	10.8
Bank guarantees	11.4	11.6

6 Events after the balance sheet date

On 14 January 2019, the Audit Committee approved one-off costs in the low double-digit millions in connection with the planned consolidation of the Electronics Division's (Unisteel) Chinese business activities in Nantong. The official employee information is planned to be held in March 2019. On the other hand, book gains from the sale of real estate are expected. These two one-off effects are estimated to have a negative impact in the high single digit to low double digit millions on reported EBIT 2019.

Since October 2018 the SFS Group is discussing the potential of a strategic collaboration with Triangle Fasteners Corporation in USA. The talks are at an advanced stage. SFS expects final results from the discussion in the next few weeks.

The consolidated financial statements of the SFS Group were approved by the Audit Committee and the Board of Directors on 7 March 2019 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 1 May 2019.

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 income statement, consolidated balance sheet as at 31 December 2018, 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 consolidated financial statements (pages 70 to 103) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 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 11,800,000

We concluded full scope audit work at twelve Group companies in seven countries. Additionally, we concluded reviews at a further two Group companies in Germany.

Our audit scope addressed 76% of the revenue and 72% of the assets of the Group.

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

Valuation of inventories

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.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group 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.

Overall Group materiality	CHF 11,800,000
How we determined it	5% of earnings before tax
Rationale for the materiality benchmark applied	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

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 the completed statutory audits and on analyses of significant changes. In particular, for these companies we checked 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. Our involvement included, for example, meetings and telephone conferences during the audit planning stage and after completion of the local audits.

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	*How our audit addressed the key audit matter*
Inventories as at 31 December 2018 amount to CHF 342.2 million. This represents 21.1% of total assets. The inventories of SFS Group AG comprise the 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, the 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 invento-ries: • Inventories are not stated at the lower of average acquisition or production cost and net realisable value. • Write-downs for obsolescent inventory or stock that exceeds the usual sales volume (e.g. slow moving or excess inventory) are inadequate. Further details regarding inventories can be found in note 3.3.	A process has been defined to check the average acquisition or production costs and determine the write-downs necessary for obsolescent 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 whether the lower of acquisition or production cost and net realisable value has been applied. • 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 2018.

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. 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, 7 March 2019

Financial statements SFS Group AG

Balance sheet

Assets in CHF million	31.12.2018	31.12.2017
Cash and cash equivalents	12.7	12.1
Other current receivables from Group companies	7.5	8.0
Current assets	**20.2**	20.1
Financial assets	0.1	0.1
Financial assets from Group companies	825.8	804.1
Shareholdings	90.8	90.8
Non-current assets	**916.7**	895.0
Assets	**936.9**	915.1

Liabilities and equity in CHF million		
Interest-bearing borrowings	0.0	20.0
Interest-bearing borrowings from Group companies	20.0	19.9
Deferred income and accrued expenses	0.8	0.8
Current liabilities	**20.8**	40.7
Interest-bearing borrowings	40.0	0.0
Interest-bearing borrowings from Group companies	19.2	30.1
Non-current liabilities	**59.2**	30.1
Share capital	3.8	3.8
Statutory capital reserves	73.8	145.0
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	502.3	418.5
Total equity	**856.9**	844.3
Liabilities and equity	**936.9**	915.1

Income statement

Income in CHF million	2018	2017
Investment income	79.0	68.0
Interest income	6.2	5.9
Currency gain financial assets (net)	0.0	0.1
Total income	**85.2**	74.0

Expenses in CHF million		
Interest expense	-0.5	-0.2
Administration expenses	-0.4	-0.4
Total expenses	**-0.9**	-0.6
Net income before taxes	**84.3**	73.4
Direct taxes	-0.5	-0.4
Net income	**83.8**	73.0

Notes

1 Accounting policies

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

2 Number of employees

The company does not have any employees.

3 Shareholdings

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

	2018		2017	
	Share capital	Share-holding[1]	Share capital	Share-holding[1]
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 5.2 of the consolidated financial report.

[1] each share represents one voting right

4 Share capital

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

5 Significant shareholders

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

Share capital and voting rights	**31.12.2018**	31.12.2017
Founding families	**54.8%**	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 or shareholder groups listed in the share register 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:

Board of Directors	Number of shares **31.12.2018**	Number of shares 31.12.2017
Heinrich Spoerry, Chairman, external member	197,960	195,980
Nick Huber, external member	332,932	246,372
Urs Kaufmann, independent, external member	9,260	8,280
Thomas Oetterli, independent, external member	7,260	6,280
Bettina Stadler, external member	391,400	390,420
Jörg Walther, independent, external member	4,140	3,280
Total	**942,952**	850,612

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

Group Executive Board	Number of shares **31.12.2018**	Number of shares 31.12.2017
Thomas Bamberger, Head of Division Riveting	3,366	2,558
Arthur Blank, Head of Division Construction	14,830	13,965
Jens Breu, Chief Executive Officer	12,310	9,330
Rolf Frei, Chief Financial Officer	50,130	48,750
J. Mark King, Head of Division Medical	800	0
Walter Kobler, Head of Division Industrial	21,250	20,625
George Poh, Head of Division Electronics	54,386	52,843
Alfred Schneider, Head of Division Automotive	16,610	15,505
Josef Zünd, Head of Segment Distribution & Logistics	17,916	20,103
Total	**191,598**	183,679

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

7 Statutory capital reserves

The disclosed statutory capital reserves amount to CHF 73,799,250 (PY 145,049,250) 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.

Contingent liabilities	**31.12.2018**	31.12.2017
Warranty obligations to Group companies	216.8	220.5
Warranty obligations to third parties	11.4	12.3
Of which used	64.9	85.4

Proposed appropriation of retained earnings and statutory capital reserves

The Board of Directors proposes to the Annual General Meeting of shareholders to payout a total of **CHF 2.00** (PY 1.90) per registered share with a nominal of CHF 0.10 per share.

Proposed appropriation of retained earnings
Payment from retained earnings **CHF 0.34** (PY none) per registered share.

Retained earnings in CHF million	**31.12.2018**	31.12.2017
Profit carry forward	418.5	345.5
Net income	83.8	73.0
Earnings available for distribution	502.3	418.5
Payout from retained earnings	**-12.7**	-
Carry forward to retained earnings	489.6	418.5

Proposed appropriation of statutory capital reserves
Pament from statutory capital reserve **CHF 1.66** (Vj. 1.90) per registered share.

Statutory capital reserves in CHF million	**31.12.2018**	31.12.2017
Carry forward	73.8	145.0
Payout from statutory capital reserves	**-62.3**	-71.2
Carry forward to statutory capital reserves	11.5	73.8

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 2018 and the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (112 to 116) as at 31 December 2018 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

Materiality

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

On the basis of 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.

Overall materiality	CHF 4,300,000
How we determined it	0.5% of total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

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.

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

We have no key audit matters to report.

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Thomas Illi Audit expert Auditor in charge	Martin Bettinaglio Audit expert

St. Gallen, 7 March 2019

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. Since 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER.

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Number of registered shares (in 1,000)	37,500	37,500	37,500	37,500	37,500
Number of shares ranking for dividend (in 1,000)	37,500	37,500	37,500	37,500	37,500
Weighted average number of shares (in 1,000)	37,500	37,500	37,500	37,500	35,814
Number of shareholders	7,960	7,530	6,641	6,941	6,778
Stock exchange quotation (in CHF)					
Year high	121.80	123.50	83.15	79.00	79.30
Year low	73.80	82.55	60.45	56.90	62.50
Year-end price	76.30	113.20	83.10	70.00	79.10
Share key data					
Earnings per share in CHF	5.14	4.24	3.32	2.39	2.97
Distribution per share in CHF	2.00	1.90	1.75	1.50	1.50
Payout ratio in % of net income	38.7	44.8	52.6	62.7	50.6
Price/earnings ratio (year-end price)	14.8	26.7	25.0	29.3	26.6
Market capitalization					
In CHF million	2,861.3	4,245.0	3,116.3	2,625.0	2,966.3
(year-end price x number of shares ranking for dividend)					
As a % of net sales	164.7	259.7	216.9	191.4	214.7
As a % of equity	237.5	390.5	315.5	233.0	263.6

Agenda

Wednesday, 1 May 2019	26th Annual General Meeting of SFS Group AG
Friday, 19 July 2019	Publication half year results 2019

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 2018
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 assesment of market conditions and future events. The statements are therefore subject to risks, uncertainities and assumptions. Unforseen 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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