To our shareholders

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Solid operating performance despite overvalued Swiss franc

Dear shareholders,

We started the 2015 financial year with optimism and confidence. According to our plan and budget at the time, we were aiming to increase sales by 5–7% and improve the operating margin.

After the Swiss National Bank decided to stop its defense of the minimum EUR/CHF exchange rate of CHF 1.20, the Swiss franc soared in value against the euro and almost every other currency of relevance to SFS. Consequently, the financial targets we had originally set for 2015 were pushed out of reach right at the beginning of the year.

Our calculations and estimates indicate that the appreciation in the value of the Swiss franc compared to the average exchange rates from the previous year diminished our reported operating profit for 2015 by approximately CHF 47 million.

SFS Group's Swiss-based activities were affected by the adverse exchange rate movements. These operations generate high added value in Switzerland, which is also where their cost base is located. SFS intec AG, for example, exports more than 95% of its output and almost all of this is invoiced in euros. As SFS is competing with companies that do not have their cost base located in Switzerland and which therefore operate with a different currency exposure profile, we were able to increase our selling prices in only a few exceptional cases.

Swift reaction, effective measures, dedicated employees

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Faced with the further significant appreciation of the Swiss franc, a large number of measures were taken in Switzerland. Immediate measures included an increase in weekly working hours with no change in pay, a reduction in paid annual leave, and cuts in compensation for senior executives. As for action plans with a medium-term impact, we

decided to focus the Swiss sites even more sharply on innovative, cutting-edge tasks, technically highly demanding production tasks, and capital-intensive manufacturing processes.

Activities that do not meet these criteria will gradually be transferred to sites within the Group that are not handicapped by the overvaluation of the Swiss franc. The adopted measures were implemented quickly and well supported by our dedicated employees. Once again, we thank them for their loyalty and hard work.

Maintaining a high rate of utilization at the Swiss sites and achieving significant productivity gains were also key targets. Thanks to the good order flow and the initiative displayed by all employees, we were able to achieve all these goals. The necessary structural adjustments were made without laying off any employees. The significant improvement in results witnessed in the second half of the year is testimony to the effectiveness of the measures and programs we have initiated. We remain confident in our ability to compete effectively in the world market from our base in Switzerland.

Engineered Components segment

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The Engineered Components segment generated sales growth of 6.1% in local currency. Its sales growth was mainly fueled by the Automotive division, thanks to important new orders and the ramp-up of projects that had been won in earlier reporting periods. Divisional profitability declined due to the unfavorable currency movements. Sales increased by 1.8% in Swiss francs.

The Electronics and Industrial divisions also performed well. Thanks to good productivity gains and lower levels of currency exposure, these two divisions were able to hold their margins at a good level despite intense pricing competition.

Fastening Systems segment

The Fastening Systems segment achieved pleasing growth of 4.9% in local currency, to which both divisions contributed. In Swiss francs, however, sales were down 2.9%. Although the Riveting division (no sites in Switzerland) profited from the weak euro, the Construction division was clearly disadvantaged by the adverse currency situation. Structural adjustments included the relocation of an important logistics hub from Switzerland to the Czech Republic. This project was concluded before the end of 2015 without any disruption to ongoing operations and will contribute to the anticipated improvement in results. A cooperation agreement was signed with Ludwig Hettich Holding GmbH & Co. KG (HECO Group), Schramberg, Germany, in the structural timberwork market in the autumn of 2015, and a minority interest in the company was also acquired.

Distribution & Logistics segment

Although the Distribution & Logistics segment is almost exclusively active in Switzerland, the surge in the Swiss franc's value also had an impact on its sales and profits. Despite the acquisition of major new customers in 2015, segment sales declined by 3.1%. Due to the price and competitive dynamics that set in after 15 January 2015, SFS unimarket was obliged to offer price concessions to customers. This occurred before the division was able to benefit from lower sourcing costs. Significantly lower demand from industrial customers also had a negative impact on the course of business.

One-time effect in the income statement

Adjustments to the pension plan contributions and benefits of SFS in Switzerland resulted in a one-time positive effect on operating profit (EBITA) of CHF 15 million related to other reporting periods. Provisions recognized in the income statements for previous years were reversed in the year under review due to the application of IAS 19r and the aforementioned adjustments. This effect is reported in the presentation of segment results under the column "Other".

Changes in the Group Executive Board

Effective 1 January 2016, Jens Breu assumed the position of CEO from Heinrich Spoerry. Heinrich Spoerry will now concentrate on his duties as Chairman of the Board. With this change, SFS Group's management structure meets the recommended standards for corporate governance in Switzerland.

A word of thanks

Employee performance during the past financial year was outstanding. The creativity, can-do attitude and know-how of employees throughout SFS Group were pivotal factors in the progress and results we achieved last year. We are grateful to the people who make SFS what it is and thank them all for their commitment and professional work. Special thanks are extended to all employees in Switzerland for their willingness to help us offset the currency-induced competitive disadvantage that faces us by working longer hours for the same pay and accepting cuts in vacation entitlement.

We appreciate the steady and strong support of our shareholders, which reinforces the stability and sustainability of our company. We thank our customers for their trust and for engaging us in their projects as partners.

Dividend payment for shareholders

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

Outlook for the 2016 financial year

The many measures introduced during the course of 2015, which are now gaining more traction, can offset some of the unfavorable effects of the Swiss franc's appreciation. For the current financial year, we do not expect any major change for the better or worse in the currency situation. Based on the same exchange rates as last year, we forecast consolidated sales will increase by 2–4% in 2016 with an improvement in the adjusted EBITA margin from 12.5% to 13–14%.

Heinrich Spoerry
Chairman of the Board
CEO until 31.12.2015

Jens Breu
CEO from 1.1.2016