

Compensation report

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1 Introduction

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

This Compensation Report satisfies the provisions of the Ordinance Against Excessive Compensation in Listed Companies (OAEC) in effect as of January 2014 and the pertinent provisions of the Swiss Code of Obligations in connection therewith. The structure of this report basically follows the recommendations given in the Swiss Code of Best Practice for Corporate Governance issued by *economiesuisse* and the provisions set forth in the Directive on Information relating to Corporate Governance (DCG) issued by SIX Swiss Exchange 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 work force. The aim of the compensation system is to attract well-qualified specialists and executives, and foster commitment to the company's long-term goals. The compensation policy of SFS Group satisfies the following criteria:

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

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

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

Responsibility for revising the compensation system and for proposing the amounts of compensation to be paid lies with the Nomination and Compensation Committee (NCC). It comprises a chairman and at least one other member of the Board of Directors. Members of the NCC are elected annually by the General Meeting. NCC 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.

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 will be subject to and within the limits of the aggregate amounts approved by the General Meeting. Compensation is paid in cash and in the form of a fixed number of shares of SFS Group AG. The SFS shares are awarded as a long-term incentive and are subject to a mandatory holding period of at least three years. The weighting of SFS shares as a component of overall compensation is reviewed on a regular basis by the NCC. Proposals for modification will be submitted to the Board of Directors if and when appropriate.

An additional bonus as specified in Art. 25 of the Articles of Association was not awarded during the year under review nor during the previous year. Compensation of the members of the Board of Directors is subject to approval by the General Meeting.

As the duties of the chairman of the board and the CEO were vested in the same individual during the 2014 and 2015 financial years, compensation was paid only for the individual's service as CEO. No additional compensation is paid to the CEO for his service as an executive director.

2.2 Compensation of the Group Executive Board

Members of the Group Executive Board 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 Group Executive Board is subject to approval by the General Meeting. Members of the Group Executive Board 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 authorities.

Below is an overview of the compensation program for the Group Executive Board:

	Base salary	Variable cash compensation	Variable SFS share compensation*	Salary cap
Chief Executive Officer	100%	50% of base salary	15 to 20% of base salary	2 x base salary
Floor value	100%	0%	0%	100%
Target value	100%	50%	20%	170%
Cap value	100%	75%	25 - 30%	approx. 200%
Group Executive Board	100%	25% of base salary	10 to 15% of base salary	1.6 x base salary
Floor value	100%	0%	0%	100%
Target value	100%	25%	10%	135%
Cap value	100%	37.5%	22.5 - 27.5%	approx. 160%

* With regard to the **variable compensation** in the form of **SFS shares**, a fixed amount of shares per member of the Group Executive Board is determined by the Board of Directors at the beginning of each period. It will represent approximately 20% of the Chief Executive Officer's base salary and approximately 10% of the base salary of the other members of the Group Executive Board. On conclusion of the General Meeting, these shares, provided shareholder approval was given, will be transferred to the Group Executive Board members at the closing price on the day of the General Meeting. Due to fluctuations in the share price between the date the number of shares was determined (start of the accounting period) and the grant date (day of the General Meeting, 15 to 16 months later), the maximum amount of compensation in SFS shares, which is capped at 25% of the Chief Executive Officer's base salary and at 22.5% of the base salary of the other members of the Group Executive Board, may be exceeded if the share price has increased significantly during this period, resulting in an overshooting of the overall salary cap. The number of shares per member of the Group Executive Board was initially determined based on the initial offering price of CHF 64. The number of shares to be granted will remain constant within the range of $\pm 25\%$ from the initial offering price (CHF 48 to CHF 80).

As a general rule, the **base salary** corresponds to the fixed salary as paid in 13 monthly installments.

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 2015 financial year the financial targets at Group level pertained to sales growth, the EBITA margin and operating free cash flow. At segment level, sales growth, EBITA margin and net working capital as a percentage of sales 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 and; with respect to all other Group Executive Board 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 will be evaluated through the sole and absolute discretion of the immediate line manager (in the case of the Chief Executive Board, the Board of Directors; for the other Group Executive Board members, the Chief Executive Officer).

The weighting of the variable cash compensation shall be 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:

Target category	Financial targets SFS Group	Financial targets segments and divisional targets	Individual targets	Leadership Values Behaviors
CEO, COO, CFO	60%	-	20%	20%
Other board members	30%	30%	20%	20%

A second part of the variable compensation is paid out in the form of SFS shares. The Board of Directors determines a certain amount of SFS shares to be awarded to each member every year at the beginning of the performance period. The value of the shares at this time should correspond to between 15% and 20% of the base salary paid to the Chief Executive Officer and to between 10% and 15% of the base salary paid to the other members of the Group Executive Board. At the end of the performance period the Board of Directors will determine at its own discretion how many SFS shares shall be granted based on the proposal submitted by the NCC, taking into consideration the market environment (inflation, economic activity, industry developments, etc.), the execution of Company strategy, and the Company's financial situation. A factor of 0 to 150% may be applied. The SFS shares are transferred to the members at the end of the General Meeting affirming this compensation. These SFS shares are blocked for a period of at least three years. Shares awarded to a member of the Group Executive Board shall remain his or her property on separation from the Company.

2.3 Stock ownership plan

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

2.4 Loans and credits

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

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 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.

When setting its own compensation, all members of the Board of Directors must be 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 that have a similar geographic footprint and are similar in size is consulted, and the individual responsibilities and experience of the respective persons are also taken into consideration. This data will be reviewed on an annual basis.

Responsibility for determining variable compensation and aggregate compensation is depicted 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 will cast separate votes on the proposals of the Board of Directors regarding the aggregate amount of:

1. compensation of the Board of Directors for the term of office up to the next Annual General meeting;
2. any additional compensation of the Board of Directors for the preceding financial year;
3. the variable compensation of the 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 subsequent financial year.

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

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

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

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

4 Compensation paid or granted in the year under review and in the previous year

This section is subject to inspection by the auditors.

4.1 Compensation of the Board of Directors 2015

in CHF except number of shares	Base salary, net ³	Number of SFS shares	Value of SFS shares ¹	Social and pension contributions ²	Total	Of which in cash
Heinrich Spoerry, Chairman	-	-	-	-	-	-
Ruedi Huber	74,667	500	32,800	15,817	123,284	74,667
Urs Kaufmann	74,667	500	32,800	15,817	123,284	74,667
Thomas Oetterli	74,667	500	32,800	15,817	123,284	74,667
Karl Stadler	74,667	500	32,800	11,237	118,704	74,667
Jörg Walther	74,667	500	32,800	15,817	123,284	74,667
Total Board of Directors	373,335	2,500	164,000	74,505	611,840	373,335

¹ The price per SFS share used by the Board of Directors at its meeting on 22 February 2016 to determine the number of SFS shares was CHF 65.60 (closing price).

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

³ The base salary was reduced by 10% during the period from 1 May 2015 to 30 April 2016 in response to exchange rate developments.

4.2 Compensation of the Board of Directors 2014

in CHF except number of shares	Base salary, net	Number of SFS shares	Value of SFS shares ¹	Social and pension contributions ²	Total	Of which in cash
Heinrich Spoerry, Chairman	-	-	-	-	-	-
Hans Brunhart (until 4.4.2014)	21,667	n/a	n/a	n/a	21,667	21,667
Christian Fiechter (until 4.4.2014)	20,845	n/a	n/a	1,917	22,762	20,845
Ruedi Huber ³	88,125	500	32,500	13'278	133,903	88,125
Urs Kaufmann	75,239	500	32,500	11,336	119,075	75,239
Thomas Oetterli	75,239	500	32,500	11,336	119,075	75,239
Karl Stadler	88,539	500	32,500	9,351	130,390	88,539
Jörg Walther (from 4.4.2014) ⁴	60,000	500	32,500	9,040	101,540	60,000
Total Board of Directors	429,654	2'500	162,500	56,258	648,412	429,654

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

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

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

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

4.3 Compensation of the Group Executive Board 2015

in CHF except number of shares	Base salary, net ⁵	Variable cash compensa- tion, net	Number of SFS shares ⁴	Value of SFS shares ¹	Stock ownership plan ²	Social and pension contribu- tions ³	Total	Of which in cash
Heinrich Spoerry, CEO	568,944	251,617	2'100	137,760	0	210,295	1,168,616	820,561
Other members of GEB	2,267,450	545,554	4'920	322,752	0	781,476	3,917,232	2,813'004
Total GEB	2,836,394	797,171	7'020	460,512	0	991,771	5,085,848	3'633'565

- ¹ The price per SFS share used by the Board of Directors at its meeting on 22 February 2016 to determine the number of SFS shares was CHF 65.60 (closing price).
- ² Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount of 10%.
- ³ Employee and employer contributions to social security schemes and occupational pension plans.
- ⁴ In the 2015 financial year there was no activity in the stock ownership plan. Therefore, the number of SFS shares corresponds to the number of shares granted as variable share compensation.
- ⁵ The base salary was reduced by 10% during the period from 1 February 2015 to 31 December 2015 in response to exchange rate developments.

4.4 Compensation of the Group Executive Board 2014

in CHF except number of shares	Base salary, net	Variable cash compensa- tion, net	Number of SFS shares	Value of SFS shares ¹	Stock ownership plan ²	Social and pension contribu- tions ³	Total	Of which in cash
Heinrich Spoerry, CEO	624,243	302,581	2,100	136,500	6,324	246,933	1,316,581	926,824
Other members of GEB ⁴	2,819,008	680,180	5,550	360,750	33,201	849,411	4,742,550	3,499,188
Total GEB	3,443,251	982,761	7,650	497,250	39,525	1,096,344	6,059,131	4,426,012

- ¹ The price per SFS share used by the Board of Directors at its meeting on 20 February 2015 to determine the number of SFS shares was CHF 65 (closing price).
- ² Compensation is calculated based on the number of SFS shares acquired through the share purchase program, multiplied by the given discount of 10%.
- ³ Employee and employer contributions to social security schemes and occupational pension plans.
- ⁴ Bernard Toh ceased his activity as member of the GEB with effect of 1 October 2014.

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 by the Group Executive Board

5.1 Board of Directors

	Number of shares 31.12.2015	Number of shares 31.12.2014
Heinrich Spoerry, Chairman	-	-
Ruedi Huber, non-executive member	245,960	244,280
Urs Kaufmann, independent, external member	6,680	5,000
Thomas Oetterli, independent, external member	4,680	3,000
Karl Stadler ¹ , non-executive member	2,521,480	2,519,800
Jörg Walther, independent, external member	1,680	-
Total Board of Directors	2,780,480	2,772,080

¹ The numbers of shares of Karl Stadler include privately held shares and shares of Wistama Finanz- und Beteiligungs AG, which is under his control.

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

5.2 Group Executive Board

	Number of shares 31.12.2015	Number of shares 31.12.2014
Heinrich Spoerry, Chief Executive Officer until 31.12.2015	190,280	188,180
Thomas Bamberger, Head of Division Riveting	1,170	670
Arthur Blank, Head of Division Construction	12,840	12,340
Jens Breu, Chief Operating Officer until 31.12.2015, Chief Executive Officer since 1.1.2016	6,330	5,680
Rolf Frei, Chief Financial Officer	61,530	60,680
Walter Kobler, Head of Division Industrial	19,500	19,000
George Poh, Head of Division Electronics	50,330	49,680
Alfred Schneider, Head of Division Automotive	14,080	13,580
Josef Zünd, Head of Segment Distribution & Logistics	18,190	17,340
Total Group Executive Board	374,250	367,150

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

Report of the statutory auditor on the compensation report

We have audited chapter 4 (pages 66 and 67) of the accompanying compensation report dated 3 March 2016 of SFS Group AG for the year ended 31 December 2015.

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 Arts. 14 to 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 to 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 2015 complies with Swiss law and articles 14 to 16 of the Ordinance.

PricewaterhouseCoopers AG



Beat Inauen
Audit expert
Auditor in charge



Martin Bettinaglio
Audit expert

St. Gallen, 3 March 2016

