



SFS Group AG
Annual report

Inventing
success
together

21

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Financial overview

Record result achieved

Income statement CHF million	2021	2020	2019	2018	2017
Third party sales	1,893.1	1,704.9	1,781.4	1,738.6	1,632.7
Change to previous year in %	11.0	-4.3	2.5	6.5	13.7
thereof currency impact	-0.1	-4.1	-1.3	1.4	0.5
thereof change in scope	0.8	3.0	4.4	0.8	5.8
thereof organic growth	10.3	-3.2	-0.6	4.3	7.4
Net sales	1,897.3	1,707.1	1,782.1	1,736.9	1,634.8
EBITDA	407.1	327.6	331.7	332.8	323.5
As a % of net sales	21.5	19.2	18.6	19.2	19.8
Operating profit (EBIT)	301.7	227.4	236.3	243.1	197.7
As a % of net sales	15.9	13.3	13.3	14.0	12.1
Operating profit (EBIT) adjusted ¹	298.6	225.3	239.1	243.1	233.3
As a % of net sales	15.7	13.2	13.4	14.0	14.3
Net income	248.0	184.8	206.5	193.9	159.1
As a % of net sales	13.1	10.8	11.6	11.2	9.7
Balance sheet in CHF million					
Assets	1,839.1	1,684.1	1,638.6	1,619.3	1,519.0
Net cash (+)/(-debt) (-)	279.1	144.3	68.7	59.1	34.7
Average Capital Employed ²	1,143.6	1,134.0	1,134.9	1,070.8	947.4
Invested Capital ²	2,194.0	2,149.5	2,153.2	2,058.3	1,960.9
Equity	1,450.4	1,278.2	1,237.2	1,204.6	1,087.0
As a % of assets	78.9	75.9	75.5	74.4	71.6
Cash flow statement in CHF million					
Cash flow from operating activities	324.5	296.4	277.6	263.5	226.6
Purchase of property, plant, equipment and intangible assets	-121.4	-104.1	-116.7	-149.1	-132.8
Acquisition (-)/Disposal (+) of subsidiaries, net of cash	-7.6	-59.5	-95.4	-9.6	-10.2
Employees					
Full-time equivalents (FTE)	10,509	10,692	10,571	10,231	9,478
Financial key ratios (unaudited)					
ROCE in % ² (Return on Capital Employed)	26.1	19.9	21.1	22.7	24.6
ROIC in % ² (Return on Invested Capital)	11.2	8.6	9.2	9.7	9.8
Share key ratios					
Earnings per share in CHF	6.51	4.90	5.47	5.14	4.24
Payout per share in CHF	2.20 ³	1.80	1.80	2.00	1.90
Payout in CHF million	82.5 ⁴	67.5	67.5	75.0	71.2
Payout ratio in %	33.3 ⁴	36.5	32.7	38.7	44.8

¹ Adjustments are explained in the annual report on page 112, www.annualreport.sfs.com/en →

² Calculation of the key figure is shown in the annual report on page 111, www.annualreport.sfs.com/en →

³ Proposed payout at SFS Group's Annual General Meeting on 27 April 2022

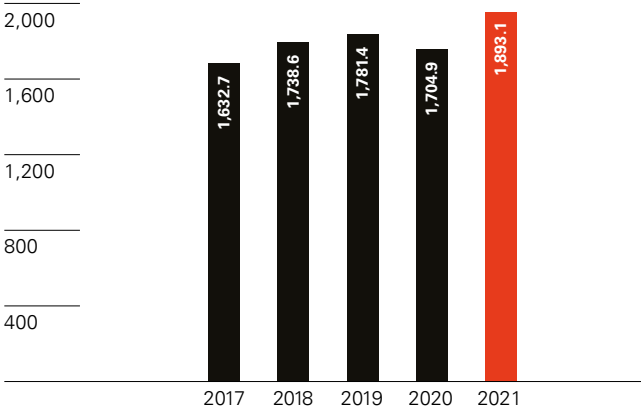
⁴ Due to the decision of the Extraordinary General Meeting on 31 January 2022, in addition to the existing number of shares ranking for dividend, a maximum amount of 1,600,000 newly issued shares are entitled to receive dividends, if the closing date of the Hoffmann SE transaction is before the date of the Annual General Meeting on 27 April 2022. In this case, the payout will increase to a maximum amount of CHF 86.0 million and the payout ratio will increase to a maximum amount of 34.7%.

Key takeaways

Strong development

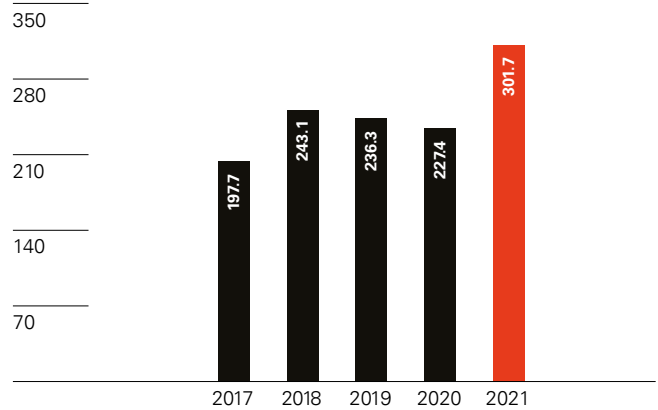
Good growth throughout the cycle

Third party sales in CHF million



Record high EBIT earned

In CHF million



Expertise and skills preserved

Number of employees end of 2021 (FTE)

10,509

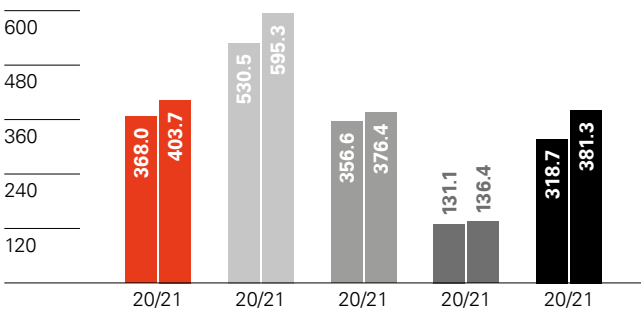
The SFS Group had 10,509 employees (full-time equivalents) at the end of 2021 (PY 10,692). This development is an expression of the long-term “local for local” strategy with robust, efficient supply chains as well as the decision to nearly exclusively make temporary adjustments to production capacities during the now two-year pandemic.

Internationalization of D&L segment with Hoffmann

The planned inclusion of Hoffmann lends the D&L segment an internationally strong position in the attractive area of quality tools. Hoffmann is a leading international systems partner for quality tools that is well-known on European markets and serves more than 100,000 customers with a product range comprising around 500,000 items. Customers appreciate not only the company’s comprehensive range of products but also its high level of product and logistics expertise, which will be strengthened even further through the commissioning of the new LogisticCity in Nuremberg (Germany), Europe’s most high-performance logistics center for quality tools. The transaction is subject to the usual closing conditions. It is expected to be concluded in the first half of 2022.

Growth in all end markets

Sales growth by end market (in CHF 1,000)



■ Automotive industry ■ Medical device industry
■ Construction industry ■ Other industries
■ Electrical and electronics industry

Key elements of sustainable development

Strong management focus ensured

- Management remuneration tied to ESG KPIs
- Clear targets and KPIs for material topics: Economic performance, Occupational health and safety, Training and Education, Emission reduction and Socioeconomic compliance
- Reporting according to GRI “Core”
- Roadmap CO₂ emission reduction:
 - Scope 1 and 2 by ≥ 90% by 2030
 - Scope 3 by ≥ 90% by 2040

In dynamic market environment

In a dynamic market environment characterized by high demand, supply chain bottlenecks and the ongoing COVID-19 pandemic, SFS seized opportunities that arose in each of its segments to boost its sales by 11.0% to CHF 1,893.1 million, an outcome based on its ability to fill customer orders. All end markets and regions contributed to this good growth. The result was a high level of production capacity utilization that strengthened profitability and generated a strong EBIT margin of 15.9%.



Heinrich
Spoerry



Jens
Breu

Dear shareholders,

2021 was a highly eventful year for the SFS Group and the COVID-19 pandemic continued to be the defining theme. The market environment had already begun showing signs of recovery in the third quarter of 2020 and this recovery persisted throughout the first half of 2021 for year-over-year growth of 23.8%. While the summer brought some relaxation and an easing of the strict pandemic measures, the next wave of the virus hit hard in the fall and case numbers shot up. Production slowdowns, another consequence of the COVID-19 pandemic, triggered global supply chain disruptions as well as shortages of semiconductors and other raw materials, some of which also had an impact on call-offs at SFS. Despite sales declining slightly by 2.3% in the second half of 2021 compared to the first half of 2021, total sales compared to the previous year increased substantially by 11.0% to CHF 1,893.1 million. Consolidation effects contributed 0.8% to full-year sales, while foreign currencies only had a slightly negative effect of -0.1%. As a result, sales in the year under review clearly exceeded the 2019 figures (CHF 1,781.4 million) and confirmed SFS's good positioning throughout the cycle.

Shaping the future through high flexibility and solidarity

Unlike in 2020, when the development of the automotive industry, in particular, was heavily impacted by the pandemic, our markets were subject to fewer COVID-19 restrictions in 2021. This was quite beneficial in terms of general demand. Protecting employees' health while simultaneously ensuring our ability to fill customer orders at high capacity utilization called for a great degree of flexibility and solidarity from all employees. In this challenging situation, SFS even succeeded in making some important headway with respect to its future positioning:

- The divisions' strong competitive edge enabled them to acquire important new projects, gain market share and win over new customers, which in turn lay the foundation for future growth. One lighthouse project is a major order acquired at the Heerbrugg (Switzerland) location that relates to precision components for a new generation of electric brake systems; this order will generate total sales in excess of CHF 100 million from 2024–2033.
- The Riveting division's relocation of its Chinese production facility from Nansha to Nantong, the production platform also used by other divisions, was concluded with flying colors.
- Our efforts to develop and adopt our Environmental Roadmap take us one important step closer to reaching our goal of being able to continuously reduce emissions on the basis of measurable targets. In specific terms, this means that SFS is aiming to reduce its internal CO₂ emissions by ≥90% by 2030, compared to 2020, measured in terms of tons of CO₂ per CHF of added value.
- Together with Hoffmann, the SFS Group gains an internationally strong position in the attractive area of quality tools. The two companies have been collaborating successfully for many years and have a great deal of common ground with respect to their value proposition and values. Both companies are positioned as leading providers in their industries. The joining of forces marks a milestone and opens up attractive development opportunities for both companies.

Profitability increased through high capacity utilization

Strong yet occasionally volatile market demand led to good overall utilization of production capacities. Phases of high utilization as well as targeted, forward-looking cost management resulted in a record-high operating profit (EBIT) of CHF 301.7 million and an EBIT margin of 15.9% of net sales (PY 13.3%). At CHF 248.0 million (PY CHF 184.8 million), net income corresponds to 13.1% of net sales.

The positive development of the operating profitability resulted in a Return on Capital Employed (ROCE) of 26.1%. The equity ratio was further improved to 78.9%.

Expertise and skills preserved

The SFS Group had 10,509 employees (full-time equivalents) at the end of 2021 (PY 10,692). This largely stable development is an expression of the long-term "local for local" strategy with robust, efficient supply chains as well as the decision to nearly exclusively make temporary adjustments to production capacities during the now two-year pandemic. Doing so enabled SFS to largely maintain its ability to fill customer orders despite challenges presented by material availability and occasionally long delivery times and benefit from the dynamic market conditions that prevailed during the period under review.

Engineered Components (EC)

Characterized by pent-up demand in automotive-related areas and industrial sectors

The EC segment, which is geared toward industrial applications, benefited substantially from the recovery that began in the wake of the COVID-related slump of the 2020 financial year. This recovery followed different patterns depending on the end market. In the Automotive industry, the good development of the first half of 2021 was slowed down with beginning of the summer months by bottlenecks in the semiconductor supply chain. While the development in the various industrial niche markets served by the Industrial division exhibited a similar pattern, it was delayed and without a material impact from supply chain bottlenecks. The Aircraft business lingered at a low level but started showing initial signs of a recovery toward the end of the year. The Electronics division profited from a persistently positive market environment that was, however, also hit by semiconductor scarcity in the second half. Demand in the Medical division followed an upward trend.

Overall, the segment generated sales of CHF 975.2 million, representing growth of 8.6% compared to the same period of the previous year. In addition to our customers' supply chain bottlenecks mentioned above, the strong baseline effect is another factor that contributed to the declining growth rate during the second half of the year. Sales growth was almost exclusively organic in nature; foreign currency and consolidation effects only had minor impacts of -0.5% and +1.2%, respectively.

The good demand situation resulted in a high overall level of capacity utilization that was beneficial for the EC segment's profitability. The EBIT margin rose by 160 basis points and amounts to 17.1% for the 2021 financial year, which is on a par with the pre-COVID level. Supply chain bottlenecks resulted in a lower utilization of capacities during the second half of 2021, which then caused the EBIT margin to contract slightly.

Fastening Systems (FS)

Dynamic market situation throughout the entire year

The exceptional demand situation that the Fastening Systems segment had already successfully leveraged in the first half of the reporting period to generate record results continued in the second half of the year. The strong demand resulted in widespread supply shortages on the market, however. Both divisions successfully managed to largely uphold their ability to fill customer orders in this challenging environment.

Robust value chains enabled the Construction division to both serve its existing customers and gain new customers. Through its acquisitions of Jevith A/S (Denmark, as of July 1, 2021) and GLR Fasteners (USA, as of August 1, 2021), the division succeeded in expanding its market access in Europe and the US.

Whereas the Riveting division made use of the good demand situation among industrial customers, the business with customers from the automotive industry cooled down substantially over the course of the second half of the year. This was triggered by bottlenecks in the semiconductor supply chain, which impacted OEMs' production figures and had a delayed impact on call-offs in the division.

In this exceptional environment, the segment generated CHF 574.9 million in sales, which corresponds to a remarkable 17.4% increase over the same period of the previous year. Consolidation effects contributed +0.5% to the reported sales figure and there were minimal currency effects of +0.3%.

Both divisions benefited from a high level of capacity utilization throughout the entire year. Prudent cost and price management enabled the segment to overcome both turbulences attributable to the ongoing pandemic as well as the supply chain disruptions to achieve a record-breaking EBIT margin of 17.4%. This is an extraordinary result that is 5.5 percentage points higher than the EBIT margin for the same period of the previous year.

Distribution & Logistics (D&L)

Good initial situation from first half of year exploited

The Distribution & Logistics segment, which primarily serves customers from the industrial manufacturing and construction industries in Switzerland, grew substantially and achieved strong results in the financial year just ended. Thanks to stable demand in all areas of application and good overall availability of materials, the segment's sales rose by 8.2% year on year to CHF 343.0 million in the period under review. Currency effects added +0.2% to the result. Existing business relationships with prominent customers were expanded and new business with new customers resulted in growth on an even broader basis.

The strong sales growth and prudent management enabled the segment to generate an operating profit (EBIT) of CHF 32.6 million, which corresponds to an EBIT margin of 9.4%.

Internationalization of the D&L segment through inclusion of Hoffmann

The planned inclusion of Hoffmann lends the D&L segment an internationally strong position in the attractive area of quality tools. Hoffmann is a leading international systems partner for quality tools that is well-known on European markets and serves more than 100,000 customers with a product range comprising around 500,000 items. Customers appreciate not only the company's comprehensive range of products but also its high level of product and logistics expertise, which will be strengthened even further through the commissioning of the new LogisticCity in Nuremberg (Germany), Europe's most high-performance logistics center for quality tools.

The transaction is subject to the usual closing conditions. It is expected to be concluded in the first half of 2022.

Strong competitive position lays foundation for future growth

SFS focuses on innovation trends that once again proved robust in the 2021 financial year. The segments' strong competitive edge enabled important new project acquisitions and market share gains, which in turn lay the foundation for future growth. With respect to the manufacturing of assemblies for electric brake systems for the automotive industry, for example, cooperation was intensified with the major Tier-1 suppliers in the US and Europe.

Growth-related expenditure on property, plant, equipment, hardware and software amounted to CHF 121.4 million (PY CHF 104.1 million) in the period under review. This was driven by the construction of the new production hall in Heerbrugg (Switzerland) for the Automotive division, ongoing efforts to switch to S/4HANA (the new generation ERP system), the strong commitment to cybersecurity and other project-specific investments. The additional production hall will offer the capacity required for manufacturing assemblies for electric brake systems. Construction work is proceeding on schedule and commissioning will take place in the third quarter of 2022. Current projects, including those acquired in 2021, will already lead to the utilization of some two-thirds of the building capacities under construction.

Preparations for the announced expansion of the location in Nantong (China) are proceeding according to schedule and construction will begin in 2022. The expansion will increase

the location's production area by around 70% and be available for use by the Electronics, Automotive, Industrial, Riveting, Medical and Distribution & Logistics divisions in late 2023 to implement their growth projects. The expansion of the location in Hallau (Switzerland) for the Industrial and Medical divisions was completed on schedule and successfully put into operation. An existing production hall in the immediate vicinity of the Unisteel Malaysia site in Johor Bahru (Malaysia) was purchased to facilitate the new projects expected in the areas of Hard Disk Drives and Medical.

Expenditure on research and development amounted to CHF 45.6 million (PY CHF 44.5 million) and was charged in full to the income statement for the period.

Sustainability is a strategic priority

Sustainability is important to us! Embracing a sustainable mindset and practices gives us a chance to re-examine our products and processes on a daily basis and improve them continuously for the good of all stakeholders. As a value engineering specialist, working with our customers to develop sustainable products and solutions gives us a multitude of opportunities to utilize our expertise and offer our customers lasting added value – in keeping with our corporate principle of "Inventing success together".

Important steps were taken and progress made again in the 2021 financial year.

Key elements to improve sustainable development

Detailed information to sustainability at SFS can be found at sustainability.sfs.com →

Focus	KPIs	Reporting	CO ₂ Roadmap	Outlook 2022
<ul style="list-style-type: none"> Regular reporting on progress Management remuneration tied to ESG KPIs 	<ul style="list-style-type: none"> Economic performance Occupational health and safety Training and education Emission reductions Socioeconomic compliance 	<ul style="list-style-type: none"> UN Global Compact (SDGs) GRI ("Core" option), Sustainability report 2021 released end of May 	<ul style="list-style-type: none"> CO₂ emission reduction: <ul style="list-style-type: none"> Scope 1 and 2 by ≥90% by 2030 Scope 3 by ≥90% by 2040 	<ul style="list-style-type: none"> Continued focus on set goals Update materiality assessment

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. In this assessment, the relevant risks are systematically classified according to the likelihood of occurrence and the severity of the potential consequences. Potential risks and actions to contain these risks were examined once again during the year under review. The focus was on data breaches and business interruptions due to cyber-attacks, investment-related risks associated with major projects, delayed order fulfillment due to the pandemic, risks associated with acquired companies, warranty risks arising from product recalls, geopolitical instabilities, company exposure to the global economic environment, compliance and currency-related risks.

Change in the Group Executive Board

At the Annual General Meeting on April 22, 2021, Volker Dostmann took over as CFO of SFS from Rolf Frei, who will continue to serve the company in selected strategic projects until his retirement in 2023.

With closing of the transaction, Hoffman will be embedded into the SFS organization as the second division within the Distribution & Logistics segment. Hoffmann's current CEO, Martin Reichenecker, will then join the Group Executive Board of SFS.

Change in the Board of Directors

At the Annual General Meeting 2021, the Board of Directors of the SFS Group appointed Manuela Suter, currently CFO of Bucher Industries and a member of its Executive Board, to the Board of Directors. With her many years of experience in multi-divisional, international and listed industrial companies, she is a valuable addition to the Board of Directors.

Extraordinary General Meeting on January 31, 2022

The current owners of Hoffmann will contribute 100% of the shares of Hoffmann SE to the SFS Group. A portion of the purchase price will be paid in the form of SFS shares. For that, a proposal was made at the extraordinary General Meeting to create authorized capital amounting to a maximum of CHF 160,000 (corresponds to no more than 1,600,000 shares). The shareholders of SFS Group AG approved this request with 99.3% in favor, thereby expressing their support for the transaction. The capital increase will be performed under the exclusion of subscription rights for existing shareholders.

29th Annual General Meeting on April 27, 2022

The Board of Directors of SFS Group AG proposes to the Annual General Meeting on April 27, 2022, that Thomas Oetterli, born 1969, be appointed to succeed Heinrich Spoerry as Chairman of the Board of Directors. Heinrich Spoerry will retire from the Board of Directors after reaching the age limit as defined in the Articles of Association. Thomas Oetterli has served as an independent member of the SFS Group's Board of Directors since 2011 and has chaired the Audit Committee since 2014. Through his many years of service on the SFS Group's Board of Directors, Thomas Oetterli has gained in-depth knowledge of the Group.

The Board of Directors also proposes that shareholders elect Dr. Peter Bauschatz, currently the Chairman of the Supervisory Board of Hoffmann SE, to SFS's Board of Directors. The election of Dr. Peter Bauschatz is subject to the condition precedent of the closing of the acquisition of Hoffmann SE. Hoffmann's inclusion at various levels of the SFS organization establishes continuity and lays a basis for successful future development.

In view of the good earnings and balance sheet, the outlook for the future business activity and the upcoming financing of the Hoffmann transaction, the Board of Directors will propose a dividend of CHF 2.20 per share.

In accordance with the Swiss Federal Council's ordinance on measures to combat the COVID-19 pandemic, SFS Group's Annual General Meeting will be held without the physical presence of shareholders, as was the case in the previous year. This decision was taken already prior to the cancellation of pandemic-related restrictions, in agreement with the partner company with whom we usually split the organizational efforts that arise in connection with the operation of the infrastructure required for the annual general meeting. Shareholders may exercise their voting rights by issuing a power of attorney to the independent proxy in writing or electronically. The Annual General Meeting will be held at the headquarters of SFS Group AG in Heerbrugg (Switzerland) in the presence of the independent proxy and the Company's external auditor. Further information will follow with the invitation.

Outlook for the financial year 2022

Performance in the 2022 financial year will remain characterized by major uncertainties as a result of smoldering geopolitical developments like the current war in Ukraine, trade conflicts and sustained disruptions in supply chains. Uncertainties in international supply chains, which should gradually subside as the COVID-19 pandemic abates, are expected to persist until early 2023. In this environment, ensuring the highest possible focus on customers takes top priority. Investments in the selective expansion of our production capacity and thus the implementation of ambitious growth projects will continue. Major projects during the current financial year include the start work to expand the production platform in Nantong (China), moving into the new production hall at the Heerbrugg (Switzerland) site and the first go-lives of S/4HANA, the new generation ERP system.

The expansion of our global production platform for medical device applications remains a strategic priority. We expect the successful transaction with Hoffmann to take place in the first half of 2022, once the usual closing conditions have been met.

SFS expects product call-offs to be partly subdued in the first half of the year but for these pick up over the course of the year. Given the solid project pipeline, we are confident that the development will be positive in all end markets. Based on that, SFS expects standalone sales growth of 3–6% for the 2022 financial year at an EBIT margin of 13–16%. The outlook will be updated once the transaction with Hoffmann has been closed.

Thank you

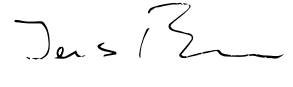
We would like to take this opportunity to offer our most sincere thanks to each and every one of our employees for their outstanding efforts under the exceptional conditions during the COVID-19 pandemic. Despite the challenging times we live in, we still experience outstanding commitment, team spirit and perseverance from our employees.

Our thanks also go out to our customers and other business partners. Our collaborative partnership with them and the trust they place in us lay the foundation for our work together to develop solutions that generate lasting added value.

We would also like to thank our shareholders for their trust in SFS and their loyal support, which lend our company stability.



Heinrich Spoerry
Chairman of the
Board of Directors

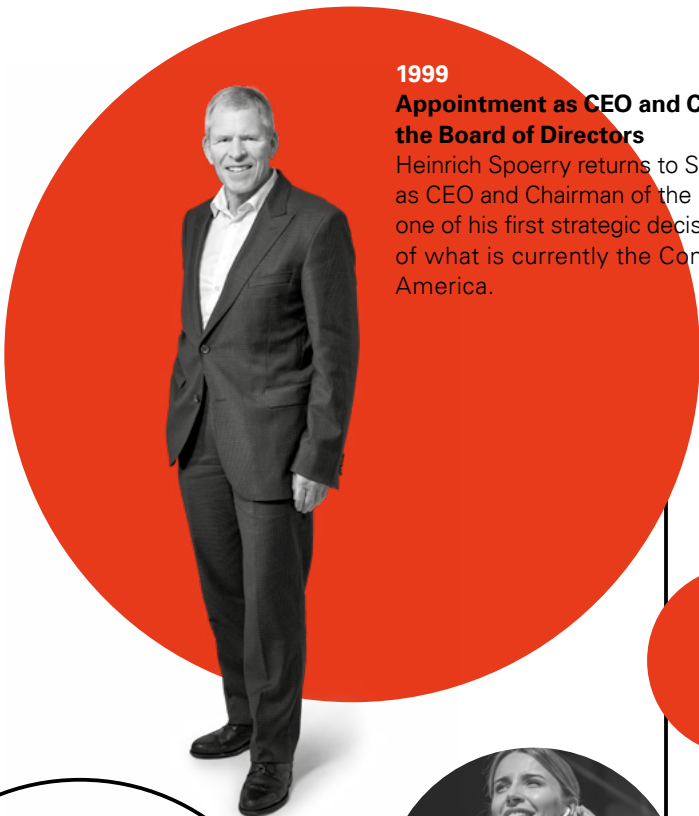


Jens Brey
CEO

Tribute to Heinrich Spoerry

Defining an era

Heinrich Spoerry, longstanding CEO and Chairman of the Board of Directors of the SFS Group, will step down at the upcoming AGM due to age related reasons. Having joined SFS first time in 1981, he went to shape SFS’s successful development and making key contributions towards the Group’s strategic course with his distinguished personality, extraordinary commitment and true foresight. The employees would like to take this opportunity to offer you their most heartfelt thanks!



1999
Appointment as CEO and Chairman of the Board of Directors

Heinrich Spoerry returns to SFS and assumes responsibility as CEO and Chairman of the Board of Directors. In 2001, as one of his first strategic decisions, he ushers in the creation of what is currently the Construction division in North America.



2008
Riveting technology added to the product portfolio

With its wide range of rivets, setting tools and automation solutions, GESIPA® complements the existing business with customers in the automotive industry, industrial manufacturing and construction-related sectors.



2012
Acquisition of Unisteel grants access to electronics industry and Asia

The acquisition of Unisteel broadens the range of applications even further and enables the Group to serve new customers in the electronics industry in Asia. The acquisition lays the foundation for the current production platform in Nantong, where operations started up in 2019. The platform unites all core technologies and relevant post-processing activities at one location.

« »
During his era, Heiri’s strong entrepreneurial spirit and approach helped the SFS Group evolve and set out on a sustainable growth trajectory. It was remarkable how adept Heiri was at employing simple, pragmatic yet effective ideas to cope with any given challenge. **Jens Breu, CEO**

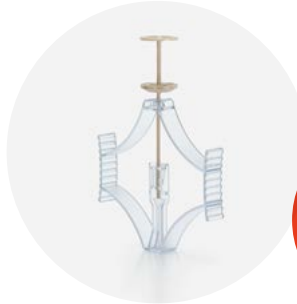


2014
Initial public offering

The IPO is carried out to position the company for the future. Preparations for the IPO give rise to the company's present-day, market oriented organizational structure, comprising three segments: Engineered Components, Fastening Systems and Distribution & Logistics.

« »

With courage and foresight, Heiri Spoerry shaped SFS and transformed it into an internationally well-known company. During our years together on the Board of Directors, I was always impressed by his pragmatism, humility and in-depth knowledge about customers, employees, products and business opportunities. **Thomas Oetterli, Board of Directors**



2016
Start build-up MedTech platform

The acquisition of Tegra Medical lays a cornerstone for efforts to build-up a global development and production platform for medical devices. Also, the existing business will benefit from better market access in the future.

« »

Heiri Spoerry's many years of commitment to the SFS Group played a decisive role in shaping the company's history. He made a major contribution towards the SFS Group's successful growth trajectory by helping mastermind the many prominent acquisitions. **Nick Huber, Board of Directors and family shareholder**

« »

Heiri Spoerry's entrepreneurial spirit, healthy sense of ambition and modesty have helped him leave an indelible mark on SFS and lead the company. We family shareholders would like to offer Heiri our most heartfelt gratitude for his farsighted leadership. I consider it an honor to have worked together with him. **Bettina Stadler, Board of Directors and family shareholder**

2021

Establishing an international presence in the area of quality tools with Hoffmann

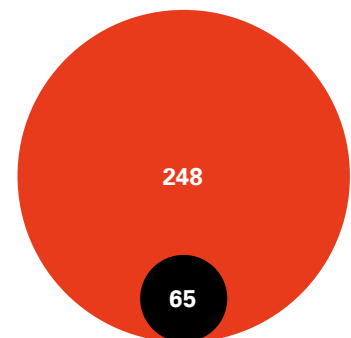
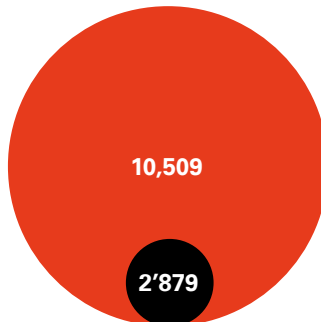
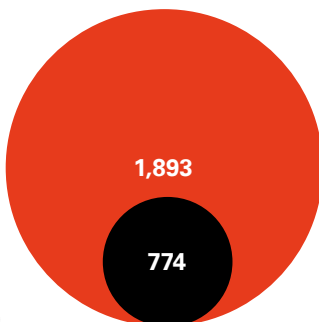
Joining forces with Hoffmann allows the Distribution & Logistics segment, which is where the SFS story started, to internationalize its business.

Sales in CHF million

Number of employees (FTE)

Net income in CHF million

2021



1999

Strategy

Seizing strategic opportunities

Creating added value for our customers and inventing success together in close partnership is our number one goal. That claim is underpinned by our highly qualified employees' extraordinary degree of application and technology-driven expertise. They drive the SFS value engineering process and enable it to create new solutions for our customers day after day. We systematically pursue this path and seize any strategic opportunities that arise. This strategy has also proven sound during the COVID-19 pandemic and in a dynamic, occasionally volatile market environment.

At your side 24/7

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 successful products of our customers, where they perform often critical functions.

Your first contact with SFS products happens early in the morning when using your coffee machine or your smartphone. Driving to work, you are also surrounded by numerous SFS products: integrated in your car's safety systems such as seat belts, airbags and braking systems, they help to protect your life in the event of an accident. At work, hard disk drives function with high-precision miniature SFS components. SFS products can be found in many electronic lifestyle products, such as adventure cameras, smart watches and smart home devices as well as a growing number of AR/VR solutions. In the field of healthcare, our precision components in bone screws, dental implant fixtures and surgical instruments help improve your quality of life.

Our value proposition:

creating sustainable added value for the customer

SFS components embedded into a customer's product often account for less than 1% of the total product cost. But the costs at the customer end arising from procurement, logistics and handling operations can be several times the actual cost of these components. That is why we are not primarily focusing on reducing our direct product costs and differentiating ourselves on price – there would be limited potential. Instead, our main goal is to optimize our customers' overall

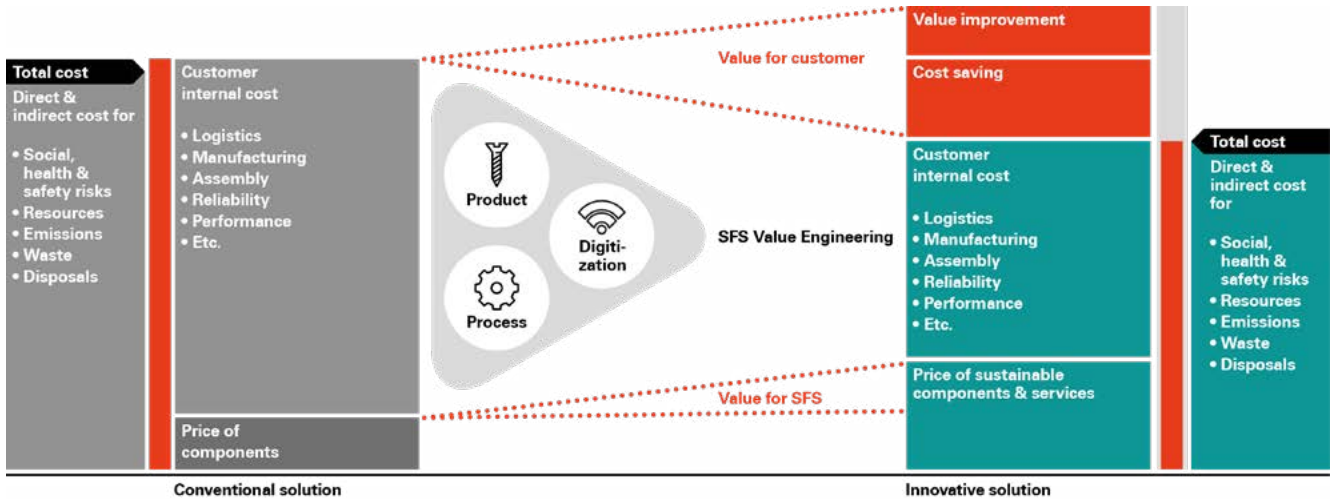
product-related costs. This approach generates significantly more cost-savings potential and allows us to create sustainable value for our customers. Our value engineering model focuses on product design, definition of manufacturing processes and on exploiting the power of digitalization. The result: custom-tailored products and intelligent solutions that increase the competitiveness of our customers. Hence, the SFS solutions lead to greater differentiation and stronger collaborative partnerships.

Sustainability is an integral component of our value proposition

Sustainability is important to us – it's in our DNA! Embracing a sustainable mindset and practices drives innovation and gives us a chance to re-examine our products and processes on a daily basis and improve them continuously for the good of all stakeholders. As a value engineering specialist, working with our customers to develop sustainable products and solutions gives us a multitude of opportunities to utilize our expertise and offer our customers added value – in keeping with our corporate principle of "Inventing success together". In close collaboration with customers and suppliers, we strive to improve cost transparency on an ongoing basis and also incorporate other aspects of sustainability into the calculations.

Detailed information on the topic of sustainability at SFS can be found at sustainability.sfs.com →. As a signatory of the UN Global Compact, SFS is committed to the Sustainable Development Goals (SDG) and currently prioritizing following four goals: SDG 4 – Quality education, SDG 8 – Decent work and economic growth, SDG 12 – Responsible consumption

Value proposition from a holistic and sustainable view



and production and SDG 13 – Climate action. This prioritization is reflected in the material topics identified in the materiality assessment conducted in 2019 (economic performance, occupational health and safety, training and education, emissions reduction and socioeconomic compliance), which are reviewed every two years. SFS has set itself ambitious goals on these material topics:

- Economic performance: Steady creation of value for all stakeholder groups
- Occupational health and safety: Reduce the number of work-related accidents to half the 2019 level by 2025
- Training and education: SFS's long-term goal is to have 5–7% of its permanent employees around the world participate in a dual education program
- Emissions reduction:
 - Reduce CO₂ emissions (Scope 1 and 2) by ≥90% until 2030 (measured as tons of CO₂ per Swiss franc of value added) compared to 2020
 - Reduce CO₂ emissions (Scope 3) by ≥90% until 2040 (measured as tons of CO₂ per Swiss franc of value added)
- Socioeconomic compliance: Fair, correct conduct is an expression of a healthy partnership. SFS should not be subject to any penalties in the area of socioeconomic compliance

The next sustainability report will be published at the end of May 2022 and, in addition to an updated materiality analysis, also provide information about progress made during 2021 and the Group's priorities for 2022.

Further progress made with respect to digitalization

The digital revolution is one of the most important megatrends for SFS. As it already did before the COVID-19 pandemic, the company systematically takes advantage of the opportunities and applications opened up by ongoing product and process digitalization to make continuous improvements

and increase efficiency in all aspects of the business. Some examples from the past financial year include:

- Further optimization of production processes with respect to quality assurance by means of networking, collecting and evaluating machine and process parameters
- Ongoing developments in the area of electronic procurement and logistics solutions that enable customers to automate their inventory management by integrating it into their ERP system, for example
- Modern e-commerce offers like the eShop of the Distribution & Logistics segment enable quick information gathering and simple order processes
- Major investments in the optimization and interconnectedness of SFS-internal business processes through the transition to S/4HANA, a new generation ERP system, in order to better and more efficiently meet market and customer requirements while also raising the level of process standardization
- Strong commitment to cybersecurity with a focus on technical solutions and preventive measures to mitigate risk
- Widespread use of virtual channels of communication such as a digital event platform, an in-house video studio for content production and the rollout of the mySFS employee app. More under the Success Story mySFS →

Establishing an international presence in the area of quality tools with Hoffmann

With the planned inclusion of Hoffmann, SFS is seizing an extraordinary strategic opportunity to secure an internationally strong position in the attractive area of quality tools. The two companies have been collaborating successfully for many years and have a great deal of common ground with respect to their value proposition and values.

The joining of forces marks a milestone and opens up attractive development opportunities for both companies. Like SFS, Hoffmann applies its distinct expertise in value engineering to position and distinguish itself as a leading system partner for quality tools, by focusing on sustainably reducing customers' total costs by means of simple and efficient procurement and production processes. The company's twelve technology centers enable the organization to be involved in the development of new solutions and trends at an early stage. The aspiration to provide the very highest-quality tools and solutions has been in the Hoffmann DNA since it was first founded.

The combination of Hoffmann and SFS will open up extensive cross-selling potential that will give rise to additional growth prospects. In the medium term, Hoffmann's existing customers will gain access to SFS's expertise in the areas of mechanical fastening systems and electronic procurement solutions. In exchange, SFS will be able to offer its Swiss customers access to the same range of products and the same high level of service and logistics expertise that they have grown accustomed to, but at the international level, as well. Additional significant potential for added value lies in the utilization of Hoffmann's distinct digital expertise when it comes to the digitalization of e-business solutions, digital product and service solutions and process optimization; not to mention joint procurement and access to LogisticCity, one of the most high-performance logistics centers for quality tools in all of Europe.



LogisticCity in Nuremberg (DE), Europe's largest logistic center for quality tools



GARANT Xpent 5-axis clamping system and HOLEX digital caliper from the product ranges clamping technology and measurement technology.

Hoffmann sets itself from its current main competitors as follows:

- In its capacity as a manufacturer: Hoffmann offers its customers the best possible service by having the flexibility to have products manufactured by different producers while still holding on to both the necessary manufacturing expertise and its own globally established development and product management capacities. Combined with the proven high level of expert advice provided by Hoffmann's 1,400 technical consultants allowing for a broad and efficient market coverage.
- In its capacity as a distributor: Through the manufacturing expertise it embodies, its position as Europe's leading distributor of quality tools, its top-quality brands GARANT and HOLEX as well as the high availability of a portfolio comprising another 500 leading brands.

The planned inclusion of Hoffmann is the systematic continuation of SFS's well known and successful growth strategy, which is largely based on the use of platforms. After prioritizing platform-building measures and acquisitions within the Engineered Components segment for the past 20 or so years, it can now be stated that the company's capital-intensive platform-building phase in North America, Europe and Asia is well advanced for this segment as well as for the Fastening Systems segment, albeit to a lesser degree. Smaller acquisitions in Medical, for example, could still prove useful by granting access to a specific group of new customers, a geographic region or key product or technical expertise. Expansion steps will still be taken to secure capacities needed for implementing customers' projects.

The inclusion of Hoffmann will now enable an internationalization of the proven SFS solutions provided by the Distribution & Logistics segment. Until now, this segment was a single-division business mainly focused on the needs of Swiss customers.

The signing of this transaction represents a key milestone for both companies. As soon as antitrust reviews have been concluded in several countries, we expect the transaction to be completed in the first half of 2022.

Strategy tested by COVID-19 pandemic

The COVID-19 pandemic put the effectiveness of our business strategy to the test. The strategic alignment has proven to be robust and correct:

- For SFS, close customer relationships are essential for the successful realization of its value proposition. In keeping with our “local for local” strategy, we are steadily building up our global development and production platform. SFS and its customers benefit from superior supply reliability thanks to short and robust supply chains.
- Thanks to its balanced focus on different end markets, regions and sales channels, SFS successfully cushioned the consequences of the decline in demand.
- The focus on a core set of tooling based technologies and relevant secondary operations allows technology leadership in the core processes. A standardized machine park reduces risk and maximizes flexibility.
- Thanks to its good profitability and solid balance sheet, the company has the means and the ability to pursue its long-term strategy and to make investments even in such a crisis.
- For SFS relevant megatrends remain intact: Digital revolution, Economic globalization, Evolving consumption in “health & wellness”, Resource constraints and Demographic asymmetries.

Based on these findings, SFS is encouraged to pursue the path it has chosen consistently.

SFS in brief

A strong DNA since 1928

SFS’s roots go back more than 90 years, to the opening of a hardware store called Stadler in Altstätten, Switzerland. In 1960, the company branched out into cold forming technology and the production of fasteners in Heerbrugg (Switzerland). Today SFS Group is one of the world’s leading suppliers of mechanical fastening solutions, precision components, quality tools and logistics systems for management of C-parts. The company operates in the three segments Engineered Components, Fastening Systems and Distribution & Logistics, which represent the company’s different business models. The original objectives – creating added value for the customer, all employees are co-entrepreneurs and achieving sustainable success together – have been pursued consistently. The focus on entrepreneurship and longevity is upheld to this very day. It is anchored in our core values and is actively lived internally and externally on a daily basis through our value proposition: “Inventing success together”.

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 brands SFS (Automotive, Industrial), Unisteel (Electronics) and Tegra Medical (Medical).

Fastening Systems

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

Distribution & Logistics

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

SFS Group

SFS Group is a global player with manufacturing sites and distribution companies at more than 100 locations in 26 countries around the world. It generated sales of CHF 1,893 million in the 2021 financial year with a workforce of approximately 10,500 (FTE).

Progress made in the build up of the global production platform for medical device applications

Demographic change is leading to changes in consumer behavior in terms of health and wellness. SFS offers OEMs in the medical device and dental industries innovative and forward-looking solutions for a wide range of applications. As a value engineering specialist with many years of experience in the industrialization of products and processes, SFS has proven time and again that it creates substantial value added for its customers.

Due to persistently good underlying market demand, continued growth momentum and customers looking for manufacturing partners with a global reach, SFS decided in 2020 to establish a global manufacturing platform for medical device applications that integrates mostly existing SFS sites in North America, Europe and Asia. Systematic effort was made again in the past year to expedite work on the platform. The conclusion of the expansion project at the Hallau (Switzerland) site created the capacities needed to implement further growth projects in the area of micro injection molding. The relocation of Tegra Medical’s headquarters from Franklin, Massachusetts (USA), to the larger adjacent property is proceeding according to plan and will be completed by the end of 2022. Good progress was made with customers to fill an attractive project pipeline, particularly in Asia.



The relocation of the headquarter of Tegra Medical in Franklin (USA) continues on schedule.



The expansion of the location of Stamm AG in Hallau (CH) was completed.

Focus on specific priorities

<p>→ Strengthen innovation, especially in the megatrends of demography, digitization and autonomous driving</p>	<p>→ Investments in future growth projects namely in Engineered Components and establish international presence with Hoffmann</p>	<p>→ Ensure reliable supply capabilities and continue improvements in customer centricity of organization</p>	<p>→ Balance production capacity with demand while ensuring supply capabilities and keep costs under control</p>	<p>→ Integrate sustainable acting and thinking holistically in business model and corporate strategy; protect health and safety of employees</p>

Markets

Dynamic development

Dynamic business performance in 2021 was broad-based with respect to end markets and regions. Persistently high demand was beneficial for those business areas that focus on the construction industry and industrial manufacturing, in particular. Business with customers in the electrical and electronics industry posted an increase in sales over the already strong prior-year period. Automotive-related areas that had benefited from pronounced catch-up effects during the first half of the year suffered increasingly from the consequences of semiconductor supply chain bottlenecks. The medical device business grew despite COVID-19-related restrictions.

Development by end market

In a dynamic market environment characterized by high demand, supply chain bottlenecks and the COVID-19 pandemic, SFS seized the opportunities that arose. Thanks to its ability to fill customer orders, it generated year-over-year growth in all end markets and regions.

Strong growth achieved in the construction industry

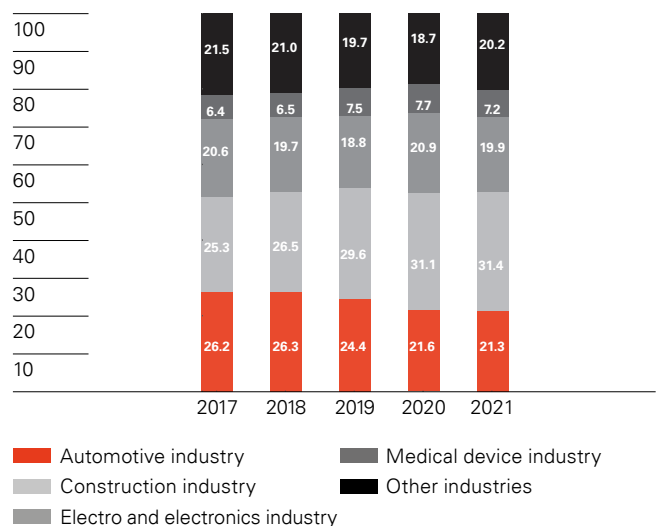
Market demand, which exceeded expectations and was occasionally very strong in the construction industry, resulted in significant, largely organic growth of 12.2% compared to the same period of the previous year. Through its acquisitions of Jevith A/S (Denmark, as of July 1, 2021) and GLR Fasteners (USA, as of August 1, 2021), SFS succeeded in making targeted expansions to its market access in Europe and the US. The two companies' good positioning in their respective local markets will continue to underpin SFS's development in the construction industry going forward.

Since builders take risks and try to minimize those risks by selecting the best and most efficient suppliers, the construction business is built on trust. That means the importance of professional consultations, reliable deliveries and impeccable quality will continue to grow. The high degree of in-house production allows us to fill customer orders with good reliability and routinely deliver high quality, which in turn enabled us to provide consistently high customer service in an extremely challenging environment, thereby helping to ensure

that high-quality construction projects are completed on schedule. Regular customer surveys and awards presented to us by our customers are testimony to our expert consulting services, quality and ability to fill customer orders.

Share of sales by end markets 2017–2021

In %



High demand in the automotive industry slowed down by supply chain bottlenecks

In the 2021 financial year, business with customers from the automotive industry benefited greatly from the recovery that began in the wake of the COVID-related slump of the previous year. The recovery that had already begun in the third quarter of 2020 continued into the first half of 2021 and resulted in strong organic sales growth of 45.7% in the first half of the year compared to the same period of the previous year. Bottlenecks in the semiconductor supply chain started putting pressure on OEMs' production figures in the summer months, which then also impacted call-offs at SFS. Compared with the previous year, sales to customers in the automotive industry rose by 9.7%.

SFS's persistently strong competitive position is evidenced both in the awards it has received, such as the Global Supplier Award from Bosch, and especially through key project acquisitions and the Group's expanded customer base in the area of electric brake systems in North America and Europe. In this area of application, SFS was able to intensify cooperation with the major Tier-1 suppliers and conclude large, long-term supply contracts by the end of the financial year. One lighthouse project is a large order acquired at the Heerbrugg (Switzerland) location that covers precision components for a new generation of electric brake systems; this order will generate total sales in excess of CHF 100 million from 2024–2033. These project acquisitions lay the foundation for a continuation of SFS's growth trajectory.

Good development in the electrical and electronics industry

SFS's customers in the electrical and electronics industry are located primarily in Asia. Persistently high demand in many areas of application, important product launches by key customers and its well-established ability to fill customer orders helped SFS achieve strong growth in the electrical and electronics industry in the first half of the year. Semiconductor supply shortages put a damper on results in the second half of the year. Overall, this resulted in a positive sales trend with growth at 5.6% for the period under review, which represents yet another increase over the strong growth recorded in the 2020 financial year.

Growth in medical devices despite application-specific restrictions

While demand in the industry followed an upward trend, the trend varied greatly depending on the area of application. Postponements of non-essential medical procedures due to COVID-19 restrictions, especially orthopedic surgeries, curbed demand. SFS still succeeded in growing its sales in this environment and generating growth of 4.0% year over year.

The medical device industry is a fast-growing global market. The management's decision to establish a global manufacturing platform under the Tegra Medical brand in the 2020 financial year was based on strong underlying market demand in this area and customers looking for manufacturing partners with a global reach. Systematic efforts were made to expedite development of the global platform in the year under review. Good progress was made on filling an attractive project pipeline, particularly in Asia. The conclusion of the expansion project at the Hallau (Switzerland) site created the capacities needed to implement growth projects in the area of micro injection molding. The relocation of Tegra Medical's headquarters from Franklin, Massachusetts (USA), to the larger adjacent property is proceeding according to plan.

Significant recovery in demand in industrial niche markets

Demand, which had begun its recovery in the second half of 2020, continued during the period under review and encompassed nearly every niche market served. Unlike in other end markets, global semiconductor supply shortages did not have a material impact on business performance, which resulted in strong sales growth of 19.6% year over year. In many areas, in fact, sales exceeded pre-pandemic levels. Extremely encouraging development was seen with respect to new project intake, which is both an expression of the Group's strong competitive position and a starting point for attractive future development prospects. Only the situation in the Aircraft business, which was hit particularly hard by the consequences of the pandemic, remains challenging. After stabilizing at a low level, demand started showing some initial positive momentum in the fourth quarter. Recovery is still likely to extend over a longer period of time and come in waves due to stockpiling.

Through the planned addition of Hoffmann, the leading systems partner for quality tools in Europe, sales with industrial manufacturing customers will make a greater contribution toward total sales going forward.

Development by region

The regional sales distribution was shaped greatly by developments in the relevant end markets. Momentum in the automotive and construction industries caused sales to increase by 18.6% in Europe, which represented the highest year-over-year growth.

The share of sales generated in Europe will become even more important in the future due to the planned inclusion of Hoffmann, Europe's leading system partner for quality tools.

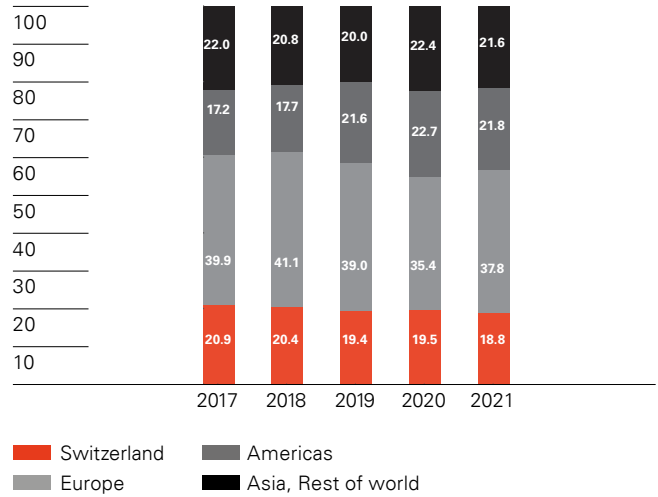
Based on the development of the electrical and electronics industry, which generates its sales almost exclusively in Asia (incl. Rest of World), sales in Asia increased by 6.7% to CHF 403.0 million. The announced expansion of the production platform in Nantong (China), which aims to enlarge the location's production space by around 70% until the end of 2023, is proceeding according to schedule and will continue to be a driving force behind the region's sales development. The additional production space will be available for use by the Electronics, Automotive, Industrial, Riveting, Medical and Distribution & Logistics divisions to implement their growth projects.

The sales trend in America benefited from growth in the end markets for the medical devices, automotive and construction. This region reported year-over-year growth of 7.0%.

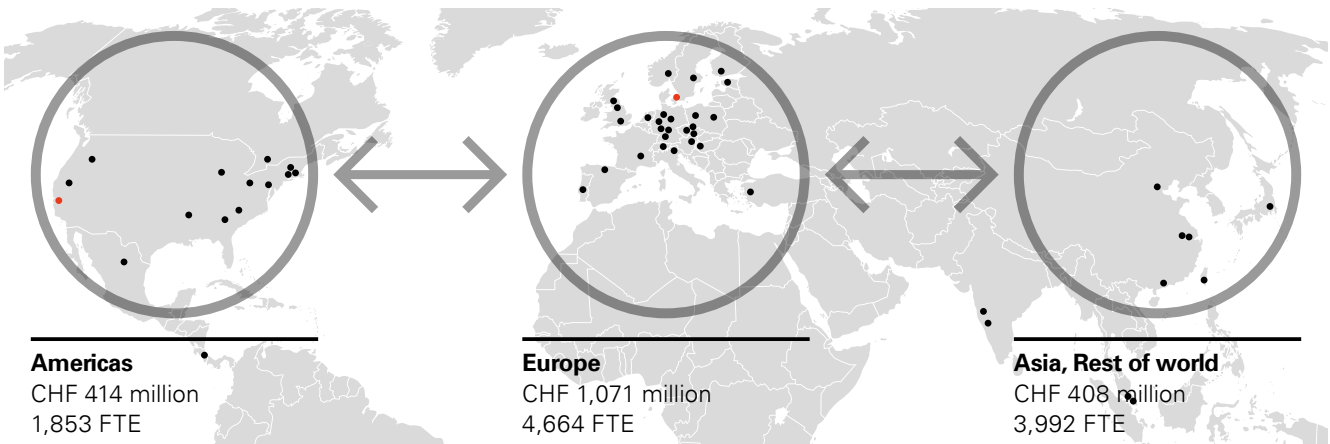
Thanks to the good business performance of the Distribution & Logistics segment, sales in Switzerland grew 7.0% over the prior-year period.

Share of sales by region 2017–2021

In %



Worldwide production and sales locations (without Hoffmann)



With its global manufacturing platform and more than 100 locations around the world, SFS is strategically well positioned in terms of production and services capabilities. The takeover of Jevith and GLR Fasteners added two additional sites in the past year (depicted by red dots).

Segment report – Engineered Components

High utilization and profitability

The 2021 financial year in the Engineered Components segment was characterized by catch-up effects in the automotive and industrial areas as well as persistently strong demand in the Electronics division. The situation in the Medical division developed differently depending on the area of application. Semiconductor supply shortages put a damper on recovery in the second half of the year. Profitability developed positively based on good capacity utilization.

Strong catch-up effects – negatively impacted by supply chain bottlenecks in the second half of the year

The Engineered Components (EC) segment, which is geared toward industrial applications, benefited substantially in 2021 from the recovery that began in the wake of the COVID-related slump of the 2020 financial year. This recovery – like the slump in 2020 – followed different patterns depending on the end market. In the automotive industry, recovery had already begun in the third quarter of 2020 and persisted into the first half of 2021. Bottlenecks in the semiconductor supply chain started putting pressure on OEMs' production quantities in the summer months, which then also impacted call-offs at SFS. While the trend in the various industrial niche markets served by the Industrial division exhibited a similar yet delayed pattern, supply chain problems impacted this division to a much lesser degree. The Aircraft business lingered at a low level but started showing initial signs of a recovery toward the end of the year. The Electronics division, which had to measure up against a strong baseline due to the extremely good results it generated in the previous year, profited from a persistently positive market environment that was also hit by semiconductor scarcity in the second half. The repercussions here were, however, less pronounced than in the automotive industry. While demand in the Medical division followed an upward trend, the trend varied greatly depending on the area of application. Pandemic-related postponements of non-essential operations curbed demand, especially in the orthopedic end market.

Overall, the segment generated sales of CHF 975.2 million. Whereas year-on-year growth in the first half amounted to 28.6%, this figure dropped to 8.6% for the year as a whole. In addition to the supply chain bottlenecks mentioned above,

Key figures Engineered Components

In CHF million

	2021	+/- PY	2020	2019
Third party sales	975.2	8.6%	898.3	957.1
Sales growth comparable		7.9%		
Net sales	985.0	8.2%	910.4	964.2
EBITDA	244.1	15.8%	210.8	210.1
As a % of net sales	24.8		23.2	21.8
Operating profit (EBIT)	168.2	19.1%	141.2	147.0
As a % of net sales	17.1		15.5	15.2
Operating profit (EBIT) adjusted ¹	168.2	19.1%	141.2	164.1
As a % of net sales	17.1		15.5	17.0
Average capital employed	736.5	2.2%	720.5	700.4
Investments	89.1	7.2%	83.1	94.1
Employees (FTE)	7,008	-3.9%	7,293	7,153
ROCE (%) ²	22.8		19.6	23.4

¹ 2019 adjusted for relocation costs Nantong (China) CHF 17.1 million

² EBIT adjusted in % of average capital employed

the strong baseline effect is another factor that contributed to the declining growth rate. Sales growth was almost exclusively organic in nature; the impact of foreign currency and consolidation effects were minor with -0.5% and $+1.2\%$. Sales generated during the period under review slightly exceeded those of 2019 (pre-pandemic).

Responsiveness and regional supply chains proved beneficial

By focusing on temporary capacity adjustments in the 2020 financial year, SFS was able to largely preserve jobs and hold on to expertise; that, in turn, put SFS in a position in the financial year just ended to respond swiftly to the sudden increase in demand experienced in the first half of the year. This also allowed for a higher number of customer call-offs to be allocated to SFS in certain areas of application, which then translated to market share gains.

Looking back, both SFS’s long-term “local for local” strategy as well as the decision to nearly exclusively make temporary adjustments to production capacities during the now two-year pandemic have proven correct. Doing so enabled SFS to largely maintain its ability to fill customer orders despite challenges presented by material availability, occasionally long delivery times and logistics.

Strong competitive position lays foundation for future growth

The EC segment focuses on innovation trends that again proved robust in the 2021 financial year. The divisions’ ample competitive edge enabled important new project wins and increased order allocations, which in turn lay the foundation for their future growth.

The investments in buildings and equipment go hand-in-hand with growth and amounted to CHF 89.1 million in 2021 (PY CHF 83.1 million). These were driven by project-specific investments and the construction of the new production hall in Heerbrugg (Switzerland) for the Automotive division. This additional production hall will offer the capacity required for manufacturing assemblies for electric brake systems. Construction work is proceeding on schedule and commissioning will take place in the third quarter of 2022. Current projects, including those acquired in 2021, will already lead to utilization of some 2/3 of the building’s capacities under construction.

Preparations for the announced expansion of the production platform in Nantong (China) are proceeding according to schedule and construction will begin in 2022. The expansion will increase the location’s production area by around 70% and be available for use by the Electronics, Automotive, Industrial, Riveting, Distribution & Logistics and Medical divisions in late 2023 to implement their growth projects. The expansion of the location in Hallau (Switzerland) for the Industrial and Medical divisions was completed on schedule and successfully put into operation. An existing production hall in close proximity to the main Unisteel Malaysia factories, located in Johor Bahru (Malaysia) was purchased to facilitate the new projects expected in the areas of Hard Disk Drives and Medical.

Profitability has benefited from high capacity utilization

The good demand situation resulted in a high overall level of capacity utilization that was beneficial for the EC segment’s profitability. The EBIT margin rose by 160 basis points and amounts to 17.1% for the 2021 financial year, which is on a par with the pre-COVID level. Supply chain bottlenecks resulted in a lower utilization of capacities in the second half of the year, which then caused the EBIT margin to contract slightly. Raw material prices began rising considerably by mid-year, but since this development had already become apparent early in the year, they were negotiated with customers in a timely manner and increases could be passed on.



Visualization of the expanded production platform in Nantong (CN).

Automotive division

High demand slowed down by supply chain bottlenecks

The pronounced, broad-based recovery that took hold in the automotive industry in the second half of 2020 continued and remained dynamic during the first half of the period under review. This recovery was then slowed down substantially by semiconductor component shortages from the summer months onward. In Switzerland, this development prompted a return to short-time work in production at the end of the third quarter. For the full year, however, a solid year-on-year growth could still be achieved. Because of its high responsiveness and the ramp-up of new projects, the division has again succeeded in significantly outpacing overall market growth.

Project acquisitions are testimony to strong competitive position

Over the years, SFS has successfully positioned itself as a development partner and supplier for customers in the automotive industry. Innovation in this industry is being driven by the trends towards greater comfort, improved safety, increased efficiency, and, from a higher perspective, autonomous driving technology. The associated electrification of vehicles, applicable also to vehicle brake systems, is a promising growth area from which SFS is benefiting. These innovation drivers have proven robust again in the current period under review. SFS's strong competitive position is evidenced both in the awards it has received, such as the Global Supplier Award from Bosch, and especially through key project acquisitions and an expanded customer base in electric brake system applications in North America and Europe. One lighthouse project is a major order acquired at the Heerbrugg (Switzerland) location that covers precision components for a new generation of electric brake systems; this order will generate total sales in excess of CHF 100 million from 2024–2033. The acquired projects lay the foundation for a continuation of SFS's growth trajectory. Against the backdrop of the proven and successful "local for local" strategy, advances were also made in 2021 to localize projects for automotive customers at the location in Nantong (China).

Investment projects to generate growth

An additional production hall is currently being erected at the Heerbrugg location to create the additional capacities needed for growth. The construction project is proceeding according to schedule. It will be completed in the summer of 2022 and subsequently put into operation.

SFS was also able to acquire plots of land adjacent to the current location in Flawil (Switzerland), which has specialized in deep drawing technology. This land will enable SFS to carry out its medium-term expansion plans.



New production building

- To realize projects in the field of electric braking systems
- Investment volume in buildings ca. CHF 35 million
- Creates around 100 new jobs at the site in Heerbrugg (Switzerland) in the medium term
- And an additional production area of 9,400 m² and a storage area of 2,800 m²
- The new building is consistently geared towards sustainability, efficiency and the conservation of resources
- Commissioning planned for the third quarter of 2022

Succession planning at Truelove & Maclean establishes continuity

With the acquisition of Truelove & Maclean (T&M) in the spring of 2020, SFS continued the implementation of its "local for local" strategy and added the manufacturing process of deep drawing to its existing development and production platform in North America. Despite the difficult market environment that has arisen in connection with the COVID-19 pandemic, T&M has developed positively and met up to expectations. By handing management of the company over to his son Wayne Bouffard, founder Rich Bouffard has established a sustainable and prudent succession solution that is also fully in line with SFS's DNA, after which more than 70% of management positions are filled internally.

Outlook 2022

Over the course of the next few years, the Automotive division expects to see good demand for new vehicles and models. Lost sales due to supply chain problems in the second half of the financial year just ended are likely to be compensated in the years to come. The division is well positioned in 2022 to significantly outperform market growth once more.

Electronics division

Record-high results in first half-year – second half troubled by supply chain bottlenecks

Persistently high demand in many areas of application, important product launches by key customers and the well-established ability to fill customer orders have helped the Electronics division achieve record results in the first half of the year. Semiconductor supply shortages put a damper on results in the second half of the year. Overall, this resulted in a slightly positive sales trend for the period under review, which is a good result given the high baseline effect and limitations in semiconductor availability.

Broad-based development

The Electronics division experienced good, broad-based development. In addition to stable development in the Mobile devices business, Lifestyle Electronics grew considerably with product launches in AR and VR applications, as well as accessories. Strong demand for high capacity hard disk drives was a pleasant surprise. Applications for cloud and enterprise computing served as growth drivers.

Major expansion initiated in Nantong

As already mentioned in the half-year report, SFS will expand its production platform in Nantong (China) by around 70% to a total of around 130,000 m². The expansion is necessary since current production and warehouse capacities in Nantong have reached a high level of utilization due to good business performance and the relocation of the Riveting production site from Nansha to Nantong. The expansion will strengthen the existing platform and lay a foundation for creating future growth in the locally active divisions (Electronics, Automotive, Industrial, Riveting, Distribution & Logistics and Medical). The investment volume for properties and buildings amounts to around CHF 32 million. Commissioning is scheduled for the fall 2023.

Outlook 2022

According to its current assessment, the Electronics division expects development to be moderate overall but at a high level. The Chinese government's zero-COVID policy could result in restrictions and adverse effects in the event of further outbreaks.



Business areas Mobile Devices, Lifestyle Electronics and Hard Disk Drives.

Industrial division

Significant recovery in demand

Demand in the Industrial division began to recover in the second half of 2020, with this recovery continuing during the period under review and encompassing nearly every niche market served by the division. The trend towards home improvements and energy-efficient renovations, for instance replacements of windows, is stimulating demand from the furniture industry for fittings.

Unlike in other divisions, the global semiconductor supply shortages did not have a material impact on business performance in the second half of the year. In many areas, in fact, sales exceeded pre-pandemic levels. Extremely encouraging development was seen with respect to new project intake, which is both an expression of a strong competitive position and a starting point for attractive future development prospects.

The situation in the Aircraft business, which was hit particularly hard by the repercussions of the pandemic, remains challenging. After stabilizing at a low level, demand started showing some initial positive momentum in the fourth quarter. Recovery is still likely to extend over a longer period of time and come in waves due to stockpiling.

Outlook 2022

The Industrial division expects overall market demand to remain good. Realized new projects will further underpin a positive development. The Aircraft business is only likely to experience a noticeable impulse toward the end of the year.

Medical division

Slightly positive development achieved

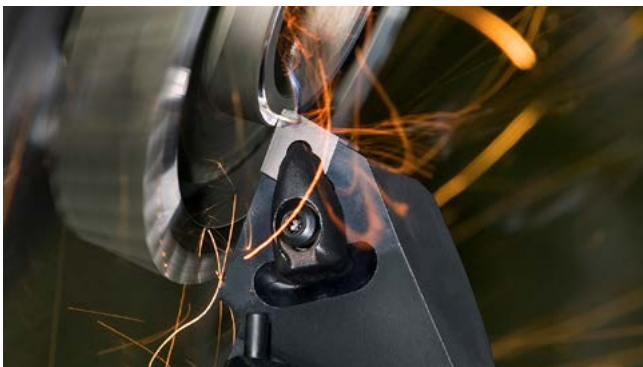
The organic sales trend in the Medical division was in line with expectations and slightly positive for full-year 2021. The trends in the individual product categories, however, varied. It was mainly in the area of instruments and implants for orthopedic surgery that demand continued to be curbed by the postponement of non-essential medical procedures as a direct result of the COVID-19 pandemic. The area of sports medicine, on the other hand, showed positive growth. Important new projects with several customers helped boost sales in this product category at the Massachusetts and Costa Rica locations.

Close attention was given to efficiency gains and operational excellence at the locations in the US and Costa Rica. Additions to the management team and numerous initiatives that were launched and implemented are already beginning to show initial results and attest to the feasibility of the defined medium-term earnings targets. The availability and recruitment of skilled staff needed in the US to implement the customer projects acquired remains challenging.

Systematic efforts are being made to expedite development of the global platform. Good progress was made on filling an attractive project pipeline, particularly in Asia. The conclusion of the expansion project at the Hallau (Switzerland) site created the capacities needed to implement growth projects in the area of micro injection molding. The relocation of Tegra Medical's headquarters at Franklin, Massachusetts (USA), to the larger, adjacent property is proceeding according to plan and will be completed by the end of 2022.

Outlook 2022

The Medical division expects a positive development with growth in organic terms. The implementation of the medical device strategy and the build-up of the global manufacturing platform will remain a key priority and lay the basis for a sustainable development. Uncertainties remain regarding the possible negative impact of the COVID-19 pandemic and the shortage of skilled workers in the US.



Cutting tool fastener, also part of the product range machining from Hoffmann.

Record results achieved

Carried by a dynamic market environment, the Fastening Systems segment achieved record results in the 2021 financial year. Both the Construction division, which operates in the construction industry, and the Riveting division, the specialists in riveting technology, succeeded in providing reliable services to their customers in the midst of a challenging environment. The divisions' good market position and robust supply chains enabled both to profit from strong demand and contribute to the exceptional results.

Dynamic market situation

The exceptional demand situation that the Fastening Systems segment had already successfully leveraged in the first half of the reporting period to generate record results continued in the second half of the year, albeit at a slightly lower level. The strong demand resulted in widespread supply shortages on the market, however. Both divisions successfully managed to largely maintain their ability to fill customer orders in this challenging environment.

Robust value chains enabled the Construction division to both serve its existing customers and gain new customers. Market access in Europe and the US was expanded further through the acquisitions of Jevith A/S (Denmark, as of July 1, 2021) and GLR Fasteners (USA, as of August 1, 2021). The two companies' good positioning in their respective markets will continue to underpin the division's development going forward.

The Riveting division made use of the good demand situation among industrial customers, whereas the business with customers from the automotive industry cooled down substantially over the course of the second half of the year. This was triggered by bottlenecks in the semiconductor supply chain, which impacted OEMs' production figures and had a corresponding yet delayed impact on call-offs in the Riveting division.

In this exceptional environment, the segment generated CHF 574.9 million in sales, which corresponds to a remarkable 17.4% increase over the same period of the previous year. Sales in the first half of the year exceeded those of the second half by +4.0%. In organic terms, this resulted in a sales

Key figures Fastening Systems

In CHF million

	2021	+/- PY	2020	2019
Third party sales	574.9	17.4%	489.7	498.3
Sales growth comparable		16.6%		
Net sales	589.6	17.8%	500.7	511.5
EBITDA	120.4	53.2%	78.6	67.5
As a % of net sales	20.4		15.7	13.2
Operating profit (EBIT)	102.3	71.4%	59.7	47.1
As a % of net sales	17.4		11.9	9.2
Operating profit (EBIT) adjusted ¹	102.3	77.6%	57.6	47.1
As a % of net sales	17.4		11.5	9.2
Average capital employed	263.0	-2.9%	270.9	297.4
Investments	9.9	-9.2%	10.9	17.4
Employees (FTE)	2,510	3.0%	2,438	2,429
ROCE (%) ²	38.9		21.3	15.8

¹ 2020 adjusted for book gains from the disposal of non-operating assets of CHF 2.1 million

² EBIT adjusted in % of average capital employed

increase of +16.6%. Foreign currency effects had a minor impact of +0.3%.

High capacity utilization and efficiency

Both divisions benefited from a high level of capacity utilization throughout the entire year. Prudent cost and price management enabled the segment to overcome both turbulences attributable to the ongoing pandemic as well as supply chain disruptions, and achieve a record-breaking EBIT margin of 17.4%. An extraordinary result that is 5.5 percentage points higher than the EBIT margin for the same period of the previous year.

Construction division

Consistently high market demand

Demand, which exceeded expectations and was extremely strong in some cases, resulted in exceptionally good growth in all application areas of the Construction division. This development was observed in both Europe and North America. As expected, demand slowed down slightly in the second half of the year yet still remained at a high level. On the supply side, the strong demand situation resulted in material shortages and price increases, which then caused delays in some customer projects. In this environment, guaranteeing the division’s ability to fill customer orders was immensely challenging. Robust supply chains, good material availability and a high degree of in-house production helped the division to benefit from the market environment. Its ability to fill customer orders even enabled it to acquire new customers. Like in the previous year, the division achieved growth in organic terms which outpaced the market and resulted in market share gains.

Market trends intact

The Construction division is able to continue benefiting from the good market environment by systematically positioning itself as a “Building Envelope Specialist”. The division focuses on applications with high growth potential that are driven by global trends towards energy-efficient building envelopes, streamlined fastening processes and improved accident prevention during the assembly process. Ongoing efforts to expand market access, which took the shape of two acquisitions in the year under review – of Jevith A/S (Denmark, as of July 1, 2021) and GLR Fasteners (USA, as of August 1, 2021) – will enable the division to gradually and sustainably achieve economies of scale with very few integration-related costs. Experience gained while integrating the acquired companies will continue to enable the division to efficiently incorporate these types of businesses into the organization without infringing on their independence, while also generating added value for the division from the very start.

Outlook 2022

The Construction division expects conditions on the market to remain positive. Uncertainties surrounding the persistently high energy, material and transport prices remain the biggest challenges. Current shortages of construction materials as well as rising interest rates could cause delays in construction projects. Despite these conditions, the division anticipates organic growth in 2022.

25 locations of Triangle Fastener Corporation (TFC) in the US



The acquisition of GLR Fasteners allowed TFC to expand its market access at the US West Coast.



Building facade with Sandwich panels, using SFS SXC drill fasteners in the fastening process.

Riveting division

Dynamic demand dampened by developments in the automotive industry

The good market environment in the first half of the year in automotive-related businesses, industrial manufacturing and the construction sector deteriorated as a result of developments in the automotive industry over the course of the second half. The semiconductor product shortages experienced by automotive OEMs had an increasingly detrimental impact on the business with customers from the automotive industry. The trend was parallel to that of the Automotive Division, albeit subject to a time lag. Nevertheless, the persistently good demand situation in the second half of the year in other end markets still enabled the division to generate stable growth in organic terms.

Riveting division now at Nantong location

The first half of the year saw the Riveting division relocate its Chinese production facility from Nansha to Nantong, the production platform also used by other divisions. This move allowed the division to benefit from Nantong's established production and management processes and will also help it boost efficiency in other areas as well. The relocation was completed within the space of just a few weeks and select key employees were on hand to provide support at the new location, both during the transfer and for a certain transitional period. The Nansha location was sold on May 20, 2021. The move will not result in any changes to the Riveting division's strategic and operational alignment in Asia. However, the focus will increasingly shift to growth projects within China as well. Demand for customer-specific, automatically assembled fasteners is strong, especially in the local automotive industry.

Focus on innovations

The development and market launch of innovative products and solutions remains an important area of focus. The transition from the division's cordless setting tool product lines to the technology advocated by the Cordless Alliance System (CAS), a cross-manufacturer battery pack system initiated by Metabo, is progressing and represents an important step toward improving the devices positioning among customers even further. If networked with end devices such as PCs or smartphones, new digitalized solutions also open up additional options that can offer significant customer benefits in terms of quality control or equipment availability, for example.

Areas of application in market segments that are driven heavily by sustainability-related requirements (such as fastening solutions for solar panels and heat pumps, for example) offer substantial growth potential going forward. Thanks to its expertise in riveting technology and its international sales organization, the Riveting division is well equipped to continue its efforts to gain a more solid foothold in these attractive, growing market segments.

Outlook 2022

The Riveting division expects market conditions to continue to recover. In the business with customers from the automotive industry, a step-by-step recovery of product call-offs is anticipated over the course of the year on the basis of a stabilisation of the semiconductor product supply. Overall, the division expects growth in organic terms.



Fastening solutions for solar panels (rivets and setting tools) provide potential for further growth of the division.

Build international presence

The Distribution & Logistics segment, which primarily serves customers from the industrial manufacturing and construction industries in Switzerland, grew substantially and achieved strong results in the financial year just ended. Going forward, the inclusion of Hoffmann lends the segment an internationally strong position in the attractive area of quality tools.

Good initial situation from first half of year exploited

After realizing year-on-year sales growth of 8.1% in the first half of 2021, stable market demand in all areas and good overall material availability enabled the segment to maintain this high level of growth in the second half of the year. This resulted in sales of CHF 343.0 million in the D&L segment during the period under review, up +8.2% over the previous year. Foreign currency effects had an impact of +0.2%. Existing relationships with large customers could be expanded. Additionally, new customer acquisitions helped to underpin the broad based growth.

Broad focus on customer needs

The segment remains committed to creating added value for customers by focusing on their needs. Innovative solutions, thanks to ongoing digitalization of both customers processes (electronic procurement and logistics solutions in their respective warehouses, for example) and SFS's internal business processes (new generation ERP system S/4HANA at the warehouses, for example) enable the segment to offer customers more efficient solutions by means of higher integrated processes. To consistently align the organization to customer needs, the segment continued to deploy considerable resources in the financial year under review, for example to further exploit the opportunities opened up by digitalization. Organizational changes are currently being made to the existing teams with the goal of meeting the specific needs of customers in the industrial manufacturing and construction industries even better by providing more targeted, customized solutions from one source.

Profitability continues upward trend

The encouraging profitability trend over the previous reporting periods was sustained in the financial year just ended. Strong sales growth and prudent management enabled the segment to generate an operating profit (EBIT) of CHF 32.6 million, which corresponds to an EBIT margin of 9.4%.

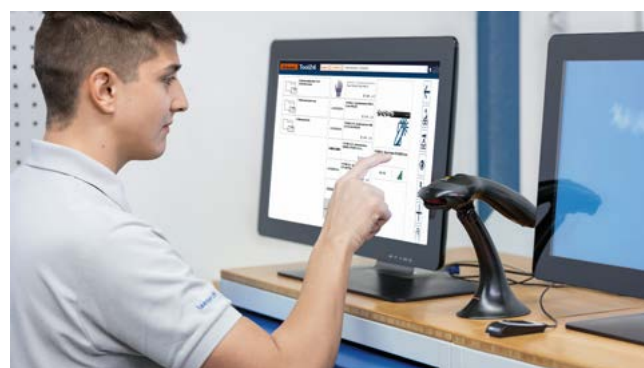
Key figures Distribution & Logistics

In CHF million

	2021	+/- PY	2020	2019
Third party sales	343.0	8.2%	316.9	326.0
Sales growth comparable		8.0%		
Net sales	347.9	8.2%	321.6	330.9
EBITDA	37.7	10.6%	34.1	46.5
As a % of net sales	10.8		10.6	14.1
Operating profit (EBIT)	32.6	13.6%	28.7	40.5
As a % of net sales	9.4		8.9	12.3
Operating profit (EBIT) adjusted ¹	32.6	13.6%	28.7	26.2
As a % of net sales	9.4		8.9	7.9
Average capital employed	130.4	2.8%	126.9	132.8
Investments	4.1	0.0%	4.1	2.3
Employees (FTE)	606	1.3%	598	622
ROCE (%) ²	25.0		22.6	19.7

¹ 2019 adjusted for book gains on the disposal of non-core assets CHF 14.3 million

² EBIT adjusted in % of average capital employed



Intuitive goods issuing system
GARANT TOOL24.

Compared to the previous year period, profitability rose by 50 percentage points on a like-for-like basis.

Internationalization of the D&L segment through inclusion of Hoffmann

The inclusion of Hoffmann lends the D&L segment an internationally strong position in the attractive area of quality tools. Hoffmann is a leading international systems partner for quality tools that is well-known on European markets and serves more than 100,000 customers with a product range comprising around 500,000 items. Customers appreciate not only the company’s comprehensive range of products but also its high level of product and logistics expertise, which will be strengthened even further through the commissioning of the new LogisticCity in Nuremberg (Germany), Europe’s most high-performance logistics center for quality tools.

The extensive cross-selling potential opened up through the combination of the two companies gives rise to attractive growth prospects for the D&L segment. In the medium term, Hoffmann’s customers will gain access to the segment’s existing expertise in the areas of mechanical fastening systems and electronic procurement solutions. Furthermore, Swiss customers will have access to the same range of products and the same high level of service and logistics expertise that they have grown accustomed to, but at the international level, as well.

Outlook 2022 (excluding Hoffmann)

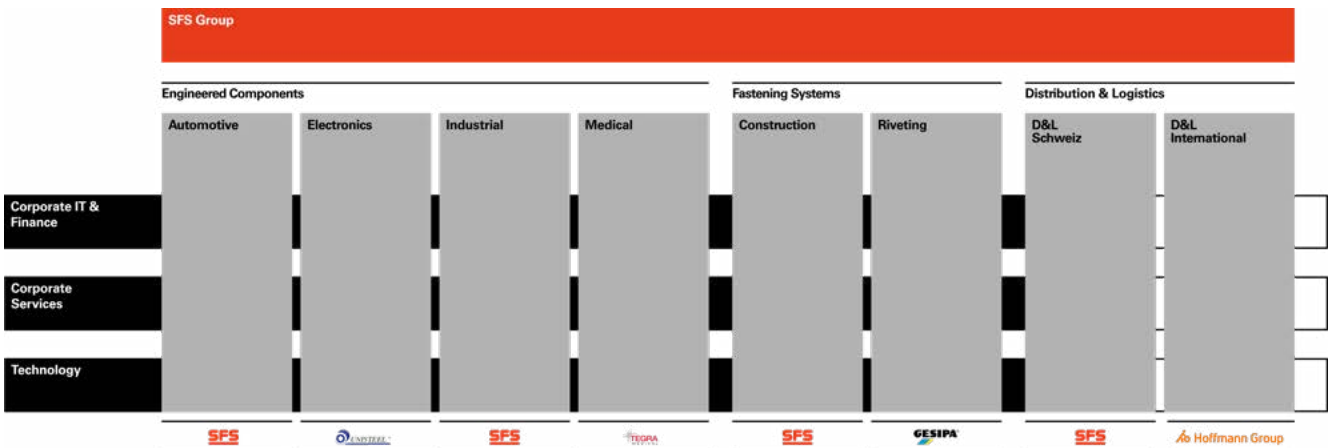
The D&L segment expects conditions on the Swiss market to remain stable overall, resulting in a positive development. Once the closing conditions of the transaction with Hoffmann have been met, which is currently expected toward the end of the first half of 2022, Hoffman will become part of the SFS organization as division within the D&L segment. The outlook will be updated after closing of the transaction.

Growth initiatives D&L segment with inclusion of Hoffmann

- Further penetration of existing Hoffmann key accounts and high potential customers with complementary portfolio of mechanical fastening systems and electronic procurement solutions
- Supply of existing D&L Switzerland key accounts with quality tools, also outside Switzerland
- Continuous market launch of new products and innovative supply chain solutions
- Expansion of multifaceted eCommerce solutions and further development of digital service products for connected manufacturing
- Targeted regional expansion in European markets outside DE/AT/CH, USA and China

Organizational embedding of Hoffmann in the SFS Group

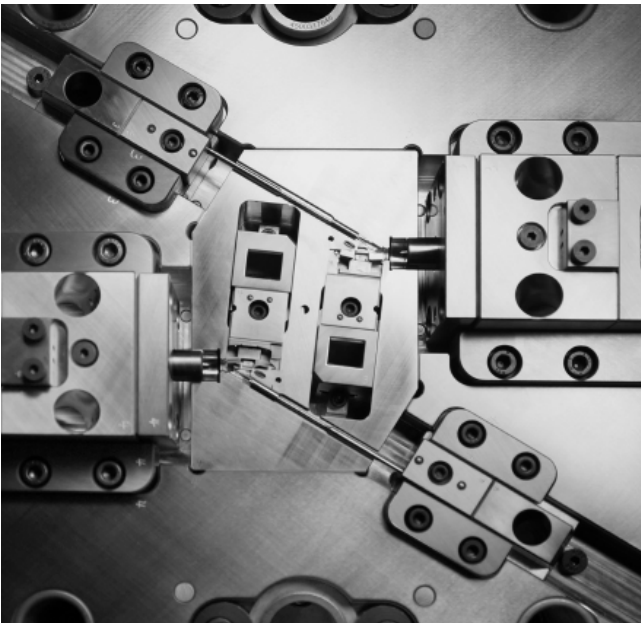
New Division «D&L International»



Success stories

Inventing success together

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 Creator to “inventing success together.” That is our corporate DNA, which impressively becomes reality through our success stories.



Mold making as an art form →

“Mold making” refers to the production of molds used to make castings from metal or plastic. Plastic injection molding is a production technology commonly used to manufacture instruments and components in the MedTech industry. Products like these always seem simple to the uninitiated – yet they demand extremely small tolerances and the molds used for producing those products have to be manufactured with the precision of a Swiss watch. Stamm AG in Hallau (Switzerland), a company in the SFS Group, has embraced teamwork to perfect the art of producing highly precise molds and uses this art on a daily basis to create added value for customers.



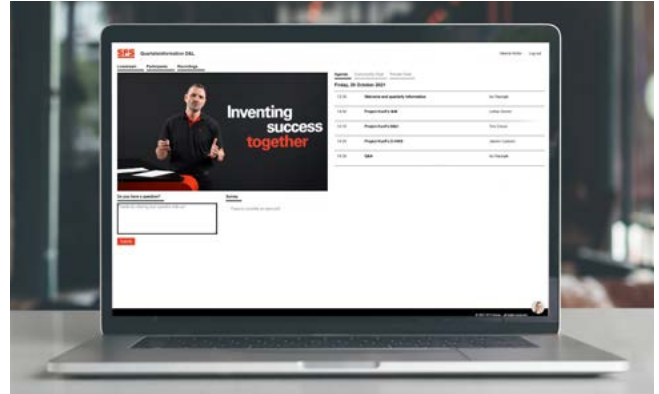
First circular roof →

A fully circular economy in 2050: That’s the Netherlands’ goal. Guardian, a company in the SFS Group that is based in Helmond (Netherlands), worked in collaboration with several manufacturers united under the name of the «Urban Mining Collective» to design the first circular roof in the Netherlands. Once it reaches the end of its useful life, which is 25 years on average, this novel roof structure can be removed completely and more than 90% of the materials and components can be recycled. That represents a vital step towards sustainable, circular construction.



**Cleverly simple – simply clever:
Stadler is counting on the HOLEX
24seven goods issuing system →**

The Distribution & Logistics segment added Hoffmann’s HOLEX 24seven smart goods issuing system for its range of tools in August 2021. The system is impressively simple yet swift, which is why the HOLEX 24seven is being used at Stadler, where it assists employees and impresses on a daily basis.



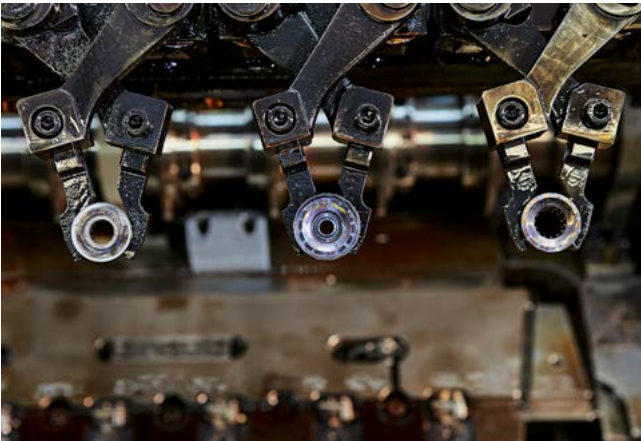
**Digital solutions to reach
everybody →**

The pandemic has accelerated digitalization around the world. The same holds true at SFS, where further great strides were made: A video room was set up in Heerbrugg (Switzerland) where livestreams can be broadcasted to all corners of the world to ensure that employees can still be reached for joint events, also at times when travel is more difficult. Another was the rollout of mySFS: This app-based solution gives even employees without computer access the chance to call up internal information at any time.

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**

In cold forming workpieces cut-off from a wire are shaped into the desired form in two to six stage presses. This is a highly efficient and precise mass production process, which is particularly well-suited to large lot sizes.

**Deep drawing technology →****Complex moulded parts made from sheet metal**

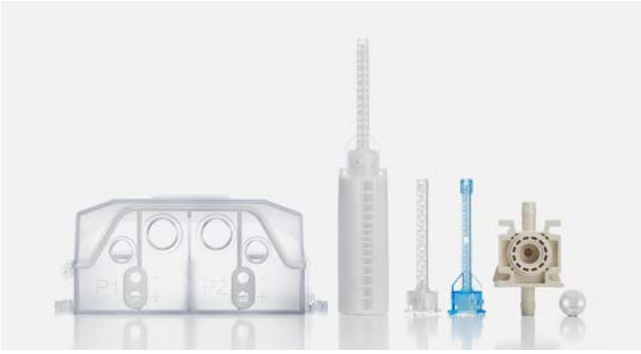
Deep drawing is the ideal complement to cold forming technology. This technique is used to produce smallest and thin-walled parts precisely and economically.

**Fastening technology →****Application specific fastening systems**

Even the best fastening system can only achieve the best results if it precisely matches the specifications. It is well worth to evaluate different solution approaches in the development phase of a project in order to optimise the benefits of fasteners.

**Secondary operations →****Pre-finished parts thanks to individual post-processing**

With comprehensive options for post-processing such as machining, heat treatment or ultra-fine cleaning, we are able to offer customers tailored ready-to-use components and even assemblies.



Injection moulding technology →

Innovative moulded parts made from plastic

Thermoplastics are used in a wide range of applications 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.



Riveting →

Economical solutions with high benefits

Rivets (blind rivets and blind rivet nuts) are a viable option when screws do not meet the specified requirements. Minimal wear, high installation quality, short processing cycles and a long service life are the hallmarks of setting tools and automated setting solutions.



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. Thus SFS has developed and implemented numerous solutions under the "M2M by SFS" label to optimize C class inventory management processes.



Laser processing technology →

Modern technology for medical device industry

Thanks to 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.

Corporate Governance

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Corporate Governance

Sustainable engagement

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 2021, unless otherwise stated.

the corporate cross-functions Corporate IT & Finance (information technology, finance, controlling, tax, legal & compliance), Corporate Services (human resources, communication, marketing and corporate development) and Technology (technology and knowledge transfer, operations, business development).

1 Group structure and shareholders

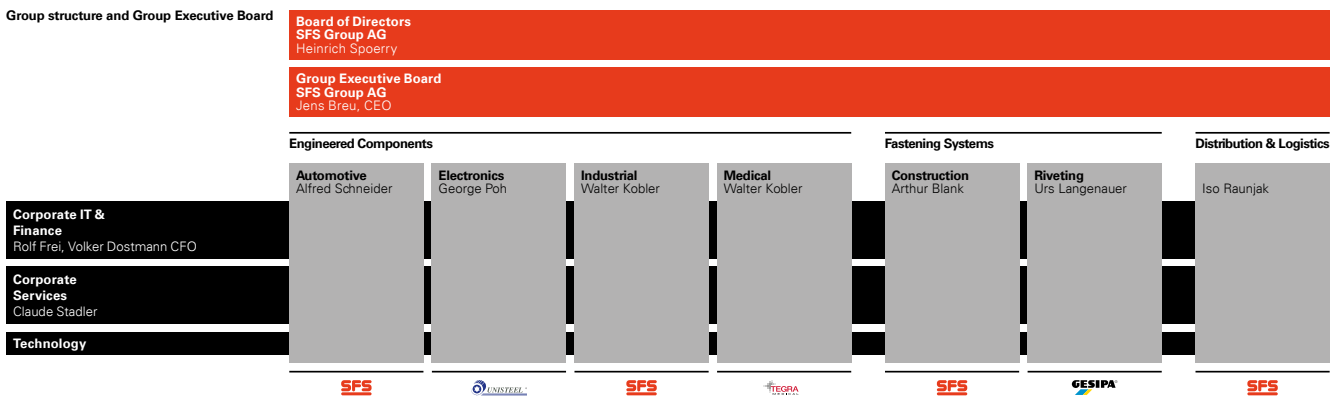
1.1 Group structure

SFS Group is organized in three segments: Engineered Components, Fastening Systems and Distribution & Logistics. Engineered Components develops, manufactures and sells precision moulded parts and assemblies 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.

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 as in the previous year and its market capitalization was CHF 4,732.5 million (PY 3,937.5) as at 31 December 2021.

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.

The Board of Directors and Group Executive Board are supported in their management and supervisory functions by



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

	31.12.2021	31.12.2020
Founding families	54.9%	54.9%

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.

A new group pursuant to Art. 12 of the FinMIO-FINMA was established in the reporting year by representatives of the founding families as well as two other major shareholders, all together holding 47.44% of the share capital and voting rights. The group was built in the context of the acquisition of Hoffmann SE and was established in order to support the motions of the board of directors of SFS Group AG at the extraordinary general meeting of 31 January 2022 for the creation of authorised share capital excluding the subscription rights of existing shareholders on the one hand and to support the election of Mr. Ph.D. Peter Bauschatz as a new member of the Board of Directors out of the Hoffmann SE at the next Annual General Meeting, on the other hand.

In the same context (acquisition of Hoffmann SE) a further group in the sense of Art. 12 of the FinMIO-FINMA was established. The purpose of this second group, consisting of companies controlled by the previous shareholders of Hoffmann SE, is the future acquisition of 4.09% of the shares in SFS Group AG (calculated on the share capital after the authorised capital increase of 31 January 2022) in the light of the acquisition and the respective lock-up obligation. With regard to this transaction, SFS Group AG has a disposal position to the same extent.

As in the previous year, 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 other than UBS Fund Management (Switzerland) AG.

SFS Group AG holds treasury shares to the extent of 0.15% (PY none). 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 seven 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.

The SFS Group rendered services for information technology, finance and human resources to related parties and their companies based on internal group rates. In addition and at arm's length, goods were exchanged and property was rented or leased.



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

Heinrich Spoerry

- Chairman of the Board of Directors (BoD) since 1999
- Non-executive member since 2016, independent since 2019
- 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 2010–2021
- Bucher Industries AG, member of the BoD since 2006

Qualifications

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

Nick Huber

- Non-executive 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 2008
- HUWA Finanz- und Beteiligungs AG, member of the BoD since 1997
- Gurit Holding AG, member of the BoD since 1995
- IBM (Switzerland) AG, Account Manager 1990–1995

Qualifications

- Stanford Executive Program, Stanford University 2013
- SKU, Advanced Management Program, Switzerland 2002
- Matura type E in economics 1984

Urs Kaufmann

- Independent, non-executive member since 2012
- Lead Director since 2014
- Chairman of the Nomination and Compensation Committee since 2014
- Swiss citizen, born 1962

Other activities

- 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
- SWISSMEM, member of the Executive Committee since 2012
- Swiss Employer's Association (SAV), member of the Executive Committee since 2018

Qualifications

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

Thomas Oetterli

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

Other activities

- Schindler Group, Chief Executive Officer 2016–2022
- 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 2010–2022
- Schindler Group, Head of Switzerland 2006–2009
- Schindler Group since 1994

Qualifications

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

Bettina Stadler

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

Other activities

- Stadler Holding AG, member of the BoD since 2021
- EVTI-BEST AG, member of the BoD since 2019
- POLYGENA AG, Head of HR and member of the Executive Board 2016–2020
- PWB AG, Human Resources Manager 2003–2018, 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

Manuela Suter

- Independent, non-executive member since 2021
- Swiss citizen, born 1974

Other activities

- Bucher Industries, CFO since 2018
- Bucher Industries, Head of Group Controlling 2014–2018
- Bucher Industries, Group Controller 2011–2014
- SIX Exchange Regulation, Zurich, Senior Financial Reporting Specialist 2010–2011
- Holcim, Zürich, Head Financial Holdings 2007–2010
- Ernst & Young, Auditor 2001–2007
- SwissHoldings, Member of the Board since 2021

Qualifications

- Certified public accountant 2005
- Master's degree in economics, University of Zurich, 2001

Jörg Walther

- Independent, non-executive member since 2014
- Swiss citizen, born 1961

Other activities

- 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, Vice Chairman of the BoD and Chairman of the Audit Committee (member since 2016)
- AEW Energie AG, Vice Chairman of the BoD since 2020, member of the Audit Committee (member since 2014)
- Proderma AG, Chairman of the BoD since 2014
- Kraftwerk Augst AG, member of the BoD since 2015
- Immobilien AEW AG, member of the BoD since 2015
- swissVR, member of the board since 2021
- 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

At the 2022 ordinary general meeting, the long-serving Chairman of the Board of Directors, Heinrich Spoerry, will resign from the Board of Directors after reaching the age limit of 70 years stipulated in the Articles of Association. Thomas Oetterli, non-executive and independent member of the Board of Directors since 2011 and Chairman of the Audit Committee since 2014, will be proposed to the shareholders for election as his successor as Chairman of the Board of Directors at the 2022 Annual General Meeting.

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.

In 2021 a total of eight (PY eight) ordinary and four (PY one) extraordinary Board meetings took place in the reporting year. Five meetings lasted less than two hours, seven meetings lasted for a day. The meetings were held at regular intervals of one or two months during the reporting year.

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

Lead Director

The Board of Directors elected Urs Kaufmann as Lead Director until the end of the next Annual General Meeting. In his function, he takes the chair of the 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
Manuela Suter	Member

With the resignation of Heinrich Spoerry as Chairman of the Board of Directors, he will also step down from the nomination and remuneration committee. Thomas Oetterli will be proposed as his successor in the Nomination and Compensation Committee at the 2022 Annual General Meeting. In case of his election, Thomas Oetterli will then resign from the Audit Committee.

The committees meet as often as the business of the company requires. The Audit Committee typically meets in January, February and autumn. The Nomination and Compensation Committee usually meets in February and December. 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 two meetings (PY three), 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 full 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 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
- 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
- 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 current 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 meeting.

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. In the reporting year, eight internal audits took place (PY none, due to the COVID-19 travel restrictions).

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:

- Loss of data and impairment of going concern due to cyberattacks
- Investment risks in large-scale projects
- Supply chain risks (delivery constraints) caused by pandemic
- 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.

At the end of the reporting year 2021, the Group Executive Board consisted of nine (PY ten) members:

Since January 1st, 2021 Walter Kobler, Head of Division Industrial has assumed the responsibility for the division Medical in addition to his current role.

In April 2020 the Board of Directors nominated Volker Dostmann as successor of the long standing CFO Rolf Frei. Volker Dostmann joined the Group Executive Board November 1st 2020 and took on the role as CFO at the Annual General Meeting April 22nd 2021.



Group Executive Board on 31.12.2021, from left: Volker Dostmann, Iso Raunjak, Arthur Blank, Jens Breu, George Poh, Claude Stadler, Alfred Schneider, Urs Langenauer, Walter Kobler.

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 Group USA 2000–2008
- Tool engineer 1995–2000

Other functions

- Dätwyler Holding AG, member of the BoD since 2019

Qualifications

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

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

Volker Dostmann

- Chief Financial Officer as per Annual General Meeting 2021
- With SFS since 1 November 2020
- Swiss citizen, born 1970

Functions within SFS Group

- Member of the Group Executive Committee since 2020

Other functions

- CFO Kistler Instruments Ltd 2018–2020
- CFO Oerlikon Surface Solutions Segment at OC Oerlikon 2010–2017

Qualifications

- Senior Executive Program, London Business School 2017
- Executive MBA Business Engineering, University St. Gallen 2007
- Economist SEBA, HWV Zürich 1994

Rolf Frei

- Chief Financial Officer until the Annual General Meeting 2021
- 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

Other 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

Walter Kobler

- Head of Division Industrial since 2014
- Head of Division Medical as per 1 January 2021
- 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

Urs Langenauer

- Head of Division Riveting since 2019
- With SFS since 1995
- Swiss citizen, born 1979

Functions within SFS Group

- General Manager Division Automotive, SFS Group USA 2013–2019
- Vice President Manufacturing, SFS Group USA 2008–2013

Qualifications

- Engineer in mechatronics, University of Applied Sciences St. Gallen, 2003

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

Iso Raunjak

- Head of Segment Distribution & Logistics since 2020
- With SFS since 1992
- Swiss citizen, born 1976

Functions within SFS Group

- Head of BU Architectural Hardware 2018–2019
- Head of BU Central Logistics 2012–2018
- Head of Quality Management 2006–2012

Qualifications

- Diploma in logistics management at the University of St. Gallen 2014
- Training in antitrust law at the University of 2008
- Training as a technical merchant in 2004

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

Other functions

- Libracore AG, Member of the BoD since 2019

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

Claude Stadler

- Head of Corporate Services since 2018
- With SFS since 2013
- Swiss citizen, born 1976

Functions within SFS Group

- Head of Corporate Communications and Investor Relations 2013–2017

Other functions

- Stadler Holding AG, Chairman of the BoD since 2021
- University of Applied Science of St. Gallen, member of the BoD since 2019
- Rüden AG, member of the BoD since 2019
- icotec AG, member of the BoD since 2015
- Avantama AG, member of the BoD since 2015
- WISTAMA Finanz- und Beteiligungs AG, member of the BoD since 2011

Qualifications

- Swiss Board School, IMP-HSG, University of St. Gallen, 2015
- University of St. Gallen, Master's degree in Information & Technology Management, 2001
- Stockholm School of Economics, CEMS MIM, 2000

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 22 April 2021 elected *bürki bolt 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 ten 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, Gianluca Galasso, took office at the Annual General Meeting of 2021.

8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.6 million (PY CHF 0.6 million) 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 amount of <CHF 0.1 million in the reporting period (PY none). For additional services related to tax compliance and other tax consulting services, a total amount of CHF 0.2 million (PY CHF 0.2 million) was paid to PricewaterhouseCoopers AG.

In relation to the planned acquisition of Hoffmann SE (financial and tax due diligence), SFS paid fees in the amount of CHF 0.9 million to PricewaterhouseCoopers (PY none).

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 four meetings of the Audit Committee (PY four).

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

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

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

9 Information policy

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

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

[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](#) →

All media releases, Annual Reports and Half-Year Reports, volume notifications, media and analyst conference, etc., go online simultaneously with publication on the following website: [Shareholder information](#) →

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.com

[Investor information](#) →

[Organizational regulation](#) →

[Articles of Association](#) →

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10 Blocking periods

The SFS Group Trading Policy specifies fixed blocking periods for trading in shares of SFS Group AG or derivatives that are significantly influenced by the share price of SFS Group AG (Ordinary Blocked Periods) for employees who have insider knowledge due to their function in the phase of preparing the half-year and annual financial reports. In addition to the members of the Board of Directors and the Group Executive Board, this group consists of various persons designated by the CEO or CFO, in particular in the areas of finance, IT and communication. The fixed blocking periods last from 1 December until the day after the publication of the annual report and from 1 June until the day after the publication of the semi-annual report. In the reporting year, there were thus fixed blocking periods from 1 December 2020 to 5 March 2021, from 1 June 2021 to 20 July 2021 and from 1 December 2021 to 4 March 2022. Exceptions to the trading suspension may be approved by the CEO or the Chairman of the Board of Directors. No exceptions were granted during the reporting period (PY: none).

Furthermore, the Trading Policy of SFS Group provides for Extraordinary Blocked Periods, which can be declared by the CEO or the Chairman of the Board of Directors if there is a risk of insider information being available during a certain period of time which is only accessible to a limited group of persons. In the reporting year, a special blocked period existed during the period from 15 July 2021 to 22 December 2021 in the preparation of the signing of the purchase agreement for the shares in Hoffmann SE (PY none).

11 Non-applicability/negative statement

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

Compensation report

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1 Introduction

This Compensation Report provides information about the compensation system established by SFS Group and the compensation paid to the SFS' 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 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.

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 Annual 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 longterm success and are subject to a minimum 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.

Basic fee and share allocation

	Fixed basic fee in CHF	Fee for membership in a committee in CHF	Fixed number of shares
Chairman of the Board of Directors	240,000	–	1,500
Members of the Board of Directors	60,000	20,000	500

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

The compensation for GEB members 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 variable 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 in cash 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 (CEO), the variable target cash compensation is limited to 40% to 60%, and for the other GEB members to 30% to 50% of the base salary. If the threshold for the specific target is not 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 2021 financial year, same as in the previous year, the financial targets at Group, segment and divisional level pertained to sales and the EBIT margin.

b) The achievement of individual annual targets

These compensation-relevant targets for the CEO are defined and determined by the Board of Directors; in respect of all other GEB members, they are defined and determined individually by the CEO. 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.

As of calendar year 2021 specific ESG goals are defined for all GEB members as part of the individual targets to strengthen the emphasis on ecological and social aspects in the context of corporate management. This includes e.g. the use of renewable energy, CO₂ reduction as well

as topics from the field of occupational health and safety, equal treatment and training and education.

c) A discretionary decision regarding leadership

Leadership, values and conduct are also evaluated when determining entitlement to variable cash compensation. Performance in this respect is evaluated through the direct line manager and approved by the responsible management body.

The weighting of the goals for 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, CFO and Head of Corporate Services	Other members of GEB
Financial targets 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 CEO 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 Annual 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.

The compensation of the members of the Group Executive Board is subject to approval by the General Assembly.

2.3 Stock ownership plan

SFS Group can periodically offer company shares to selected and long-standing employees. 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 blocking period of the shares. The conditions are determined by the Board of Directors based on a proposal of the NCC. Members of the Board of Directors and the Group Executive Board may be included in this programme. The SFS shares acquired through this plan will be blocked for at least three years.

In 2021, unlike in the previous year, a stock ownership program was executed. The Board of Directors and the Group Executive Board were excluded from the program as they had insider information about the planned acquisition of Hoffmann.

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 at the end 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 Annual General Meeting. The base salary of the Group Executive Board for the upcoming year is 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, data for listed international industrial companies with a similar geographic footprint and of a similar size and with headquarter in Switzerland are consulted, and the individual responsibilities and experience of the respective member are also taken into consideration. This data is reviewed on a regular basis.

In the year under review the peer group included: Arbonia, Autoneum, Bucher Industries, Bossard, EMS, Huber+Suhner, Rieter and VAT.

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 Annual 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 CEO 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 CEO and the Group Executive Board to be paid in the following financial year.

If the Annual 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 Annual 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 Annual 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 Annual General Meeting.

4 Compensation 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 2021

In the 2020 financial year, the Board of Directors voluntarily waived a part of the base salary out of solidarity with the employees during the pandemic-related measures. This voluntary reduction ended as of January 1, 2021, which is why the amounts for the base salary in the 2021 financial year are above the previous year.

At the 2021 Annual General Meeting, the shareholders approved a maximum aggregate amount of CHF 1,470,000 (incl. social benefit contributions) for the 2021/2022 term of office. The compensation actually allocated for this period will amount to CHF 1,402,201 (incl. social benefit contributions) and therefore be below the approved amount.

In CHF except number of shares	Base salary in cash	Number of SFS shares	Value of SFS shares ¹	Social benefits ²	Total
Heinrich Spoerry, Chairman	212,500	1,500	177,000	51,280	440,780
Nick Huber	80,000	500	59,000	21,225	160,225
Urs Kaufmann	80,000	500	59,000	21,225	160,225
Thomas Oetterli	80,000	500	59,000	21,247	160,247
Bettina Stadler	80,000	500	59,000	21,225	160,225
Manuela Suter	53,333	500	59,000	17,179	129,512
Jörg Walther	80,000	500	59,000	21,247	160,247
Total Board of Directors	665,833	4,500	531,000	174,628	1,371,461

¹ The exchange value of the SFS shares at the time of the allocation of the number of shares on 3 May 2021 was CHF 118.00 per share.

² Employer contributions as well as employee contributions taken over by the employer to social security schemes.

4.2 Compensation of the Board of Directors 2020

In CHF except number of shares	Base salary in cash	Number of SFS shares	Value of SFS shares ¹	Social benefits ²	Total
Heinrich Spoerry, Chairman	192,500	1,800 ³	136,350	43,430	372,280
Nick Huber	74,000	500	37,875	17,060	128,935
Urs Kaufmann	74,000	500	37,875	17,061	128,936
Thomas Oetterli	74,000	500	37,875	17,075	128,950
Bettina Stadler	74,000	500	37,875	17,057	128,932
Jörg Walther	74,000	500	37,875	17,075	128,950
Total Board of Directors	562,500	4,300	325,725	128,758	1,016,983

¹ The exchange value of the SFS shares at the time of the allocation of the number of shares on 4 May 2020 was CHF 75.75 per share.

² Employer contributions as well as employee contributions taken over by the employer to social security schemes.

³ Allocation included 300 shares vested in connection with a work anniversary.

4.3 Compensation of the Group Executive Board 2021

There was one resignation without replacement in the Group Executive Board as of 30 April 2021. The total target compensation of the Group Executive Board was reviewed for 1 January 2021 and selective increases were made. The range defined in the compensation regulations for the variable target compensation in cash for the members of the Group Executive Board except CEO was adjusted from 20% to 40% to 30% to 50% of the fixed base salary. The total target compensation for the financial year amounted to CHF 5,951,548 (gross incl. social benefit contribution). This was 10.4% less than in the previous year, which was characterized by the departure of two members of the Group Executive Board and the arrival of a new member of the Group Executive Board in the period. As part of the management of the pandemic, the Group Executive Board voluntarily waived out of solidarity with the employees during the pandemic-related measures and depending on the situation in the divisions, part of its fixed base salary for a limited period in the financial years 2020 and 2021. This limits the comparability of compensation between the two periods.

At the Annual General Meeting 2020, the shareholders approved for the year 2021 a maximum fixed compensation to the Group Executive Board of CHF 4,000,000 (gross incl. social benefit contribution). The compensation actually paid for this period amounted to CHF 3,556,996 (gross incl. social benefit contribution) and was thus below the approved amount.

Likewise, the shareholders approved at the Annual General Meeting 2021 the maximum total amount of variable compensation of the Group Executive Board for the financial year 2020 in the amount of CHF 2,470,000 (gross incl. social benefit contribution). The allocation of shares was valued at the market value of CHF 116.30 per share on 24 February 2021. Due to the higher share price at the time of allocation on 23 April 2021, of CHF 126.80, the maximum variable compensation approved by the AGM increased to CHF 2,568,145 (gross incl. social benefit contribution). The variable compensation actually paid out amounted to CHF 2,494,341 (gross incl. social benefit contribution) and was thus below the approved amount.

The overall target achievement for the variable cash compensation of the Group Executive Board for the financial year 2021 was in the range between 115% and 141%. For the determination of the share factor, the aspects market environment, strategy implementation and financial situation of the company (detailed description in section 2.2 of the compensation report) were assessed by the Board of Directors. Due to the broad economic recovery, the market environment was assessed as good to very good, depending on the division. Overall, strategy implementation is on track in all areas and the company's financial situation and future prospects are considered to be positive. This resulted in individual share factors of 1.25.

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	635,070	450,000	2,500	366,576	173,272	1,624,918
Other members of GEB ³	2,499,465	1,434,435	5,862	883,256	669,639	5,486,795
Total GEB	3,134,535	1,884,435	8,362	1,249,832	842,911	7,111,713

¹ The exchange value of the SFS shares at the time of the determination at the meeting of the Board of Directors on 22 February 2022 was CHF 133.40 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.

³ At the end of the reporting period the Group Executive Board consisted of 8 members (CEO not included).

4.4 Compensation of the Group Executive Board 2020

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	569,541	261,360	2,500	321,078	146,733	1,298,712
Other members of GEB ³	2,735,867	853,423	5,666	751,329	559,503	4,900,122
Total GEB	3,305,408	1,114,783	8,166	1,072,407	706,236	6,198,834

¹ The exchange value of the SFS shares at the time of the determination at the meeting of the Board of Directors on 24 February 2021 was CHF 116.30 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 At the end of the reporting period the Group Executive Board consisted of 9 members (CEO not included).

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 31.12.2021	Number of shares 31.12.2020
Heinrich Spoerry, Chairman, external, independent member	202,760	201,260
Nick Huber, external member	115,152	114,652
Urs Kaufmann, external, independent member	10,760	10,260
Thomas Oetterli, external, independent member	8,760	8,260
Bettina Stadler, external member	392,900	392,400
Manuela Suter, external, independent member since April 2021	500	n/a
Jörg Walther, external, independent member	5,640	5,140
Total Board of Directors	736,472	731,972

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 31.12.2021	Number of shares 31.12.2020
Arthur Blank, Head of Division Construction	14,455	13,705
Jens Breu, Chief Executive Officer	28,310	25,810
Volker Dostmann, since 1 November 2020, CFO as per AGM 2021	115	–
Rolf Frei, Chief Financial Officer	n/a	50,610
Walter Kobler, Head of Divisions Industrial, Head of Division Medical since 1 January 2021	22,525	21,625
Urs Langenauer, Head of Division Riveting	3,631	3,256
George Poh, Head of Division Electronics	47,574	46,724
Iso Raunjak, Head of Segment Distribution & Logistics since 1 January 2020	373	60
Alfred Schneider, Head of Division Automotive	17,885	17,985
Claude Stadler, Head of Corporate Services	392,143	391,580
Total Group Executive Board	527,011	571,355

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

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

We have audited the chapter 4 of the compensation report of SFS Group AG for the year ended 31 December 2021.

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 remuneration 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 2021 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Gianluca Galasso
Audit expert
Auditor in charge



André P. Kueffer
Audit expert

St. Gallen, 3 March 2022

Financial report

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Consolidated income statement

In CHF million	Notes	2021	%	2020	%	+/-%
Net sales	2.2	1,897.3	100.0%	1,707.1	100.0%	11.1%
Other operating income	2.3	26.2		17.4		
Change in work in progress and finished goods		19.6		-9.9		
Material expenses		-685.1		-636.3		
Contribution margin		1,258.0	66.3%	1,078.3	63.2%	16.7%
Personnel expenses	2.4	-555.3		-495.1		
Other operating expenses	2.5	-295.6		-255.6		
Depreciation property, plant and equipment	3.4	-101.8		-96.5		
Amortization of intangible assets	3.5	-3.6		-3.7		
Total operating expenses		-956.3	- 50.4%	-850.9	-49.9%	12.4%
Operating profit (EBIT)		301.7	15.9%	227.4	13.3%	32.7%
Financial result	2.6	-0.7		-7.6		
Share of profit/(loss) from associates/joint ventures		0.7		0.5		
Earnings before tax		301.7	15.9%	220.3	12.9%	36.6%
Income taxes	2.7	-53.7		-35.5		
Net income		248.0	13.1%	184.8	10.8%	34.2%
Attributable to non-controlling interests		4.2		0.9		
Attributable to owners of SFS Group AG		243.8		183.9		
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	4.6	6.51		4.90		32.8%

The notes on pages 66 to 95 are an integral part of these consolidated financial statements.

Consolidated balance sheet

Assets in CHF million	Notes	31.12.2021	%	31.12.2020	%	+/-%
Cash and cash equivalents	4.1	286.0		187.7		
Trade receivables	3.1	313.6		336.0		
Other current receivables	3.2	30.9		30.7		
Inventories	3.3	378.8		320.1		
Prepayments and accrued income		19.5		15.8		
Current assets		1,028.8	55.9%	890.3	52.9%	15.6%
Property, plant and equipment	3.4	702.0		701.6		
Intangible assets	3.5	28.4		16.7		
Financial assets	4.2	45.0		40.3		
Deferred tax assets	3.11	34.9		35.2		
Non-current assets		810.3	44.1%	793.8	47.1%	2.1%
Assets		1,839.1	100.0%	1,684.1	100.0%	9.2%
Liabilities and equity in CHF million						
Trade payables	3.7	126.0		136.0		
Current borrowings	4.3	1.7		1.8		
Other current payables	3.8	63.6		54.1		
Accrued liabilities and deferred income		107.4		88.4		
Current liabilities		298.7	16.2%	280.3	16.6%	6.6%
Non-current borrowings	4.3	5.1		41.7		
Pension benefit obligations	3.9	9.7		10.1		
Non-current provisions	3.10	12.6		12.8		
Deferred tax liabilities	3.11	62.6		61.0		
Non-current liabilities		90.0	4.9%	125.6	7.5%	-28.3%
Liabilities		388.7	21.1%	405.9	24.1%	-4.2%
Share capital		3.8		3.8		
Capital reserves		11.6		11.5		
Treasury shares		-7.4		-		
Retained earnings		1,423.7		1,246.0		
Equity attributable to SFS	4.6	1,431.7	77.8%	1,261.3	74.9%	13.5%
Non-controlling interests		18.7		16.9		
Total equity		1,450.4	78.9%	1,278.2	75.9%	13.5%
Liabilities and equity		1,839.1	100.0%	1,684.1	100.0%	9.2%

The notes on pages 66 to 95 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In CHF million	Notes	Share capital	Capital reserves	Treasury shares	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 1.1.2020		3.8	11.5	-	-984.7	0.7	-32.1	2,221.6	1,205.5	1,220.8	16.4	1,237.2
Changes of cash flow hedges		-	-	-	-	-0.3	-	-	-0.3	-0.3	-	-0.3
Acquisitions	5.1	-	-	-	-29.7	-	-	-	-29.7	-29.7	-	-29.7
Change of minorities	5.1	-	-	-	-1.2	-	-	-	-1.2	-1.2	0.0	-1.2
Currency translation adjustments		-	-	-	-	-	-44.6	-	-44.6	-44.6	-0.1	-44.7
Net income		-	-	-	-	-	-	183.9	183.9	183.9	0.9	184.8
Dividend for 2019		-	-	-	-	-	-	-67.5	-67.5	-67.5	-0.3	-67.8
Other changes		-	-	-	-	-	-	-0.1	-0.1	-0.1	-	-0.1
Balance as at 31.12.2020		3.8	11.5	-	-1,015.6	0.4	-76.7	2,337.9	1,246.0	1,261.3	16.9	1,278.2
Changes of cash flow hedges		-	-	-	-	2.2	-	-	2.2	2.2	-	2.2
Acquisitions	5.1	-	-	-	-7.1	-	-	-	-7.1	-7.1	-	-7.1
Currency translation adjustments		-	-	-	-	-	6.3	-	6.3	6.3	-0.8	5.5
Net income		-	-	-	-	-	-	243.8	243.8	243.8	4.2	248.0
Dividend for 2020		-	-	-	-	-	-	-67.5	-67.5	-67.5	-1.6	-69.1
Purchase of treasury shares	4.6	-	-	-12.5	-	-	-	-	-	-12.5	-	-12.5
Disposal of treasury shares	4.6	-	0.1	5.1	-	-	-	-	-	5.2	-	5.2
Other changes		-	-	-	-	-	-	-0.0	-0.0	-0.0	-	-0.0
Balance as at 31.12.2021		3.8	11.6	-7.4	-1,022.7	2.6	-70.4	2,514.2	1,423.7	1,431.7	18.7	1,450.4

The notes on pages 66 to 95 are an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

In CHF million	Notes	2021	2020	+/-%
Net income		248.0	184.8	
Income taxes		53.7	35.5	
Financial result		-0.0	7.1	
Depreciation/amortization	3.4/3.5	105.4	100.2	
Loss from impairment (+)/reversal of impairment (-)	5.1	-3.1	-	
Interest paid	2.6	-1.5	-1.9	
Income tax paid		-44.0	-31.8	
Changes in provisions and allowances		0.7	8.9	
Other non-cash expenses/income		-3.0	-0.2	
Profit (-)/loss (+) from disposal of property, plant and equipment		-4.7	-3.6	
Changes in trade receivables		30.6	-29.3	
Changes in other receivables and prepayments and accrued income		2.0	-1.7	
Changes in inventories		-60.1	12.3	
Changes in trade payables		-12.9	21.0	
Changes in other current liabilities, accrued liabilities and deferred income		13.4	-4.9	
Cash flow from operating activities		324.5	296.4	9.5%
Purchases of property, plant and equipment	3.4	-104.6	-98.4	
Proceeds from sale of property, plant and equipment		13.7	6.6	
Purchases of intangible assets	3.5	-16.8	-5.7	
Proceeds from sale of intangible assets		1.9	-	
Acquisition of subsidiaries, net of cash acquired	5.1	-7.6	-59.5	
Changes in loans granted		-0.6	8.2	
Investment in/dividends from associates/joint ventures		-0.5	0.2	
Proceeds from interest and securities		0.5	1.0	
Cash flow from investing activities		-114.0	-147.6	-22.8%
Proceeds (+)/repayment from/of current borrowings (-)		0.1	-7.8	
Proceeds (+)/repayment from/of non-current borrowings (-)		-38.3	-10.5	
Dividends to the shareholders		-67.5	-67.5	
Dividends to non-controlling interests		-1.6	-	
Purchase (-)/disposal of treasury shares (+)		-8.3	-	
Cash flow from financing activities		-115.6	-85.8	
Translation adjustment on cash and cash equivalents		3.4	-6.0	
Changes in cash and cash equivalents		98.3	57.0	
Cash and cash equivalents at beginning of period	4.1	187.7	130.7	
Cash and cash equivalents at end of period	4.1	286.0	187.7	

The notes on pages 66 to 95 are an integral part of these consolidated financial statements.

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1 General information

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

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 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 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. Entities managed equally with an SFS-external partner are called joint ventures. Joint control 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. The group's share of voting rights at joint ventures and associates are between 20% and 50%. 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 as the capitalization and valuation of deferred 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.

1.4 COVID-19 pandemic

To ensure liquidity and profitability various measures have been applied: SFS adjusted capacities, implemented cost-saving programs, increased the focus on reducing net working capital, postponed investments and further expanded credit lines. The pandemic did not have a significant impact on the valuation of the balance sheet items. Contributions from government support programs and other internal measures were treated as costreduction in the income statement.

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.

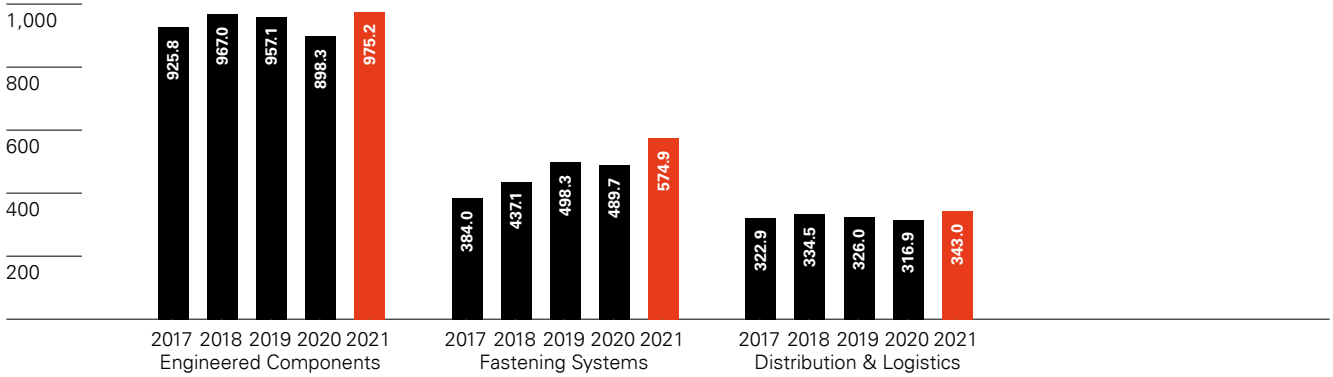
The financial performance of the segments is monitored based on EBIT as well as on operating profit before amortization and depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on internal group rates.

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

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.

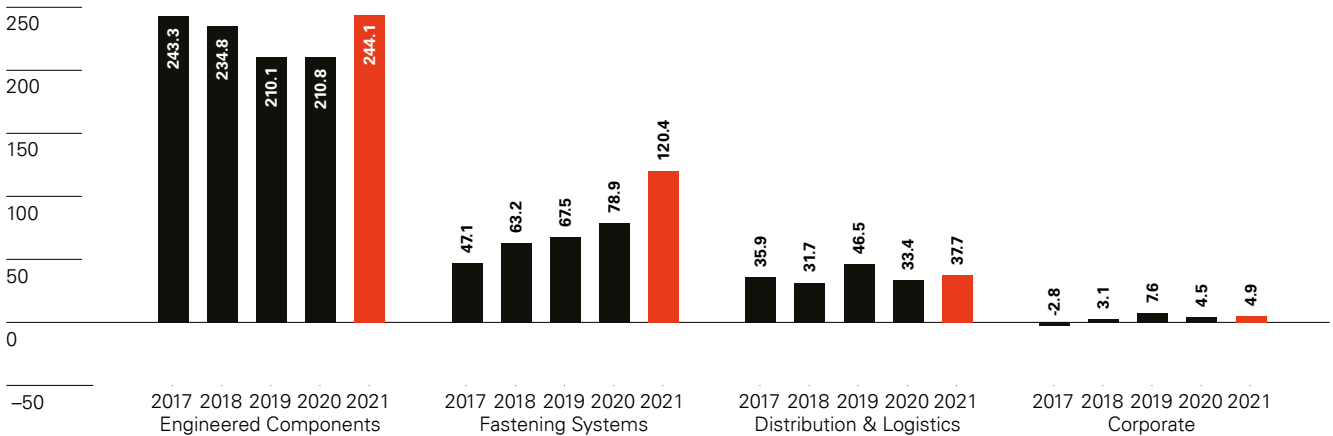
Third party sales

In CHF million



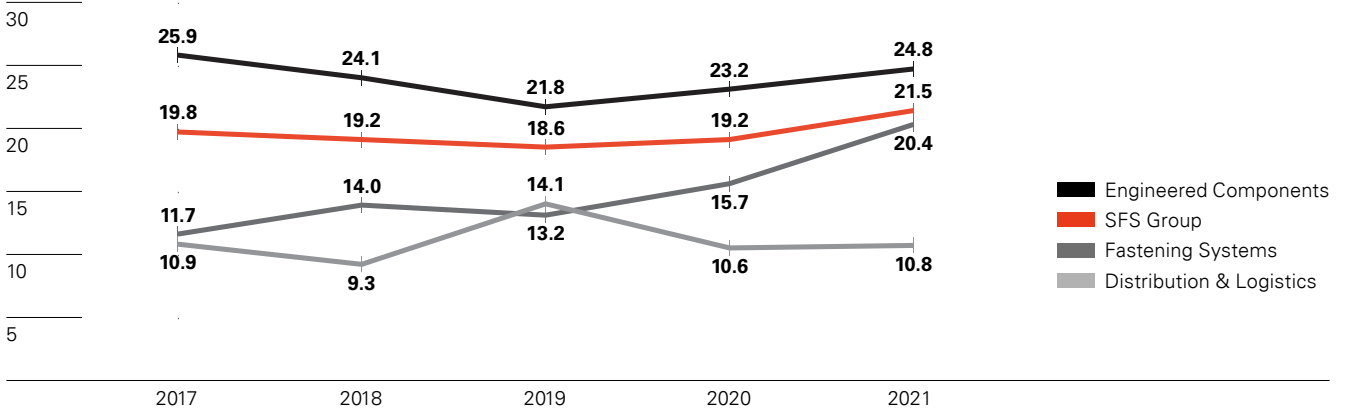
EBITDA

In CHF million



EBITDA

In % of net sales



The key figure EBITDA includes one-off effects:

Engineered Components: 2019 CHF 17.1 million relocation costs in CN-Nantong

Fastening Systems: 2020 CHF 2.1 million book gains

Distribution & Logistics: 2019 CHF 14.3 million, 2017 CHF 7.3 million book gains

Corporate: 2021 CHF 3.1 million book gains

2021	Notes	Engineered Components	Fastening Systems	Distribution & Logistics	Corporate	Total SFS Group
Third party sales	2.2	975.2	574.9	343.0	–	1,893.1
Increase to previous year in %		8.6	17.4	8.2	–	11.0
Net sales	2.2	985.0	589.6	347.9	–25.2	1,897.3
EBITDA		244.1	120.4	37.7	4.9	407.1
In % of net sales		24.8	20.4	10.8		21.5
Operating profit (EBIT)		168.2	102.3	32.6	–1.4	301.7
In % of net sales		17.1	17.4	9.4		15.9
Capital expenditure		89.1	9.9	4.1	18.3	121.4
Operating assets		929.5	342.0	162.6	69.9	1,504.0
Operating liabilities		204.9	85.6	33.9	57.5	381.9
Capital employed		724.6	256.4	128.7	12.4	1,122.1
of which net working capital		234.4	139.3	91.6	–23.7	441.6

2020

Third party sales	2.2	898.3	489.7	316.9	–	1,704.9
Increase to previous year in %		–6.1	–1.7	–2.8	–	–4.3
Net sales	2.2	910.4	500.7	321.6	–25.6	1,707.1
EBITDA		210.8	78.6	34.1	4.1	327.6
In % of net sales		23.2	15.7	10.6		19.2
Operating profit (EBIT)		141.2	59.7	28.7	–2.2	227.4
In % of net sales		15.5	11.9	8.9		13.3
Capital expenditure		83.1	10.9	4.1	6.0	104.1
Operating assets		918.2	324.7	149.6	63.5	1,456.0
Operating liabilities		208.2	75.4	33.0	45.8	362.4
Capital employed		710.0	249.3	116.6	17.7	1,093.6
of which net working capital		238.2	122.7	78.6	–15.6	423.9

During the reporting period no customer exceeded the reportable threshold of 10% of third party sales (PY one).

Sales by region	Notes	2021	%	2020	%
Switzerland		355.3	18.8	332.2	19.5
Germany		263.7	13.9	231.0	13.6
Other Europe		451.6	23.9	372.1	21.8
America		414.1	21.9	386.9	22.7
China		266.5	14.1	266.2	15.6
Other Asia		136.5	7.2	111.5	6.5
Africa, Australia		5.4	0.2	5.0	0.3
Third party sales	2.2	1,893.1	100.0	1,704.9	100.0
Not assigned items		4.2		2.2	
Total net sales	2.2	1,897.3		1,707.1	

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	2021	%	2020	%
Automotive		403.7	21.3	368.0	21.6
Construction		595.3	31.4	530.5	31.1
Electronics		376.4	19.9	356.6	20.9
Medical		136.4	7.2	131.1	7.7
Other industries		381.3	20.2	318.7	18.7
Third party sales	2.2	1,893.1	100.0	1,704.9	100.0
Not assigned items		4.2		2.2	
Total net sales	2.2	1,897.3		1,707.1	

Reconciliation of segments to income statement and balance sheet

Income statement	Notes	2021	2020
Operating profit (EBIT)		301.7	227.4
Financial result	2.6	-0.7	-7.6
Share of profit from associates/joint ventures		0.7	0.5
Earnings before tax		301.7	220.3

Assets		2021	2020
Operating assets		1,504.0	1,456.0
+ Cash and cash equivalents	4.1	286.0	187.7
+ Derivative financial instruments	4.7	4.1	0.1
+ Financial assets	4.2	45.0	40.3
Assets		1,839.1	1,684.1

Liabilities and equity		2021	2020
Operating liabilities		381.9	362.4
+ Current borrowings	4.3	1.7	1.8
+ Long-term borrowings	4.3	5.1	41.7
Liabilities		388.7	405.9
Equity (Net assets)		1,450.4	1,278.2

Engineered Components

In the Engineered Components segment, SFS develops, manufactures and supplies customer-specific precision components, mechanical fastening solutions 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.

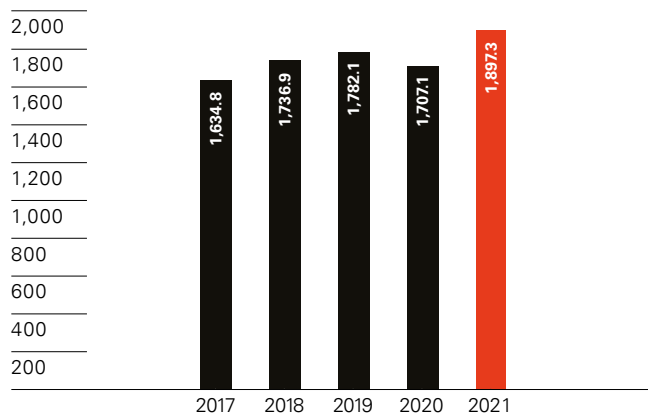
Technology ensures the transfer of know-how among the segments and production sites. Methods, processes and best practices are exchanged and enhanced. Standardized investment policies and engineering processes improve the efficiency of the SFS Group further.

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

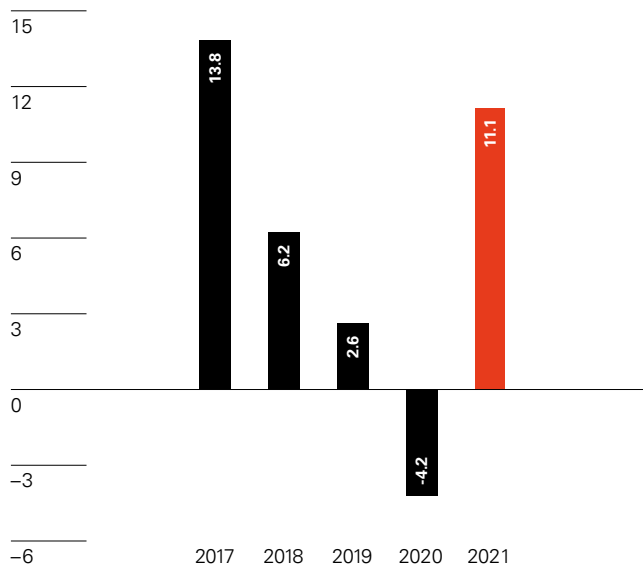
Net sales

In CHF million



Increase of net sales

In %



	2021	2020	+/- %
Third party sales	1,893.1	1,704.9	11.0
Other items	4.2	2.2	
Net sales	1,897.3	1,707.1	11.1

Third party sales increased by 11.0% (PY decreased by 4.3). The growth due to changes in the scope of consolidation amounts to 0.8% (PY 3.0). Based on a like-for-like view and ignoring foreign currency effects, sales increased by 10.3% (PY decreased by 3.2). The currency translation effect amounts to -0.1% (PY -4.1).

The service revenues account for less than 1% of total revenue (PY less than 1%). It does not comprise interests, 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

	2021	2020
Revenue from services	7.7	6.9
Lease income	0.5	0.5
Own-built machinery and capitalized own work	12.4	5.7
Gain on disposals of assets	5.6	4.3
Total	26.2	17.4

In 2020, the SFS Group has started a project for the upgrade of the ERP system to SAP S/4HANA. The project was continued in 2021 and is expected to be completed in 2022. The related own work is capitalized.

2.4 Personnel expenses

	2021	2020
Wages and salaries	438.9	392.9
Profit sharing	11.9	7.0
Social security	92.3	84.6
Other employment expenses	12.2	10.6
Total	555.3	495.1

In 2021, personnel expenses are reduced by contributions from government support programs and further internal measures summing up to CHF 9.4 million worldwide (PY 39.0).

Share-based payments

The members of the Board of Directors and 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 amounting to CHF 2.0 million (PY 1.6) 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 personnel expenses. The last share purchase program took place in 2021.

2.5 Other operating expenses

	2021	2020
Tools, energy, maintenance	150.8	127.6
Selling and distribution	91.7	81.1
Other operating expenses	53.1	46.9
Total	295.6	255.6

Other operating expenses include operating lease expenses amounting to CHF 15.4 million (PY 15.2). The total costs for research and development recognized during the reporting period amount to CHF 45.6 million (PY 44.5). The main items responsible for those costs include the fields development, tools, sampling and preparation for large-lot production.

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. 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 in the reporting period as well in the prior year.

2.6 Financial result

	2021	2020
Interest expenses	-1.5	-1.9
Foreign exchange loss on financial investments	-	-6.6
Financial expenses	-1.5	-8.5
Interest income	0.7	0.9
Foreign exchange gains on financial investments	0.1	-
Financial income	0.8	0.9
Financial result	-0.7	-7.6

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

	2021	2020
Current income tax	52.7	31.3
Deferred tax expense (+)/-income (-)	1.0	4.2
Income tax expense	53.7	35.5
Reconciliation		
Earnings before tax	301.7	220.3
Expected tax rate	14.5%	14.5%
Expected income tax	43.7	31.9
Variance in tax rates	12.1	9.7
Impact of change in tax rate on deferred taxes	-0.1	0.1
Items not subject to tax	3.7	-3.1
Changes in tax loss carryforwards	-3.9	0.1
Adjustment in respect of prior years and other items	-1.8	-3.2
Income tax	53.7	35.5
Effective tax rate	17.8%	16.1%

The income tax expense includes taxes which have been paid and 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 14.5% (PY 14.5%) 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

	2021	2020
From third parties	314.5	337.2
From associates/joint ventures	0.7	1.0
From related parties	0.1	0.3
Valuation allowances	-1.7	-2.5
Total	313.6	336.0

	2021	2020
Ageing analysis		
Not yet due	256.6	285.9
Overdue 1 to 30 days	45.0	40.9
Overdue 31 to 90 days	12.1	9.8
Overdue more than 91 days	1.6	1.9
Trade receivables – gross	315.3	338.5
Valuation allowances	-1.7	-2.5
Trade receivables – net	313.6	336.0

Current receivables are carried at nominal value. The valuation allowances are determined based on the maturity structure and identifiable credit risks of trade receivables.

3.2 Other current receivables

	2021	2020
VAT and withholding tax	10.0	13.7
Other receivables	16.8	16.9
Derivative financial instruments	4.1	0.1
Total	30.9	30.7

3.3 Inventories

	2021	2020
Raw materials	54.9	35.5
Consumables	10.5	12.0
Work in progress	88.4	76.1
Finished goods	275.3	247.8
Valuation allowances	-50.3	-51.3
Total	378.8	320.1

Inventories are generally stated at the lower of cost or 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 of inventory is higher than annual consumption, the excess inventory for the second annual consumption is written down to 50% of the value. All inventory 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

	Undeveloped property	Land and buildings	Machines and equipment	Assets under construction	Total
Cost as at 1.1.2020	6.5	657.9	1,078.5	48.5	1,791.4
Changes in scope of consolidation	–	4.8	15.2	0.1	20.1
Additions	–	21.1	49.7	27.6	98.4
Disposals	–	–2.5	–24.1	–0.5	–27.1
Reclassification	–	7.2	28.9	–37.1	–1.0
Exchange differences	–	–14.1	–29.9	–1.1	–45.1
Cost as at 31.12.2020	6.5	674.4	1,118.3	37.5	1,836.7
Changes in scope of consolidation	–	–	0.1	–	0.1
Additions	–	17.6	34.4	52.6	104.6
Disposals	–	–14.7	–32.8	0.0	–47.5
Reclassification	–	4.6	17.5	–22.3	–0.2
Exchange differences	–	–1.4	2.8	0.4	1.8
Cost as at 31.12.2021	6.5	680.5	1,140.3	68.2	1,895.5
Accumulated depreciation as at 1.1.2020	–	–353.1	–728.3	–	–1,081.4
Changes in scope of consolidation	–	–	–1.6	–	–1.6
Depreciation	–	–24.3	–72.2	–	–96.5
Disposals	–	2.1	22.1	–	24.2
Reclassification	–	–2.9	2.6	–	–0.3
Exchange differences	–	5.0	15.5	–	20.5
Accumulated depreciation as at 31.12.2020	–	–373.2	–761.9	–	–1,135.1
Changes in scope of consolidation	–	–	0.0	–	0.0
Depreciation	–	–24.8	–77.0	–	–101.8
Reversal of impairment	–	3.1	0.0	–	3.1
Disposals	–	6.4	32.1	–	38.5
Reclassification	–	0.0	0.0	–	0.0
Exchange differences	–	2.4	–0.6	–	1.8
Accumulated depreciation as at 31.12.2021	–	–386.1	–807.4	–	–1,193.5
Net book value as at 1.1.2020	6.5	304.8	350.2	48.5	710.0
Net book value as at 31.12.2020	6.5	301.2	356.4	37.5	701.6
Net book value as at 31.12.2021	6.5	294.4	332.9	68.2	702.0

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	Years
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.

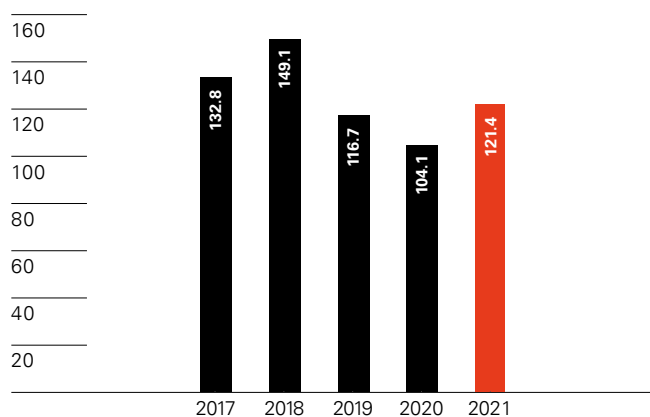
The book value of assets under construction includes down payments to suppliers of CHF 19.6 million (PY 11.3).

In order to collateralize borrowings, assets amounting to CHF 21.2 million (PY 26.6) have been pledged with CHF 7.4 million (PY 8.5), of which CHF 0.7 million (PY 0.2) have been drawn.

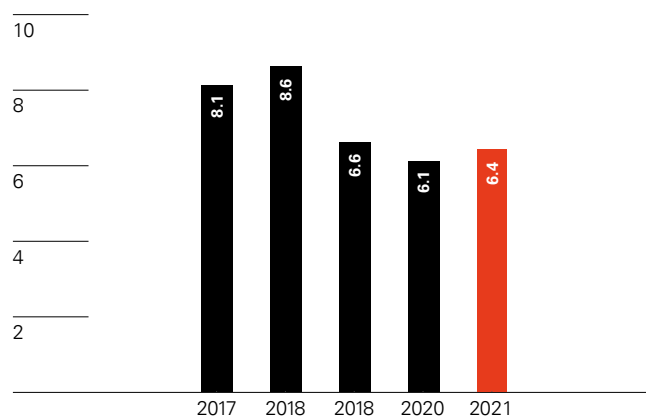
The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 93.7 million (PY 16.5).

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

Additions property, plant, equipment and intangible assets
In CHF million



Additions, property, plant, equipment and intangible assets
In % net sales



3.5 Intangible assets

	Software	Software in development	Building leases, patents	Total
Cost as at 1.1.2020	74.0	–	3.2	77.2
Changes in scope of consolidation	0.1	–	–	0.1
Additions	2.4	3.3	–	5.7
Reclassification	1.0	–	–	1.0
Exchange differences	–0.4	–	–0.1	–0.5
Cost as at 31.12.2020	77.1	3.3	3.1	83.5
Additions	1.8	15.0	–	16.8
Disposals	–1.4	–	–2.0	–3.4
Reclassification	0.2	–	–	0.2
Exchange differences	–0.3	–	0.2	–0.1
Cost as at 31.12.2021	77.4	18.3	1.3	97.0
Accumulated amortization as at 1.1.2020	–63.1	–	–0.5	–63.6
Amortization	–3.6	–	–0.1	–3.7
Reclassification	0.4	–	–0.1	0.3
Exchange differences	0.1	–	0.1	0.2
Accumulated amortization as at 31.12.2020	–66.2	–	–0.6	–66.8
Amortization	–3.5	–	–0.1	–3.6
Disposals	1.1	–	0.4	1.5
Reclassification	–	–	–	–
Exchange differences	0.3	–	–	0.3
Accumulated amortization as at 31.12.2021	–68.3	–	–0.3	–68.6
Net book value as at 1.1.2020	10.9	–	2.7	13.6
Net book value as at 31.12.2020	10.9	3.3	2.5	16.7
Net book value as at 31.12.2021	9.1	18.3	1.0	28.4
Intangible assets generated internally	–	6.3	–	6.3
Purchased intangible assets	9.1	12.0	1.0	22.1

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 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 2021, the SFS Group has CHF 7.9 million (PY 5.4) 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. Earnout 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.

	2021	2020
Balance as at 1.1.	310.1	314.1
Acquisitions	7.1	30.9
Derecognition	-214.1	-
Exchange differences	29.7	-34.9
Balance as at 31.12.	132.8	310.1
Accumulated amortization as at 1.1.	-223.2	-179.2
Amortization	-51.0	-60.1
Derecognition	214.1	-
Exchange differences	-18.5	16.1
Accumulated amortization as at 31.12.	-78.6	-223.2
Theoretical value of goodwill as at 31.12.	54.2	86.9
Equity attributable to SFS	1,450.4	1,278.2
Theoretical value of goodwill	54.2	86.9
Theoretical shareholders' equity as at 31.12.	1,504.6	1,365.1
Net income	248.0	184.8
Amortization of goodwill	-51.0	-60.1
Theoretical net income	197.0	124.7

Theoretical goodwill is derecognized as soon as it is fully amortized.

3.7 Trade payables

	2021	2020
Against third parties	126.0	136.0
Total	126.0	136.0

Liabilities are recognized in the balance sheet at nominal value.

3.8 Other current payables

	2021	2020
VAT and other liabilities	30.7	30.6
Tax liabilities	32.9	23.5
Total	63.6	54.1

3.9 Pension benefit obligations

SFS Group maintains pension plans in several countries. The Swiss 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 2021, the SFS Pension Fund has an expected coverage ratio according to the OPA of 121.4% (PY 118.2%). The pension liabilities and actuarial reserves are calculated based on a technical interest rate of 1.5% (PY 1.5%) using the life expectancy table BVG 2020 (PY BVG 2015). 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 5.2% until 2024. At the same time, saving contributions will be increased by 1.1% from 2021 onwards. 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.

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 0.9% to 2.1% (PY 0.4% to 1.6%).

Employer contribution reserve (ECR)	Nominal value 31.12.2021	Waiver of use 2021	Balance sheet 31.12.2021	Accumulation 2021	Balance sheet 31.12.2020	Result from ECR in personnel expenses	
						2021	2020
Patronage Fund	20.4	–	20.4	1.1	19.3	–1.1	–
SFS Pension Fund	1.4	–	1.4	0.1	1.3	–0.1	–
Total	21.8	–	21.8	1.2	20.6	–1.2	–

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

Economic benefit/economic obligation and pension benefit expenses	Surplus/deficit 31.12.2021	Economical part of SFS		Change to prior year	Contribution concerning 2021	Pension benefit expenses within personnel expenses	
		31.12.2021	31.12.2020			2021	2020
Patronage Fund	4.8	4.8	3.7	1.1	0.0	–1.1	–0.4
Pension Funds							
without surplus/deficit	–	–	–	–	25.9	25.9	24.3
with deficit	–3.0	–3.0	–2.8	–0.2	0.0	0.2	0.4
without own assets	–6.7	–6.7	–7.3	0.6	0.0	–0.6	0.6
Total	–4.9	–4.9	–6.4	1.5	25.9	24.4	24.9

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 of which benefit obligations exceed the plan's assets. As of 31 December 2021 as well as of 31 December 2020 this is the case for two plans in Germany and one in the UK.

Pension Funds «without own assets» includes three plans in Germany and one in France. 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 1.1.2020	11.9	2.7	14.6
Changes in scope of consolidation	–	1.2	1.2
Additions	1.6	1.0	2.6
Used amounts	–1.3	–0.3	–1.6
Unused amounts reversed	–0.1	–0.5	–0.6
Reclassification	–3.1	–	–3.1
Exchange differences	–0.2	–0.1	–0.3
Balance as at 31.12.2020	8.8	4.0	12.8
Additions	1.4	0.7	2.1
Used amounts	–1.2	–0.5	–1.7
Unused amounts reversed	0.0	0.0	0.0
Exchange differences	–0.5	–0.1	–0.6
Balance as at 31.12.2021	8.5	4.1	12.6
Of which non-current	8.5	4.1	12.6

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 2.0 million (PY 1.8). For specific business risks, CHF 2.1 million (PY 2.2) are deferred.

In 2020, CHF 3.1 million have been reclassified from non-current provisions to pension benefit obligations due to a reassessment.

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. The valuation of provisions is based on SFS Group's best estimate at balance sheet date.

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

Net deferred tax balances	31.12.2021	31.12.2020
Deferred tax assets	-34.9	-35.2
Deferred tax liabilities	62.6	61.0
Total	27.7	25.8

Movement in net deferred tax balances	2021	2020
Balance as at 1.1.	25.8	22.4
Changes in scope of consolidation	0.0	-1.8
Charged (+)/credited (-) to income statement	1.3	4.1
Charged (+)/credited (-) to equity	0.4	-0.4
Exchange differences	0.2	1.5
Balance as at 31.12.	27.7	25.8

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.

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.

The table below shows the tax loss carryforwards:

Tax loss carryforwards	2021	Recognized 2020	2021	Unrecognized 2020
Expiry within 3 years	-	-	-	6.0
Expiry in 4 to 7 years	5.7	18.4	-	2.8
Expiry after 7 years	10.5	4.6	0.9	13.4
Total	16.2	23.0	0.9	22.2

Deferred tax assets are recognized for tax loss carryforwards and on other temporary differences to the extent that is expected to be realizable within the next five years.

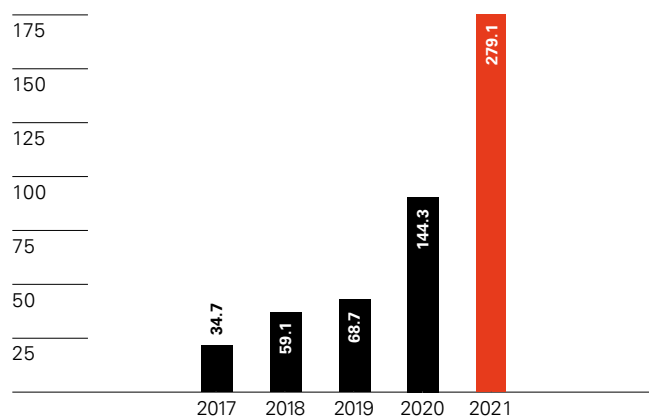
The decrease of unrecognized tax loss carryforwards is primarily caused due to the sale of SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd. Recognized tax loss carryforwards decreased mainly due to utilisation in the US and China.

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.

Net cash

In CHF million



4.1 Cash and cash equivalents

	2021	2020
Cash at bank and on hand	213.3	187.7
Current bank deposits	72.7	–
Total cash and cash equivalents	286.0	187.7

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

	2021	2020
Loans to third parties	2.4	1.8
Investments (associates/joint ventures)	14.5	13.0
Assets from employer contribution reserves	21.8	20.6
Economic benefit from pension plans	4.8	3.7
Other financial assets	1.5	1.2
Total	45.0	40.3

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.

4.3 Borrowings

	2021		2020	
	CHF million	Interest	CHF million	Interest
Bank borrowings	1.7	2.1%	1.8	1.9%
Current borrowings	1.7	2.1%	1.8	1.9%
Of which EUR	1.7	2.1%	1.6	1.9%
Of which other currencies	–	–	0.2	2.6%
Bank borrowings	4.6	2.2%	41.2	0.7%
Non-current borrowings against third parties	0.5	0.3%	0.5	0.3%
Non-current borrowings	5.1	2.0%	41.7	0.7%
Of which CHF	–	–	35.0	0.4%
Of which EUR	5.1	2.0%	6.6	2.0%
Of which other currencies	–	–	0.1	2.5%
Total borrowings	6.8	2.0%	43.5	0.7%

The financial liabilities have the following maturities:

Cash-outflows	Total 2021	In 3 months	In 4–12 months	In 13–24 months	Later
Borrowings	6.8	0.4	1.4	1.4	3.7
Interest payments	0.4	0.0	0.1	0.1	0.2
Total 31.12.2021	7.2	0.4	1.5	1.5	3.8

	Total 2020	in 3 months	in 4–12 months	in 13–24 months	Later
Borrowings	43.5	0.4	1.4	36.3	5.4
Interest payments	0.6	0.1	0.1	0.3	0.1
Total 31.12.2020	44.1	0.5	1.5	36.6	5.5

Syndicated loan

A loan contract was negotiated with five banks in August 2014. In October 2019, the contract was extended prematurely. In 2021 and 2020, the SFS Group has exercised the extension option to prolong the maturity date of the loan by one year. The new contract term is for five years and ends on 18 October 2026. The committed and uncollateralized revolving credit line amounts to CHF 150 million and is used to 0.0% (PY 23.3%) at the end of 2021. It may be increased by a maximum amount of an additional CHF 150 million, provided the lenders agree to the request of the SFS Group. This option may be exercised until three months prior to the final maturity.

The syndicated loan includes normal commercial terms and conditions. The variable interest yield is linked to the financial key ratio «leverage ratio». The smaller this key ratio, the lower the interest margin. The financial covenant has been met in all subsequent periods:

	Threshold
Leverage Ratio: Net senior debt/EBITDA	maximum 2.50x

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. In the reporting period as well as in the previous year, no material finance leases existed.

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	2021	2020
No later than 1 year	14.6	13.6
Later than 1 year and no later than 5 years	25.1	26.9
Later than 5 years	6.4	8.1
Total	46.1	48.6

4.5 Off-balance sheet transactions

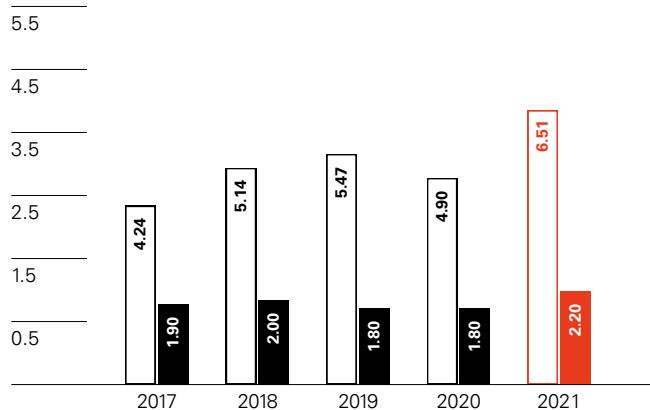
	2021	2020
Debt guarantees	2.7	1.2
Guarantee obligations	12.6	13.2
Other commitments	2.6	2.0

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

Earnings per share

In CHF



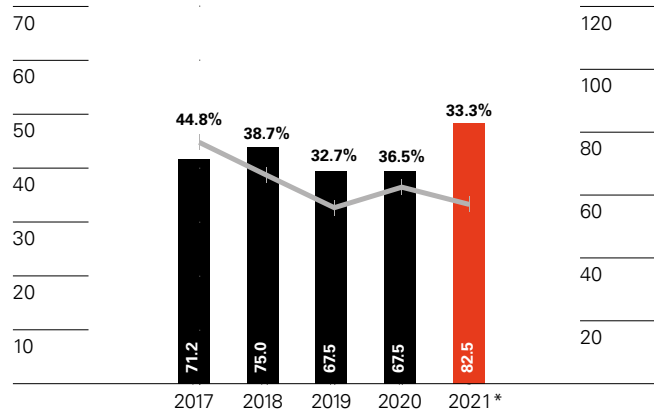
□ Earnings per share

■ Payout per share in CHF

Payout

In %

In CHF million



■ Payout in %

■ Payout in CHF million

*Payout according to proposed appropriation of retained earnings – Option 1, page 107

Until 2017, net income was negatively impacted by the amortization of intangible assets resulting from customer relations Unisteel. Excluding these effects, the payout ratio would have amounted to 36.9% in 2017.

The payout for the financial year 2021 of CHF 2.20 (PY 1.80) per registered share, amounting to a total of CHF 82.5 million (PY 67.5), will be proposed at the Annual General Meeting of SFS Group AG on 27 April 2022. A payout from retained earnings will be realized and accounted in the books after the approval of the Annual General Meeting.

	2021	2020
Weighted average number of outstanding shares	37,459,547	37,500,000
Net income attributable to owners of SFS Group AG	243.8	183.9
Earnings per share (in CHF) basic and diluted	6.51	4.90

As of 31 December 2021, 37,500,000 (PY 37,500,000) registered shares at CHF 0.10 are issued and outstanding. The earnings per share are the result of dividing net income entitled to the owners of SFS Group by the weighted average number of shares in issue and outstanding during the year. 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 45.3 million (PY 54.0) as of 31 December 2021.

Share capital and treasury shares

	Quantity	Transaction price (Ø) in CHF	Purchase cost (Ø) in CHF million
Balance as at 1.1.2021	–	–	–
Purchases	99,214	126.2	12.5
Disposals (share-based compensation)	–	–	–
Sale	–41,150	123.7	–5.1
Balance as at 31.12.2021	58,064	128.3	7.4

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. The profit or loss realized by sales of treasury shares are recognized as a reduction of capital reserves, net of any related income taxes. As of 31 December 2021, SFS Group companies hold 58,064 shares (PY none) and the SFS Patronage Fund holds 20,881 shares (PY 26,308) in SFS Group AG.

There exist no obligations to repurchase treasury shares disposed of.

4.7 Derivative financial instruments

Forward foreign exchange contracts 2021	CHF	EUR	USD	Contract value CNY	Market value CHF
	EUR sale/CHF purchase	87.6	-81.5		
USD sale/CNY purchase			-73.4	482.2	1.3
2020					
EUR sale/CHF purchase	62.7	-58.5			-0.5
CHF sale/EUR purchase (FX-Swap)	-7.6	7.0			0.0
USD sale/CNY purchase			-56.7	381.7	1.3

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 2021 and 2020 exclusively for the purpose of currency hedging.

4.8 Exchange rates

	Unit	Balance sheet		Income statement	
		2021	2020	2021	2020
China	CNY 100	14.359	13.465	14.186	13.590
EU	EUR 1	1.033	1.080	1.083	1.071
United Kingdom	GBP 1	1.229	1.202	1.259	1.206
USA	USD 1	0.912	0.880	0.914	0.936

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	2021	2020
Cash and cash equivalents	0.1	1.8
Trade receivables	0.5	7.4
Inventories	1.0	9.3
Other current assets	0.0	0.4
Property, plant, equipment and software	0.1	18.5
Other non-current assets	0.0	3.8
Current liabilities	-1.1	-4.7
Non-current liabilities	-	-6.1
Acquired net assets	0.6	30.4
Goodwill offset against equity	7.1	30.9
Purchase price incl. acquisition cost	7.7	61.3
Cash and cash equivalents	-0.1	-1.8
Consideration in cash flow statement	7.6	59.5

2021

As of 1 July 2021, the SFS Group acquired 100% of Jevith A/S. The company is based in Roskilde (DK) and achieved a turnover of approx. EUR 5 million in 2020 with 10 employees. Jevith is part of the Segment Fastening Systems. Contract clauses do not include any contingent consideration (earnout).

As of 1 August 2021, the assets and liabilities of GLR Fasteners, Inc. were acquired in an asset deal. The daily operations of the company based in San Jose (US) are continued as an individual branch of Triangle Fastener Corporation, Inc. (TFC).

SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd has transferred its operating activities to Unisteel Technology (China) Co., Ltd in Nantong (CN) and was sold as of 20 May 2021. As a result, book gains of CHF 3.1 million were realized. The book gains are related to the valuation of the premises and are reported in the other operating income.

On 21 December 2021, SFS Group signed an agreement to acquire 100% of the shares of Hoffmann SE. The closing of the transaction is expected to be concluded in the first half of 2022 and is subject to the usual closing conditions. Hoffmann will be incorporated into the SFS organization within the Distribution & Logistics segment. Around a quarter of the purchase price will be paid in the form of newly issued SFS shares (maximum of 1,600,000 shares). The remaining part will be paid by freely available liquid funds and by borrowing additional funds adhering to a Net Debt/EBITDA-Ratio below 1.5 (calculated over a time period of 12 months). Headquartered in Munich (Germany), Hoffmann SE has around 3,000 employees and is on site in over 50 countries. In 2021, it generates sales of approximately EUR 1.0 billion (excluding Contorion). Hoffmann is a leading international systems partner for quality tools that is well-known on European markets and serves more than 100,000 customers with a product range comprising around 500,000 items. Customers appreciate not only the company's comprehensive range of products but also its high level of product and logistics expertise. The transaction does not include Contorion, the eCommerce subsidiary of Hoffmann SE, which is geared toward a different customer segment.

2020

The SFS Group acquired 100% of MBE Moderne Befestigungselemente GmbH (MBE) as of 1 January 2020. The company is a leading supplier of painted fasteners for high-performance facade systems. MBE is based in Menden (Germany) and achieved in 2019 with 75 employees a turnover of EUR 10 million. The company is part of the Segment Fastening Systems. Contract clauses do not include any contingent consideration (earnout).

As of 1 April 2020, the SFS Group acquired 100% of Truelove & Maclean, Inc (T&M). The company is based in Connecticut (US). In 2019 T&M achieved with 110 employees a turnover of USD 36 million. It has profound expertise in the deep drawing technology and mainly serves customers in the automotive industry in North America. T&M is reported in Segment Engineered Components. An earnout agreement exists, however the conditions for an earnout payment have not been met.

In April 2020, the SFS Group increased its share in Tegra Medical from 98.8% to 100%. Contract clauses do not include any contingent consideration (earnout).

In September 2020, the entity Solheimsveien 44 AS was sold. As a result, book gains of CHF 2.1 million were realized. The book gains are related to the valuation of the premises and are reported in the other operating income.

5.2 Group companies

Subsidiaries

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2021	2020	Currency	(1,000)	
China	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	-	100.0	CNY	93,959	V, P
	Nantong	Unisteel Technology (China) Co., Ltd	100.0	100.0	CNY	466,739	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100,688	L
		SFS Group (Shanghai) Co., Ltd.	100.0	100.0	CNY	14,263	DL
Suzhou	Unisteel Precision (Suzhou) Co., Ltd	-	100.0	CNY	82,674	L	
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	100.0	100.0	CRC	1'804'126	V, P
Germany	Menden	MBE Moderne Befestigungselemente GmbH	100.0	100.0	EUR	300	V, P
	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	51.0	EUR	2,500	H
		Ludwig Hettich Verwaltungs-GmbH	51.0	51.0	EUR	26	H
HECO Schrauben GmbH & Co. KG		51.0	51.0	EUR	1,230	V, P	
Denmark	Roskilde	Jevith A/S	100.0	-	DKK	500	V
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	51.0	EUR	8	V
United Kingdom	Leeds	SFS Group Fastening Technology Ltd	100.0	100.0	GBP	2,000	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	99.7	99.7	INR	46,654	V, P
Italy	Pordenone	SFS intec S.r.l. unipersonale	100.0	100.0	EUR	10,000	V, P
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	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	USD	379,850	L
Mauritius	Ebène	Unisteel International Pte Ltd	100.0	100.0	USD	1	L
Mexico	Querétaro	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	Frogner	SFS intec AS	100.0	100.0	NOK	2,030	V
Austria	Korneuburg	SFS Group Austria GmbH	100.0	100.0	EUR	146	V, P
Poland	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	51.0	RON	12,737	P
Sweden	Strängnäs	SFS intec AB	100.0	100.0	SEK	200	V, P

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2021	2020	Currency	(1,000)	
Switzerland	Heerbrugg municipality of Au/SG and Widnau	SFS Group International AG (former 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 Group Schweiz AG (former 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
Singapore	Singapur	Unisteel Technology Limited	100.0	100.0	USD	29,977	V
Spain	Sondika-Bizkaia	SFS Group Fastening Technology (Iberica), S.A.U.	100.0	100.0	EUR	975	V
Taiwan	Kaohsiung	Unisteel Technology Limited Taiwan Branch	100.0	100.0	NTD	n/a	DL
Czech Republic	Turnov	SFS Group CZ s.r.o.	100.0	100.0	CZK	205,000	V, P
Turkey	Torbali-Izmir	SFS intec Baglanti Teknolojileri Sanayi ve Ticaret A.S.	95.1	95.1	TRY	23,109	V, P
		SFS Group Pazarlama A.S.	95.1	95.1	TRY	100	V
Hungary	Janossomorja	SFS Group Hungary Kft.	100.0	100.0	HUF	412,500	V, P
USA	Wyomissing, PA	SFS Group USA, Inc.	100.0	100.0	USD	37,750	V, P
		SFS Acquisition Holding, Inc.	-	100.0	USD	140,000	H
	Franklin, MA	Tegra Medical, LLC	100.0	100.0	USD	137,839	V, P
		Tegra Medical CR, LLC	100.0	100.0	USD	0	H
	Pittsburgh, PA	Triangle Fastener Corporation	100.0	100.0	USD	1	V
Watertown, CT	Truelove & Maclean, Inc.	100.0	100.0	USD	1	V, P	

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

The closing date of all companies is 31 December.

2021

In 2021 Unisteel Technology International Ltd was merged into SFS intec AG and SFS Acquisition Holding, Inc. was merged into SFS Group USA, Inc. Furthermore, Unisteel Precision (Suzhou) Co., Ltd was liquidated.

SFS intec Holding AG was renamed to SFS Group International AG and SFS services AG was renamed to SFS Group Schweiz AG.

2020

At the beginning of 2020, the companies Tegra-CTW Holdings, LLC and Tegra Medical (MS), LLC were merged into Tegra Medical, LLC.

In spring 2020 SFS Group Pazarlama A.S. was founded. It manages exports of products produced in Turkey. In early summer 2020, SFS Group (Shanghai) Co. Ltd in Shanghai established a regional headquarter. This entity provides local services for the divisions in the area.

The entity Solheimsveien 44 AS was sold in September 2020.

Joint ventures

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2021	2020	(1,000)		
China	Tianjin	Sunil SFS intec Automotive Parts (Tianjin) Co., Ltd	50.0	50.0	CNY	212,483	V, P

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:

	2021	2020
Sales of goods and services	3.1	2.8
Purchases of goods and services	0.6	0.6
Receivables	0.1	0.3

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

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

	2021	2020
Sales of goods and services	2.0	1.5
Receivables	0.7	1.0
Bank guarantees	12.6	13.2

6 Events after the balance sheet date

In connection with the financing of the acquisition of Hoffman SE, the shareholders of SFS Group AG have approved the creation of authorized capital in the amount of no more than CHF 160,000 (which corresponds to a maximum of 1,600,000 shares) at the Extraordinary General Meeting on 31 January 2022. Around a quarter of the purchase price will be paid in the form of newly issued SFS shares. The remaining part will be paid by freely available liquid funds and by borrowing additional funds adhering to a Net Debt/EBITDA-Ratio below 1.5.

The consolidated financial statements of the SFS Group were approved by the Audit Committee and the Board of Directors on 3 March 2022 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 27 April 2022.

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

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 2021, 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 61 to 95) give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 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 15 million

We concluded full scope audit work at twelve Group companies in seven countries. We further, concluded a review at a Group company and specified procedures at a further Group company.

Our activities cover Group companies that account for 78% of the group's net sales and 80% of its assets.

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.

Based on 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 15 million
Benchmark applied	Profit before Income taxes
Rationale for the materiality benchmark applied	We chose profit before income taxes 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.

We agreed with the Audit Committee that we would report to them misstatements above CHF 0.75 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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 designed 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. This involvement included communicating the risks identified at Group level, specifying the materiality levels to be used, detailed audit instructions, holding meetings and reviewing the reports for the interim and final audits of the relevant subsidiaries.

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

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

Valuation of inventories

Key audit matter

Inventories as at 31 December 2021 amount to CHF 378.8 million. This represents 20.6% of total assets.

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

- Inventories are not stated at the lower of average acquisition or production cost and net realizable 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.

How our audit addressed the key audit matter

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 realizable 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 2021.

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



Gianluca Galasso
Audit expert
Auditor in charge



André P. Kueffer
Audit expert

St. Gallen, 3 March 2022

Financial statements SFS Group AG

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Balance sheet

Assets in CHF million	31.12.2021	31.12.2020
Cash and cash equivalents	15.3	14.2
Other current receivables from Group companies	22.2	12.0
Current assets	37.5	26.2
Financial assets from Group companies	819.6	868.5
Shareholdings	90.8	90.8
Non-current assets	910.4	959.3
Assets	947.9	985.5
Liabilities and equity in CHF million		
Interest-bearing borrowings from Group companies	26.5	26.1
Deferred income and accrued expenses	1.1	1.0
Current liabilities	27.6	27.1
Interest-bearing borrowings	–	35.0
Interest-bearing borrowings from Group companies	25.6	39.3
Non-current liabilities	25.6	74.3
Share capital	3.8	3.8
Statutory capital reserves	11.5	11.5
Other capital reserves	0.0	–
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	609.9	591.8
Treasury shares	–7.4	–
Total equity*	894.7	884.1
Liabilities and equity	947.9	985.5

*Includes rounding differences of CHF 0.1 million.

Income statement

Income in CHF million	2021	2020
Investment income	81.3	82.5
Interest income	5.8	6.5
Total income	87.1	89.0
Expenses in CHF million		
Interest expense	-0.3	-0.5
Administration expenses	-0.4	0.1
Total expenses	-0.7	-0.4
Net income before taxes	86.4	88.6
Direct taxes	-0.8	-1.0
Net income	85.6	87.6

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 re-cognized 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 (PY none).

3 Shareholdings

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

	2021		2020	
	Share capital	Shareholding ¹	Share capital	Shareholding ¹
SFS Group International AG (former SFS intec Holding AG), Heerbrugg, Gemeinde Widnau, Schweiz	5.4	100%	5.4	100%
SFS unimarket AG, Heerbrugg, Gemeinde Widnau, Schweiz	12.6	100%	12.6	100%
SFS Group Schweiz AG (former SFS services AG), Heerbrugg, Gemeinde Widnau, Schweiz	0.1	100%	0.1	100%

¹Each share represents one voting right

The significant indirect shareholdings are disclosed in note 5.2 of the consolidated financial report.

4 Share capital

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

As of 31 December 2021, SFS Group Schweiz AG holds 58,064 treasury shares (PY none). In the reporting period 99,214 treasury shares (PY none) were purchased and 41,150 treasury shares (PY none) were disposed of due to share-based compensation or employee share purchase programs.

5 Significant shareholders

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

Share capital and voting rights	31.12.2021	31.12.2020
Founding families	54.9%	54.9%

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 31.12.2021	Number of shares 31.12.2020
Heinrich Spoerry, Chairman, independent, external member	202,760	201,260
Nick Huber, external member	115,152	114,652
Urs Kaufmann, independent, external member	10,760	10,260
Thomas Oetterli, independent, external member	8,760	8,260
Bettina Stadler, external member	392,900	392,400
Manuela Suter, independent, external member	500	n/a
Jörg Walther, independent, external member	5,640	5,140
Total	736,472	731,972

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

Group Executive Board	Number of shares 31.12.2021	Number of shares 31.12.2020
Arthur Blank, Head of Division Construction	14,455	13,705
Jens Breu, Chief Executive Officer	28,310	25,810
Volker Dostmann, Chief Financial Officer since 22 April 2021	115	–
Rolf Frei, Chief Financial Officer until 21 April 2021	n/a	50,610
Walter Kobler, Head of Division Industrial, Head of Division Medical since 1 January 2021	22,525	21,625
Urs Langenauer, Head of Division Riveting	3,631	3,256
George Poh, Head of Division Electronics	47,574	46,724
Iso Raunjak, Head of Segment Distribution & Logistics since 1 January 2020	373	60
Alfred Schneider, Head of Division Automotive	17,885	17,985
Claude Stadler, Head of Corporate Services	392,143	391,580
Total	527,011	571,355

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

7 Statutory capital reserves

The disclosed statutory capital reserves amount to CHF 11,549,250 (PY 11,549,250) 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	31.12.2021	31.12.2020
Warranty obligations to Group companies	199.1	227.9
Warranty obligations to third parties	12.6	13.2
Of which used	9.6	45.5

9 Events after the balance sheet date

In connection with the financing of the acquisition of Hoffman SE, the shareholders of SFS Group AG have approved the creation of authorized capital in the amount of no more than CHF 160,000 (which corresponds to a maximum of 1,600,000 shares) at the Extraordinary General Meeting on 31 January 2022. Around a quarter of the purchase price will be paid in the form of newly issued SFS shares. The remaining part will be paid by freely available liquid funds and by borrowing additional funds adhering to a Net Debt/EBITDA-Ratio below 1.5.

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of shareholders to payout a total of CHF 2.20 (PY 1.80) per registered share with a nominal of CHF 0.10 per share. Due to the decision at the Extraordinary General Meeting on 31 January 2022 to create authorized capital to a maximum of 1,600,000 shares, the number of shares ranking for dividend at the date of the Annual General Meeting is not yet defined. Therefore there exist two options of the proposed appropriation of retained earnings.

Proposed appropriation of retained earnings – Option 1

Payment from retained earnings **CHF 2.20** (PY 1.80) per registered share with a nominal of CHF 0.10 per share.

Retained earnings in CHF million	31.12.2021	Decision AGM 31.12.2020
Profit carry forward	524.3	504.2
Net income	85.6	87.6
Earnings available for distribution	609.9	591.8
Payout from retained earnings*	-82.5	-67.5
Carryforward to retained earnings	527.4	524.3

Due to the presentation in millions, rounding differences may arise for the value «Carry forward to retained earnings».

Proposed appropriation of retained earnings – Option 2**

Payment from retained earnings **CHF 2.20** (PY 1.80) per registered share with a nominal of CHF 0.10 per share.

Retained earnings in CHF million	31.12.2021	Decision AGM 31.12.2020
Profit carry forward	524.3	504.2
Net income	85.6	87.6
Earnings available for distribution	609.9	591.8
Payout from retained earnings***	-86.0	-67.5
Carryforward to retained earnings	523.9	524.3

Due to the presentation in millions, rounding differences may arise for the value «Carry forward to retained earnings».

Proposed appropriation of statutory capital reserves

Balance to be carried forward (PY same).

Statutory capital reserves in CHF million	31.12.2021	31.12.2020
Carryforward	11.5	11.5
Payout from statutory capital reserves	-	-
Carryforward to statutory capital reserves	11.5	11.5

*The dividend is based on the issued share capital as at 31 December 2021. No dividends will be distributed to treasury shares held by SFS Group AG.

**This option will come into effect if the share capital of SFS Group AG is increased by the authorized capital to a maximum of 1,600,000 shares before the date of the Annual General Meeting.

***The dividend is based on the issued share capital as at 31 December 2021 in addition to the issuance of authorized capital to a maximum of 1,600,000 shares. No dividends will be distributed to treasury shares held by SFS Group AG.

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

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 2021, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 103 to 107) as at 31 December 2021 comply with Swiss law and the company's 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.

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

Overall materiality	CHF 4.4 million
Benchmark applied	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.

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

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

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. 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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Gianluca Galasso
Audit expert
Auditor in charge



André P. Kueffer
Audit expert

St. Gallen, 3 March 2022

Information for shareholders

Explanation regarding alternative performance measurements

In addition to financial key figures defined by general accounting principles, SFS Group uses alternative performance measurements. For SFS it is of strategic importance to generate value added for all stakeholders: Customers, vendors, employees, shareholders and the community. Return on investment is a highly condensed key figure to measure value added. A comprehensive corporate management requires additional operational key figures: organic sales growth, adjusted operating profit (EBIT) margin and free cash flow. These key figures help to keep the organization on track and to monitor strategic implementations.

Return on Invested Capital (ROIC)

This key figure measures the return on invested capital as a percentage. ROIC illustrates how efficiently the company's resources are used. If ROIC exceeds weighted average cost of capital, SFS Group creates value added. The mid-term target is >10%. The key figure relates the adjusted operating profit after tax (EBIT adjusted after tax) to the invested capital. The invested capital is based on the equity at year end before goodwill offset, less net financial assets. A standard tax rate of 17.5% is applied.

In CHF million	2021	2020	2019	2018	2017
Equity at year end	1,450.4	1,278.2	1,237.2	1,204.6	1,087.0
+ Goodwill offset against equity	1,022.7	1,015.6	984.7	912.8	908.6
- Net cash/+ net debt	-279.1	-144.3	-68.7	-59.1	-34.7
Invested capital	2,194.0	2,149.5	2,153.2	2,058.3	1,960.9
Operating profit (EBIT) adjusted	298.6	225.3	239.1	243.1	233.3
- Tax 17.5%	-52.3	-39.4	-41.8	-42.5	-40.8
Operating profit (EBIT) adjusted less tax	246.3	185.9	197.3	200.6	192.5
ROIC	11.2%	8.6%	9.2%	9.7%	9.8%

Return on Capital Employed (ROCE)

Like ROIC, this key figure is an indicator for the profitability in relation to capital employed. In contrast to ROIC, goodwill off-sets and taxes are not taken into account. ROCE relates the adjusted operating profit (EBIT) to the average capital employed. The capital employed is calculated based on the average of the last four quarters.

In CHF million	2021	2020	2019	2018	2017
Ø Net working capital	701.6	603.0	615.8	580.1	535.6
- Ø Cash and cash equivalents	-235.1	-146.2	-147.8	-124.3	-122.8
+ Ø Tangible and intangible assets	729.2	721.2	723.1	686.8	608.5
- Ø Net deferred tax liabilities and provisions	-52.1	-44.1	-56.2	-71.8	-73.7
Ø Capital employed	1,143.6	1,134.0	1,134.9	1,070.8	947.4
Operating profit (EBIT) adjusted	298.6	225.3	239.1	243.1	233.3
ROCE	26.1%	19.9%	21.1%	22.7%	24.6%

Organic sales growth

All segments, divisions and management are measured by their contribution to growth. Organic sales growth is a key figure which measures the top-line growth compared to the previous year. To increase transparency and comparability, currency impacts and changes in scope are excluded from third party sales. The result is the organic sales growth as illustrated in the Financial overview on page 4.

Adjusted operating profit (EBIT) and adjusted EBIT margin

SFS uses the operating profit (EBIT) to assess the earnings situation and operational success. EBIT-margin relates the operating profit to net sales and illustrates if the operating business is led successfully. The adjusted operating profit and hence adjusted EBIT margin are calculated excluding one-off effects. This increases comparability and transparency for a performance measurement over time.

In CHF million	2021	2020	2019	2018	2017
Operating profit (EBIT)	301.7	227.4	236.3	243.1	197.7
– Book gain on disposal of non-operating assets	–3.1	–2.1	–14.3	–	–7.3
+ Amortization of customer relationship Unisteeel	–	–	–	–	39.8
+ Relocation cost CN-Nantong	–	–	17.1	–	–
+/- Other one-time effects	–	–	–	–	3.1
Operating profit (EBIT) adjusted	298.6	225.3	239.1	243.1	233.3
Net sales	1,897.3	1,707.1	1,782.1	1,736.9	1,634.8
EBIT margin adjusted	15.7%	13.2%	13.4%	14.0%	14.3%

Free Cash Flow

It is very important to SFS to finance capital expenditures needed for organic growth with own funds. Free cash flow is used as a key figure to determine cash generation. The key figure measures the ability to convert operational success into cash inflows. This enables to finance day-to-day operations (working capital) and necessary investments in operating assets from SFS Group's own business. Sustainable operating profitability and effective net working capital management have a great impact on free cash flow generation. To increase comparability, acquisitions of subsidiaries are not taken into account.

In CHF million	2021	2020	2019	2018	2017
Cash flow from operating activities	324.5	296.4	277.6	263.5	226.6
– Purchases of					
Property, plant and equipment	–104.6	–98.4	–114.5	–146.1	–128.8
Intangible assets	–16.8	–5.7	–2.2	–3.0	–8.2
+ Proceeds from government grants	–	–	–	–	4.2
Free Cash Flow	203.1	192.3	160.9	114.4	93.8

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

	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
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 outstanding shares (in 1,000)	37,460	37,500	37,500	37,500	37,500
Number of shareholders	7,910	7,825	8,353	7,960	7,530
Stock exchange quotation (in CHF)					
Year high	143.00	106.90	97.00	121.80	123.50
Year low	103.90	58.85	68.60	73.80	82.55
Year-end price	126.20	105.00	93.10	76.30	113.20
Share key data					
Earnings per share in CHF	6.51	4.90	5.47	5.14	4.24
Distribution per share in CHF	2.20	1.80	1.80	2.00	1.90
Payout ratio in % of net income*	33.3	36.5	32.7	38.7	44.8
Price/earnings ratio (year-end price)	19.4	21.4	17.0	14.8	26.7
Market capitalization					
In CHF million	4,732.5	3,937.5	3,491.3	2,861.3	4,245.0
(year-end price × number of shares ranking for dividend)					
As a % of net sales	249.4	230.7	195.9	164.7	259.7
As a % of equity	326.3	308.1	282.2	237.5	390.5

*Due to the decision of the Extraordinary General Meeting on 31 January 2022, a maximum amount of 1,600,000 newly issued shares are entitled to receive dividends, if the closing date of the Hoffmann SE transaction is before the date of the Annual General Meeting on 27 April 2022. In this case, the payout ratio will increase to a maximum amount of 34.7%.

Agenda

Wednesday, 27 April 2022 29th Annual General Meeting of SFS Group AG
 Friday, 26 August 2022 Publication half year results 2022

Security-n. 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 2021

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 www.annualreport.sfs.com/en →.

Exclusion of liability

This annual report includes forward looking statements. These statements reflect the SFS Group's current assessment of market conditions and future events. The statements are therefore subject to risks, uncertainties and assumptions.

Unforeseen events may lead to deviations of the actual results from the forecasts and estimates made in this presentation and in other published information. To this extent, all forward looking statements in this annual report are subject to such limitations.

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