



SFS Group AG
Annual report

Inventing
success
together

20

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Financial overview

Recovery in the second semester

Income statement CHF million	2020	2019	2018	2017	2016
Third party sales	1,704.9	1,781.4	1,738.6	1,632.7	1,436.5
Change to previous year in %	-4.3	2.5	6.5	13.7	4.4
thereof currency impact	-4.1	-1.3	1.4	0.5	0.9
thereof change in scope	3.0	4.4	0.8	5.8	1.5
thereof organic growth	-3.2	-0.6	4.3	7.4	2.0
Net sales	1,707.1	1,782.1	1,736.9	1,634.8	1,436.7
EBITDA	327.6	331.7	332.8	323.5	306.2
As a % of net sales	19.2	18.6	19.2	19.8	21.3
Operating profit (EBIT)	227.4	236.3	243.1	197.7	159.8
As a % of net sales	13.3	13.3	14.0	12.1	11.1
Operating profit (EBIT) adjusted ¹	225.3	239.1	243.1	233.3	210.1
As a % of net sales	13.2	13.4	14.0	14.3	14.6
Net income	184.8	206.5	193.9	159.1	124.8
As a % of net sales	10.8	11.6	11.2	9.7	8.7
Balance sheet in CHF million					
Assets	1,684.1	1,638.6	1,619.3	1,519.0	1,469.7
Net cash (+)/(-debt) (-)	144.3	68.7	59.1	34.7	0.5
Average Capital Employed ²	1,134.0	1,134.9	1,070.8	947.4	846.6
Invested Capital ²	2,149.5	2,153.2	2,058.3	1,960.9	1,692.2
Equity	1,278.2	1,237.2	1,204.6	1,087.0	987.8
As a % of assets	75.9	75.5	74.4	71.6	67.2
Cash flow statement in CHF million					
Cash flow from operating activities	296.4	277.6	263.5	226.6	241.5
Purchase of property, plant, equipment and software	-104.1	-116.7	-149.1	-132.8	-84.6
Acquisition (-)/Disposal (+) of subsidiaries, net of cash	-59.5	-95.4	-9.6	-10.2	-250.6
Employees					
Full-time equivalents (FTE)	10,692	10,571	10,231	9,478	9,021
Financial key ratios (unaudited)					
ROCE in % ² (Return on Capital Employed)	19.9	21.1	22.7	24.6	24.8
ROIC in % ² (Return on Invested Capital)	8.6	9.2	9.7	9.8	10.2
Share key ratios					
Earnings per share in CHF	4.90	5.47	5.14	4.24	3.32
Payout per share in CHF	1.80 ³	1.80	2.00	1.90	1.75
Payout in CHF million	67.5	67.5	75.0	71.2	65.6
Payout ratio in %	36.5	32.7	38.7	44.8	52.6

¹ Adjustments are explained in the annual report on page 109, www.annualreport.sfs.com/en →

² Calculation of the key figure is shown in the annual report on page 108, www.annualreport.sfs.com/en →

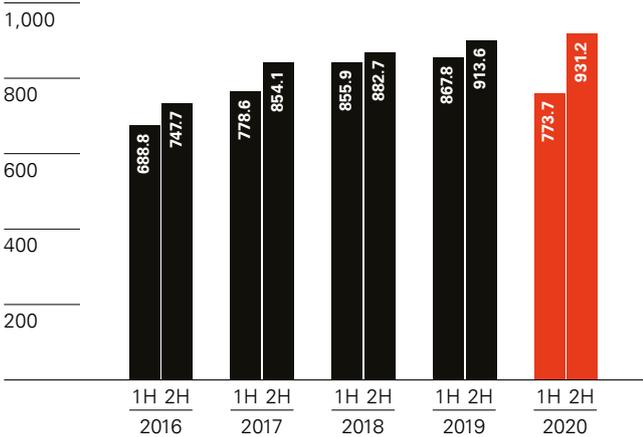
³ Proposed payout at SFS Group's Annual General Meeting on 22 April 2021

Key takeaways

Well positioned

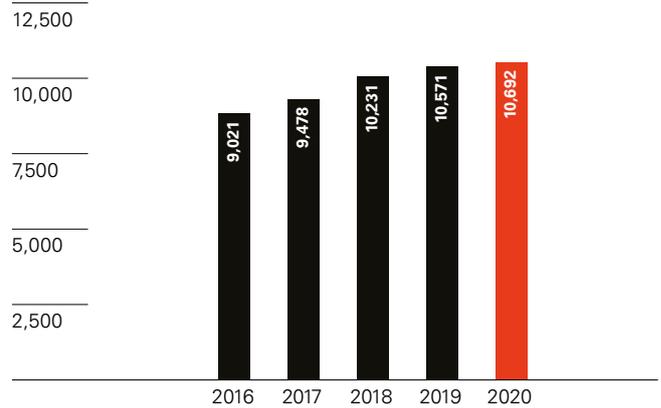
Sales increase of 20.4% in 2H compared to 1H achieved

Third party sales in CHF million



Slightly more employees due to acquisitions

Number of employees (FTE)



EBIT margin at previous year level achieved

2020 EBIT margin

13.3%

Thanks to the significantly improved utilization of production capacities, strict cost management and positive mix effects in the second half of the year the EBIT margin could be defended and an operating profit of CHF 227.4 million was achieved.

Investments in future growth continued

In CHF million

104.1

Capital expenditure was mostly spent to realize growth projects and thus the extension of infrastructure particularly in the Medical and Automotive divisions. At CHF 104.1 million, the investment volume remained at a similar level as in the previous year (CHF 116.7 million).

Strategy tested by COVID-19 pandemic

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

- For SFS, close customer relationships are essential. In line with the 'local for local' strategy, SFS is steadily building up its global development and production platform. Thanks to short and robust supply chains a superior supply reliability was realized.
- The balanced focus on different end markets, regions and sales channels cushioned the consequences of the decline in demand.
- With its increased focus on the medical device industry SFS is attractively positioned for the future.
- Thanks to its good profitability and solid balance sheet, SFS has the means and the ability to pursue its long-term strategy and to make the associated investments even in such a crisis.

Benefited from a balanced positioning

Share of sales by end market



Commitment and flexibility

A year marked by the COVID-19 pandemic and the measures taken to contain the outbreak, 2020 posed major challenges to the SFS Group. The tremendous commitment and flexibility of our employees helped us to overcome these challenges. After a steep decline in demand in the first half of the year, a significant recovery took place in several end markets and regions from the summer months. Full year sales amounted to CHF 1,704.9 million, a slight decline of –4.3% from the previous year. SFS achieved an EBIT margin of 13.3%, unchanged from the prior-year level.



Heinrich Spoerry

Dear shareholders

The COVID-19 pandemic posed considerable challenges to the SFS Group and its employees. In contrast to previous economic crises, the focus in the past financial year additionally was on protecting the health of employees and their environment. The Group had to cope with extreme fluctuations in demand and reduce its cost base, but also maintain flexibility and supply capability. This demand-side volatility is evident in a comparison of results for the first and second half of 2020: in the second half, consolidated sales rose by 20.4% compared with the first half of the year. This development was supported by our well-balanced market and regional presence, the diversified sales channels and our clear focus on customer needs and innovation trends. SFS successfully defended its competitive position and remains well positioned amid the pandemic.



Jens Breu

Despite an organic decline of –10.4% in sales in the first half of the year compared with the same period of the previous year, SFS was able to narrow the year-on-year decline in organic sales for 2020 as a whole to –3.2%. Consolidation effects contributed 3.0% to full-year sales, while currency translation effects had a negative effect of –4.1%. Gross sales for the financial year 2020 amounted to CHF 1,704.9 million.

Employees first and foremost

In this extraordinary year, SFS was able to rely on the solidarity and flexibility of its employees. They contributed to and supported the rigorous measures taken by management at an early stage of the outbreak to ensure healthy workplaces, maintain the company's ability to fill customer orders and mitigate the financial impact of lower capacity utilization:

- Preventive measures such as adjusted behavioral and hygiene measures and workplace management changes to minimizing physical contacts (e.g. working from home, shift changes without physical presence)
- Strict cost management and temporary capacity adjustments, such as drawdown of overtime hours and unused holiday leave, short-time work or alternative country-specific instruments, solidarity contributions from employees and voluntary salary cuts by senior management

Last but not least, the shareholders and the Board of Directors contributed to efforts to mitigate the effects of the COVID-19 pandemic through a reduced dividend and a voluntary cut in the compensation paid to the directors.

Significantly higher profitability in the second half of the year

Thanks to the sustained recovery in demand and positive seasonal effects in the second half of the year, production capacity utilization improved significantly. Higher capacity utilization, strict cost management and positive mix effects lifted the operating profit margin for the second half of the year to 16.8% of net sales. November and December were particularly strong months. Full-year operating profit (EBIT) amounted to CHF 227.4 million, which corresponds to an unchanged EBIT margin of 13.3% compared with the previous year.



To implement the acquired projects in the Automotive division, SFS is investing in an additional production hall in Heerbrugg (Switzerland).

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.
- With its increased focus on the medical device industry – a market that is growing worldwide – SFS is attractively positioned for the future.
- 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 the associated investments even in such a crisis.

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

Investments in future growth continued

At the beginning of the year, MBE Moderne Befestigungselemente GmbH (MBE), a leading supplier of painted fasteners for high-performance façade systems, was acquired. With this acquisition, SFS is expanding its market reach and customer base in its fastening system business for façades in Europe.

In the spring, SFS pressed ahead with its "local-for-local" strategy by acquiring Truelove & Maclean (T&M), which added the manufacturing process of deep-drawing to its existing development and production platform in North America. T&M, located in Watertown, Connecticut, is a leading supplier of deep-drawn components, primarily for customers in the automotive industry.

To implement growth projects in the Medical division, the sites in Hallau (Switzerland) and Franklin (US) began to expand their infrastructure. In order to create the necessary capacity to realize projects in the area of electric brake systems, the decision was taken to build an additional production hall at the site in Heerbrugg (Switzerland).

The new site in Nantong (China) has proved its worth for the Electronics division and the anticipated efficiency gains have been realized. Increasingly the Automotive division and the Distribution & Logistics segment benefit from the available local resources and processes for services to local customers.

Expenditure on property, plant, equipment, hardware and software for the period amounted to CHF 104.1 million (previous year: CHF 116.7 million), which corresponds to 6.1% of net sales.

SFS Group's mission is to create value for its customers by providing them with innovative products and solutions. To accomplish this goal, it invests considerable resources in the ongoing development of its core technologies, the development of new products and systems, and continuous process improvements, with the clear objective of reducing total costs for our customers. Often we are able to achieve – in close collaboration with customers – efficiency gains in their value chain and 'invent' mutual success – true to our value proposition of "Inventing success together".

Expenditure on research and development amounted to CHF 44.5 million (previous year: CHF 44.4 million) and was charged in full to the income statement for the period.

Engineered Components (EC)

A challenging year

Business at the EC segment was clearly impacted by the COVID-19 pandemic. After a solid start in the first quarter, demand fell sharply in the second quarter due to plant closures at key customers and other restrictions in several business areas. A recovery began in July and gained momentum during the second half of the year, particularly in automotive-related areas. This development also benefited from the very successful product launches by important customers in the electronics industry and the organic growth of the Medical division.

Segment sales increased sharply by 36.3% in the second half of the year compared with the first half of the year. Full-year sales amounted to CHF 898.3 million, which corresponds to a decline of –6.1% compared with the previous year. Negative currency effects of –4.7% were partially offset by positive consolidation effects of 2.6%.

The sharp decline in demand during the second quarter and resulting lower capacity utilisation had a significant impact on profitability. The negative consequences were mitigated by the early measures taken to temporarily reduce capacity and strictly manage costs. Nevertheless, operating profit for the first half of the year was down by half compared with the same period in the previous year. The EBIT margin dropped to 9.1%. Due to the subsequent steady improvement in capacity utilization, the operating profit margin increased to 20.2% in the second half of the year. This resulted in an EBIT margin of 15.5% for the year as a whole (previous year: 17.0%, adjusted).

Fastening Systems (FS)

Performance improved

The Construction division, which focuses on the construction industry, was subject to less severe pandemic-related restrictions reflected in the limited reduction in demand. Adjusted for currency translation effects and acquisitions, the division held its sales at the prior-year level.

The Riveting division, due to its focus on applications in the industrial and automotive sectors, was clearly more affected by the COVID-19 pandemic. Demand was sharply lower during the first half of the year. The division recorded a strong sales recovery in the fourth quarter.

Sales in the FS segment for the period under review amounted to CHF 489.7 million, corresponding to a decline of –1.7% compared with 2019. Positive consolidation effects arising from the acquisition of Triangle Fasteners Corporation Inc. (TFC) in the spring of 2019 and MBE at the start of 2020 contributed 6.0% to reported sales. Negative currency effects reduced sales by –5.3%.

On the earnings side, temporary capacity reduction and strict cost management compensated for the impact of weaker demand on operating results in the first half of the year. During the second half of the year, the segment benefited from continued strict cost management, improved capacity utilization and the considerable efforts made in previous years to improve efficiency. Thanks to this positive momentum and the newly acquired companies, an adjusted EBIT margin of 11.5% (previous year: 9.2%) was achieved for the full year 2020. Both divisions have contributed to this remarkable performance in a challenging economic environment.

Distribution & Logistics (D&L)

Stable development

The D&L segment does business primarily with customers in the construction and industrial manufacturing sectors in Switzerland. D&L's well-balanced sales channel mix and product portfolio helped to limit the negative impact of the pandemic on its business operations. Strong demand, particularly in the areas of building materials and personal protective equipment, compensated for the weaker business trends with some industrial manufacturing customers. The segment's multi-channel sales approach has become an important strategic cornerstone. The relevance of broad market coverage through sales channel diversification was clearly confirmed during the year under review. The segment generated sales of CHF 316.9 million for the full year, representing a decline of –2.8% compared with the prior year. Currency translation had a negative effect of –0.6%.

Overall stable demand, swift action taken to temporarily adjust capacity, the good results from the e-shop and strict cost management had a positive impact on profitability. EBIT for the year under review showed an increase of 9.4% to CHF 28.7 million compared to the previous year period.

Slightly larger number of employees

SFS Group employed 10,692 employees (full-time equivalents) at the end of 2020 (previous year: 10,571). The year-on-year increase is attributed to the acquisitions of MBE and T&M. On a comparable basis, a slight decline of -0.5% in the number of employees was reported.

Sustainability is a strategic priority

Sustainability is an important driver of our value engineering activities and hence, the products and solutions we create for our customers. SFS published its first stand-alone Sustainability Report in 2020 (sustainability.sfs.com/en →). Reporting on sustainability reflects SFS's long-term goal of holistic integration of sustainable business practices into its corporate strategy and business model. As a signatory of the UN Global Compact, SFS is committed to the Sustainable Development Goals (SDG) and currently prioritizing four goals: SDG 4 Quality education, SDG 8 Decent work and economic growth, SDG 12 Responsible consumption and production and SDG 13 Climate action. SFS reports annually on the goals, measures and progress with respect to the individual topics within the framework of the "Communication on Progress" report (UN Global Compact) and the GRI Report ("core" option). SFS will publish its next Sustainability Report at the end of May 2021.

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 fulfilment due to the pandemic, risks associated with acquired companies, warranty risks arising from product recalls, company exposure to the global economic environment, compliance and currency-related risks.

Changes in the Group Executive Board

On 1 January 2020, Iso Raunjak assumed responsibility for the D&L segment from Josef Zünd, who retired in March 2020 after a successful 49-year career at SFS.

After J. Mark King stepped down as Head of the Medical division on 1 August and retired, Jens Brey, CEO of SFS Group, led the Medical division on an ad interim basis. As part of the decision to create a global production platform to better serve customers in the medical device industry, Walter Kobler, Head of the Industrial division and long-standing member of the Group Executive Board of SFS Group, additionally assumed management responsibility for the Medical division effective 1 January 2021.

In the interests of early and diligent planning, the Board of Directors of the SFS Group appointed Volker Dostmann at the end of April 2020 to succeed Rolf Frei as CFO. Volker Dostmann joined the Group Executive Board on 1 November 2020 and will assume the function of CFO at the Annual General Meeting on 22 April 2021.

Rolf Frei – 40 years of commitment to SFS

Rolf Frei joined the company in 1981 and was later appointed CFO and Head of Services, during which time he strongly contributed to the development of the SFS Group. After the handover of the CFO function, Rolf Frei will continue to serve the company in selected strategic projects until his retirement in 2023.

The Board of Directors and Group Executive Board thank Rolf Frei for his many years of successful service and his steadfast loyalty to the company. Over the years, he has played an important role in the successful development of SFS Group through his vast expertise, his tireless efforts, his consistent focus on customer needs and his personal touch.

Proposal to elect Manuela Suter to the Board of Directors

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

Payout to shareholders

In view of the robust earnings, the very solid balance sheet and the cautiously optimistic outlook for future business activity, the Board of Directors will propose an unchanged dividend of CHF 1.80 per share to the Annual General Meeting. Last year's dividend was reduced by 10% compared with the payout in 2019, as a sign of solidarity with the company and its employees during the first wave of the COVID-19 pandemic.

28th Annual General Meeting on 22 April 2021

In accordance with Art. 27 of the Swiss Federal Council's Ordinance 3 on measures to combat the coronavirus (COVID-19 Ordinance 3), SFS Group's Annual General Meeting of 22 April 2021 will be held without the physical presence of shareholders, as was the case in the previous year. This will apply even if the current ban on such events is no longer in place at the scheduled time of the Annual General Meeting, as provided for under Art. 6 of the COVID-19 Ordinance. 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 2021

In the current financial year, our attention will remain focused on protecting the health of our employees and managing the effects of the COVID-19 pandemic on the course of business. Investments in the selective expansion of our production capacity and thus the implementation of growth projects will continue. In February 2021, for example, construction began on an additional production hall at the Heerbrugg site (Switzerland) to realize growth projects in the Automotive division. Another strategic priority is the expansion of our global production platform for medical device applications.

For the financial year 2021 SFS expects to return to organic growth and achieve an EBIT margin in the range of the previous year. This outlook is based on the assumption of an ongoing recovery of the global economy and no further global waves of COVID-19 infections, leading to a deterioration of the economic conditions.

Thank you

A big thank-you goes to all employees of SFS Group for their tremendous commitment and flexibility in meeting the challenges that the COVID-19 pandemic has posed and making our good results possible.

We thank our customers and business partners for their trust and partnership, and for their commitment to the development of sustainable and value-added solutions together with SFS during such a difficult year.

We also thank our loyal shareholders for their trust and solidarity over the past year. They give SFS Group stability and thus contribute to its sustainable development.



Heinrich Spoerry
Chairman of the
Board of Directors



Jens Breu
CEO

Strategy

Inventing success together

Creating added value for our customers and inventing success together in close partnership is our number one goal. That claim is underpinned by the high levels of application and technology-driven expertise of our well-qualified employees. They drive the value engineering process at SFS and enable it to create new solutions for its customers day after day. Our strategy has proved its worth in the face of the ongoing COVID-19 pandemic and the many challenges it has created.

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: embedded 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 disc drives function with high-precision miniature SFS components.

SFS products can also be found in many electronic lifestyle products, such as adventure cameras, smart watches and smart home devices. In the field of healthcare, our precision components in bone screws, dental implant fixtures or surgical instruments help to improve your quality of life.

Our value proposition: creating added value for the customer

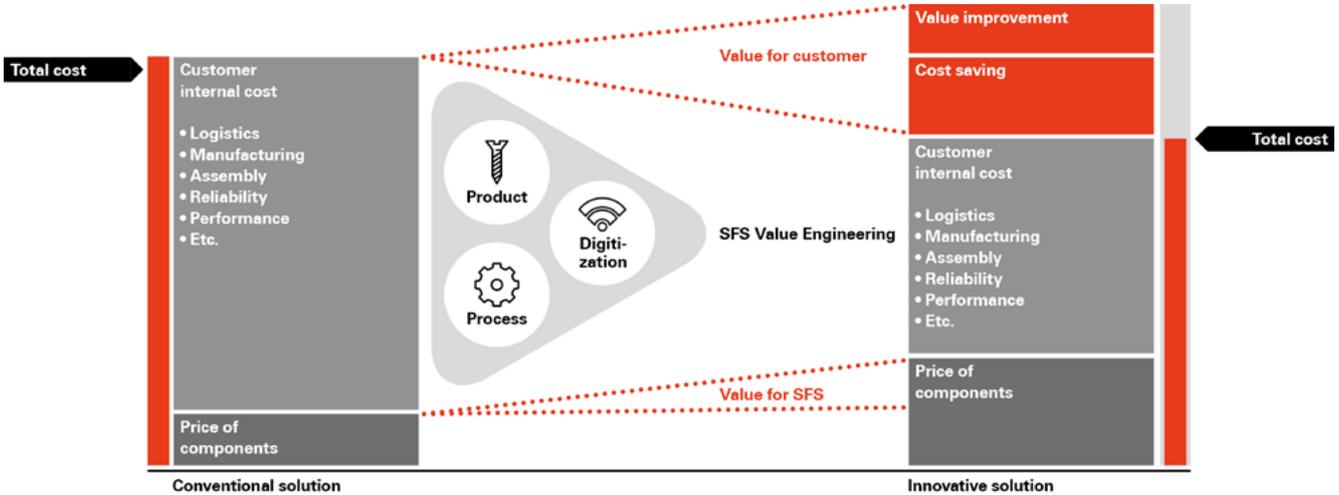
The cost of SFS components embedded into a customer's product often account for less than 1% of the total product cost. But the costs at the customer end arising from procurement, logistics and handling operations can be several times the actual cost of these components. That is why we are not primarily focusing on reducing our direct product costs and

differentiating ourselves on price – there would be limited potential. Instead, our main goal is to optimize the overall product-related costs of our customers (see graph on page 12).

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 digitization. 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. Our aim of continuous improvement as we seek to create added value for the customer can only be achieved with a strong work ethic: an unwavering commitment to "inventing success together".

Our brand management: clear messages conveyed with distinctive typography and focused imagery

The renewal of SFS's corporate identity and corporate design in 2018 sharpened the contours of its branding strategy and simplified its brand structure. The SFS brand is the focus, replacing the SFS intec and SFS unimarket brands. This brand consolidation has clearly enhanced the effectiveness and efficiency of our internal and external communications. The SFS brand has a more distinctive profile and differentiates our services and solutions from the competition even better than before.



Brands such as GESIPA®, Tegra Medical, Triangle Fasteners Corporation (TFC) and Unisteel continue to be used. Their strategic and cultural association with SFS is emphasized with the tagline: “A member of SFS”.

Digitalization is a high priority in our communications activities. The sustainability.sfs.com/en website was launched as a dedicated platform for reporting on sustainability-related activities, underlining the high level of importance attached to this topic. Furthermore, the online annual report (annual-report.sfs.com/en) was embedded for the first time on the SFS website, ensuring consistency between the company’s multiple websites.

The new employee app mySFS was created to improve internal communication and has already been rolled out in several divisions. The app, which will become the most important internal communication channel at SFS, facilitates internal communication, in particular for employees without a workplace computer. MySFS provides everybody with tailored information, supports the internal dialog and will also serve emergency communications purposes.

SFS’s brand strengthening efforts will continue with a focus on digital communication channels. The employee app will be extended to other divisions and new features that make work easier will be added. The Construction division’s e-commerce project will be rolled out to market organizations in order that our customers in the construction industry are able to order our products online.

Global development and production platform continuously expanded:

1 Expertise in deep drawing technology expanded through Truelove & Maclean (T&M) acquisition

Economic globalization is an important trend for SFS. Thanks to its global development and production platform, SFS is strategically well positioned to participate in this development. Our global footprint allows us to manage and execute projects worldwide as a local partner, in particular for our international customers.

In addition to organic growth, acquisitions are important for the ongoing development of SFS Group. Selective acquisitions give us access to new markets, customers and applications, which in turn lays the groundwork for future organic growth. We focus on enhancing our performance with the takeover of suitable candidates and are attracted to well-positioned, well-managed small to mid-sized companies that do business with blue-chip customers and which have an attractive product portfolio resulting in sustainable profits. SFS continued to methodically implement its “local for local” strategy with the acquisition of T&M, which added deep drawing to its existing development and production platform in North America. T&M, located in Watertown, Connecticut, is a leading supplier of deep-drawn components primarily for the automotive industry. The company generated sales of USD 36 million in 2019 and employed approximately 110 people. Through this acquisition, SFS will be able to supply deep-drawn components to its customers in North America as a local manufacturer.

2 Basis laid for sustained growth in medical device industry

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.

Sustained strong market demand, SFS Group's steady growth momentum and customers looking for manufacturing partners with a global reach formed the basis of management's decision to establish a global manufacturing platform for medical device applications. The advantages of SFS Group's manufacturing sites worldwide will allow customers across North America, Europe and Asia to be served locally under the Tegra Medical brand.

All SFS Group's current activities for the medical device industry, which until now have been conducted in the Medical and Industrial divisions, will be aligned under the Tegra Medical brand. As part of this expansion, Walter Kobler, a long-standing member of the Group Executive Board of SFS Group and Head of the Industrial division, has additionally assumed management responsibility for the Medical division, effective 1 January 2021. Jens Breu, CEO of SFS Group, had previously managed the Medical division ad interim after Mark King, the former divisional head, announced his retirement in August 2020.

Fastening system business for façades in Germany expanded

With the acquisition of Moderne Befestigungselemente GmbH (MBE), SFS expanded its fastening system business and its market reach in central Europe. MBE is a leading supplier of painted fasteners for high-performance façade systems. The company generated about EUR 10 million in sales with just under 70 employees in 2019.

Creating additional capacity for growth projects in the automotive business

Over the years, SFS has successfully positioned itself as a preferred development partner for customers in the automotive industry. Innovation drivers are the trends towards more comfort, improved safety and increased efficiency, and, from a higher perspective, autonomous driving technology. The associated electrification of vehicles, including vehicle brake systems, is an attractive and growing business area from which SFS is benefiting. The successful acquisition of new projects for assemblies used in electric brake systems has laid the groundwork for further growth. In order to realize these acquired customer projects, SFS is investing in the expansion of its production capacity and building an additional production facility at its Heerbrugg (Switzerland) location. The investment volume for the new building is in the region of CHF 25 million to CHF 30 million. Construction began in early 2021.

Sustainability is a strategic priority

Since last year, SFS is publishing a stand-alone Sustainability Report. The report for the period 2020 will be published end of May 2021. Reporting on sustainability reflects SFS's long-term goal of a holistic integration of sustainable business practices into its corporate strategy and business model.

SFS in brief

SFS is a leading global provider of mechanical fastening systems and precision components. The company operates in the three segments Engineered Components, Fastening Systems and Distribution & Logistics, which represent the company's different business models.

Engineered Components

In the Engineered Components segment (EC), SFS partners with customers to develop and manufacture customer-specific precision components, mechanical fastening solutions and assemblies. This segment comprises the Automotive, Electronics, Industrial and Medical divisions, and it sells its products and services under the 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, hardware 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 1,704.9 million in financial year 2020 with a workforce of approximately 10,000 (FTE).

As a signatory of the UN Global Compact, SFS is committed to the Sustainable Development Goals (SDGs) and currently prioritises four goals: SDG 4 – Quality education, SDG 8 – Decent work and economic growth, SDG 12 – Responsible consumption and production, and SDG 13 – Climate action. This prioritisation reflects the material topics as determined in the materiality assessment conducted in 2019: economic performance, occupational health and safety, training and education, emissions reduction and socioeconomic compliance. SFS reports annually on the goals, measures and progress with respect to these topics within the framework of the “Communication on Progress” report (UN Global Compact) and the GRI Report (“core” option).

Sustainability is an important driver of our value engineering activities and thus for the products and solutions we create for our customers. For example, the general trend towards higher energy efficiency is an important innovation driver for SFS, specifically in automotive and building envelope applications. SFS also makes an important contribution to sustainability by using highly efficient manufacturing processes, such as cold forming in the production of components.

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.
- With its increased focus on the medical device industry – a market that is growing worldwide – SFS is attractively positioned for the future.
- 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 the associated investments even in such a crisis.

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

Strategic priorities



Responsible management in action

In the spirit of good corporate governance and to facilitate a timely succession process, the Board of Directors of SFS Group appointed Volker Dostmann at the end of April 2020 successor to Rolf Frei as CFO. Volker Dostmann joined the Group Executive Board on 1 November 2020 and will assume the position of CFO at the Annual General Meeting on 22 April 2021. After the handover of the CFO function, Rolf Frei will continue to serve the company in selected strategic projects until he retires.

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

Taking advantage of the opportunities of the digital revolution with a new ERP platform

The digital revolution is one of the most important megatrends for SFS. Basis for a successful participation builds SFS's internal organizational performance and its ERP system. During the period under review, SFS decided to switch to the new generation of SAP ERP software. The implementation of SAP S/4HANA underscores SFS's commitment to its valued partnership with SAP. With the new ERP solution, SFS aims for an improved and more efficient meeting of market and customer requirements, to raise the level of process standardization, simplify the ERP system landscape and ensure centralized data availability. The higher degree of automation and integrated processes will lead to more efficient and attractive workplaces for employees.



60 years press plant
Heerbrugg (Switzerland)

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. Today SFS Group is one of the world's leading suppliers of mechanical fastening solutions, precision components and logistics systems for management of C-parts. The mission from day one – creating added value for the customer, every employee an entrepreneur and achieving sustainable success together – has 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".

Markets

Market position maintained

Thanks to its broad positioning across different end markets and regions, SFS was able to successfully navigate the business challenges posed by the COVID-19 pandemic. After the sharp drop in demand in the second quarter 2020, activity picked up significantly during the second half of the year, particularly in the automotive-related areas. In the electronics industry, SFS profited from successful product ramp-ups by key customers.

Development by end market

The COVID-19 pandemic had significantly different effects on the various end markets addressed by SFS. In a year characterized by extreme turbulence, SFS clearly profited from its balanced focus on different end markets and regions.

Solid results achieved in the construction sector

The construction industry, the largest end market for SFS Group in terms of sales, was less affected by the restrictions imposed to contain the COVID-19 pandemic than other industries. This was leading to a better course of business compared to the development in other end markets. SFS' acquisition of Triangle Fastener Corporation, Inc (TFC) in 2019 and MBE Moderne Befestigungselemente GmbH beginning 2020 further strengthened its position in the construction sector, resulting in higher sales overall and slightly increasing the construction market's share of total Group sales to 31.1% (previous year: 29.6%).

Benefited from strong demand in the electrical and electronics industry

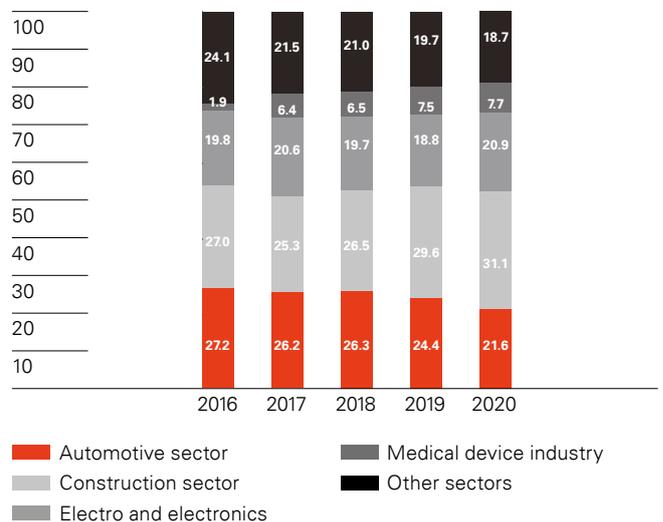
SFS' customers in the electrical and electronics industry are located primarily in Asia. Business activity in this area was the first to be affected by the COVID-19 pandemic due to the decision by Chinese officials to keep factories closed after the Chinese New Year celebrations. Continued strong demand for electronic products allowed for quick recovery of lost production. In the second half of the year, SFS profited from successful launches of customer products in the areas of lifestyle electronics and smartphones, and from the ability to ramp up production quickly and efficiently. Sales in local currencies showed significant growth of 6.7% and the share of total Group sales rose to 20.9% (previous year: 18.8%).

Growth in medical device business continued

Throughout the year, SFS' medical device business supported the overall sales development of the SFS Group. Restrictions related to COVID-19 such as the postponement of elective surgical interventions, were offset by general market growth and the launch of new products. Sales in the medical device market rose to 7.7% (previous year: 7.5%) of Group sales.

Share of sales by end markets 2016–2020

in %



The medical device industry is a fast-growing global market. Continued strong market demand and customers looking for manufacturing partners with a global reach formed the basis for management’s decision to establish a global manufacturing platform under the Tegra Medical brand. Investment in the expansion of the production site in Hallau (Switzerland) and the purchase of a real property in Franklin (US) – a strategically important location due to its proximity to the local medical device hub – strengthen SFS’s position in the medical device industry and create more capacity for future growth projects (further information in segment report Engineered Components, p. 19).

Automotive business characterized by major shifts

The weak demand from the automotive industry witnessed in the previous year continued into the reporting year 2020, and the first global wave of the COVID-19 pandemic depressed demand even further. Production plant closures at key customers during the lockdown led to a massive decline in demand across the supply chain during the months of April and May. The collapse in the end market led to a 58% decline in second-quarter sales compared with the previous year period. Demand improved in the summer and business gained further momentum during the course of the second half of the year. However, the recovery in the second half of the year did not compensate for the steep drop in sales during the first six months. Compared with the previous year,

sales to customers in the automotive industry fell by CHF 66.6 million or –15.3%, resulting in 21.6% of total Group sales (previous year: 24.4%)

With the acquisition of Truelove & Maclean (T&M) in the first quarter of 2020, SFS complemented its existing development and production platform in North America to include deep-drawing technology, enhancing its local-for-local strategy and further strengthening its robust supply chains.

Slow recovery in niche markets in second half of year

The various niche markets were affected to differing degrees by the weak demand caused by COVID-19. After the sharp decline in demand in some areas during the second quarter, the situation in several markets stabilised from the middle of the year. Nevertheless, sales and operating results at the end of the year were only slightly better compared with the first half.

In Aircraft, sales were sharply lower compared with the previous year. The future business development is likely to remain challenging as projected demand for passenger air transportation has been revised sharply downwards and capacity has been reduced across the entire supply chain.

Worldwide production and sales locations



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 T&M and MBE added two additional sites in the past year (depicted by red dots).

Development by region

The regional sales mix was significantly influenced by developments in the end markets. Driven by strong demand in the electrical and electronics industry, which is conducted almost exclusively in Asia, the Asian (incl. Rest of world) share of total Group sales increased by 240 basis points to 22.4% for the year under review (previous year: 20.0%).

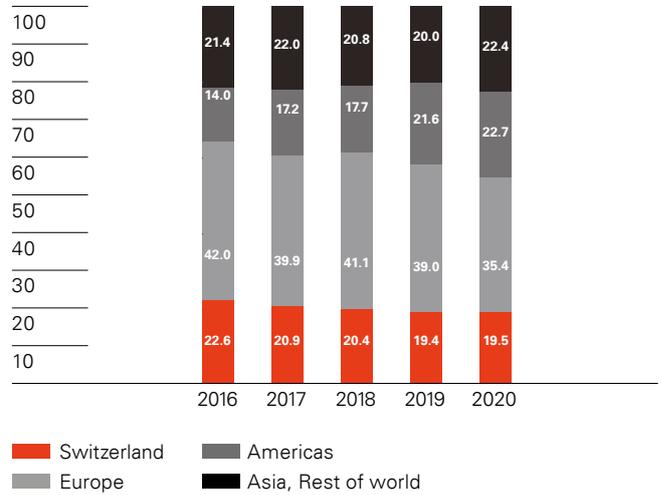
Sales in the Americas benefited from growth in the medical device business and the solid development of the construction industry. Acquisitions in the Automotive and Construction divisions contributed 10.0% to the positive development. The Americas share of total Group sales in 2020 was 22.7% (previous year: 21.6%).

Thanks to the – in view of the pandemic – stable business at D&L, the share of sales generated in Switzerland increased slightly to 19.5% compared to the previous year’s figure of 19.4%.

Sales in Europe, by far the largest market for SFS, showed a sharp decline. While the construction sector developed robustly in 2020, the pandemic had a very negative impact on customers in the automotive, aircraft and industrial areas, but SFS was nevertheless able to defend its market position in these industries. Sales in Europe declined by CHF 91.1 million in 2020 compared to the previous year and the region’s share of total Group sales contracted to 35.4% (previous year: 39.0%).

Share of sales by region 2016–2020

in %



Segment report – Engineered Components

A challenging year

The impact of the COVID-19 pandemic posed significant challenges for the divisions in the Engineered Components segment. After a distinct decline in sales in the first half of the year, demand in most of the markets addressed turned positive in the second half of the year.

Significant sales increase in the second half of the year achieved

With its strong focus on industrial applications, particularly in the automotive industry, the Engineered Components segment was significantly impacted by the pandemic. After a solid start in the first quarter, the effects of the pandemic became very noticeable in the second quarter. Demand collapsed due to the shutdown of important customers' factories and other restrictions in several business areas. Recovery began in July and gained momentum during the second half of the year, particularly in automotive-related areas. Segment sales increased sharply by 36.3% in the second half of the year compared with the first half of the year.

Sales in the second half of the year, and in particular in the fourth quarter, were supported by a positive development in the electronics industry. This development was driven by successful product launches of key customers. The Electronics division once again demonstrated its impressive ability to ramp up operations quickly and efficiently, as it had done in the wake of the lockdown imposed by Chinese officials after the New Year celebrations.

Organic sales growth at the Medical division supported the segment's development throughout the year. The pandemic's negative impact on the course of business – e.g. stemming from the postponement of elective procedures – was offset by general market growth and the launch of new products.

After the steep decline in business activity in industrial niche markets during the second quarter, a recovery was observed in several areas during the second half of the year. However, the overall recovery was clearly less distinct than in the automotive-related areas. The situation remains particularly challenging in the aircraft industry due to the restrictions caused by the COVID-19 pandemic.

In the financial year 2020, SFS generated sales of CHF 898.3 million in the EC segment, which corresponds to a –6.1% decrease in sales compared with the previous year. The clearly negative currency effect of –4.7% was partially offset by the positive consolidation effect of 2.6% after the acquisition of T&M.

Key figures Engineered Components

in CHF million

	2020	+/- PY	2019	2018
Third party sales	898.3	–6.1%	957.1	967.0
Sales growth comparable		–4.0%		
Net sales	910.4	–5.6%	964.2	972.5
EBITDA	210.8	0.3%	210.1	234.8
As a % of net sales	23.2		21.8	24.1
Operating profit (EBIT)	141.2	–3.9%	147.0	176.6
As a % of net sales	15.5		15.2	18.2
Operating profit (EBIT) adjusted ¹	141.2	–14.0%	164.1	176.6
As a % of net sales	15.5		17.0	18.2
Average capital employed	720.5	2.9%	700.4	652.1
Investments	83.1	–11.7%	94.1	116.3
Employees (FTE)	7,293	2.0%	7,153	6,977
ROCE (%) ²	19.6		23.4	27.1

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

² EBIT adjusted in % of average capital employed



With its increased focus on the medical device industry SFS is attractively positioned for the future.

Profitability benefited from clearly higher capacity utilization in the second half of the year

The partial sharp declines in demand observed during the second quarter and resulting in reduced capacity utilization put the profitability of the EC segment under considerable strain. The effect was much more visible in this segment since the depth of added value of its products is significantly higher than in the other two segments. The negative effects were mitigated by the measures implemented early on to temporarily reduce capacity and strictly manage costs. Nevertheless, the operating profit halved during the first half of the year compared with the previous year and the EBIT margin dropped to 9.1%. Through avoidance of structural measures, jobs were saved and the organization was in a position to quickly resume normal operations and demonstrate its reliability as a supplier during the subsequent recovery in business activity.

The recovery began surprisingly quickly in automotive-related areas and the Electronics division also experienced good demand from customers. As a result, capacity utilization steadily improved during the second half of the year and the temporary capacity reduction measures had to be applied only selectively and to a much lesser extent. The operating profit margin more than doubled to 20.2% in the second half of the year. This resulted in an EBIT margin of 15.5% for the full year (previous year: 17.0%, adjusted).



Since summer, the demand began to recover significantly, which was particularly noticeable in the automotive-related areas.

Basis for future growth strengthened

SFS continued to invest in capacity expansion and growth projects during the COVID-19 pandemic, strengthening the basis of its future competitiveness. Capital expenditure in the EC segment amounted to CHF 83.1 million in 2020 (previous year: 94.1 million).

In addition to substantial investment projects for applications in the field of electric brake systems, infrastructure projects were important drivers. In order to realize growth projects in the Medical division, work was started to expand the sites in Hallau (Switzerland) and Franklin, US (see text box on medical device strategy, p.23).

To further realize growth projects in the Automotive division, construction of an additional production hall in Heerbrugg (Switzerland) began in early 2021.

Furthermore, the new platform in Nantong (China) performed well over the past year and the projected efficiency gains were realized. After the successful consolidation of the Electronics division's factories in China, other SFS divisions have made increasing use of the local resources and processes. The comprehensive range of production technologies offered by the new site in Nantong has attracted considerable interest from existing and potential customers. A key driver is the need for further localisation in component manufacturing, which SFS can meet with its "local-for-local" strategy. In the Automotive division, acquired projects are proceeding according to plan and the first ramp-ups are scheduled for the first half of 2021. In addition, the Nantong platform will become a key advantage for the D&L segment and the Medical division on which to serve local customers.

Automotive division

Strong recovery in the second half of the year

The weak demand from the automotive industry from the previous year continued into 2020 and the first global wave of the COVID-19 pandemic depressed demand even more. Large customers had to shut down their factories during the lockdown, which led to a massive decline in demand throughout the supply chain during the months of April and May. The collapse in the end market led to a 58% decline in second quarter sales compared with the previous year period. The intensive use of temporary capacity reduction instruments helped to mitigate the negative effects.

In spite of the steep fall in business, structural measures and thus job cuts were largely avoided. This enabled the organization to quickly resume normal operations during the subsequent recovery. The recovery began in July and steadily gained momentum during the second half of the year. The resulting improvement in capacity utilization had a positive impact on profitability.

The lockdown caused a temporary delay in the award of new customer projects. Ongoing innovation projects continued to be executed and the innovation trends increased efficiency, greater comfort and improved safety and, from a higher perspective, autonomous driving technology, which is leading to increasing electrification of vehicles, have proved to be robust. They form the basis for future growth. SFS's competitive position remains unchanged.

With the acquisition of Truelove & Maclean (T&M) in spring, SFS continued to complement its existing development and production platform in North America with the addition of the manufacturing process of deep drawing. Despite the difficult market environment due to the COVID-19 pandemic, T&M achieved solid profitability. T&M's integration into the global production platform and the SFS family is proceeding according to plan and initial new orders from customers in North America were already won.

Outlook 2021

In 2021, the course of business will remain subject to considerable uncertainty, with gradual improvements in parallel to the COVID-19 pandemic subsiding. After a subdued development in the first half of the year, the Automotive division expects demand to improve during the course of the year. Thanks to its current project pipeline, the division is confident to continue to outgrow the market.

Electronics division

Affected by continued strong demand

Due to its presence in China and other Asian countries, and the decision by Chinese officials to keep factories closed after the celebrations of the Chinese New Year, the Electronics division was the first division at SFS to be severely affected by the pandemic. When factories were allowed to reopen, the organization profited from its ability for fast and efficient ramp-ups and was quickly able to restore its full supply capability. Due to the rapid ramp-up and the good customer demand for lifestyle electronics, smartphones and accessories, the impact of the lost production time was quickly offset. Despite the operating restrictions, the division achieved organic growth in the first quarter.

The division managed to stay on a growth track throughout the period under review. In the second half of the year, it once again benefited from successful product launches by its key customers in the product categories that had already served as growth drivers during the first half of the year. In these product ramp-ups, too, the division demonstrated its strength and reliability and benefited from temporarily higher allocations. It also profited from expanded product penetration, which resulted in a higher share of wallet. Thanks to its high level of expertise in cold forming and CNC machining, the Electronics division, which markets its products under the Unisteel brand, has established a strong position



New production building

- To realize projects in the field of electric braking systems
- Investment volume CHF 25–30 million
- Creates around 100 new jobs at the site in Heerbrugg (Switzerland)
- 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 mid-2022

in particular in the accessories segment (power adapters, earbuds, smart watches).

Due to technological developments, sales of components for hard disk drives continued to decline as expected. The impact of the negative trend was reduced by business with components for High Capacity Enterprise Drives. These products are used in data centres and thus benefit greatly from the trend toward cloud computing and the growth of streaming services. Due to the more demanding requirements and product design, the value take of these applications is higher than that of other HDD applications, which partially compensates for the overall decline in the HDD market. In the medium term, the freed-up production capacity at the factory for HDD components in Malaysia as the market continues to shrink will be used by other business areas; for example, components for medical device customers in the region (see text box on medical device strategy, p. 23) or customer projects moving from China to countries in Southeast Asia as a result of the simmering US-China trade conflict. Thanks to its global

production platform (with a site in India), SFS is in a good position to meet the needs of those customers that are shifting production out of China.

The site in Nantong (China) performed well in the reporting year and a high capacity utilization was achieved, meeting expectations for the new location. The site is of high importance for the Electronics division and for the business activities of other divisions, in particular the Automotive division.

Outlook 2021

Amid the economic uncertainties, the expected decline in the HDD business and a strong base effect in the second half of the year, the Electronics division expects a flat development in 2021.

Industrial division

Slow recovery in the second half

The Industrial division focuses on various niche markets. These were affected to differing degrees by the weak demand caused by COVID-19. After the sharp decline in demand in some areas during the second quarter, the situation in several markets stabilised from the middle of the year. The strong recovery observed in the automotive-related businesses areas was, however, not seen in most of the segments addressed by the division. Therefore, sales and operating results at the end of the year were only slightly better compared with the first half. Demand for plastic components for various industrial and medical applications remained relatively stable. In other industrial application areas, in particular in Aircraft, sales were sharply lower compared with the prior-year period. The future development in the Aircraft business is likely to remain challenging as projected demand for passenger air transportation has been revised sharply downwards and capacity has been reduced across the entire supply chain.

The expansion of the site in Hallau (micro-injection molding of components for applications in the pharmaceutical and healthcare sectors) that began at the beginning of the year is progressing as scheduled in every respect. The planned completion and commissioning of the new site is scheduled to take place in summer 2021.

Under the new strategy for the Medical division and the resulting organisational adjustments, the Micro Plastics business unit (micro-injection molding of components for applications in the pharmaceutical and healthcare sectors, produced in Hallau, Switzerland), parts of the Industrial Plastics business unit (injection moulding of components for applications in the dental sector, produced in Altstätten, Switzerland) and the Medical Components business unit (primarily titanium orthopaedic screws, produced in Heerbrugg, Switzerland) will gradually be aligned under the Tegra Medical brand.

Outlook 2021

The course of business will remain subject to considerable uncertainty in 2021, with gradual improvements in parallel to the COVID-19 pandemic subsiding. The Industrial division expects demand to improve during the course of the year, after a subdued development in the first half. Thanks to its current project pipeline, the division has confidence in its development, although demand in the aircraft industry is expected to remain weak.



The new site in Nantong (China) has proved its worth and the anticipated efficiency gains have been realized.

Medical division

Growth track continued

The negative consequences of the COVID-19 pandemic were less pronounced and of shorter duration for the Medical division compared with the EC segment's other application areas. The decline in demand was largely attributable to the postponement of elective procedures, as seen in many countries as a direct consequence of the pandemic. Due to its product mix, the production site in Hernando (US) was affected the most. The impact of the reduced demand was more than offset by the general growth trend in this market and the ramp-up of new projects. The positive development extended across the different application areas.

Tegra Medical's headquarters in Franklin (US) has reached the limits of its capacity due to the growth over the past several years. To ensure the division's long-term development at the strategically important hub for the life sciences and medical device industries in Boston, the division purchased a large property and building in the immediate vicinity of its current site. The expansion project proceeded as planned and the first production units were moved to the new location during the period under review.

Outlook 2021

The Medical division expects a continuation of the positive development in the year 2021. The implementation of the medical device strategy and the build up of the global manufacturing platform will be a key priority.



Site expansion in Hallau (Switzerland)

“Medical device strategy”

SFS is expanding its successful strategy of leveraging a global production platform to its medical devices business. By making use of additional sites within SFS Group's global production platform, customers across North America, Europe and Asia will be served locally under the Tegra Medical brand. The company uses local site expansions in Hallau (Switzerland) and in Franklin (US) as a basis for expansion. As part of the restructuring and focused alignment of the Medical division, Walter Kobler, a long-standing member of the Group Executive Board of SFS Group and Head of the Industrial division, has additionally assumed management responsibility for the Medical division since 1 January 2021.

Segment report – Fastening Systems

Performance improved

Despite the negative effects the COVID-19 pandemic had on demand, the Fastening Systems segment increased its profitability. This achievement reflects the segment's continuous efforts to improve efficiency over the past several years.

Divisions show differing developments

Business activity in the Fastening Systems (FS) segment was marked by the effects of the COVID-19 pandemic. The two divisions in this segment were affected to differing degrees. The protective measures implemented in response to COVID-19 were less restrictive in the construction industry, on which the Construction division is focused. This was reflected in a significantly smaller decline in sales compared with, for example, the automotive-related areas of the Riveting division. Demand in the construction industry recovered during the second half of the year, limiting the impact on sales versus the previous year period. Thanks to the positive consolidation effects in the Construction division arising from the acquisitions of Triangle Fasteners Corporation Inc. (TFC) and MBE Moderne Befestigungselemente GmbH (MBE), the division was able to report positive sales growth for the year.

Due to its focus on applications in the industrial and automotive sectors, the Riveting division was affected much more and for much longer by the disruptions caused by the COVID-19 pandemic. Demand plummeted in the first half of the year, particularly in the second quarter. On the other hand, the division experienced a stronger recovery in the fourth quarter with sales above the prior-year levels in some areas and months.

Sales in the FS segment for the period under review amounted to CHF 489.7 million, which corresponds to a decline of -1.7% compared with 2019. Positive consolidation effects contributed 6.0% to the reported sales figure, while negative currency effects reduced reported sales by -5.3%.

Improved performance in a difficult environment achieved

The in some areas tremendous turmoil that characterized the course of business during the period under review was

Key figures Fastening Systems

in CHF million

	2020	+/- PY	2019	2018
Third party sales	489.7	-1.7%	498.3	437.1
Sales growth comparable		-2.4%		
Net sales	500.7	-2.1%	511.5	452.4
EBITDA	78.6	16.4%	67.5	63.2
As a % of net sales	15.7		13.2	14.0
Operating profit (EBIT)	59.7	26.7%	47.1	44.2
As a % of net sales	11.9		9.2	9.8
Operating profit (EBIT) adjusted ¹	57.6	22.3%	47.1	44.2
As a % of net sales	11.5		9.2	9.8
Average capital employed	270.9	-8.9%	297.4	273.6
Investments	10.9	-37.4%	17.4	16.5
Employees (FTE)	2,438	0.4%	2,429	2,267
ROCE (%) ²	21.3		15.8	16.1

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



The Construction division benefited from the good demand of the construction industry.

very challenging. The impact of weaker demand on operating results in the first half of the year was offset by temporary cuts in capacity and strict cost management, and in the Riveting division by the structural adjustments already implemented in 2019. In the second half of the year, the segment benefited from improved capacity utilization, continued strict cost management and the considerable efforts made in previous years to increase efficiency. Thanks to this positive development, an EBIT margin of 11.9% was achieved for the full year 2020 (previous year: 9.2%). Both divisions contributed to this remarkable improvement in the face of the challenging economic environment and exceeded the targeted EBIT margin of 10%.

Construction division

Benefited from stable demand

After a good first quarter with moderate organic growth, the division, which serves customers in the construction industry in Europe and North America, was faced with a decline in demand in the second quarter due to the outbreak of the COVID-19 pandemic. Demand from large system providers and distributors was particularly weak. Conversely, sales to installers showed continued good demand, due to the fact that in many countries work at ongoing construction projects continued or was only briefly interrupted.

Production and sales capacity was temporarily adjusted to lessen the impact on operating results. Structural measures were not taken. Similar to other divisions, demand began to pick up during the summer. Sales for the full year matched the prior-year level on a like-for-like basis. Reported sales were supported by positive consolidation effects arising from the acquisitions of TFC (effective 1 April 2019) and MBE (effective 1 January 2020).

The division benefited from its focus on application areas with underlying robust innovation and growth trends in the construction industry. These range from fastening solutions supporting efficient installation processes and products enabling safe work conditions to fastening solutions for high quality and energy-efficient façade systems. By choosing SFS products, customers are able to generate substantial contributions in the areas of environmental protection and employee health and safety. Growth in these application areas, some of which go hand in hand with a significant increase in the value take of the SFS solutions, supported the solid development.

Outlook 2021

In 2021, the course of business will remain subject to considerable uncertainty, with gradual improvements in parallel to the COVID-19 pandemic subsiding. Based on the current situation, the Construction division expects a flat development in 2021.

Riveting division

Improved performance on the basis of extensive measures

The Riveting division's products are sold primarily to customers in the industrial and automotive sectors. Demand from key customer segments had already weakened in 2019 and the first global wave of the COVID-19 pandemic led to a further decline in demand. Uncertainty regarding the final outcome of Brexit created additional headwinds for the division. These factors led to a significant decline in sales in the first half of 2020. Temporary adjustments in production capacity helped to cushion the negative impact on profitability. The positive effect of the structural measures initiated during the previous financial year was delayed by the pandemic, but became increasingly visible during the second half of the year. The division benefited from a general recovery in demand in the fourth quarter, which was particularly noticeable in the automotive-related areas. Stockpiling may have had a positive effect on demand; for example, as companies built up inventories ahead of Brexit.

The individual product segments of the division showed highly divergent developments. Sales of setting tools were pleasingly strong throughout the year. The division sees further substantial growth potential in this area with the launch of innovative and improved products (see Cordless Alliance System on the right).

Outlook 2021

In 2021, the course of business will remain subject to considerable uncertainty, with gradual improvements in parallel to the COVID-19 pandemic subsiding. The Riveting division expects markets to continue to recover, leading to a return to organic growth.



Cordless Alliance System (CAS) new at GESIPA®

GESIPA®, the specialist for blind rivet and blind rivet nut technology, is now one of the participating manufacturers of the Cordless Alliance System (CAS). The cordless setting tools of the GESIPA "Bird Pro" product line will gradually be converted to the battery technology of the manufacturer-independent battery system initiated by Metabo from spring 2021. The advantages at a glance:

- Flexibility and cost advantages thanks to manufacturer-independent battery systems
- Future-fit battery technology
- Powerful CAS battery packs based on Li-Ion or LiHD technology

Segment report – Distribution & Logistics

Stable development

Stable demand in the construction sector and multi-channel activities helped to mitigate the effects of the COVID-19 pandemic in the Distribution & Logistics segment. Profitability was increased amid a difficult environment.

Segment supported by good demand in the construction industry

The Distribution & Logistics (D&L) segment does business primarily with construction and industrial manufacturing customers in Switzerland. With its comprehensive portfolio of hardware tools, fasteners, building materials and architectural hardware, the segment was also affected by the COVID-19 pandemic. However, its well-balanced positioning in terms of products and sales channels helped to lessen the impact of the pandemic on its business operations. Strong demand, particularly in the areas of building materials and personal protective equipment, compensated for the weaker development with industrial manufacturing customers.

The segment generated sales of CHF 316.9 million in the period under review, which represents a slight decrease of –2.8% compared with the prior year. Currency translation accounted for –0.6% of the decline in sales.

Diversified sales channels confirmed to be a strategic success factor

The segment's multi-channel sales approach has become an important strategic pillar. Sales with speciality retailers, which are supplied by Allchemet, showed positive growth year-on-year. During the lockdown, sales through the e-shop proved to be an important alternative to the segment's other sales channels. Conversely, the operations of the 29 hardware stores were partially restricted due to the COVID-19 measures and the direct sales force was temporarily unable to make any, or only very few, customer visits. The importance of a broad market coverage through a multi-channel sales approach was clearly confirmed during the year under review.

Developing and deepening partnerships with key customers will remain vital in order to continue with sustainable growth. The segment is therefore aiming for selective growth outside Switzerland by supplying C-parts to internationally active, established D&L customers for example in countries where

Key figures Distribution & Logistics in CHF million

	2020	+/- PY	2019	2018
Third party sales	316.9	–2.8%	326.0	334.5
Sales growth comparable		–2.2%		
Net sales	321.6	–2.8%	330.9	339.7
EBITDA	34.1	–26.6%	46.5	31.7
As a % of net sales	10.6		14.1	9.3
Operating profit (EBIT)	28.7	–29.3%	40.5	25.8
As a % of net sales	8.9		12.3	7.6
Operating profit (EBIT) adjusted ¹	28.7	9.4%	26.2	25.8
As a % of net sales	8.9		7.9	7.6
Average capital employed	126.9	–4.4%	132.8	142.2
Investments	4.1	73.7%	2.3	6.2
Employees (FTE)	598	–3.9%	622	621
ROCE (%) ²	22.6		19.7	18.1

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



The solid development of the segment was supported by the good demand in the areas of building materials and personal protective equipment.

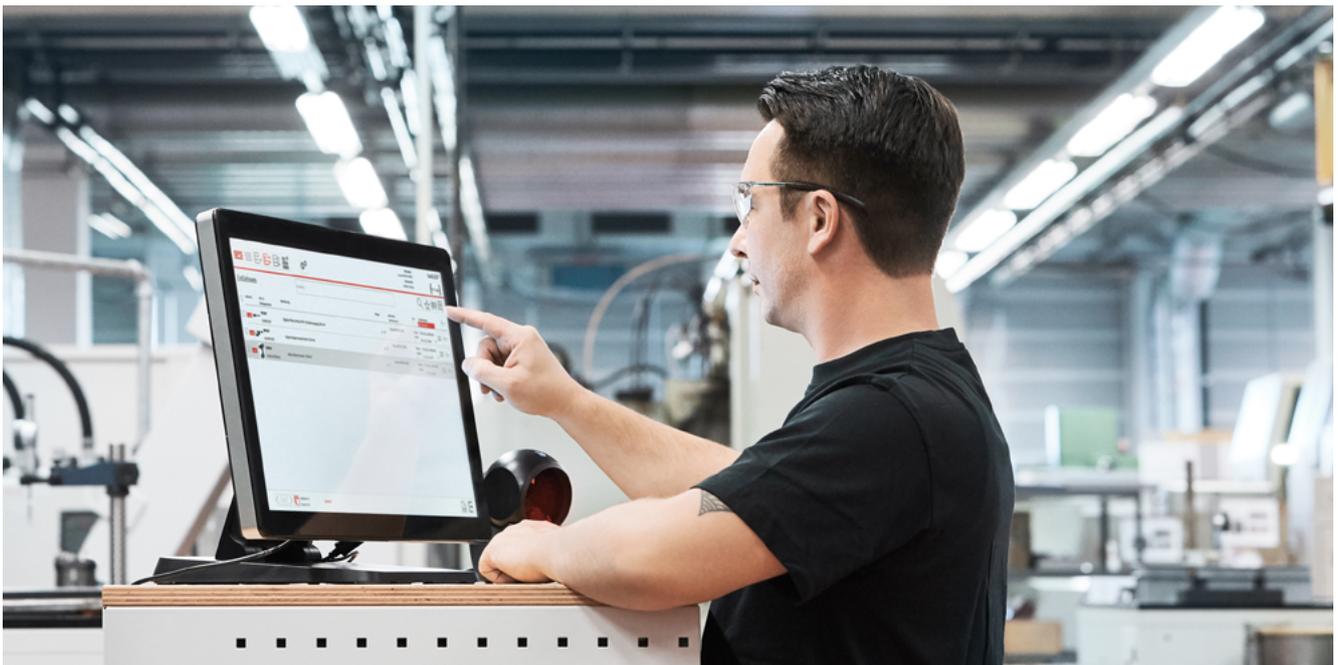
SFS already has an established presence. Together with its logistics solutions, the segment creates significant added value for its customers through harmonization of ordering processes, inventory management and a standardized C-part portfolio offering.

Profitability increased

Overall stable demand, swift action taken to temporarily adjust capacity, good results from the e-shop and strict cost management led to a positive effect on profitability. EBIT for the period under review showed a pleasing increase of 9.4% compared with the previous year, to CHF 28.7 million.

Outlook 2021

The Distribution & Logistics segment expects demand after a subdued development in the first half of the year to continuously improve during the course of the year.

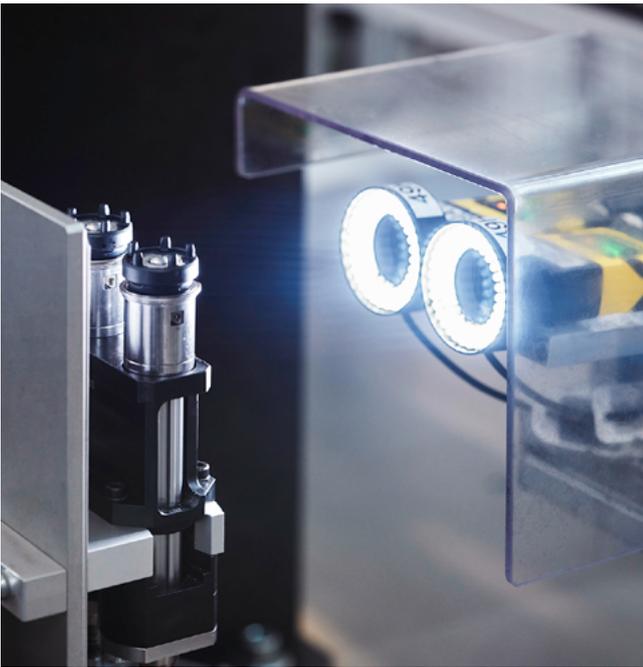


Although the D&L segment focuses mainly on Switzerland, international customers have been showing an interest in the company's innovative logistics solutions and are increasingly implementing them at their global production sites, due to their scalability.

Success stories

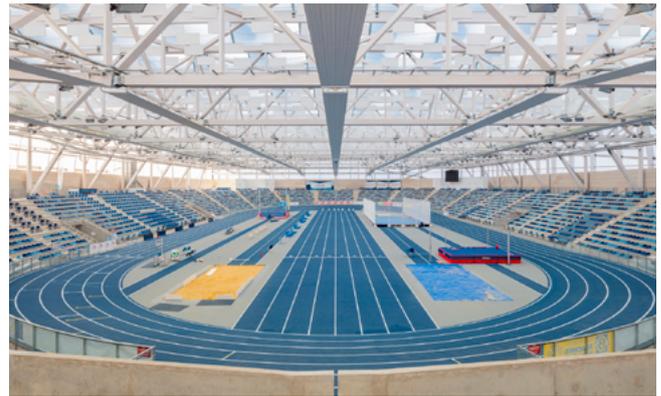
Inventing success together

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.



Electrical solutions improve safety →

The future of mobility integrates increasingly electrical and electronic solutions – not just for a vehicle’s power train, but for all systems in a vehicle that can be electrified. In working in close partnership with customers, SFS has been part of this trend for many years now and benefits, besides from its extensive technology portfolio and design expertise, from a broad application know-how. In this way, SFS has repeatedly succeeded in implementing new requirements in future-oriented products that increase the functional scope and safety.



An indoor athletics facility with exceptional roofing →

“Miramas Métropole” Stadium in southern France is impressive not just by its size but due to its unique infrastructure. The project managers entrusted construction of the building frame and tensile fabric membrane that covers the building to SMC2, the specialist in textile architecture and timber construction projects. To ensure the fastening system matched the specifications perfectly, SMC2 contacted SFS early at the beginning of the project.



Established global medical device production platform →

The medical device industry is a fast-growing global business. Trends including general population growth, an ageing baby boomer generation and an increasing incidence of chronic diseases have boosted demand for healthcare products and services. This leads to a sustained growth for the medical device sector. The market growth in combination with cost-cutting pressure and high quality requirements, and the need for partners with global reach, were the forces behind the decision to revise SFS's medical device strategy. Part of this, SFS is expanding its global production capacity in the medical device business by investing in major plant expansions in the US and Switzerland, in order to serve customers in North America and in the future in Europe and Asia also locally under the Tegra Medical brand.

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**

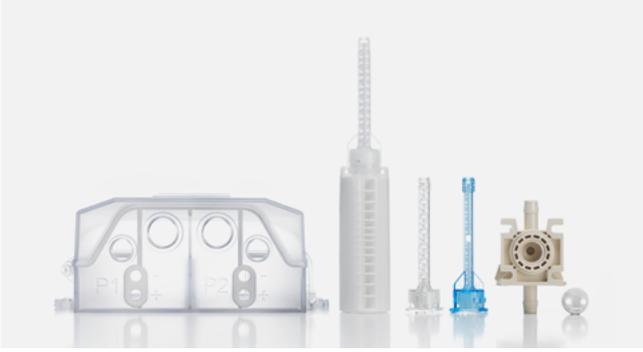
Deep drawing is the ideal complement to cold forming technology. This technique is used to produce smallest and thin-walled parts precisely and economically.

**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.



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.



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.



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 2020, 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

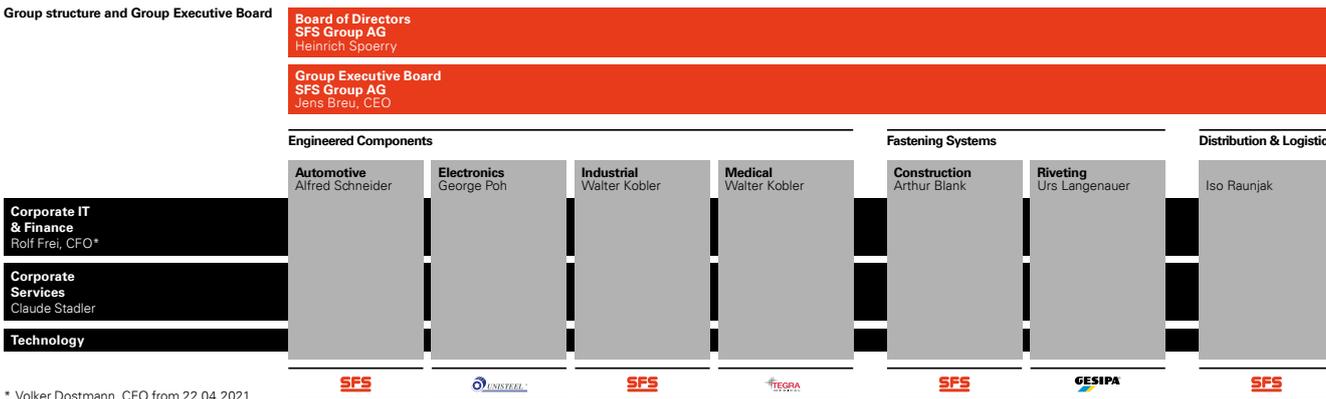
1.1 Group structure

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 3,937.5 million (PY 3,491.3) as at 31 December 2020.

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

	31.12.2020	31.12.2019
Founding families	54.9%	54.8%

Both families have defined their principles of cooperation and partnership in a pool agreement. It is their intention to retain a majority of more than 50% of the capital and the voting rights in the long run. They agree with each other on important decisions and always put the successful development of the SFS Group before the particular interests of the families.

The Board of Directors is not aware of any other shareholders listed in the share register or shareholder groups holding more than 3% of the share capital or voting rights other than UBS Fund Management (Switzerland) AG (quota of shares 3.04%) (PY none).

SFS Group AG does not hold any treasury shares. Disclosure notifications pertaining to shareholdings are published on the electronic publication platform of SIX Swiss Exchange AG. The notifications can be assessed via the following web link to the database search page of the disclosure office: [Significant Shareholders](#) →

1.3 Cross-shareholdings

No cross-shareholdings of capital or voting rights exist with any other company.

2 Capital structure

2.1 Capital

The share capital of SFS Group AG amounts to CHF 3,750,000 and is divided into 37,500,000 registered shares each with a par value of CHF 0.10.

2.2 Authorized and conditional capital

SFS Group AG does not have any conditional or authorized capital.

2.3 Changes in capital

There were no changes in capital over the last three reporting years.

2.4 Shares and participation certificates

The share capital of SFS Group AG is divided into 37,500,000 registered shares with a nominal value of CHF 0.10 each. The share capital is fully paid in and entitled to dividend. Each share represents one voting right at the Annual General Meeting. SFS Group AG has issued no participation certificates.

2.5 Dividend right certificates

SFS Group AG has issued no dividend right certificates.

2.6 Limitations on transferability and nominee listings

Persons acquiring registered shares of SFS Group AG are entered in the share register without limitation as shareholders with voting rights, provided they expressly declare themselves to have acquired the said shares in their own name and for their own account and comply with the disclosure requirement stipulated by the Stock Exchange Act.

Persons not expressly declaring themselves to be holders of shares for their own account in their application for entry in the share register or on request by the Company (nominees) are entered in the share register with voting rights without further inquiry up to a maximum of 2.0% of the share capital outstanding at that time.

Above this limit, registered shares held by nominees are entered in the share register with voting rights only if the nominee declares the names, addresses and shareholdings of the persons for whose account they are holding 0.3% or more of the share capital outstanding at that time, and provided that they comply with the disclosure requirement stipulated by the Stock Exchange Act. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements.

The above-mentioned limit of registration also applies to the subscription for or acquisition of registered shares by exercise of preemptive, option or convertible rights arising from shares or any other securities issued by the Company or third parties.

Legal entities or partnerships or other associations or joint ownership arrangements linked through capital ownership or voting rights, through common management or in like manner, and individuals, legal entities and partnerships (in particular syndicates) that act in concert with the intent to avoid the entry restriction are considered as one shareholder or nominee.

The Company may in special cases approve exceptions to the above restrictions. After due consultation with the persons concerned, the Company is further authorized to delete entries in the share register as shareholder with voting rights with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information requested. The person concerned must be informed of the deletion. In the reporting year, no exceptions were granted and no deletions were executed (PY none).

Cancellation or easing of the restrictions on the transferability of registered shares requires a resolution of the General Meeting passed by at least two-thirds of the shares represented and an absolute majority of the par value of the shares represented.

2.7 Convertible bonds and options

No convertible bonds are outstanding and SFS Group has issued no options (including employee options).

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors of SFS Group AG consists of a minimum of five and a maximum of nine members. At the end of the reporting year, it consisted of six members (PY six).

Over the last three years, the external members of the Board of Directors have not had any material business relationship with SFS Group with the exemption of the below mentioned transactions.

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: Nick Huber, Urs Kaufmann, Heinrich Spoerry, Thomas Oetterli, Bettina Stadler, Jörg Walther

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 since 2010
- Bucher Industries AG, member of the BoD since 2006
- Frutiger AG, Chairman of the BoD 2016–2020

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
- Gurit Holding AG, member of the BoD 2006–2021
- 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 since 2016
- Schindler Group, Head of China 2013–2016
- Schindler Group, Head of Europe North & East 2010–2013
- Schindler Group, member of the Executive Management Committee since 2010
- Schindler Group, Head of Switzerland 2006–2009
- Schindler Group since 1994

Qualifications

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

Bettina Stadler

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

Other activities

- 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 Lüdingen Altstätten, member of the BoD 2002–2006

Qualifications

- Swiss Board School, IMP-HSG, University of St. Gallen 2015
- Degree in business administration HF 1995

Jörg Walther

- Non-executive and independent member since 2014
- Swiss citizen, born 1961

Other activities

- Partner at Schärer Attorneys at law since 2010
- Swiss Steel Holding AG, member of the BoD since 2020
- 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 2014, member of the Audit Committee (member since 2016)
- 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
- 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

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 2020 a total of eight (PY eight) ordinary and one (PY none) extraordinary Board meetings took place in the reporting year. Three meetings lasted less than two hours, five 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

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 three 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 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 three), 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 mid-term planning for the following three to five years. Usually, the Board

of Directors deals with strategic questions about the group, the segments and the divisions in a 1.5 to 2 day workshop.

The Chief Executive Officer, the Group Executive Board and the Chairman of the Board of Directors are provided with condensed financial reporting about the business development on a monthly basis. Substantial discrepancies and developments are brought to the attention of the whole Board of Directors immediately in written form.

The internal audit is executed by the Corporate Controlling team and in cooperation with an external specialized partner. Although the Head of Internal Audit is subordinate to the Chief Financial Officer, he reports directly to the Audit Committee in regard to these activities. The internal audit of SFS Group is aligned with the size of the group. Based on financial risk considerations approved by the Audit Committee, the group companies are audited every two to four years depending on the risk assessment. The written internal audit report is discussed with the management of the companies concerned and the most significant measures are agreed. Material findings of the internal audit and the audit reports are presented to and discussed in the Audit Committee. Due to the COVID-19 travel restriction no internal audits took place during the reporting period (PY five).

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 cyber attacks
- Investment risks in large-scale projects
- Supply chain risks (delivery constraints) caused by pandemia
- 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, the Group Executive Board consisted of ten (PY ten) members:

As per August 1st 2020 J. Mark King stepped down as Head of Division Medical. His duties were taken care of on an ad-interim basis by Jens Breu, CEO. Starting January 1st, 2021 Walter Kobler, Head of Division Industrial assumes the responsibility for the division Medical in addition to his current role.



Volker Dostmann

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 will take on the role as CFO by the general assembly April 22nd 2021.



Group Executive Board on 31.12.2020, from left: Iso Raunjak, George Poh, Urs Langenauer, Rolf Frei, Arthur Blank, Jens Breu, Walter Kobler, Claude Stadler, Alfred Schneider, (without Volker Dostmann)

Jens Breu

- Chief Executive Officer since 2016
- Head of Segment Engineered Components since 2014
- Head of Segment Fastening Systems since 2014
- With SFS since 1995
- Swiss citizen, born 1972

Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Chief Operating Officer from 2014–2015
- Head of Division Industrial 2012–2013
- Technical Director SFS intec 2008–2013
- Vice President of manufacturing SFS intec Inc. (US) 2000–2008
- Tool engineer 1995–2000

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 Assembly (AGM) 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 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 2003–2021
- 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

J. Mark King

- Head of Division Medical 2016–July 2020
- With SFS (Tegra Medical) since 2012
- US citizen, born 1965

Functions within SFS Group

- Member of the BoD of several SFS Group companies 2016–2020
- President and Chief Executive Officer of Tegra Medical 2014–2016
- Chief Operating Officer of Tegra Medical 2012–2014

Other functions

- SafeCirc Clinic, New England, Member of the BoD since 2019
- Clinical Innovations, President and Chief Executive Officer 2009–2012
- Cardinal Health (formerly Baxter Healthcare/Allegiance Healthcare) 1994–2003
- Johnson & Johnson Healthcare 1989–1994

Qualifications

- Executive Education, University of Wisconsin and Duke University 2000
- Bachelor of Science, Purdue University School of Technology 1987

Walter Kobler

- Head of Division Industrial since 2014
- 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

- 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 23 April 2020 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, Thomas Illi, took office at the Annual General Meeting of 2016.

8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.6 million (PY CHF 0.8 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 no invoices for audit-related services in the reporting period (PY CHF 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 and affiliated companies.

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 three).

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](#) →

[Company news and ad hoc announcements](#) →

[Financial publications](#) →

Corporate Communications/Investor Relations

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10 Non-applicability/negative statement

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

Compensation report

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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 if and when appropriate.

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 compensation system of the GEB is based on the MbO (Management by Objectives) process of the SFS Group. A success and performance-oriented target compensation is agreed in advance for each member of the GEB which according to the Articles of Association may not exceed an amount equal to 100% of the base salary. For the Chief Executive Officer (CEO), the variable target cash compensation is limited to 40% to 60%, and for the other GEB members to 20% to 40% of the base salary. In the event none of the agreed targets is met, no variable cash compensation will be paid out. Where the agreed targets are significantly outperformed, a cap for this salary component is set at 150% of the agreed variable cash amount.

The amount of variable cash compensation is governed by three criteria:

a) The extent to which the financial targets have been achieved

The financial targets are set in advance for a one-year period of service. For the 2020 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 will be 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 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.

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 possible 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. There was no stock ownership plan in 2020.

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 2020

The Board of Directors voluntarily waived a part of the base salary for a temporary period out of solidarity with the employees during the pandemic-related measures. This is the reason why the base salary is lower compared to last year.

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	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 contribution taken over by the employer to social security schemes.

4.2 Compensation of the Board of Directors 2019

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	213,000	1,500	132,225	43,577	388,802
Nick Huber	80,000	500	44,075	18,358	142,433
Urs Kaufmann	80,000	500	44,075	18,358	142,433
Thomas Oetterli	80,000	500	44,075	18,373	142,448
Bettina Stadler	80,000	500	44,075	18,358	142,433
Jörg Walther	80,000	500	44,075	18,373	142,448
Total Board of Directors	613,000	4,000	352,600	135,397	1,100,997

¹ The exchange value of the SFS shares at the time of the allocation of the number of shares on 7 May 2019 was CHF 88.15 per share.

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

4.3 Compensation of the Group Executive Board 2020

The Group Executive Board voluntarily waived a part of the base salary for a temporary period out of solidarity with the employees during the pandemic-related measures.

The achievement of targets relevant for the variable cash compensation of the Group Executive Board was between 62% and 111%.

For determining the share factor the Board of Directors evaluated the market environment, the execution of Company strategy and the Company's financial situation (detailed explanation in chapter 2.2 of this Compensation Report).

Due to the pandemic situation the market environment depending on the respective division had been rated as difficult to very difficult. The execution of the company strategy is on track in all areas and the financial situation of the company as well as the future perspective are assessed as positive. Based on this assessment the individual share factors were determined between 1.0 and 1.5

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).

4.4 Compensation of the Group Executive Board 2019

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	559,000	208,000	2,500	233,271	120,805	1,121,076
Other members of GEB ³	2,928,820	827,143	6,214	592,289	508,409	4,856,661
Total GEB	3,487,820	1,035,143	8,714	825,560	629,214	5,977,737

¹ The exchange value of the shares at the time of the allocation at the meeting of the Board of Directors on 25 February 2020 was CHF 84.85 per share. Employee contributions to social security had been added to compensation "gross" numbers. Of the approved 8,714 shares 8,557 shares had been effectively allocated.

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 31.12.2020	Number of shares 31.12.2019
Heinrich Spoerry, Chairman, external, independent member	201,260	199,460
Nick Huber, external member	114,652	114,152
Urs Kaufmann, external, independent member	10,260	9,760
Thomas Oetterli, external, independent member	8,260	7,760
Bettina Stadler, external member	392,400	391,900
Jörg Walther, external, independent member	5,140	4,640
Total Board of Directors	731,972	727,672

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 31.12.2020	Number of shares 31.12.2019
Arthur Blank, Head of Division Construction	13,705	15,580
Jens Breu, Chief Executive Officer	25,810	15,310
Volker Dostmann, since 1 November 2020, CFO as per AGM 2021	–	n/a
Rolf Frei, Chief Financial Officer	50,610	49,710
J. Mark King, Head of Division Medical until 1 August 2020	n/a	1,400
Walter Kobler, Head of Divisions Industrial, Head of Division Medical since 1 January 2021	21,625	22,000
Urs Langenauer, Head of Division Riveting	3,256	3,100
George Poh, Head of Division Electronics	46,724	55,661
Iso Raunjak, Head of Segment Distribution & Logistics since 1 January 2020	60	n/a
Alfred Schneider, Head of Division Automotive	17,985	17,360
Claude Stadler, Head of Corporate Services	391,580	391,080
Josef Zünd, Head of Segment Distribution & Logistics until 31 December 2019	n/a	7,391
Total Group Executive Board	571,355	578,592

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 2020.

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 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Thomas Illi
Audit expert
Auditor in charge



Gianluca Galasso
Audit expert

St. Gallen, 4 March 2021

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Consolidated income statement

In CHF million	Notes	2020	%	2019	%	+/-%
Net sales	2.2	1,707.1	100.0%	1,782.1	100.0%	-4.2%
Other operating income	2.3	17.4		32.6		
Change in work in progress and finished goods		-9.9		-3.7		
Material expenses		-636.3		-641.2		
Contribution margin		1,078.3	63.2%	1,169.8	65.6%	-7.8%
Personnel expenses	2.4	-495.1		-550.6		
Other operating expenses	2.5	-255.6		-287.5		
Depreciation property, plant and equipment	3.4	-96.5		-91.9		
Amortization of intangible assets	3.5	-3.7		-3.5		
Total operating expenses		-850.9	-49.9%	-933.5	-52.3%	-8.8%
Operating profit (EBIT)		227.4	13.3%	236.3	13.3%	-3.8%
Financial result	2.6	-7.6		-6.5		
Share of profit/(loss) from associates/joint ventures		0.5		-0.1		
Earnings before tax		220.3	12.9%	229.7	12.9%	-4.1%
Income taxes	2.7	-35.5		-23.2		
Net income		184.8	10.8%	206.5	11.6%	-10.5%
Attributable to non-controlling interests		0.9		1.2		
Attributable to owners of SFS Group AG		183.9		205.3		
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	4.6	4.90		5.47		-10.4%

The notes on pages 63 to 92 are an integral part of these consolidated financial statements.

Consolidated balance sheet

Assets in CHF million	Notes	31.12.2020	%	31.12.2019	%	+/-%
Cash and cash equivalents	4.1	187.7		130.7		
Trade receivables	3.1	336.0		313.3		
Other current receivables	3.2	30.7		35.7		
Inventories	3.3	320.1		341.1		
Prepayments and accrued income		15.8		12.2		
Current assets		890.3	52.9%	833.0	50.8%	6.9%
Property, plant and equipment	3.4	701.6		710.0		
Intangible assets	3.5	16.7		13.6		
Financial assets	4.2	40.3		47.4		
Deferred tax assets	3.11	35.2		34.6		
Non-current assets		793.8	47.1%	805.6	49.2%	-1.5%
Assets		1,684.1	100.0%	1,638.6	100.0%	2.8%

Liabilities and equity in CHF million	Notes	31.12.2020	%	31.12.2019	%	+/-%
Trade payables	3.7	136.0		117.9		
Current borrowings	4.3	1.8		9.8		
Other current payables	3.8	54.1		54.6		
Accrued liabilities and deferred income		88.4		89.3		
Current liabilities		280.3	16.6%	271.6	16.6%	3.2%
Non-current borrowings	4.3	41.7		52.2		
Pension benefit obligations	3.9	10.1		6.0		
Non-current provisions	3.10	12.8		14.6		
Deferred tax liabilities	3.11	61.0		57.0		
Non-current liabilities		125.6	7.5%	129.8	7.9%	-3.2%
Liabilities		405.9	24.1%	401.4	24.5%	1.1%
Share capital		3.8		3.8		
Capital reserves		11.5		11.5		
Retained earnings		1,246.0		1,205.5		
Equity attributable to SFS	4.6	1,261.3	74.9%	1,220.8	74.5%	3.3%
Non-controlling interests		16.9		16.4		
Total equity		1,278.2	75.9%	1,237.2	75.5%	3.3%
Liabilities and equity		1,684.1	100.0%	1,638.6	100.0%	2.8%

The notes on pages 63 to 92 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In CHF million	Notes	Share capital	Capital reserves	Goodwill offset against equity	Cash flow hedging	Currency translation adjustments	Other retained earnings	Retained earnings	Equity attributable to SFS	Non-controlling interests	Total equity
Balance as at 1.1.2019		3.8	73.8	-912.8	1.2	-11.1	2,027.2	1,104.5	1,182.1	22.5	1,204.6
Changes of cash flow hedges		-	-	-	-0.5	-	-	-0.5	-0.5	-	-0.5
Acquisitions	5.1	-	-	-70.0	-	-	-	-70.0	-70.0	-	-70.0
Change of minorities	5.1	-	-	-1.9	-	-	3.5	1.6	1.6	-5.4	-3.8
Currency translation adjustments		-	-	-	-	-21.0	-	-21.0	-21.0	-0.3	-21.3
Net income		-	-	-	-	-	205.3	205.3	205.3	1.2	206.5
Dividend for 2018		-	-62.3	-	-	-	-12.7	-12.7	-75.0	-1.6	-76.6
Other changes		-	-	-	-	-	-1.7	-1.7	-1.7	-	-1.7
Balance as at 31.12.2019		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

The notes on pages 63 to 92 are an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

In CHF million	Notes	2020	2019	+/-%
Net income		184.8	206.5	
Income taxes		35.5	23.2	
Financial result		7.1	6.5	
Depreciation/amortization	3.4/3.5	100.2	95.4	
Interest paid	2.6	-1.9	-5.0	
Income tax paid		-31.8	-44.5	
Changes in provisions and allowances		8.9	-0.6	
Other non-cash expenses/income		-0.2	1.6	
Profit (-)/loss (+) from disposal of property, plant and equipment		-3.6	-15.6	
Cash flow before changes in net working capital		299.0	267.5	11.8%
Changes in trade receivables		-29.3	2.8	
Changes in other receivables and prepayments and accrued income		-1.7	-0.7	
Changes in inventories		12.3	7.3	
Changes in trade payables		21.0	-5.1	
Changes in other current liabilities, accrued liabilities and deferred income		-4.9	5.8	
Changes in net working capital		-2.6	10.1	
Cash flow from operating activities		296.4	277.6	6.8%
Purchases of property, plant and equipment	3.4	-98.4	-114.5	
Proceeds from sale of property, plant and equipment		6.6	21.7	
Purchases of intangible assets	3.5	-5.7	-2.2	
Acquisition of subsidiaries, net of cash acquired	5.1	-59.5	-95.4	
Changes in loans granted		8.2	0.7	
Investment in/dividends from associates/joint ventures		0.2	-2.5	
Proceeds from interest and securities		1.0	1.6	
Cash flow from investing activities		-147.6	-190.6	-22.6%
Proceeds/repayment from/of current borrowings		-7.8	-11.2	
Proceeds/repayment from/of non-current borrowings		-10.5	4.0	
Dividends to the shareholders		-67.5	-75.0	
Dividends to non-controlling interests		-	-1.6	
Cash flow from financing activities		-85.8	-83.8	
Translation adjustment on cash and cash equivalents		-6.0	-2.2	
Changes in cash and cash equivalents		57.0	1.0	
Cash and cash equivalents at beginning of period	4.1	130.7	129.7	
Cash and cash equivalents at end of period	4.1	187.7	130.7	

The notes on pages 63 to 92 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 arising from inventories supplied within the Group and disposal of assets are eliminated.

The acquisition method is used to account for business combinations. Under this method, the acquiree's net assets and liabilities are measured at their fair values using uniform Group accounting policies. Any excess of consideration transferred over the fair value of the net assets acquired is offset against equity. In case of disposal, acquired goodwill offset with equity at an earlier date is to be considered at original cost to determine the profit or loss recognized in the income statement.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Related entities are all entities over which the Group has significant influence, but no control. These are divided into joint ventures and associates. Joint control of joint ventures is established by contractual agreement. Strategic, financial and operating decisions require unanimous consent. Associates are those entities in which the Group exerts significant influence, but does not control the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, between 20% and 50% of the voting rights. SFS is entitled to its proportional share of the net assets. Goodwill (if any) is offset against equity.

Items included in the financial statements of each of the SFS Group's entities are measured using the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges.

The consolidated financial statements are presented in Swiss francs (CHF). For consolidation purposes, the results and financial positions of all Group entities whose functional currency differs from the presentation currency are translated into the presentation currency. Assets and liabilities are translated at the closing exchange rate at the date of that balance sheet. Income and expenses are translated at average exchange rates. All resulting conversion differences are recognized in equity.

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

1.3 Critical accounting estimates and judgments

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

The main estimates are in connection with the valuation of the inventory, the determination of useful lives of fixed assets, as well 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.

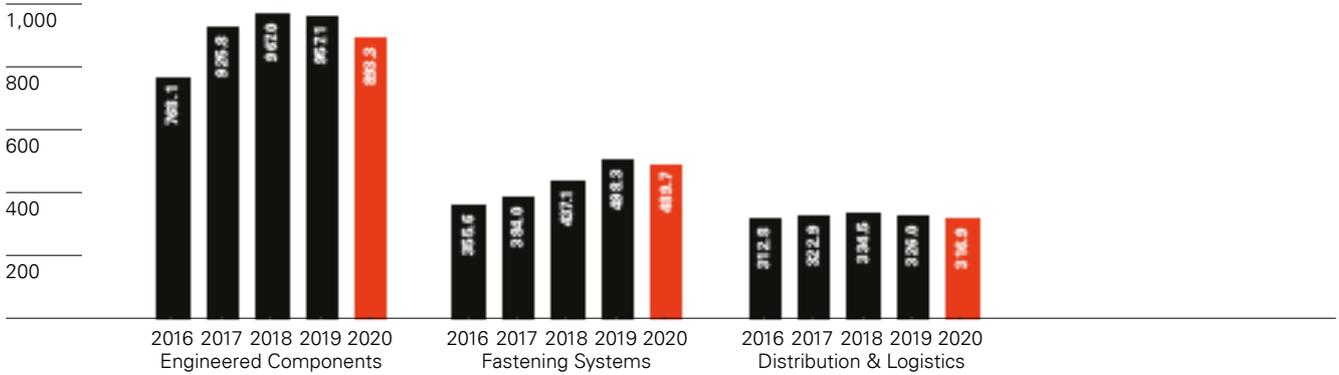
The financial performance of the segments is monitored based on EBIT as well as on operating profit before amortization and depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on internal group rates.

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

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

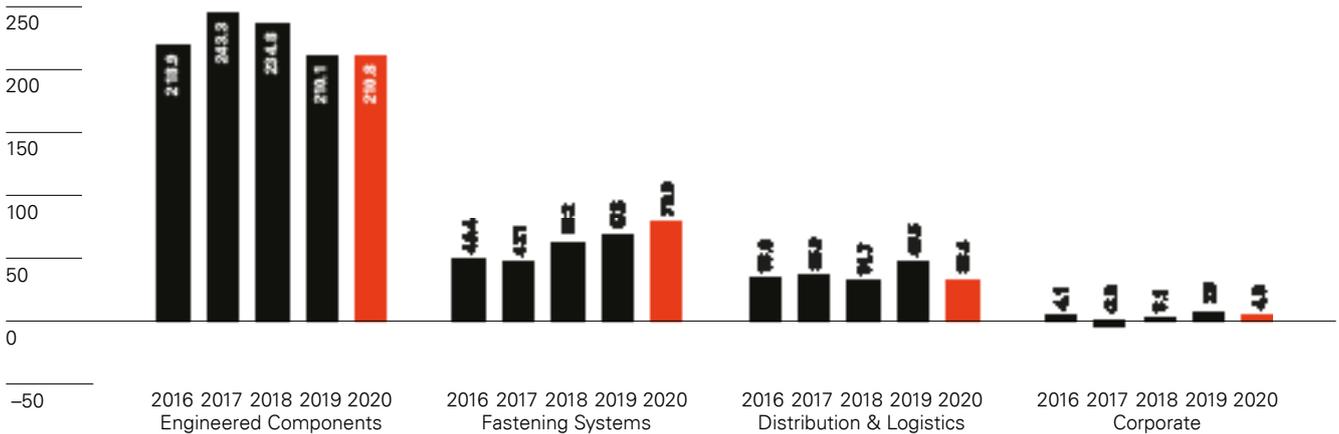
Third party sales

In CHF million



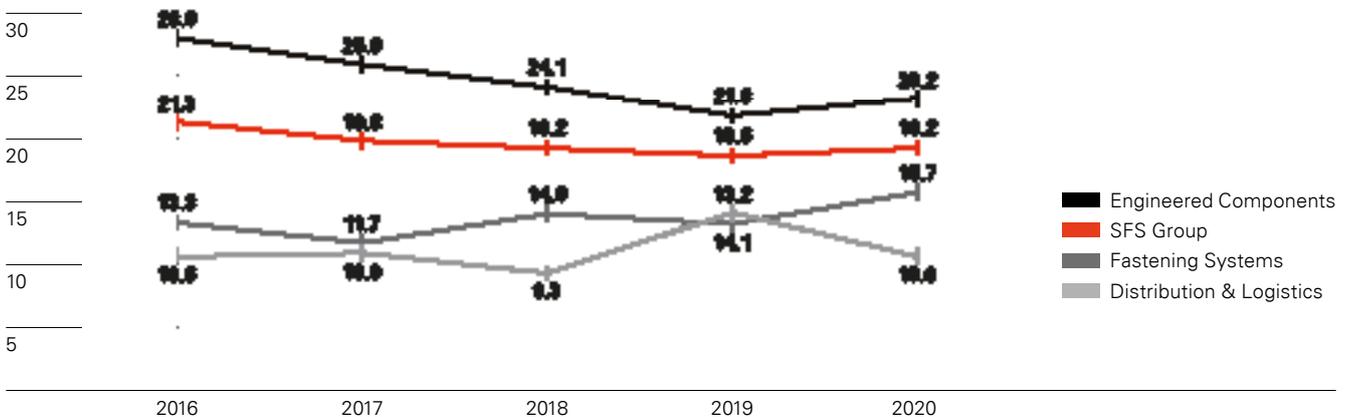
EBITDA

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 from the sale of real estate.

Distribution & Logistics: 2019 CHF 14.3 million, 2017 CHF 7.3 million and 2016 CHF 4.2 million book gains from the sale of real estate.

2020	Notes	Engineered Components	Fastening Systems	Distribution & Logistics	Corporate	Total SFS Group
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

2019

Third party sales	2.2	957.1	498.3	326.0	–	1,781.4
Increase to previous year in %		–1.0	14.0	–2.5	–	2.5
Net sales	2.2	964.2	511.5	330.9	–24.5	–1,782.1
EBITDA		210.1	67.5	46.5	7.6	331.7
In % of net sales		21.8	13.2	14.1		18.6
Operating profit (EBIT)		147.0	47.1	40.5	1.7	236.3
In % of net sales		15.2	9.2	12.3		13.3
Capital expenditure		94.1	17.4	2.3	2.9	116.7
Operating assets		893.2	360.7	154.7	51.2	1,459.8
Operating liabilities		187.8	72.3	32.0	47.3	339.4
Capital employed		705.4	288.4	122.7	3.9	1,120.4
of which net working capital		241.4	139.9	83.7	–25.1	439.9

During the reporting period one customer exceeded the reportable threshold of 10% of third party sales (PY none).

Sales by region	Notes	2020	%	2019	%
Switzerland		332.2	19.5	346.0	19.4
Germany		231.0	13.6	270.6	15.2
Other Europe		372.1	21.8	423.7	23.8
America		386.9	22.7	384.5	21.6
China		266.2	15.6	234.1	13.1
Other Asia		111.5	6.5	117.5	6.6
Africa, Australia		5.0	0.3	5.0	0.3
Third party sales	2.2	1,704.9	100.0	1,781.4	100.0
Not assigned items		2.2		0.7	
Total net sales	2.2	1,707.1		1,782.1	

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	2020	%	2019	%
Automotive		368.0	21.6	434.6	24.4
Construction		530.5	31.1	528.1	29.6
Electronics		356.6	20.9	334.1	18.8
Medical		131.1	7.7	132.8	7.5
Other industries		318.7	18.7	351.8	19.7
Third party sales	2.2	1,704.9	100.0	1,781.4	100.0
Not assigned items		2.2		0.7	
Total net sales	2.2	1,707.1		1,782.1	

Reconciliation of segments to income statement and balance sheet

Income statement	Notes	2020	2019
Operating profit (EBIT)		227.4	236.3
Financial result	2.6	-7.6	-6.5
Share of profit from associates/joint ventures		0.5	-0.1
Earnings before tax		220.3	229.7

Assets		2020	2019
Operating assets		1,456.0	1,459.9
+ Cash and cash equivalents	4.1	187.7	130.7
+ Derivative financial instruments	4.7	0.1	0.6
+ Financial assets	4.2	40.3	47.4
Assets		1,684.1	1,638.6

Liabilities and equity		2020	2019
Operating liabilities		362.4	339.4
+ Current borrowings	4.3	1.8	9.8
+ Long-term borrowings	4.3	41.7	52.2
Liabilities		405.9	401.4
Equity (Net assets)		1,278.2	1,237.2

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.

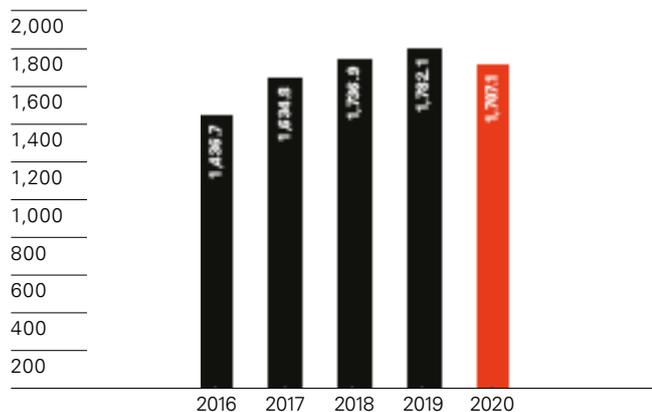
Technology ensures the transfer of know-how among the segments and production sites. Methods, processes and best practices are exchanged and enhanced. Standardized investment policies and engineering processes improve the efficiency of the SFS Group further.

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

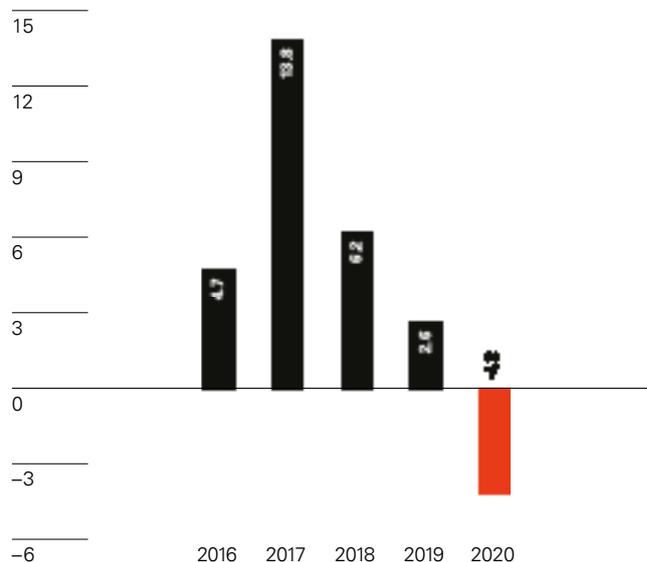
Net sales

in CHF million



Increase of net sales

in %



	2020	2019	+/- %
Third party sales	1,704.9	1,781.4	-4.3
Other items	2.2	0.7	
Net sales	1,707.1	1,782.1	-4.2

Third party sales decreased by 4.3% (PY increased by 2.5). The growth due to changes in the scope of consolidation amounts to 3.0% (PY 4.4). Based on a like-for-like view and ignoring foreign currency effects, sales decreased by 3.2% (PY 0.6). The currency translation effect amounts to -4.1% (PY -1.3).

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

	2020	2019
Revenue from services	6.9	8.1
Lease income	0.5	0.7
Own-built machinery and capitalized own work	5.7	7.4
Gain on disposals of assets	4.3	16.4
Total	17.4	32.6

In 2020, the SFS Group has started a project for the upgrade of the ERP system to SAP S/4HANA. The related own work is and will be capitalized in accordance with Swiss GAAP FER.

2.4 Personnel expenses

	2020	2019
Wages and salaries	392.9	431.6
Profit sharing	7.0	7.9
Social security	84.6	87.9
Other employment expenses	10.6	23.2
Total	495.1	550.6

In 2020, personnel expenses are reduced by contributions from government support programs and further internal measures summing up to CHF 39.0 million worldwide. In 2019, personnel expenses include one-off costs of CHF 11.6 million due to the move to CN-Nantong.

Share-based payments

The members of the Board of Directors and of the Group Executive Board receive a variable compensation in the form of shares of the SFS Group AG. The shares rewarded must be held for at least three years. The expenses of these shares represent the share price on the day they are granted and are charged to the income statement under the line item «Personnel expenses».

In addition, SFS maintains a share purchase program for its employees. Usually, every other year shares of the SFS Group AG are sold to key management members and specialists at a discount, which is charged to the income statement. The last share purchase program took place in 2018.

2.5 Other operating expenses

	2020	2019
Tools, energy, maintenance	127.6	146.4
Selling and distribution	81.1	92.1
Other operating expenses	46.9	49.0
Total	255.6	287.5

In 2019, the other operating expenses include one-off costs of CHF 3.1 million due to the move to CN-Nantong

Other operating expenses include operating lease expenses amounting to CHF 15.2 million (PY 16.0). The total costs for research and development recognized during the reporting period amount to CHF 44.5 million (PY 44.4). 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.

2.6 Financial result

	2020	2019
Interest expenses	-1.9	-4.8
Foreign exchange loss on financial investments	-6.6	-3.2
Financial expenses	-8.5	-8.0
Interest income	0.9	1.5
Financial income	0.9	1.5
Financial result	-7.6	-6.5

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

	2020	2019
Current income tax	31.3	37.7
Deferred tax expense (+)/-income (-)	4.2	-14.5
Income tax expense	35.5	23.2
Reconciliation		
Earnings before tax	220.3	229.7
Expected tax rate	14.5%	14.5%
Expected income tax	31.9	33.3
Variance in tax rates	9.7	10.6
Impact of change in tax rate on deferred taxes	0.1	-5.9
Items not subject to tax	-3.1	-0.4
Changes in tax loss carryforwards	0.1	0.1
Goodwill amortisation for tax purposes	0.2	-12.7
Adjustment in respect of prior years and other items	-3.4	-1.8
Income tax	35.5	23.2
Effective tax rate	16.1%	10.1%

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.

In 2019, the decrease of the corporate income tax rate in Switzerland led to a revaluation of deferred tax assets and deferred tax liabilities. The revaluation resulted in a non-recurring deferred tax income of CHF 5.9 million. A significant improvement of the operational performance in North America was expected. Hence deferred tax assets related to amortizable tax goodwill and, to a smaller extent, tax loss carry forwards of net CHF 11.3 million were recognized. In sum, this resulted in a oneoff effect of CHF 17.2 million in 2019.

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

	2020	2019
From third parties	337.2	315.8
From associates/joint ventures	1.0	0.5
From related parties	0.3	0.3
Valuation allowances	-2.5	-3.3
Total	336.0	313.3

Ageing analysis	2020	2019
Not yet due	285.9	256.1
Overdue 1 to 30 days	40.9	43.8
Overdue 31 to 90 days	9.8	14.2
Overdue more than 91 days	1.9	2.5
Trade receivables – gross	338.5	316.6
Valuation allowances	-2.5	-3.3
Trade receivables – net	336.0	313.3

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

3.2 Other current receivables

	2020	2019
VAT and withholding tax	13.7	16.1
Other receivables	16.9	19.0
Derivative financial instruments	0.1	0.6
Total	30.7	35.7

3.3 Inventories

	2020	2019
Raw materials	35.5	37.6
Consumables	12.0	8.4
Work in progress	76.1	86.0
Finished goods	247.8	253.7
Valuation allowances	-51.3	-44.6
Total	320.1	341.1

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 1.1.2019	6.1	644.2	1,047.3	82.9	1,780.5
Changes in scope of consolidation	–	0.9	0.6	–	1.5
Additions	1.0	16.6	56.1	40.8	114.5
Disposals	–0.8	–27.9	–50.0	–	–78.7
Reclassification	–	34.1	39.6	–74.3	–0.6
Exchange differences	0.2	–10.0	–15.1	–0.9	–25.8
Cost as at 31.12.2019	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
Accumulated depreciation as at 1.1.2019	–	–356.6	–717.4	–	–1,074.0
Changes in scope of consolidation	–	–23.1	–68.8	–	–91.9
Depreciation	–	22.6	50.0	–	72.6
Disposals	–	–0.2	0.2	–	–
Exchange differences	–	4.2	7.7	–	11.9
Accumulated depreciation as at 31.12.2019	–	–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
Net book value as at 1.1.2019	6.1	287.6	329.9	82.9	706.5
Net book value as at 31.12.2019	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

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.

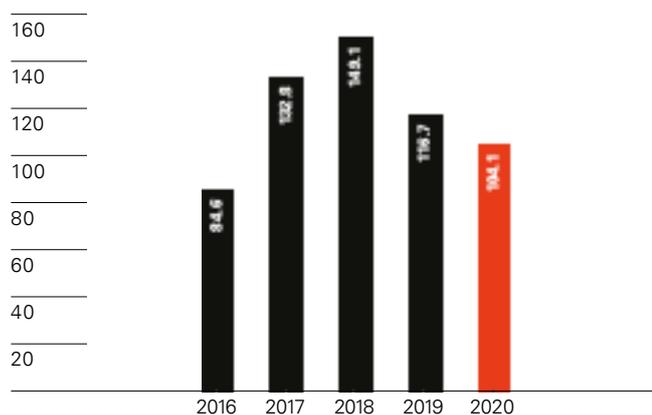
The book value of assets under construction includes down payments to suppliers of CHF 11.3 million (PY 16.5).

In order to collateralize borrowings, assets amounting to CHF 26.6 million (PY 25.9) have been pledged with CHF 8.5 million (PY 17.0), of which CHF 0.2 million (PY 10.0) have been drawn.

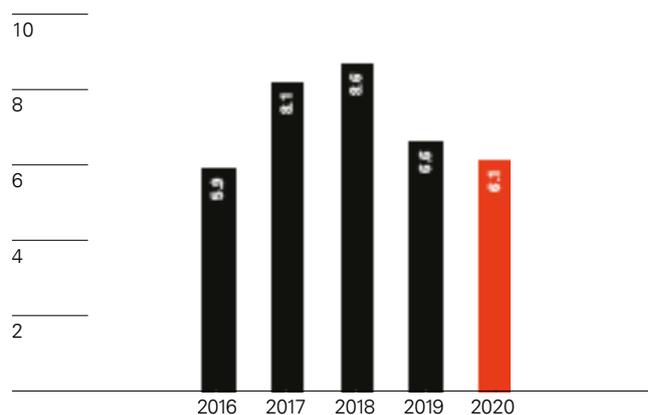
The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 16.5 million (PY 22.5).

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

	Customers, brands, technology	Software	Software in development	Building leases, patents	Total
Cost as at 1.1.2019	298.3	72.6	–	3.3	374.2
Additions	–	2.2	–	–	2.2
Disposals	–	–0.9	–	–	–0.9
Derecognition	–301.0	–	–	–	–301.0
Reclassification	–	0.6	–	–	0.6
Exchange differences	2.7	–0.5	–	–0.1	2.1
Cost as at 31.12.2019	–	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
Accumulated amortization as at 1.1.2019	–298.3	–60.0	–	–0.5	–359.4
Amortization	–	–3.4	–	–0.1	–3.5
Disposals	–	0.6	–	–	0.6
Derecognition	301.0	–	–	–	–301.0
Exchange differences	–2.7	0.3	–	0.1	–2.3
Accumulated amortization as at 31.12.2019	–	–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
Net book value as at 1.1.2019	–	12.0	–	2.8	14.8
Net book value as at 31.12.2019	–	10.9	–	2.7	13.6
Net book value as at 31.12.2020	–	10.9	3.3	2.5	16.7
Intangible assets generated internally	–	–	1.1	–	1.1
Of which purchased intangible assets	–	10.9	2.2	2.5	15.6

The purchased intangible assets in the “Customers, brands, technology” column include the assets from the Unisteel Technology acquisition. These were fully amortized and derecognized in 2019.

Intangible assets are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the costs over the assets' estimated useful lives, as follows:

	Years
Customers, brands, technology	3–5
Software	3–10
Building leases (maximum)	50
Patents	3–5

Intangible assets related to individuals are amortized over a lifetime of five years.

Intangible assets generated internally can only be recognized as an asset if they meet all of the following conditions at the time of the initial recognition:

They are identifiable, controlled by the organization, they will yield a measurable benefit for the organization over several years, expenses can be recognized and measured separately and it is likely that the resources needed to complete the intangible assets are available or will be made available.

The intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

In 2020, the SFS Group had CHF 5.4 million (PY 0.6) future commitments to purchase software or software-related projects.

3.6 Theoretical goodwill

Goodwill and intangible assets related to acquisitions are offset against equity at acquisition date. The effects of theoretical capitalization and amortization over five years, including any impairments, are shown in a shadow statement below. If a contract is concluded, transaction costs are part of acquisition costs. Earn out payments are offset against equity as well. As goodwill is immediately offset against equity at acquisition date, an impairment of goodwill would not impact the income statement, but the theoretical impact would be shown in the shadow accounting.

	2020	2019
Balance as at 1.1.	314.1	248.8
Acquisitions	30.9	71.9
Exchange differences	-34.9	-6.6
Balance as at 31.12.	310.1	314.1
Accumulated amortization as at 1.1.	-179.2	-125.1
Amortization	-60.1	-57.8
Exchange differences	16.1	3.7
Accumulated amortization as at 31.12.	-223.2	-179.2
Theoretical value of goodwill as at 31.12.	86.9	134.9
Equity attributable to SFS	1,278.2	1,237.2
Theoretical value of goodwill	86.9	134.9
Theoretical shareholders' equity as at 31.12.	1,365.1	1,372.1
Net income	184.8	206.5
Amortization of goodwill	-60.1	-57.8
Theoretical net income	124.7	148.7

3.7 Trade payables

	2020	2019
Against third parties	136.0	117.9
Total	136.0	117.9

Liabilities are recognized in the balance sheet at nominal value.

3.8 Other current payables

	2020	2019
VAT and other liabilities	30.6	29.0
Tax liabilities	23.5	25.6
Total	54.1	54.6

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 2020, the SFS Pension Fund has an expected coverage ratio according to the OPA of 118.2% (PY 119.5%). The pension liabilities and actuarial reserves are calculated based on a technical interest rate of 1.5% (PY 1.75). 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 of all age groups 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. The SFS Patronage Fund holds 26,308 shares (PY 29,000) in SFS Group AG.

Non-Swiss plans

For non-Swiss plans, an external actuarial report is used to determine the impact on the SFS Group. Depending on the mix of insured persons (employees, retirees), the present value of benefit obligations is calculated using an interest rate of 0.4% to 1.6% (PY 0.5% to 2.1%).

Employer contribution reserve (ECR)	Nominal value 31.12.2020	Waiver of use 2020	Balance sheet 31.12.2020	Accumulation 2020	Balance sheet 31.12.2019	Result from ECR in personnel expenses	
						2020	2019
Patronage Fund	19.3	–	19.3	0.3	19.0	–	–
SFS Pension Fund	1.3	–	1.3	–	1.3	–	–
Total	20.6	–	20.6	0.3	20.3	–	–

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 31.12.2020	Economical part of SFS		Change to prior year	Contribution concerning 2020	Pension benefit expenses within personnel expenses	
		31.12.2020	31.12.2019			2020	2019
Patronage Fund	3.7	3.7	3.3	0.4	–	–0.4	1.7
Pension Funds							
without surplus/deficit	–	–	–	–	24.3	24.3	23.6
with deficit	–2.8	–2.8	–2.4	–0.4	–	0.4	–0.4
without own assets	–7.3	–7.3	–3.6	–3.7*	–	0.6	0.2
Total	–6.4	–6.4	–2.7	–3.7	24.3	24.9	25.1

* Includes CHF 3.1 million which have been reclassified from non-current provisions in 2020.

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 2020 as well as of 31 December 2019 this is the case for plans in Germany and UK.

Pension Funds «without own assets» includes two plans in Germany. They are treated in the same way as the deficits of pension plans in the «with deficit» category.

3.10 Non-current provisions

	Anniversaries, severance payments	Other provisions	Total
Balance as at 1.1.2019	11.8	2.3	14.1
Changes in scope of consolidation	–	0.5	0.5
Additions	1.2	0.4	1.6
Used amounts	–0.7	–	–0.7
Unused amounts reversed	–	–0.2	–0.2
Exchange differences	–0.4	–0.3	–0.7
Balance as at 31.12.2019	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
Of which non-current	8.8	4.0	12.8

Various countries are obliged to recognize provisions as the employees are entitled to receive severance payments following the termination of employment. These are classified as contribution-based and disclosed in the «Anniversaries, severance payments» column. The «Other provisions» column contains provisions for warranty claims and business risks. Obligations arising from product liability are covered by the SFS Group's insurance policies. In addition to this, provisions are recognized for warranty claims based on historical experience and amount to CHF 1.8 million (PY 1.6). For other business risks, CHF 2.2 million (PY 1.1) 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	31.12.2020	31.12.2019
Deferred tax assets	-35.2	-34.6
Deferred tax liabilities	61.0	57.0
Total	25.8	22.4

Movement in net deferred tax balances	2020	2019
Balance as at 1.1.	22.4	43.9
Changes in scope of consolidation	-1.8	-5.4
Charged (+)/credited (-) to income statement	4.1	-16.4
Charged (+)/credited (-) to equity	-0.4	-0.1
Exchange differences	1.5	0.4
Balance as at 31.12.	25.8	22.4

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	2020	Recognized 2019	2020	Unrecognized 2019
Expiry within 3 years	-	-	6.0	6.1
Expiry in 4 to 7 years	18.4	31.8	2.8	3.1
Expiry after 7 years	4.6	16.0	13.4	14.8
Total	23.0	47.8	22.2	24.0

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.

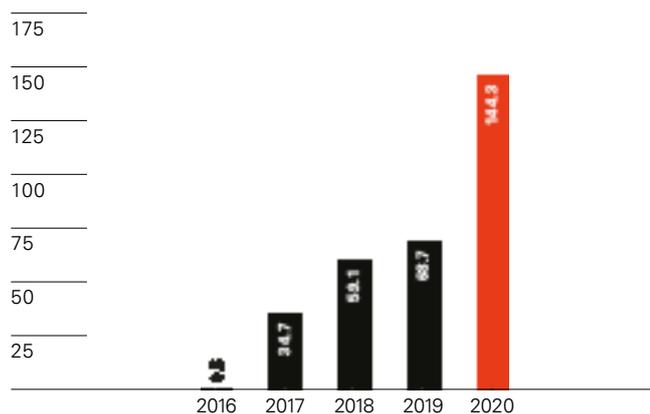
In 2020, the decrease of recognized tax loss carryforwards is primarily driven by the economic success of Unisteel Technology (China) Co., Ltd in Nantong. The entity has gradually ramped up its operations in 2019. For tax purposes, the investments in tangible assets have been fully depreciated in 2019.

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

	2020	2019
Cash at bank and on hand	187.7	130.0
Current bank deposits	–	0.7
Total cash and cash equivalents	187.7	130.7

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

	2020	2019
Loans to third parties	1.8	1.1
Financial assets from associates/joint ventures	13.0	22.0
Assets from employer contribution reserves	20.6	20.3
Economic benefit from pension plans	3.7	3.3
Other financial assets	1.2	0.7
Total	40.3	47.4

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

	2020		2019	
	CHF million	Interest	CHF million	Interest
Bank borrowings	1.8	1.9%	9.8	4.0%
Current borrowings	1.8	1.9%	9.8	4.0%
Of which EUR	1.6	1.9%	5.4	1.9%
Of which other currencies	0.2	2.6%	4.4	6.5%
Bank borrowings	41.2	0.7%	51.8	1.0%
Non-current borrowings against third parties	0.5	0.3%	0.4	0.5%
Non-current borrowings	41.7	0.7%	52.2	1.0%
Of which CHF	35.0	0.4%	35.0	0.4%
Of which EUR	6.6	2.0%	7.5	2.2%
Of which USD	–	–	9.7	2.2%
Of which other currencies	0.1	2.5%	–	–
Total borrowings	43.5	0.7%	62.0	1.5%

The financial liabilities have the following maturities:

Cash-outflows	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

	Total 2019	in 3 months	in 4–12 months	in 13–24 months	Later
Borrowings	62.0	5.0	4.8	46.4	5.8
Interest payments	1.3	0.2	0.5	0.3	0.3
Total 31.12.2019	63.3	5.2	5.3	46.7	6.1

Syndicated loan

A loan contract was negotiated with five banks in August 2014. In October 2019, the contract was extended prematurely. In 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 2025. SFS can extend this maturity by one more year in 2021. The committed and uncollateralized revolving credit line amounts to CHF 150 million and is used up to 23.3% (PY 30.0%) at the end of 2020. 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	2020	2019
No later than 1 year	13.6	12.9
Later than 1 year and no later than 5 years	26.9	24.0
Later than 5 years	8.1	5.0
Total	48.6	41.9

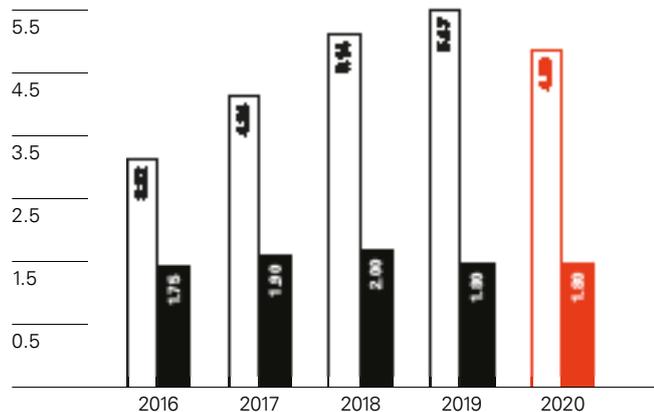
4.5 Off-balance sheet transactions

	2020	2019
Debt guarantees	1.2	1.2
Guarantee obligations	13.2	11.1
Other commitments	2.0	2.2

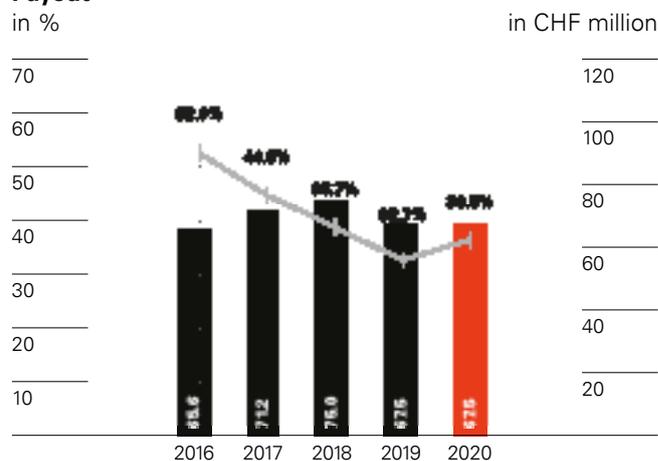
Contingent liabilities are mainly due to potential warranty claims, guarantee obligations and liens in favor of third parties. Intercompany items are eliminated. Contingent liabilities are assessed on the basis of the likelihood and the amount of the potential future liabilities and are disclosed above.

4.6 Equity and earnings per SFS share

Earnings per share in CHF



Payout in %



□ Earnings per share ■ Payout per share in CHF ■ Payout in % ■ Payout in CHF million

In the years 2016 to 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 37.5% in 2016 and 36.9% in 2017.

The payout for the financial year 2020 of CHF 1.80 (PY 1.80) per registered share, amounting to a total of CHF 67.5 million (PY 67.5), will be proposed at the Annual General Meeting of SFS Group AG on 22 April 2021. A payout from retained earnings will be realized and accounted in the books after the approval of the Annual General Meeting.

	2020	2019
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	183.9	205.3
Earnings per share (in CHF) basic and diluted	4.90	5.47

As of 31 December 2020, 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 54.0 million (PY 56.1) as of 31 December 2020.

Share capital and treasury shares

The share capital of SFS Group AG constitutes the share capital of the SFS Group. The consideration paid for treasury shares is deducted from the equity and separately disclosed (if any). The profit or loss realized by sales of treasury shares is recognized as a reduction of capital reserves, net of any related income taxes. SFS Group holds no treasury shares (PY none).

4.7 Derivative financial instruments

Forward foreign exchange contracts 2020	CHF	EUR	USD	Contract value	Market value
				CNY	CHF
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
2019					
EUR sale/CHF purchase	55.9	-50.7	-	-	0.9
CHF sale/EUR purchase (FX-Swap)	-22.9	21.0	-	-	-0.1
CHF sale/USD purchase (FX-Swap)	-6.9	-	7.0	-	-0.1
USD sale/CNY purchase	-	-	-35.9	250.6	-0.1

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 2020 and 2019 exclusively for the purpose of currency hedging.

4.8 Exchange rates

	Unit	Balance sheet		Income statement	
		2020	2019	2020	2019
China	CNY 100	13.465	13.879	13.590	14.233
EU	EUR 1	1.080	1.085	1.071	1.114
United Kingdom	GBP 1	1.202	1.276	1.206	1.268
Singapore	SGD 1	0.666	0.718	0.681	0.729
USA	USD 1	0.880	0.966	0.936	0.993

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

	2020	2019
Acquisition of subsidiaries		
Cash and cash equivalents	1.8	1.2
Trade receivables	7.4	7.1
Inventories	9.3	12.1
Other current assets	0.4	0.8
Property, plant, equipment and software	18.5	1.6
Other non-current assets	3.8	6.3
Current liabilities	-4.7	-3.5
Non-current liabilities	-6.1	-2.7
Acquired net assets	30.4	22.8
Purchase non-controlling interests	0.0	1.9
Goodwill offset against equity	30.9	71.9
Purchase price incl. acquisition cost	61.3	96.6
Cash and cash equivalents	-1.8	-1.2
Consideration in cash flow statement	59.5	95.4

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.

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.

In April 2020, the SFS Group increased its share in Tegra Medical from 98.8% to 100%.

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.

2019

With effect of 1 April 2019, the SFS Group acquired 100% of Triangle Fastener Corporation. The company is domiciled in Pittsburgh (US) and is reported in the segment Fastening Systems. In 2018, Triangle Fastener Corporation achieved a turnover of USD 70 million with 200 employees.

The purchase of non-controlling interests relates to the increase of the stake in Indo Schöttle Auto Parts Pvt. Ltd (India). Additional shares were acquired for CHF 3.8 million. Thereof, CHF 1.9 million represent the goodwill paid.

5.2 Group companies

Subsidiaries

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2020	2019	(1,000)		
China	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	100.0	100.0	CNY	93,959	V, P
	Nantong	Unisteel Technology (China) Co., Ltd	100.0	100.0	CNY	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	–	CNY	14,263	DL
	Suzhou	Unisteel Precision (Suzhou) Co., Ltd	100.0	100.0	CNY	82,674	L
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	100.0	98.8	USD	0	V, P
Germany	Menden	MBE Moderne Befestigungselemente GmbH	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	
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	100.0	USD	379,850	L
Mauritius	–	Unisteel International Pte Ltd	100.0	100.0	USD	1	L
Mexico	Monterrey	SFS Group Fastening Technology Mexico S.A.	100.0	100.0	MXN	50	V
Netherlands	Helmond	Guardian B.V.	100.0	100.0	EUR	18	V, P
Norway	Frogner	SFS intec AS	100.0	100.0	NOK	2,030	V
	Lorenskog	Solheimsveien 44 AS	–	100.0	NOK	470	–
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
			2020	2019		(1,000)	
Switzerland	Heerbrugg municipality of Au/SG and Widnau	SFS intec Holding AG	100.0	100.0	CHF	5,400	H
		SFS intec AG	100.0	100.0	CHF	6,550	V, P
		SFS unimarket AG	100.0	100.0	CHF	12,550	V, P
	Emmenbrücke municipality of Emmen	SFS services AG	100.0	100.0	CHF	100	DL
		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	SGD	8,033	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	Torbalı-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	-	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	98.8	USD	140,000	H
	Franklin, MA	Tegra-CTW Holdings, LLC	-	98.8	USD	-	-
		Tegra Medical, LLC	100.0	98.8	USD	23,465	V, P
		Tegra Medical CR, LLC	100.0	98.8	USD	0	H
	Hernando, MS	Tegra Medical (MS), LLC	-	98.8	USD	-	-
Pittsburgh, PA	Triangle Fastener Corporation	100.0	100.0	USD	1	V	
Connecticut		Truelove & Maclean, Inc.	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.

2020

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

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.

2019

In 2019, the companies QBM Distributors Ltd, Ncase Ltd and Nvelope Rainscreen Systems Ltd were merged into SFS Group Fastening Technology Ltd.

SFS intec AS (Norway) carved out the operating premises into an independent entity (Solheimsveien 44 AS).

SFS intec Baglanti Teknolojileri Sanayi ve Ticaret A.S. (Turkey) increased its share capital. As the minority shareholder did not participate, SFS Group increased its shareholding.

Joint ventures

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2020	2019		(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:

	2020	2019
Sales of goods and services	2.8	3.1
Purchases of goods and services	0.6	0.6
Receivables	0.3	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

	2020	2019
Sales of goods and services	1.5	1.7
Receivables	1.0	0.5
Loans	–	9.2
Bank guarantees	13.2	12.5

6 Events after the balance sheet date

SFS is not aware of events that occurred after the balance sheet date that could have a material impact on the consolidated statements for the financial year ended 31 December 2020.

The consolidated financial statements of the SFS Group were approved by the Audit Committee and the Board of Directors on 4 March 2021 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 22 April 2021.

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau, SG

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SFS Group AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated balance sheet as at 31 December 2020, 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 57 to 92) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAPFER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 11,000,000

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

Our activities addressed 74% of the net sales and 75% of the assets of the Group.

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

Valuation of inventories

Materiality

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

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

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. Our involvement included, for example, telephone conferences during the audit planning stage and after completion of the local audits.

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

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

Valuation of inventories

Key audit matter

Inventories as at 31 December 2020 amount to CHF 320.1 million. This represents 19.0% 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 2020.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

Report on other legal and regulatory requirements

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

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Thomas Illi
Audit expert
Auditor in charge



Gianluca Galasso
Audit expert

St. Gallen, 4 March 2021

Financial statements SFS Group AG

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Balance sheet

Assets in CHF million	31.12.2020	31.12.2019
Cash and cash equivalents	14.2	12.5
Other current receivables from Group companies	12.0	16.2
Current assets	26.2	28.7
Financial assets from Group companies	868.5	845.0
Shareholdings	90.8	90.8
Non-current assets	959.3	935.8
Assets	985.5	964.5
Liabilities and equity in CHF million		
Interest-bearing borrowings from Group companies	26.1	28.6
Deferred income and accrued expenses	1.0	0.7
Current liabilities	27.1	29.3
Interest-bearing borrowings	35.0	35.0
Interest-bearing borrowings from Group companies	39.3	36.2
Non-current liabilities	74.3	71.2
Share capital	3.8	3.8
Statutory capital reserves	11.5	11.5
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	591.8	571.7
Total equity	884.1	864.0
Liabilities and equity	985.5	964.5

Income statement

Income in CHF million	2020	2019
Investment income	82.5	77.5
Interest income	6.5	6.2
Total income	89.0	83.7
Expenses in CHF million		
Interest expense	-0.5	-0.7
Administration expenses	0.1	-0.4
Total expenses	-0.4	-1.1
Net income before taxes	88.6	82.6
Direct taxes	-1.0	-0.5
Net income	87.6	82.1

Notes

1 Accounting policies

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

2 Number of employees

The company does not have any employees.

3 Shareholdings

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

	2020		2019	
	Share capital	Shareholding ¹	Share capital	Shareholding ¹
SFS intec Holding AG, Heerbrugg, municipality of Widnau, Switzerland	5.4	100%	5.4	100%
SFS unimarket AG, Heerbrugg, municipality of Widnau, Switzerland	12.6	100%	12.6	100%
SFS services AG, Heerbrugg, municipality of Widnau, Switzerland	0.1	100%	0.1	100%

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.

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	31.12.2020	31.12.2019
Founding families	54.9%	54.8%

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 31.12.2020	Number of shares 31.12.2019
Heinrich Spoerry, Chairman, independent, external member	201,260	199,460
Nick Huber, external member	114,652	114,152
Urs Kaufmann, independent, external member	10,260	9,760
Thomas Oetterli, independent, external member	8,260	7,760
Bettina Stadler, external member	392,400	391,900
Jörg Walther, independent, external member	5,140	4,640
Total	731,972	727,672

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

	Number of shares 31.12.2020	Number of shares 31.12.2019
Group Executive Board		
Arthur Blank, Head of Division Construction	13,705	15,580
Jens Breu, Chief Executive Officer	25,810	15,310
Volker Dostmann, since 1 November 2020, CFO as per AGM 2021	–	n/a
Rolf Frei, Chief Financial Officer	50,610	49,710
J. Mark King, Head of Division Medical until 1 August 2020	n/a	1,400
Walter Kobler, Head of Division Industrial, Head of Division Medical since 1 January 2021	21,625	22,000
Urs Langenauer, Head of Division Riveting	3,256	3,100
George Poh, Head of Division Electronics	46,724	55,661
Iso Raunjak, Head of Segment Distribution & Logistics since 1 January 2020	60	n/a
Alfred Schneider, Head of Division Automotive	17,985	17,360
Claude Stadler, Head of Corporate Services	391,580	391,080
Josef Zünd, Head of Segment Distribution & Logistics until 31 December 2019	n/a	7,391
Total	571,355	578,592

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.

	31.12.2020	31.12.2019
Contingent liabilities		
Warranty obligations to Group companies	227.9	209.7
Warranty obligations to third parties	13.2	11.1
Of which used	45.5	55.1

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of shareholders to payout a total of CHF 1.80 (PY 1.80) per registered share with a nominal of CHF 0.10 per share.

Proposed appropriation of retained earnings

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

Retained earnings in CHF million	31.12.2020	Decision AGM 31.12.2019
Profit carry forward	504.2	489.6
Net income	87.6	82.1
Earnings available for distribution	591.8	571.7
Payout from retained earnings	-67.5	-67.5
Carryforward to retained earnings	524.3	504.2

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	31.12.2020	31.12.2019
Carryforward	11.5	11.5
Payout from statutory capital reserves	-	-
Carryforward to statutory capital reserves	11.5	11.5

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau, SG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SFS Group AG, which comprise the balance sheet as at 31 December 2020, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 100 to 104) as at 31 December 2020 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 4,400,000
How we determined it	0.5% of total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

We have 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



Thomas Illi
Audit expert
Auditor in charge



Gianluca Galasso
Audit expert

St. Gallen, 4 March 2021

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	2020	2019	2018	2017	2016
Equity at year end	1,278.2	1,237.2	1,204.6	1,087.0	987.8
– Invested capital related to the acquisition of Tegra Medical	–	–	–	–	–202.2
+ Goodwill offset against equity	1,015.6	984.7	912.8	908.6	907.1
– Net cash/+ net debt	–144.3	–68.7	–59.1	–34.7	–0.5
Invested capital	2,149.5	2,153.2	2,058.3	1,960.9	1,692.2
Operating profit (EBIT) adjusted	225.3	239.1	243.1	233.3	210.1
– Tax 17.5%	–39.4	–41.8	–42.5	–40.8	–36.8
Operating profit (EBIT) adjusted less tax	185.9	197.3	200.6	192.5	173.3
ROIC	8.6%	9.2%	9.7%	9.8%	10.2%

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 offsets 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	2020	2019	2018	2017	2016
Ø Net working capital	603.0	615.8	580.1	535.6	510.2
– Ø Cash and cash equivalents	–146.2	–147.8	–124.3	–122.8	–151.4
+ Ø Tangible and intangible assets	721.2	723.1	686.8	608.5	565.5
– Ø Net deferred tax liabilities and provisions	–44.1	–56.2	–71.8	–73.7	–77.6
Ø Capital employed	1,134.0	1,134.9	1,070.8	947.4	846.6
Operating profit (EBIT) adjusted	225.3	239.1	243.1	233.3	210.1
ROCE	19.9%	21.1%	22.7%	24.6%	24.8%

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	2020	2019	2018	2017	2016
Operating profit (EBIT)	227.4	236.3	243.1	197.7	159.8
– Book gain on disposal of non-operating assets	-2.1	-14.3	–	-7.3	-9.5
+ Amortization of customer relationship Unisteel	–	–	–	39.8	59.8
+ Relocation cost CN-Nantong	–	17.1	–	–	–
+/- Other one-time effects	–	–	–	3.1	–
Operating profit (EBIT) adjusted	225.3	239.1	243.1	233.3	210.1
Net sales	1,707.1	1,782.1	1,736.9	1,634.8	1,436.7
EBIT margin adjusted	13.2%	13.4%	14.0%	14.3%	14.6%

Free Cash Flow

It is in the SFS DNA 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	2020	2019	2018	2017	2016
Cash flow from operating activities	296.4	277.6	263.5	226.6	241.5
– Purchases of					
Property, plant and equipment	-98.4	-114.5	-146.1	-128.8	-83.5
Intangible assets	-5.7	-2.2	-3.0	-8.2	-1.1
+ Proceeds from government grants	–	–	–	4.2	–
Free Cash Flow	192.3	160.9	114.4	93.8	156.9

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.

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Number of registered shares (in 1,000)	37,500	37,500	37,500	37,500	37,500
Number of shares ranking for dividend (in 1,000)	37,500	37,500	37,500	37,500	37,500
Weighted average number of shares (in 1,000)	37,500	37,500	37,500	37,500	37,500
Number of shareholders	7,825	8,353	7,960	7,530	6,641
Stock exchange quotation (in CHF)					
Year high	106.90	97.00	121.80	123.50	83.15
Year low	58.85	68.60	73.80	82.55	60.45
Year-end price	105.00	93.10	76.30	113.20	83.10
Share key data					
Earnings per share in CHF	4.90	5.47	5.14	4.24	3.32
Distribution per share in CHF	1.80	1.80	2.00	1.90	1.75
Payout ratio in % of net income	36.5	32.7	38.7	44.8	52.6
Price/earnings ratio (year-end price)	21.4	17.0	14.8	26.7	25.0
Market capitalization					
In CHF million	3'937.5	3,491.3	2,861.3	4,245.0	3,116.3
(year-end price × number of shares ranking for dividend)					
As a % of net sales	230.7	195.9	164.7	259.7	216.9
As a % of equity	308.1	282.2	237.5	390.5	315.5

Agenda

Thursday, 22 April 2021 28th Annual General Meeting of SFS Group AG
 Tuesday, 20 July 2021 Publication half year results 2021

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 Reuters SFSN.S
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Annual report 2020

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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