

Financial report

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Consolidated income statement

In CHF million	Notes	2022	%	2021	%	+/-%
Net sales	2.2	2,738.7	100.0%	1,897.3	100.0%	44.3%
Other operating income	2.3	37.7		26.2		
Change in work in progress and finished goods		16.1		19.6		
Material expenses		-1,182.3		-685.1		
Contribution margin		1,610.2	58.8%	1,258.0	66.3%	28.0%
Personnel expenses	2.4	-737.1		-555.3		
Other operating expenses	2.5	-425.0		-295.6		
Depreciation property, plant and equipment	3.4	-110.5		-101.8		
Amortization of intangible assets	3.5	-7.3		-3.6		
Total operating expenses		-1,279.9	-46.7%	-956.3	- 50.4%	33.8%
Operating profit (EBIT)		330.3	12.1%	301.7	15.9%	9.5%
Financial result	2.6	6.4		-0.7		
Share of profit/(loss) from associates/joint ventures		1.1		0.7		
Earnings before tax		337.8	12.3%	301.7	15.9%	12.0%
Income taxes	2.7	-67.2		-53.7		
Net income		270.6	9.9%	248.0	13.1%	9.1%
Attributable to non-controlling interests		3.9		4.2		
Attributable to owners of SFS Group AG		266.7		243.8		
Earnings per share of the owners of SFS Group (in CHF) basic and diluted	4.6	6.95		6.51		6.8%

The notes on pages 67 to 95 are an integral part of these consolidated financial statements.

Consolidated balance sheet

Assets in CHF million	Notes	12.31.2022	%	12.31.2021	%	+/-%
Cash and cash equivalents	4.1	221.5		286.0		
Trade receivables	3.1	412.7		313.6		
Other current receivables	3.2	104.3		30.9		
Inventories	3.3	630.6		378.8		
Prepayments and accrued income		25.4		19.5		
Current assets		1,394.5	54.2%	1,028.8	55.9%	35.5%
Property, plant and equipment	3.4	1,001.5		702.0		
Intangible assets	3.5	57.7		28.4		
Financial assets	4.2	75.1		45.0		
Deferred tax assets	3.11	45.4		34.9		
Non-current assets		1,179.7	45.8%	810.3	44.1%	45.6%
Assets		2,574.2	100.0%	1,839.1	100.0%	40.0%
Liabilities and equity in CHF million						
	Notes	12.31.2022	%	12.31.2021	%	+/-%
Current borrowings	4.3	27.2		1.7		
Trade payables	3.7	202.6		126.0		
Other current payables	3.8	125.9		63.6		
Accrued liabilities and deferred income		142.9		107.4		
Current liabilities		498.6	19.4%	298.7	16.2%	66.9%
Non-current borrowings	4.3	672.0		5.1		
Other non-current payables		6.4		-		
Pension benefit obligations	3.9	13.4		9.7		
Non-current provisions	3.10	15.4		12.6		
Deferred tax liabilities	3.11	64.8		62.6		
Non-current liabilities		772.0	30.0%	90.0	4.9%	757.8%
Liabilities		1,270.6	49.4%	388.7	21.1%	226.9%
Share capital		3.9		3.8		
Capital reserves		179.8		11.6		
Treasury shares		-1.5		-7.4		
Retained earnings		1,102.5		1,423.7		
Equity attributable to SFS	4.6	1,284.7	49.9%	1,431.7	77.8%	-10.3%
Non-controlling interests		18.9		18.7		
Total equity		1,303.6	50.6%	1,450.4	78.9%	-10.1%
Liabilities and equity		2,574.2	100.0%	1,839.1	100.0%	40.0%

The notes on pages 67 to 95 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In CHF million	Notes	Share capital	Capital reserves	Treasury shares	Goodwill offset against equity	Cash flow hedges	Net investment hedges	Currency translation adjustments	Other retained earnings	Retained earnings	Equity attributable to SFS	Non-controlling interests	Total equity
Balance as at 1.1.2021		3.8	11.5	-	-1,015.6	0.4	-	-76.7	2,337.9	1,246.0	1,261.3	16.9	1,278.2
Changes of hedges		-	-	-	-	2.2	-	-	-	2.2	2.2	-	2.2
Acquisitions	5.1	-	-	-	-7.1	-	-	-	-	-7.1	-7.1	-	-7.1
Currency translation adjustments		-	-	-	-	-	-	6.3	-	6.3	6.3	-0.8	5.5
Net income		-	-	-	-	-	-	-	243.8	243.8	243.8	4.2	248.0
Dividend for 2020		-	-	-	-	-	-	-	-67.5	-67.5	-67.5	-1.6	-69.1
Purchase of treasury shares	4.6	-	-	-12.5	-	-	-	-	-	-	-12.5	-	-12.5
Disposal of treasury shares	4.6	-	0.1	5.1	-	-	-	-	-	-	5.2	-	5.2
Other changes		-	-	-	-	-	-	-	-0.0	-0.0	-0.0	-	-0.0
Balance as at 12.31.2021		3.8	11.6	-7.4	-1,022.7	2.6	-	-70.4	2,514.2	1,423.7	1,431.7	18.7	1,450.4
Capital increase	4.6	0.1	169.2	-	-	-	-	-	-	-	169.3	-	169.3
Changes of hedges	4.7	-	-	-	-	-2.6	32.0	-	-	29.4	29.4	-	29.4
Acquisitions	5.1	-	-	-	-486.9	-	-	-	-	-486.9	-486.9	-	-486.9
Currency translation adjustments		-	-	-	-	-	-	-49.2	-	-49.2	-49.2	-1.8	-51.0
Net income		-	-	-	-	-	-	-	266.7	266.7	266.7	3.9	270.6
Dividend for 2021		-	-	-	-	-	-	-	-82.0	-82.0	-82.0	-1.9	-83.9
Purchase of treasury shares	4.6	-	-	-20.7	-	-	-	-	-	-	-20.7	-	-20.7
Disposal of treasury shares	4.6	-	-1.0	26.6	-	-	-	-	-	-	25.6	-	25.6
Other changes		-	-	-	-	-	-	-	0.8	0.8	0.8	-	0.8
Balance as at 12.31.2022		3.9	179.8	-1.5	-1,509.6	-	32.0	-119.6	2,699.7	1,102.5	1,284.7	18.9	1,303.6

The notes on pages 67 to 95 are an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

In CHF million	Notes	2022	2021	+/-%
Net income		270.6	248.0	
Income taxes		67.2	53.7	
Financial result		-7.5	-0.0	
Depreciation/amortization	3.4/3.5	117.8	105.4	
Loss from impairment (+)/reversal of impairment (-)		-	-3.1	
Interest paid		-6.3	-1.5	
Income tax paid		-84.2	-44.0	
Changes in provisions and allowances		14.0	0.7	
Other non-cash expenses/income		8.2	-3.0	
Profit (-)/loss (+) from disposal of property, plant and equipment		-1.3	-4.7	
Changes in trade receivables		-15.7	30.6	
Changes in other receivables and prepayments and accrued income		-7.9	2.0	
Changes in inventories		-76.1	-60.1	
Changes in trade payables		-2.5	-12.9	
Changes in other current liabilities, accrued liabilities and deferred income		11.6	13.4	
Cash flow from operating activities		287.9	324.5	-11.3%
Purchases of property, plant and equipment	3.4	-149.2	-104.6	
Proceeds from sale of property, plant and equipment		1.2	13.7	
Purchases of intangible assets	3.5	-21.8	-16.8	
Proceeds from sale of intangible assets		0.2	1.9	
Acquisition of subsidiaries, net of cash acquired	5.1	-519.1	-7.6	
Changes in loans granted		44.2	-0.6	
Investment in/dividends from associates/joint ventures		-0.2	-0.5	
Proceeds from interest and securities		1.2	0.5	
Cash flow from investing activities		-643.5	-114.0	464.5%
Proceeds (+)/repayment from/of current borrowings (-)		-190.7	0.1	
Proceeds (+)/repayment from/of non-current borrowings (-)		588.8	-38.3	
Dividends to the shareholders		-82.0	-67.5	
Dividends to non-controlling interests		-1.9	-1.6	
Purchase (-)/disposal of treasury shares (+)		-19.5	-8.3	
Cash flow from financing activities		294.7	-115.6	
Translation adjustment on cash and cash equivalents		-3.6	3.4	
Changes in cash and cash equivalents		-64.5	98.3	
Cash and cash equivalents at beginning of period	4.1	286.0	187.7	
Cash and cash equivalents at end of period	4.1	221.5	286.0	

The notes on pages 67 to 95 are an integral part of these consolidated financial statements.

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1 General information

SFS Group AG is a limited company according to Swiss law, incorporated and domiciled in Heerbrugg, municipality of Widnau/SG, Switzerland. SFS Group AG is the parent company of all SFS Group companies and therefore the ultimate holding company of the SFS Group.

All amounts are in CHF million unless otherwise stated and refer to December 31 for balance sheet items and to the financial year from January 1 to December 31 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 December 31 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 December 31.

Intercompany transactions, balances, income and expenses between Group companies are eliminated. Intercompany profits are eliminated.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Entities managed equally with an SFS external partner are called joint ventures. Joint control is established by contractual agreement. Strategic, financial and operating decisions require unanimous consent. Associates are those entities in which the Group exerts significant influence, but does not control the financial and operating policies. The group's share of voting rights at joint ventures and associates are between 20% and 50%. SFS is entitled to its proportional share of the net assets. Goodwill (if any) is offset against equity.

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

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

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

1.3 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgments 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.

2 Performance

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

2.1 Segment information

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

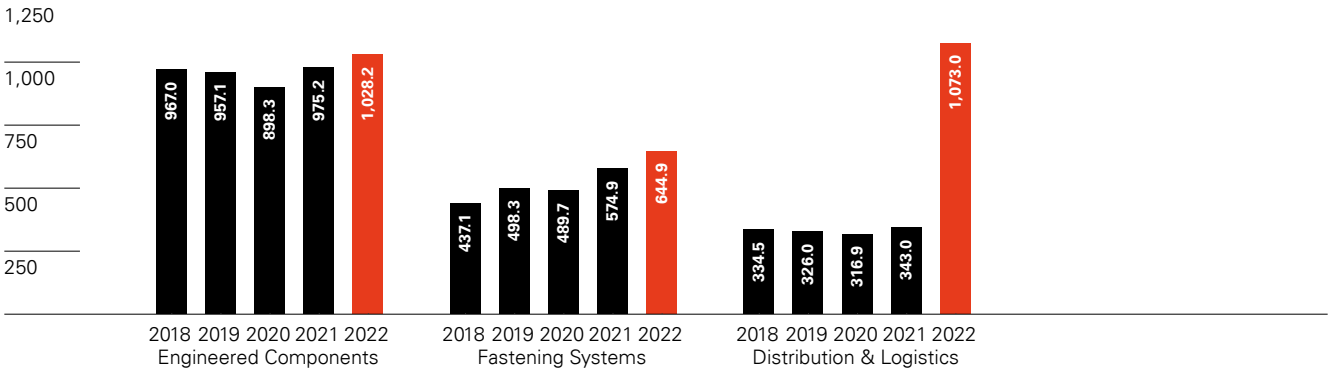
The financial performance of the segments is monitored based on EBIT as well as on operating profit before amortization and depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on internal group rates.

Segment assets are all assets which are directly attributable to a segment, such as receivables, inventories, prepayments and accrued income, property, plant and equipment, intangible assets, as well as deferred tax assets. The segment liabilities include directly attributable payables, accrued liabilities and deferred income, pension benefit obligations, non-current provisions as well as deferred tax liabilities. Financial assets and financial liabilities are not allocated to a segment.

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

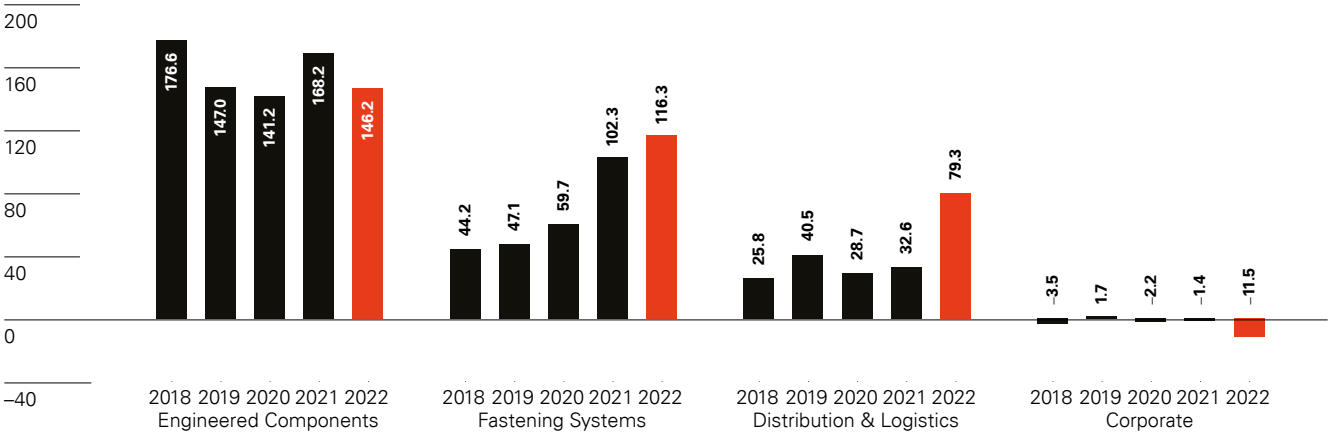
Third party sales

In CHF million



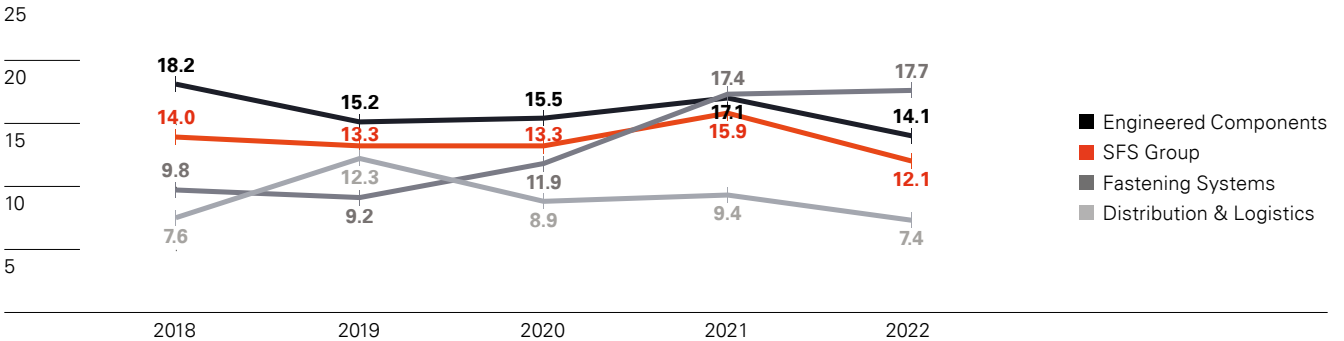
EBIT

In CHF million



EBIT

In % of net sales



The key figure EBITDA includes one-off effects:

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

Fastening Systems: 2020 CHF 2.1 million book gains

Distribution & Logistics: 2019 CHF 14.3 million book gains; 2022 CHF 22.9 million Amortization of inventory step-up related to purchase price allocation of Hoffmann SE acquisition and first-time intra-segment profit elimination in inventory

Corporate: 2021 CHF 3.1 million book gains

2022	Notes	Engineered Components	Fastening Systems	Distribution & Logistics	Corporate	Total SFS Group
Third party sales	2.2	1,028.2	644.9	1,073.0	–	2,746.1
Increase to previous year in %		5.4	12.2	212.8	–	45.1
Net sales	2.2	1,038.5	658.8	1,067.4	–26.0	2,738.7
EBITDA		220.3	132.5	100.5	–5.2	448.1
In % of net sales		21.2	20.1	9.4		16.4
Operating profit (EBIT)		146.2	116.3	79.3	–11.5	330.3
In % of net sales		14.1	17.7	7.4		12.1
Capital expenditure		125.5	13.7	16.0	15.8	171.0
Operating assets		995.7	399.4	804.4	76.9	2,276.4
Operating liabilities		203.2	96.4	203.4	62.0	565.0
Capital employed		792.5	303.0	601.0	14.9	1,711.4
of which net working capital		255.7	190.3	279.9	–25.4	700.5

2021

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

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

Sales by region	Notes	2022	%	2021	%
Switzerland		373.7	13.6	355.3	18.8
Germany		682.5	24.9	263.7	13.9
Other Europe		729.0	26.5	451.6	23.9
America		507.6	18.5	414.1	21.9
China		300.7	10.9	266.5	14.1
Other Asia		144.6	5.3	136.5	7.2
Africa, Australia		8.0	0.3	5.4	0.2
Third party sales	2.2	2,746.1	100.0	1,893.1	100.0
Not assigned items		-7.4		4.2	
Total net sales	2.2	2,738.7		1,897.3	

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 end market	Notes	2022	%	2021	%
Automotive industry		548.8	20.0	403.7	21.3
Construction industry		679.5	24.7	595.3	31.4
Electrical and electronics industry		434.6	15.8	376.4	19.9
Industrial manufacturing		623.9	22.7	218.1	11.5
Medical devices industry		154.1	5.6	136.4	7.2
Other industries		305.2	11.2	163.2	8.7
Third party sales	2.2	2,746.1	100.0	1,893.1	100.0
Not assigned items		-7.4		4.2	
Total net sales	2.2	2,738.7		1,897.3	

Since 2022 the sales in the end market Industrial are separately disclosed. In the financial report 2021 these sales were included in the end market "Other industries".

Reconciliation of segments to income statement and balance sheet

Income statement	Notes	2022	2021
Operating profit (EBIT)		330.3	301.7
Financial result	2.6	6.4	-0.7
Share of profit from associates/joint ventures		1.1	0.7
Earnings before tax		337.8	301.7

Assets

Operating assets		2,276.4	1,504.0
+ Cash and cash equivalents	4.1	221.5	286.0
+ Derivative financial instruments	4.7	1.2	4.1
+ Financial assets	4.2	75.1	45.0
Assets		2,574.2	1,839.1

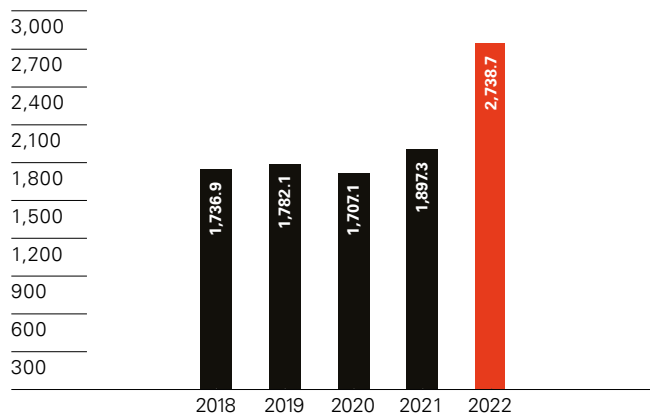
Liabilities and equity

Operating liabilities		565.0	381.9
+ Current borrowings	4.3	27.2	1.7
+ Other non-current payables		6.4	-
+ Long-term borrowings	4.3	672.0	5.1
Liabilities		1,270.6	388.7
Equity (Net assets)		1,303.6	1,450.4

2.2 Net sales

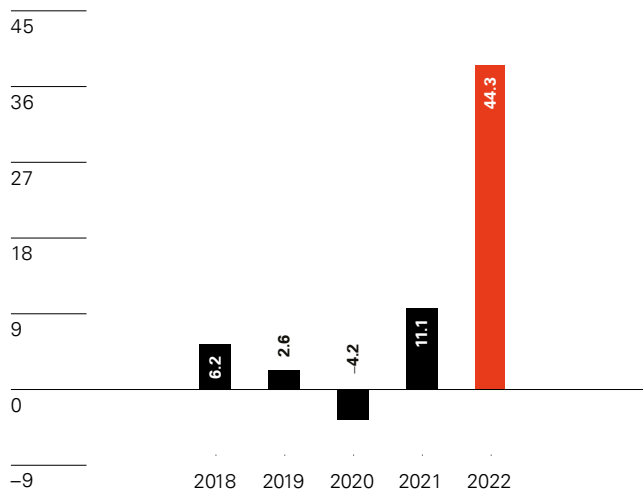
Net sales

In CHF million



Increase of net sales

In %



	2022	2021	+/- %
Third party sales	2,746.1	1,893.1	45.1
Other items	-7.4	4.2	
Net sales	2,738.7	1,897.3	44.3

Third party sales increased by 45.1% (PY 11.0%). The growth due to changes in the scope of consolidation amounts to 37.9% (PY 0.8%). Based on a like-for-like view and ignoring foreign currency effects, sales increased by 9.1% (PY 10.3%). The currency translation effect amounts to -1.9% (PY -0.1%).

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

Sales of goods and services are recognized when the risks and rewards have been transferred to the customer, which is the point of shipping or billing or when services are rendered. Cash discounts and rebates granted to customers are treated as a reduction of sales.

2.3 Other operating income

	2022	2021
Revenue from services	19.9	7.7
Lease income	0.8	0.5
Own-built machinery and capitalized own work	15.0	12.4
Gain on disposals of assets	2.0	5.6
Total	37.7	26.2

In 2020, the SFS Group has started a project for the upgrade of the ERP system to SAP S/4HANA. The project was continued in 2022. A part of the project was completed in 2022 and capitalized in intangible assets, the remaining part of the project is expected to be completed in 2024. The related own work is capitalized.

2.4 Personnel expenses

	2022	2021
Wages and salaries	577.7	438.9
Profit sharing	11.5	11.9
Social security	131.6	92.3
Other employment expenses	16.3	12.2
Total	737.1	555.3

In 2022, personnel expenses are reduced by contributions from government support programs and further internal measures summing up to CHF 6.4 million worldwide (PY CHF 9.4 million).

Share-based payments

The members of the Board of Directors and Group Executive Board receive a variable compensation in the form of shares of the SFS Group AG. The shares rewarded must be held for at least three years. The expenses amounting to CHF 1.7 million (PY CHF 2.0 million) 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 Board of Directors and key management members as well as specialists at a discount, which is charged to personnel expenses. The last share purchase program took place in 2022.

2.5 Other operating expenses

	2022	2021
Tools, energy, maintenance	167.7	150.8
Selling and distribution	153.1	91.7
Other operating expenses	104.2	53.1
Total	425.0	295.6

Other operating expenses include operating lease expenses amounting to CHF 31.8 million (PY CHF 15.4 million). The total costs for research and development recognized during the reporting period amount to CHF 53.1 million (PY CHF 45.6 million). The main items responsible for those costs include the fields development, tools, sampling and preparation for large-lot production. They are included in several expense line-items in the income statement.

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 requirements for capitalization according to Swiss GAAP FER have not been met for items in other operating expenses in the current reporting period as well as in the prior year.

2.6 Financial result

	2022	2021
Interest expenses	-9.4	-1.5
Financial expenses	-9.4	-1.5
Interest income	1.2	0.7
Foreign exchange gains on financial investments	14.6	0.1
Financial income	15.8	0.8
Financial result	6.4	-0.7

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

	2022	2021
Current income tax	72.5	52.7
Deferred tax expense (+)/-income (-)	-5.3	1.0
Income tax expense	67.2	53.7
Reconciliation		
Earnings before tax	337.8	301.7
Expected tax rate	14.3%	14.5%
Expected income tax	48.3	43.7
Variance in tax rates	17.6	12.1
Impact of change in tax rate on deferred taxes	-1.4	-0.1
Items not subject to tax	6.4	3.7
Changes in tax loss carryforwards	-0.4	-3.9
Adjustment in respect of prior years and other items	-3.3	-1.8
Income tax	67.2	53.7
Effective tax rate	19.9%	17.8%

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 14.3% (PY 14.5%) and corresponds to the maximum tax rate for legal entities in the canton of St.Gallen.

3 Capital employed

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

3.1 Trade receivables

	2022	2021
From third parties	418.2	314.5
From associates/joint ventures	0.4	0.7
From related parties	0.2	0.1
Valuation allowances	-6.1	-1.7
Total	412.7	313.6

Ageing analysis	2022	2021
Not yet due	330.6	256.6
Overdue 1 to 30 days	59.4	45.0
Overdue 31 to 90 days	22.1	12.1
Overdue more than 91 days	6.7	1.6
Trade receivables – gross	418.8	315.3
Valuation allowances	-6.1	-1.7
Trade receivables – net	412.7	313.6

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

3.2 Other current receivables

	2022	2021
VAT and withholding tax	21.8	10.0
Receivables from supplier rebates	42.9	–
Other receivables	38.4	16.8
Derivative financial instruments	1.2	4.1
Total	104.3	30.9

3.3 Inventories

	2022	2021
Raw materials	65.6	54.9
Consumables	12.5	10.5
Work in progress	100.7	88.4
Finished goods	537.0	275.3
Valuation allowances	–85.2	–50.3
Total	630.6	378.8

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 1.1.2021	6.5	674.4	1,118.3	37.5	1,836.7
Changes in scope of consolidation	–	–	0.1	–	0.1
Additions	–	17.6	34.4	52.6	104.6
Disposals	–	–14.7	–32.8	0.0	–47.5
Reclassification	–	4.6	17.5	–22.3	–0.2
Exchange differences	–	–1.4	2.8	0.4	1.8
Cost as at 12.31.2021	6.5	680.5	1,140.3	68.2	1,895.5
Changes in scope of consolidation	13.8	162.9	101.0	9.6	287.3
Additions	–	46.8	52.6	49.8	149.2
Disposals	–	–14.6	–36.2	–0.2	–51.0
Reclassification	–	9.9	30.3	–41.6	–1.4
Exchange differences	–0.5	–18.8	–26.6	–0.8	–46.7
Cost as at 12.31.2022	19.8	866.7	1,261.4	85.0	2,232.9
Accumulated depreciation as at 1.1.2021	–	–373.2	–761.9	–	–1,135.1
Changes in scope of consolidation	–	–	–	–	–
Depreciation	–	–24.8	–77.0	–	–101.8
Reversal of impairment	–	3.1	0.0	–	3.1
Disposals	–	6.4	32.1	–	38.5
Reclassification	–	0.0	0.0	–	0.0
Exchange differences	–	2.4	–0.6	–	1.8
Accumulated depreciation as at 12.31.2021	–	–386.1	–807.4	–	–1,193.5
Changes in scope of consolidation	–	–	–	–	–
Depreciation	–	–27.9	–82.6	–	–110.5
Reversal of impairment	–	–	–	–	–
Disposals	–	14.6	36.5	–	51.1
Reclassification	–	0.0	0.0	–	0.0
Exchange differences	–	6.1	15.4	–	21.5
Accumulated depreciation as at 12.31.2022	–	–393.3	–838.1	–	–1,231.4
Net book value as at 1.1.2021	6.5	301.2	356.4	37.5	701.6
Net book value as at 12.31.2021	6.5	294.4	332.9	68.2	702.0
Net book value as at 12.31.2022	19.8	473.3	423.4	85.0	1,001.5

Property, plant and equipment is stated at historical cost less depreciation. Value-added expenditures, which lead to an extension of useful life or increased production capacity, are capitalized. Interest expenses incurred when the asset was under construction, are included in the historical costs, if material. Depreciation is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives, as follows:

Buildings	Years
Buildings	20–33
Infrastructure	10–15

Machines and equipment	
Machinery	5–15
Furniture, fittings and equipment	5–10
Vehicles	3–8
IT hardware	3–5

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.

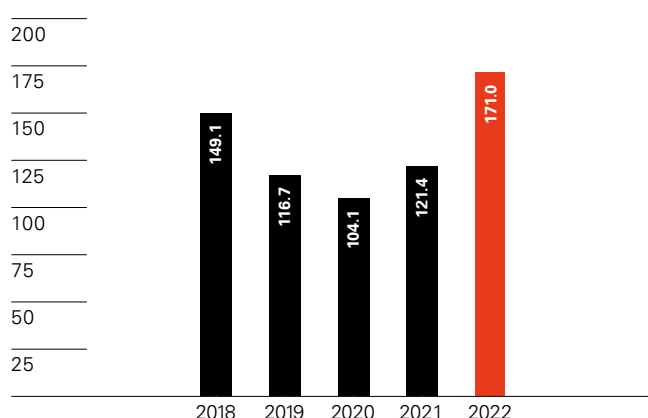
The book value of assets under construction includes down payments to suppliers of CHF 29.1 million (PY CHF 19.6 million).

In order to collateralize borrowings, assets amounting to CHF 71.9 million (PY CHF 21.2 million) have been pledged with CHF 53.3 million (PY CHF 7.4 million), of which CHF 50.5 million (PY CHF 0.7 million) have been drawn.

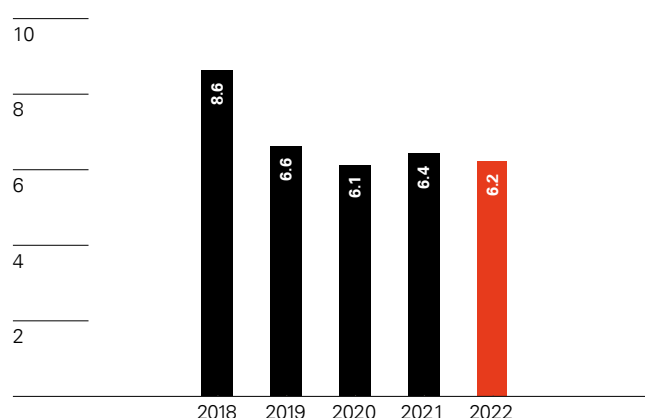
The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 113.1 million (PY CHF 93.7 million).

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

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



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



3.5 Intangible assets

	Software	Software in development	Building rights, patents	Total
Cost as at 1.1.2021	77.1	3.3	3.1	83.5
Additions	1.8	15.0	–	16.8
Disposals	–1.4	–	–2.0	–3.4
Reclassification	0.2	–	–	0.2
Exchange differences	–0.3	–	0.2	–0.1
Cost as at 12.31.2021	77.4	18.3	1.3	97.0
Changes in scope of consolidation	5.8	–	8.3	14.1
Additions	5.0	11.1	5.7	21.8
Disposals	–0.8	–	–0.2	–1.0
Reclassification	17.0	–13.2	–	3.8
Exchange differences	–0.7	–	–0.4	–1.1
Cost as at 12.31.2022	103.7	16.2	14.7	134.6
Accumulated amortization as at 1.1.2021	–66.2	–	–0.6	–66.8
Amortization	–3.5	–	–0.1	–3.6
Disposals	1.1	–	0.4	1.5
Reclassification	–	–	–	–
Exchange differences	0.3	–	–	0.3
Accumulated amortization as at 12.31.2021	–68.3	–	–0.3	–68.6
Changes in scope of consolidation	–	–	–	–
Amortization	–5.5	–	–1.8	–7.3
Disposals	0.7	–	–	0.7
Reclassification	–2.4	–	–	–2.4
Exchange differences	0.7	–	0.0	0.7
Accumulated amortization as at 12.31.2022	–74.8	–	–2.1	–76.9
Net book value as at 1.1.2021	10.9	3.3	2.5	16.7
Net book value as at 12.31.2021	9.1	18.3	1.0	28.4
Net book value as at 12.31.2022	28.9	16.2	12.6	57.7
Intangible assets generated internally	5.9	8.7	–	14.6
Purchased intangible assets	23.0	7.5	12.6	43.1

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

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

Intangible assets generated internally can only be recognized as an asset if they meet all of the following conditions at the time of the initial recognition: They are identifiable, controlled by the organization, they will yield a measurable benefit for the organization over several years, expenses can be recognized and measured separately and it is likely that the resources needed to complete the intangible assets are available or will be made available.

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

In 2022, the SFS Group has CHF 3.9 million (PY CHF 7.9 million) future commitments to purchase software or software-related projects.

3.6 Theoretical goodwill

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

	2022	2021
Balance as at 1.1.	132.8	310.1
Acquisitions	486.9	7.1
Derecognition	–	–214.1
Exchange differences	–35.0	29.7
Balance as at 12.31.	584.7	132.8
Accumulated amortization as at 1.1.	–78.6	–223.2
Amortization	–83.4	–51.0
Derecognition	–	214.1
Exchange differences	3.4	–18.5
Accumulated amortization as at 12.31.	–158.6	–78.6
Theoretical value of goodwill as at 12.31.	426.1	54.2
Equity attributable to SFS	1,303.6	1,450.4
Theoretical value of goodwill	426.1	54.2
Theoretical shareholders' equity as at 12.31.	1,729.7	1,504.6
Net income	270.6	248.0
Amortization of goodwill	–83.4	–51.0
Theoretical net income	187.2	197.0

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

3.7 Trade payables

	2022	2021
Against third parties	202.6	126.0
Total	202.6	126.0

Liabilities are recognized in the balance sheet at nominal value.

3.8 Other current payables

	2022	2021
VAT and other liabilities	58.8	30.7
Tax liabilities	35.8	32.9
Liabilities from ABCP program	31.3	–
Total	125.9	63.6

In 2021 Hoffmann Group has signed a framework contract in order to sell and assign trade receivables to a third party service provider (Asset Backed Commercial Paper program; ABCP program). Therefore part of trade receivables of Hoffmann Group are sold on a biweekly basis. The payment receipts of trade receivables not yet transferred to the third party service provider during the period between the last date of sale of trade receivables and the next date of sale are part of other current payables.

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 2022, the SFS Pension Fund has an expected coverage ratio according to the OPA of 108.3% (PY 121.4%). The pension liabilities and actuarial reserves are calculated based on a technical interest rate of 1.5% (PY 1.5%) using the life expectancy table BVG 2020 (PY BVG 2020). 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. The determination of the economic impact on the SFS Group is based on the preliminary financial statements of the SFS Pension Fund and the Patronage Fund.

Non-Swiss plans

For non-Swiss plans, an external actuarial report is used to determine the impact on the SFS Group. Depending on the mix of insured persons (employees, retirees), the present value of benefit obligations is calculated using an interest rate of 3.4% to 4.9% (PY 0.9% to 2.1%).

Employer contribution reserve (ECR)	Nominal value 12.31.2022	Waiver of use 2022	Balance sheet 12.31.2022	Accumulation 2022	Balance sheet 12.31.2021	Result from ECR in personnel expenses	
						2022	2021
Patronage Fund	20.7	0.0	20.7	0.3	20.4	-0.3	-1.1
SFS Pension Fund	1.4	0.0	1.4	0.0	1.4	-	-0.1
Total	22.1	0.0	22.1	0.3	21.8	-0.3	-1.2

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

Economic benefit/economic obligation and pension benefit expenses	Surplus/deficit 12.31.2022	Economical part of SFS		Change to prior year	Contribution concerning 2022	Pension benefit expenses within personnel expenses	
		12.31.2022	12.31.2021			2022	2021
Patronage Fund	0.0	0.0	4.8	-4.8	0.0	4.8	-1.1
Pension Funds							
without surplus/deficit	-	-	-	-	29.1	29.1	25.9
with deficit	-2.9	-2.9	-3.0	0.1	-0.3	-0.4	0.2
without own assets	-10.5	-10.5	-6.7	-3.8	0.0	-1.8	-0.6
Total	-13.4	-13.4	-4.9	-8.5	28.8	31.7	24.4

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 December 31, 2022, this is the case for one plan in Germany (PY two), one plan in France (PY none) and no plan in the UK (PY one).

Pension Funds "without own assets" includes six plans in Germany (PY three), one plan in France (PY one), one plan in Italy (PY none) and one plan in Mexico (PY none). 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 1.1.2021	8.8	4.0	12.8
Additions	1.4	0.7	2.1
Used amounts	-1.2	-0.5	-1.7
Unused amounts reversed	0.0	0.0	0.0
Exchange differences	-0.5	-0.1	-0.6
Balance as at 12.31.2021	8.5	4.1	12.6
Changes in scope of consolidation	0.8	1.0	1.8
Additions	1.8	1.8	3.6
Used amounts	-0.9	0.0	-0.9
Unused amounts reversed	-0.6	-0.7	-1.3
Exchange differences	-0.5	0.1	-0.4
Balance as at 12.31.2022	9.1	6.3	15.4
Of which non-current	9.1	6.3	15.4

Various countries are obliged to recognize provisions as the employees are entitled to receive severance payments following the termination of employment. These are classified as contribution-based and disclosed in the "Anniversaries, severance payments" column. The "Other provisions" column contains provisions for warranty claims and business risks. Obligations arising from product liability are covered by the SFS Group's insurance policies. In addition to this, provisions are recognized for warranty claims based on historical experience and amount to CHF 2.6 million (PY CHF 2.0 million). For specific business risks, CHF 3.7 million (PY CHF 2.1 million) are deferred.

A provision is recognized when SFS Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow will be required and the amount of outflows can be estimated reliably. 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	12.31.2022	12.31.2021
Deferred tax assets	-45.4	-34.9
Deferred tax liabilities	64.8	62.6
Total	19.4	27.7

Movement in net deferred tax balances	2022	2021
Balance as at 1.1.	27.7	25.8
Changes in scope of consolidation	-1.5	0.0
Charged (+)/credited (-) to income statement	-5.0	1.3
Charged (+)/credited (-) to equity	-1.1	0.4
Exchange differences	-0.7	0.2
Balance as at 12.31.	19.4	27.7

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	2022	Recognized 2021	2022	Unrecognized 2021
Expiry within 3 years	-	-	-	-
Expiry in 4 to 7 years	1.5	5.7	-	-
Expiry after 7 years	5.8	10.5	37.5	0.9
Total	7.3	16.2	37.5	0.9

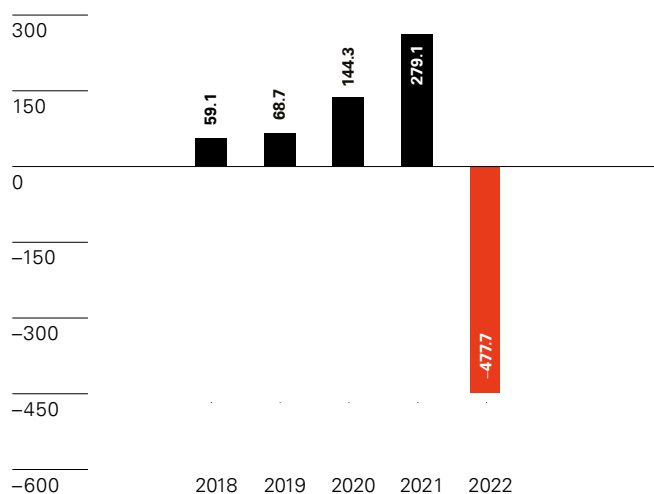
Deferred tax assets are recognized for tax loss carryforwards and on other temporary differences to the extent that is expected to be realizable within the next five years.

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

	2022	2021
Cash at bank and on hand	204.3	213.3
Current bank deposits	17.2	72.7
Total cash and cash equivalents	221.5	286.0

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

	2022	2021
Loans to third parties	3.7	2.4
Investments	14.7	14.5
Assets from employer contribution reserves	22.1	21.8
Economic benefit from pension plans	–	4.8
Derivative financial instruments	32.0	0.7
Other financial assets	2.6	0.8
Total	75.1	45.0

Marketable securities and financial assets are measured at market value through profit or loss. In absence of a market value, marketable securities and financial assets are measured at historical costs less any impairment. Investments include investments in associates, joint ventures and immaterial subsidiaries which are not included in the scope of consolidation.

In connection with the financing of the Hoffmann SE acquisition and the corresponding issuance of two bonds with a volume of CHF 400 million (refer to note 4.3), SFS Group has entered into two cross-currency-swaps (CHF/EUR) with the same volume and maturity (refer to note 4.7). The cross-currency-swaps (designated as hedging instruments) are used to hedge the foreign currency exposure which arises from the translation of net investments in foreign entities (designated as hedged items) into the Group's presentation currency. Changes in the fair values of the cross-currency-swaps (net investment hedges) are recognized in equity and reversed through profit and loss upon disposal of the entity. As of December 31, 2022, the fair values of the cross-currency-swaps amount to CHF 32.0 million.

4.3 Borrowings

	2022		2021	
	CHF million	Interest	CHF million	Interest
Bank borrowings	10.5	1.1%	1.7	2.1%
Other current borrowings	16.7	0.5%	–	–
Current borrowings	27.2	0.7%	1.7	2.1%
of which EUR	27.2	0.7%	1.7	2.1%
Bonds	400.0	See below	–	–
Bank borrowings	241.1	1.0%	4.6	2.2%
Non-current borrowings against third parties	430.9	1.1%	0.5	0.3%
Non-current borrowings	672.0	1.1%	5.1	2.0%
of which CHF	400.0	1.2%	–	–
of which EUR	272.0	1.0%	5.1	2.0%
Total borrowings	699.2	1.1%	6.8	2.0%

Bonds

Nominal value in CHF million	Interest rate	Term	Expiration at nominal value
250.0	1.00%	2022–2025	06.06.2025
150.0	1.45%	2022–2027	06.08.2027

In connection with the financing of the Hoffmann SE acquisition SFS Group has issued two bonds in June 2022. Bonds are recognized in the balance sheet at nominal value. Deviations from the nominal value in the case of below or above-par issues are offset with the emission costs and recognized as accruals and deferrals and afterwards reversed on a straight-line basis over the term of the bonds.

The financial liabilities have the following maturities:

Cash-outflows	Total 2022	In 3 months	In 4–12 months	In 13–24 months	Later
Borrowings	699.2	3.4	23.8	25.6	646.4
Interest payments	27.4	1.9	5.5	7.2	12.8
Total 12.31.2022	726.6	5.3	29.3	32.8	659.2

	Total 2021	in 3 months	in 4–12 months	in 13–24 months	Later
Borrowings	6.8	0.4	1.4	1.4	3.7
Interest payments	0.4	0.0	0.1	0.1	0.2
Total 12.31.2021	7.2	0.4	1.5	1.5	3.8

Syndicated loan

A loan contract was negotiated with five banks in August 2014. Due to the acquisition of Hoffmann SE the existing syndicated loan contract was prematurely renewed and two additional banks were included in the syndicat. The new contract term is for five years and ends on May 10, 2027. The committed and uncollateralized revolving credit line amounts to CHF 600 million and is used to 32.8% (PY 0.0%) at the end of 2022. It may be increased by a maximum amount of an additional CHF 100 million and it may be extended twice by one year, provided the lenders agree to the request of SFS Group. The option to increase the maximum amount can be used up to three months before the final maturity date.

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	2022	2021
No later than 1 year	44.7	14.6
Later than 1 year and no later than 5 years	80.2	25.1
Later than 5 years	206.5	6.4
Total	331.4	46.1

4.5 Off-balance sheet transactions

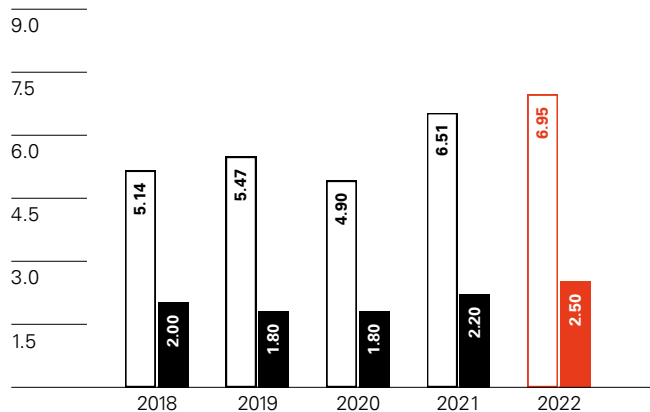
	2022	2021
Debt guarantees	0.7	2.7
Guarantee obligations	12.3	12.6
Other commitments	292.2	2.6

Contingent liabilities are mainly due to potential warranty claims, guarantee obligations, liens in favor of third parties and long-term rental agreements. 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 and payout per share

In CHF

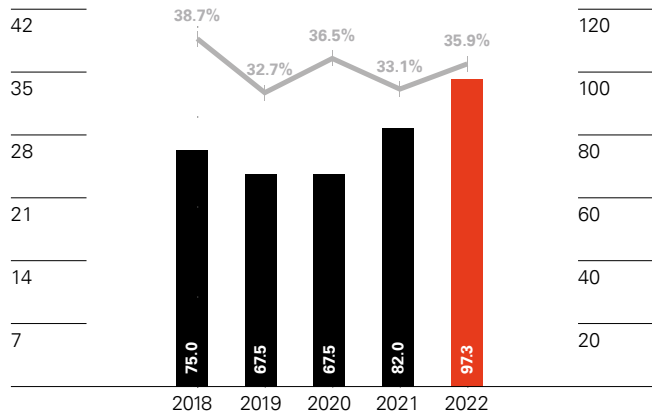


□ Earnings per share ■ Payout per share in CHF

Payout

In %

In CHF million



— Payout in % ■ Payout in CHF million

A payout for the financial year 2022 of CHF 2.50 (PY CHF 2.20) per registered share, amounting to a total of CHF 97.3 million (PY CHF 82.0 million), will be proposed at the Annual General Meeting of SFS Group AG on April 26, 2023. The payout from retained earnings and the statutory capital reserve will be realized and accounted in the books after the approval of the Annual General Meeting.

	2022	2021
Weighted average number of outstanding shares	38,365,076	37,459,547
Net income attributable to owners of SFS Group AG	266.7	243.8
Earnings per share (in CHF) basic and diluted	6.95	6.51

As of December 31, 2022, 38,900,000 (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. As of balance sheet date there exists authorized capital in the amount of no more than CHF 20,000 (which corresponds to a maximum of 200,000 shares) (PY none) and no conditional capital (PY none). There are no dilutive effects (PY none). Statutory and legal reserves that may not be distributed amount to CHF 60.4 million (PY CHF 45.3 million) as of December 31, 2022.

Share capital and treasury shares

	Quantity	Transaction price (Ø) in CHF	Purchase cost (Ø) in CHF million
Balance as at 1.1.2021	–	–	–
Purchases	99,214	126.2	12.5
Sale	–41,150	123.7	–5.1
Balance as at 12.31.2021	58,064	128.3	7.4
Purchases	172,264	120.3	20.7
Disposals (acquisitions)	–200,000	121.0	–24.5
Sale	–17,500	86.0	–2.1
Balance as at 12.31.2022	12,828	119.0	1.5

In connection with the financing of the Hoffmann SE acquisition the share capital of SFS Group AG was increased by 1,400,000 shares with a nominal value of CHF 0.10 per share. The premium on the issuance of shares amounted to CHF 169.2 million.

The share capital of SFS Group AG constitutes the share capital of the SFS Group. The consideration paid for treasury shares is deducted from the equity and separately disclosed. The profit or loss realized by sales of treasury shares are recognized as a reduction of capital reserves, net of any related income taxes. Part of the purchase price of Hoffmann SE was paid by transferring 200,000 treasury shares with a fair value of CHF 24.5 million. As of December 31, 2022, SFS Group companies hold 12,828 shares (PY 58,064) and the SFS Patronage Fund holds 41,247 shares (PY 20,881) in SFS Group AG.

There exist no obligations to repurchase treasury shares disposed of.

4.7 Derivative financial instruments

Forward foreign exchange contracts 2022	CHF	EUR	USD	CNY	Contract value JPY	Market value CHF
	EUR sale/CHF purchase	46.0	-45.9	-	-	-
CHF sale/EUR purchase (FX-Swap)	-6.4	6.5	-	-	-	0.0
CHF sale/USD purchase (FX-Swap)	-4.6	-	5.0	-	-	0.0
USD sale/CHF purchase	14.5	-	-15.0	-	-	0.9
USD sales/CNY purchase	-	-	-53.5	362.0	-	-0.8
USD sale/JPY purchase	-	-	-0.2	-	31.1	0.0

Other derivative financial instruments						
Cross-Currency-Swap EUR sale/CHF purchase	250.0	-238.4	-	-	-	19.4
Cross-Currency-Swap EUR sale/CHF purchase	150.0	-143.0	-	-	-	12.6

Forward foreign exchange contracts 2021	CHF	EUR	USD	Contract value CNY	Market value CHF
	EUR sale/CHF purchase	87.6	-81.5	-	-
USD sale/CNY purchase	-	-	-73.4	482.2	1.3

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 2022 and 2021 exclusively for the purpose of currency hedging.

The SFS Group also uses derivative financial instruments to hedge the foreign currency exposure which arises from the translation of net investments in foreign entities (designated as hedged items) into the Group's presentation currency. Changes in the fair values of the net investment hedges are recognized in equity and reversed through profit and loss upon disposal of the entity. In connection with the financing of the Hoffmann SE acquisition and the corresponding issuance of two bonds with a volume of CHF 400 million (refer to note 4.3), SFS Group has entered into two cross-currency-swaps (CHF/EUR) with the same volume and maturity. These cross-currency-swaps (designated as hedging instruments) are used to hedge the foreign currency exposure which arises from the translation of net investments in foreign entities (designated as hedged items) into the Group's presentation currency.

4.8 Exchange rates

	Unit	Balance sheet		Income statement	
		2022	2021	2022	2021
China	CNY 100	13.382	14.359	14.200	14.186
EU	EUR 1	0.985	1.033	1.005	1.083
United Kingdom	GBP 1	1.110	1.229	1.180	1.259
USA	USD 1	0.923	0.912	0.955	0.914

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

	2022	2021
Acquisition of subsidiaries		
Cash and cash equivalents	25.2	0.1
Trade receivables	373.3	0.5
Inventories	203.7	1.0
Other current assets	73.6	0.0
Property, plant and equipment	287.3	0.1
Intangible assets	14.1	–
Other non-current assets	58.7	0.0
Current liabilities	–385.1	–1.1
Non-current liabilities	–73.3	–
Acquired net assets	577.5	0.6
Goodwill offset against equity	486.9	7.1
Purchase price incl. acquisition cost	1,064.4	7.7
Non-cash part of purchase price	–520.1	–
Cash and cash equivalents	–25.2	–0.1
Consideration in cash flow statement	519.1	7.6

2022

As of May 1, 2022, SFS Group acquired 100% of Hoffmann SE. Hoffmann was incorporated into the SFS organization as an individual division with the name "D&L International" within the Distribution & Logistics segment. Headquartered in Munich (Germany), Hoffmann SE has around 3,000 employees and is on site in over 50 countries. In 2021, Hoffmann generated sales of approximately EUR 1.0 billion. Hoffmann is a leading international systems partner for quality tools that is well-known on European markets and serves more than 100,000 customers with a product range comprising around 500,000 items. Customers appreciate not only the company's comprehensive range of products but also its high level of product and logistics expertise. The transaction did not include Contorion, the eCommerce subsidiary of Hoffmann SE, which is geared toward a different customer segment. The Russian subsidiary of Hoffmann is also not included in the scope of consolidation. Contract clauses do not include any contingent consideration (earnout).

2021

On December 21, 2021, SFS Group signed an agreement to acquire 100% of the shares of Hoffmann SE.

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

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

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

5.2 Group companies

Subsidiaries

Country	Registered office	Name of the company	Participation in %		Share capital in local currency		Activities
			2022	2021	Currency	(1,000)	
China	Nantong	Unisteel Technology (China) Co., Ltd	100.0	100.0	CNY	499,119	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100,688	L
		SFS Group (Shanghai) Co., Ltd.	100.0	100.0	CNY	14,263	DL
		Hoffmann Quality Tools Trading Co., Ltd.	100.0	–	CNY	77,069	V
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	100.0	100.0	CRC	1,804,126	V, P
Germany	Achim	Hoffmann GmbH	100.0	–	EUR	512	V
	Essen	Hoffmann Essen Qualitätswerkzeuge GmbH	100.0	–	EUR	100	V
	Göppingen	Hoffmann Göppingen Qualitätswerkzeuge GmbH	100.0	–	EUR	30	V
	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
	Munich	Hoffmann Auslands-Beteiligungs GmbH	100.0	–	EUR	25	H
		Hoffmann Asset Management GmbH	100.0	–	EUR	25	DL
		Hoffmann Engineering Services GmbH	100.0	–	EUR	25	DL
		Hoffmann Group Immobilien GmbH	100.0	–	EUR	25	DL
		Hoffmann GmbH Qualitätswerkzeuge	100.0	–	EUR	512	V
		Hoffmann SE	100.0	–	EUR	2,550	H,DL
		Hoffmann IT & General Service GmbH	100.0	–	EUR	25	DL
		Hoffmann Group System GmbH	100.0	–	EUR	100	DL
		Proserve Vertriebs- und Beratungs GmbH	100.0	–	EUR	26	H
		Simple System GmbH	100.0	–	EUR	26	V
	Nuremberg	Hoffmann Nürnberg GmbH Qualitätswerkzeuge	100.0	–	EUR	625	V
		Hoffmann Supply Chain GmbH	100.0	–	EUR	75	DL
	Oberursel	SFS Group Germany GmbH (former SFS intec GmbH)	100.0	100.0	EUR	5,000	V, P
		SFS intec Beteiligungen GmbH & Co. KG	–	99.0	EUR	4,000	H
	Reutlingen	Garant Productions GmbH	100.0	–	EUR	25	P
	Schramberg	Ludwig Hettich Holding GmbH & Co. KG	51.0	51.0	EUR	2,500	H
		Ludwig Hettich Verwaltungs-GmbH	51.0	51.0	EUR	26	H
		HECO Schrauben GmbH & Co. KG	51.0	51.0	EUR	1,230	V, P
Denmark	Copenhagen	Hoffmann Danmark ApS	100.0	–	DKK	125	V
	Roskilde	Jevith A/S	100.0	100.0	DKK	500	V
Estonia	Tallinn	SFS intec Oy Eesti Filiaal	100.0	100.0	EUR	n/a	V
Finland	Nummela	SFS intec Oy	100.0	100.0	EUR	84	V
France	Drusenheim	Hoffmann France SAS	100.0	–	EUR	500	V
	Lyon	Simple System SAS	100.0	–	EUR	10	L
	Saint-Projet	HECO France Sarl	51.0	51.0	EUR	8	V
	Valence	SFS Group SAS	100.0	100.0	EUR	3,078	V, P
United Kingdom	Leeds	SFS Group Fastening Technology Ltd	100.0	100.0	GBP	2,000	V, P
	London	Hoffmann UK Quality Tools Ltd.	100.0	–	GBP	5,973	V
India	Pune	Hoffmann Quality Tools India Pvt. Ltd.	100.0	–	INR	528,750	V
		SFS Group India Pvt. Ltd. (former 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
	Vigonza	Hoffmann Italia S.p.A.	100.0	–	EUR	500	V
Canada	Dundas	SFS Intec Inc.	100.0	100.0	CAD	4,000	V, P
Malaysia	Johor Bahru	Hoffmann Quality Tools Malaysia Sdn Bhd	100.0	–	MYR	16,024	V
		Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P

Mauritius	Ebène	Unisteel International Pte Ltd	–	100.0	USD	1	L
Mexico	Puebla	Hoffmann Quality Tools Mexico S. de R.L. de C.V.	100.0	–	MXN	9,150	V
	Querétaro	SFS Group Fastening Technology Mexico S.A.	100.0	100.0	MXN	50	V
Netherlands	Helmond	Guardian B.V.	100.0	100.0	EUR	18	V, P
	Hengelo	Hoffmann Quality Tools B.V.	100.0	–	EUR	37	V
Norway	Frogner	SFS Group Norway AS (former SFS intec AS)	100.0	100.0	NOK	2,030	V
Austria	Korneuburg	SFS Group Austria GmbH	100.0	100.0	EUR	146	V, P
	Zell am Moos	Hoffmann Austria Qualitätswerkzeuge GmbH	100.0	–	EUR	35	V
Poland	Poznan	SFS Group Sp. z o.o.	100.0	100.0	PLN	11,937	V
Portugal	Lisbon	Hoffmann Iberia Quality Tools S.L.	100.0	–	EUR	n/a	V
	Malveira	SFS Group Fastening Technology (Iberica), S.A.U. Sucursal em Portugal	100.0	100.0	EUR	n/a	V
Romania	Bucharest	Hoffmann Industrial Tools S.R.L.	100.0	–	RON	10	V
	Campia Turzii	HECO Schrauben S.r.l.	51.0	51.0	RON	12,737	P
Sweden	Strängnäs	SFS Group Sweden AB (former SFS intec AB)	100.0	100.0	SEK	200	V, P
Switzerland	Emmenbrücke municipality of Emmen	Allchemet AG	100.0	100.0	CHF	340	V
		Stamm AG	100.0	100.0	CHF	500	V, P
	Heerbrugg municipality of Widnau	SFS Group International AG	100.0	100.0	CHF	5,400	H
		SFS Group Schweiz AG (former SFS unimarket AG)	100.0	100.0	CHF	12,550	V, P
		SFS Group Schweiz AG (former SFS intec AG)	–	100.0	CHF	6,550	V, P
SFS Group Schweiz AG (former SFS services AG)	–	100.0	CHF	100	DL		
Singapore	Singapore	Hoffmann Quality Tools Asia Pacific Pte. Ltd.	100.0	–	SGD	12,865	V
		Unisteel Technology Limited	100.0	100.0	USD	340,443	V
Slovakia	Bratislava	Hoffmann Qualitätswerkzeuge SK s.r.o.	100.0	–	EUR	7	V
Slovenia	Ljubljana	Hoffmann kvalitetna orodja d.o.o.	100.0	–	EUR	500	V
Spain	Madrid	Hoffmann Iberia Quality Tools S.L.	100.0	–	EUR	50	V
	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	Ejovice	Hoffmann Qualitätswerkzeuge CZ s.r.o.	100.0	–	CZK	100	V
	Turnov	SFS Group CZ s.r.o.	100.0	100.0	CZK	205,000	V, P
Turkey	Torbalı-Izmir	SFS intec Baglantı Teknolojileri Sanayi ve Ticaret A.S.	95.1	95.1	TRY	23,109	V, P
		SFS Group Pazarlama A.S.	95.1	95.1	TRY	100	V
Hungary	Budapest	Hoffmann Hungary Quality Tools Kft.	100.0	–	HUF	3,000	V
	Janossomorja	SFS Group Hungary Kft.	100.0	100.0	HUF	412,500	V, P
USA	Franklin, MA	Tegra Medical, LLC	100.0	100.0	USD	137,839	V, P
		Tegra Medical CR, LLC	100.0	100.0	USD	0	H
	Knoxville, TN	Hoffmann Quality Tools USA, Inc.	100.0	–	USD	6,000	V
	Pittsburgh, PA	Triangle Fastener Corporation	100.0	100.0	USD	1	V
	Watertown, CT	Truelove & Maclean, Inc.	100.0	100.0	USD	1	V, P
	Wyomissing, PA	SFS Group USA, Inc.	100.0	100.0	USD	37,750	V, P

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

The closing date of all companies, except of Hoffmann Quality Tools India Pvt. Ltd., is December 31.

2022

SFS intec AS was renamed to SFS Group Norway AS. Indo Schöttle Auto Parts Pvt. Ltd. was renamed to SFS Group India Pvt. Ltd. SFS intec GmbH was renamed to SFS Group Germany GmbH. SFS intec AB was renamed to SFS Group Sweden AB.

MBE Moderne Befestigungselemente GmbH and SFS intec Beteiligungen GmbH & Co. KG were merged into SFS Group Germany GmbH.

SFS intec AG and SFS Group Schweiz AG were merged into SFS unimarket AG, which was renamed to SFS Group Schweiz AG. Furthermore, Unisteel International Pte Ltd was liquidated.

2021

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

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

Joint ventures

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2022	2021	(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:

	2022	2021
Sales of goods and services	3.5	3.1
Purchases of goods and services	0.9	0.6
Receivables	0.2	0.1

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 CHF 0.6 million) in connection with the administration of the SFS pension fund and the patronage fund. Further business relationships with the pension fund include expenses of CHF 0.4 million (PY none).

Business relationship with associates and joint ventures

	2022	2021
Sales of goods and services	2.0	2.0
Receivables	0.4	0.7
Bank guarantees	12.3	12.6

6 Events after the balance sheet date

SFS is not aware of any events that occurred after the balance sheet date that could have a material impact on the consolidated financial statements for the financial year ended December 31, 2022.

The consolidated financial statements of the SFS Group were approved by the Audit Committee and the Board of Directors on March 2, 2023, and are subject to final approval at the Annual General Meeting of shareholders, which will take place on April 26, 2023.

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SFS Group AG and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated balance sheet as at 31 December 2022, the consolidated statement of changes in equity, the 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 62 to 95) give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). 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 16.9 million.

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

Our activities cover Group companies that account for 78% of the group’s net sales and 84% of its assets.

As key audit matters, the following areas of focus have been identified:

- Valuation of inventories
- Acquisition of the Hoffmann SE and its presentation in the consolidated financial statements

Context of our audit 2022

The context of our audit is set by the Group's major activities in the reporting period in which the acquisition of the Hoffmann SE and its representation in the Group's financial statements has been a significant event. We therefore considered this topic as a new key audit matter.

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 16.9 million
Benchmark applied	Profit before income taxes
Rationale for the materiality benchmark applied	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 0.845 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

We designed the scope of our audit in order to cover the significant subsidiaries with a full scope audit or review. For the other companies, we relied on the results of the completed statutory audits and on analyses of significant changes. In particular, for these companies we checked the reconciliation of the statutory financial statements to Swiss GAAP FER. Where audits were performed by component auditors, we ensure that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. This involvement included communicating the risks identified at Group level, specifying the materiality levels to be used, detailed audit instructions, holding meetings and reviewing the reports for the interim and final audits of the relevant subsidiaries.

Key audit matters

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

Valuation of inventories

Key audit matter	How our audit addressed the key audit matter
<p>Inventories as at 31 December 2022 amount to CHF 630.6 million. This represents 24.5% of total assets.</p> <p>We consider the valuation of inventories a key audit matter. In particular, the following risks exist in connection with the valuation of inventories by management:</p> <ul style="list-style-type: none"> • Inventories are not stated at the lower of average acquisition or production cost or – if this is lower – at the net realizable value (lower of cost or market value principle: assessment of the lower value from acquisition and production costs on the one hand and the net realizable value on the other hand). • Write-downs for obsolescent inventory or stock that exceeds the usual sales volume (e.g. slow moving or excess inventory) are inadequate. <p>Further details regarding inventories can be found in note 3.3.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • Sample-based testing of whether inventories were stated at acquisition or production costs in accordance with Swiss GAAP FER. We compared the acquisition costs used for the valuation of raw materials, supplies and consumables, and purchased finished goods with the latest purchase prices or other evidence. We tested the additional costs included in the production costs of semi-finished and finished goods, in particular using overhead recovery variance analysis or alternative methods. • Sample-based testing of whether the lower of acquisition or production cost and net realisable value has been applied. • Sample-based testing of the mathematical correctness and appropriateness of Management's calculation of write-downs of obsolescent inventory. • Testing whether the determined write-downs for obsolescent inventory or stock have been correctly recorded in the accounts. <p>On the basis of our audit procedures, we consider Management's valuation of the inventories to be appropriate.</p>

Acquisition of the Hoffmann SE and its presentation in the consolidated financial statements

Key audit matter

Effective as of the beginning of May 2022, the Group acquired 100% of the shares of the German trading and sales group Hoffmann SE.

As this acquisition represents a significant expansion of the Group's business activities, we consider its presentation in the consolidated financial statements a key audit matter. With regard to the presentation of the acquisition in the consolidated financial statements, the following risks exist in particular:

- The date of acquisition of control, and thus of the first-time inclusion of Hoffmann SE in the consolidated financial statements of SFS Group AG, is not appropriately chosen.
- Assets and liabilities acquired in the course of the acquisition are not measured at fair values.
- The calculation of goodwill as the surplus of the acquisition costs over the revalued net assets of Hoffmann SE and its offsetting against Group equity is not carried out properly.

Further details on the Hoffmann SE acquisition can be found in note 5.1.

How our audit addressed the key audit matter

The risks identified in connection with the acquisition of the Hoffmann SE were addressed by the following audit procedures, in particular:

- Gain an understanding of the process and approval steps of the acquisition.
- Analysis and evaluation of contractual provisions and other relevant information.
- Audit of the opening balance sheet in the consolidated financial statements on the basis of a defined audit scope.
- Assessment of the appropriateness of the fair values of the acquired assets and liabilities and their initial recognition in the consolidated financial statements.
- Review of the calculation and entry of goodwill from the acquisition as well as its proper presentation in the consolidated financial statements.

On the basis of our audit procedures, we consider management's approach to recording and presenting the acquisition to be appropriate.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the consolidated financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities 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 SA-CH 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 more detailed description of our responsibilities for the audit of the consolidated financial statements can be found on the EXPERTsuisse website: <http://www.expertsuisse.ch/en/audit-report>. This description forms an integral part of our report.

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Gianluca Galasso
Licensed audit expert
Auditor in charge



André P. Kueffer
Licensed audit expert

St. Gallen, 2 March 2023

Financial statements SFS Group AG

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Balance sheet

Assets in CHF million	Notes	12.31.2022	12.31.2021
Cash and cash equivalents		19.9	15.3
Other current receivables from Group companies		5.4	22.2
Prepayments and accrued income		0.4	0.0
Current assets		25.7	37.5
Derivative financial instruments		32.0	–
Financial assets from Group companies		1'645.1	819.6
Investments		119.1	90.8
Non-current assets		1'796.2	910.4
Assets		1'821.9	947.9
Liabilities and equity in CHF million			
	Notes	12.31.2022	12.31.2021
Interest-bearing borrowings from Group companies		24.4	26.5
Deferred income and accrued expenses		2.9	1.1
Current liabilities		27.3	27.6
Derivative financial instruments		32.0	–
Bonds	9	400.0	–
Interest-bearing borrowings from Group companies		284.4	25.6
Non-current liabilities		716.4	25.6
Share capital		3.9	3.8
Statutory capital reserve		180.7	11.5
Other capital reserves		–0.9	0.0
Statutory retained earnings		1.9	1.9
Voluntary retained earnings		275.1	275.1
Retained earnings		619.1	609.9
Treasury shares		–1.5	–7.4
Total equity*		1'078.2	894.7
Liabilities and equity		1'821.9	947.9

*Includes rounding differences of CHF 0.1 million.

Income statement

Income in CHF million	2022	2021
Investment income	95.0	81.3
Financial income	42.6	5.8
Total income	137.6	87.1
Expenses in CHF million		
Administration expense	-2.0	-0.4
Financial expenses	-44.4	-0.3
Total expenses	-46.4	-0.7
Net income before taxes	91.2	86.4
Direct taxes	-0.0	-0.8
Net income	91.2	85.6

Notes

1 Accounting policies

The present financial statements have been prepared in accordance with the regulations on commercial accounting and reporting given in the Swiss Code of Obligations. Securities (marketable securities with a stock exchange price) as well as derivative financial instruments 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 (PY none).

3 Investments

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

	2022		2021	
	Share capital	Participation ¹	Share capital	Participation ¹
SFS Group International AG, Heerbrugg, municipality of Widnau, Switzerland	5.4	100%	5.4	100%
SFS Group Schweiz AG (former SFS unimarket AG), Heerbrugg, municipality of Widnau, Switzerland	12.6	100%	12.6	100%
SFS Group Schweiz AG (vormals SFS services AG), Heerbrugg, municipality of Widnau, Switzerland	-	-	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 38,900,000 registered shares (PY 37,500,000 registered shares) each with a par value of CHF 0.10. No conversion and option rights have been issued.

As of December 31, 2021, SFS Group Schweiz AG holds 12,828 treasury shares (PY 58,064). In the reporting period 172,264 treasury shares (PY 99,214) were purchased and 17,500 treasury shares (PY 41,150) were disposed of due to share-based compensation or employee share purchase programs. In addition, 200,000 treasury shares were disposed of due to the acquisition of Hoffmann SE.

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	12.31.2022	12.31.2021
Founding families	53.0%	54.9%

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

The Board of Directors is not aware of any other shareholders or shareholder groups listed in the share register holding more than 5% of the share capital or voting rights.

6 Board of Directors' and Group Executive Board's shareholdings

The following tables provide information with regard to the shareholdings of the Board members:

Board of Directors	Number of shares 12.31.2022	Number of shares 12.31.2021
Thomas Oetterli, Chairman since April 2022, external, independent member	10,820	8,760
Heinrich Spoerry, Chairman until April 2022, external, independent member	n/a	202,760
Peter Bauschatz, external, independent member since April 2022	1,060	n/a
Nick Huber, external member*	116,212	115,152
Urs Kaufmann, external, independent member	11,820	10,760
Bettina Stadler, external member*	393,960	392,900
Manuela Suter, external, independent member	1,280	500
Jörg Walther, external, independent member	6,700	5,640
Total	541,852	736,472

* Member family shareholders

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

	Number of shares 12.31.2022	Number of shares 12.31.2021
Group Executive Board		
Jens Breu, Chief Executive Officer	31,370	28,310
Arthur Blank, Head of Division Construction	15,485	14,455
Volker Dostmann, Chief Financial Officer	1,363	115
Walter Kobler, Head of Divisions Industrial, Head of Division Medical	23,555	22,525
Urs Langenauer, Head of Division Riveting	4,691	3,631
George Poh, Head of Division Electronics	49,197	47,574
Iso Raunjak, Head of Division Distribution & Logistics Switzerland	1,153	373
Martin Reichenecker, Head of Division Distribution & Logistics International since May 2022	560	n/a
Alfred Schneider, Head of Division Automotive	19,055	17,885
Claude Stadler, Head of Corporate Services*	393,266	392,143
Total	539,695	527,011

* Member family shareholders

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

7 Statutory capital reserve

The disclosed statutory capital reserve amounts to CHF 180,741,326.35 (PY CHF 11,549,250). The increase is due to the premium on the issuance of shares in connection with the financing of the Hoffmann SE acquisition. The increase of the statutory capital reserve of CHF 169,192,076.35 has not yet been approved by the Federal Tax Administration (FTA), because the confirmation cannot be issued before approval of these financial statements. The Federal Tax Administration (FTA) has not approved CHF 11,179,652.50 (IPO and capital expenses 2014) of the statutory capital reserve of CHF 11,549,250 which already existed on January 1, 2022. 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 a statutory capital reserve.

8 Contingent liabilities

Apart from the warranty obligations there are no contingent liabilities.

	12.31.2022	12.31.2021
Contingent liabilities		
Warranty obligations to Group companies	641.8	199.1
Warranty obligations to third parties	12.3	12.6
of which used	205.6	9.6

9 Bonds

Nominal value in CHF million	Interest rate	Term	Expiration at nominal value
250.0	1.00%	2022–2025	06.06.2025
150.0	1.45%	2022–2027	06.08.2027

In connection with the financing of the Hoffmann SE acquisition SFS Group has issued two bonds in June 2022. The total volume amounts to CHF 400 million. Bonds are recognized in the balance sheet at nominal value. Deviations from the nominal value in the case of below or above-par issues are offset with the emission costs and recognized as accruals and deferrals and afterwards reversed on a straight-line basis over the term of the bonds.

10 Events after the balance sheet date

SFS is not aware of any events that occurred after the balance sheet date that could have a material impact on the financial statements for the financial year ended December 31, 2022.

Proposed appropriation of retained earnings and the statutory capital reserve

The Board of Directors proposes to the Annual General Meeting of shareholders to payout a total of CHF 2.50 (PY 2.20) per registered share with a nominal of CHF 0.10 per share.

Proposed appropriation of retained earnings

Payment from retained earnings **CHF 1.25** (PY 2.20) per registered share with a nominal of CHF 0.10 per share.

Retained earnings in CHF million	12.31.2022	Decision AGM 12.31.2021
Profit carryforward	527.9	524.3
Net income	91.2	85.6
Earnings available for distribution	619.1	609.9
Payout from retained earnings*	-48.6	-82.0
Carryforward to retained earnings	570.5	527.9

Proposed appropriation of the statutory capital reserve

Payment from the statutory capital reserve **CHF 1.25** (PY none) per registered share with a nominal of CHF 0.10 per share.

Statutory capital reserve in CHF million	12.31.2022	12.31.2021
Carryforward of statutory capital reserve	11.5	11.5
Changes of statutory capital reserve	169.2	
Payout from statutory capital reserve*	-48.6	-
Carryforward to statutory capital reserve	132.1	11.5

*The dividend is based on the issued share capital as at December 31, 2022. No dividends will be distributed to treasury shares held by SFS Group AG.

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

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SFS Group AG (the Company), which comprise the balance sheet as at 31 December 2022, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 104 to 108) 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 Standards on Auditing (SA-CH). 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 Company 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 5.3 Mio.
Benchmark applied	Total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

Audit scope

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

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

Key audit matters

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

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the consolidated financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities 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 Company'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 Company 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 SA-CH 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 on EXPERTsuisse's website: <http://www.expertsuisse.ch/en/audit-report>. This description forms an integral part of our report.

Report on other legal and regulatory requirements


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

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

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'G. Galasso', written in a cursive style.

Gianluca Galasso
Licensed audit expert
Auditor in charge

A handwritten signature in blue ink, appearing to read 'A. Kueffer', written in a cursive style.

André P. Kueffer
Licensed audit expert

St. Gallen, 2 March 2023

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 Operating Free Cash Flow. These key figures help to steer the organization 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	2022	2021	2020	2019	2018
Equity at year end	1,303.6	1,450.4	1,278.2	1,237.2	1,204.6
+ Goodwill offset against equity	1,509.6	1,022.7	1,015.6	984.7	912.8
- Net cash/+ net debt	477.7	-279.1	-144.3	-68.7	-59.1
Invested capital	3,290.9	2,194.0	2,149.5	2,153.2	2,058.3
Operating profit (EBIT) adjusted	353.2	298.6	225.3	239.1	243.1
- Tax 17.5%	-61.8	-52.3	-39.4	-41.8	-42.5
Operating profit (EBIT) adjusted less tax	291.4	246.3	185.9	197.3	200.6
ROIC	8.9%	11.2%	8.6%	9.2%	9.7%

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 twelve months.

In CHF million	2022	2021	2020	2019	2018
Ø Net working capital	896.1	701.6	603.0	615.8	580.1
- Ø Cash and cash equivalents	-228.3	-235.1	-146.2	-147.8	-124.3
+ Ø Tangible and intangible assets	940.7	729.2	721.2	723.1	686.8
- Ø Net deferred tax liabilities and provisions	-50.9	-52.1	-44.1	-56.2	-71.8
Ø Capital employed	1,557.6	1,143.6	1,134.0	1,134.9	1,070.8
Operating profit (EBIT) adjusted	353.2	298.6	225.3	239.1	243.1
ROCE	22.7%	26.1%	19.9%	21.1%	22.7%

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 7.

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	2022	2021	2020	2019	2018
Operating profit (EBIT)	330.3	301.7	227.4	236.3	243.1
+ Amortization of inventory step-up related to purchase price allocation of Hoffmann SE acquisition and first-time intra-segment profit elimination in inventory (Segment D&L)	22.9	–	–	–	–
– Book gain on disposal of non-operating assets	–	–3.1	–2.1	–14.3	–
+ Relocation cost CN-Nantong	–	–	–	17.1	–
Operating profit (EBIT) adjusted	353.2	298.6	225.3	239.1	243.1
Net sales	2,738.7	1,897.3	1,707.1	1,782.1	1,736.9
EBIT margin adjusted	12.9%	15.7%	13.2%	13.4%	14.0%

Operating Free Cash Flow

It is very important to SFS to finance capital expenditures needed for organic growth with own funds. Operating 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 Operating Free Cash Flow generation. To increase comparability, acquisitions of subsidiaries are not taken into account.

In CHF million	2022	2021	2020	2019	2018
Cash flow from operating activities	287.9	324.5	296.4	277.6	263.5
– Purchases of					
property, plant and equipment	–149.2	–104.6	–98.4	–114.5	–146.1
intangible assets	–21.8	–16.8	–5.7	–2.2	–3.0
Operating Free Cash Flow	116.9	203.1	192.3	160.9	114.4

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

	12.31.2022	12.31.2021	12.31.2020	12.31.2019	12.31.2018
Number of registered shares (in 1,000)	38,900	37,500	37,500	37,500	37,500
Number of shares ranking for dividend (in 1,000)	38,900	37,500	37,500	37,500	37,500
Weighted average number of outstanding shares (in 1,000)	38,365	37,460	37,500	37,500	37,500
Number of shareholders	8,691	7,910	7,825	8,353	7,960
Stock exchange quotation (in CHF)					
Year high	140.90	143.00	106.90	97.00	121.80
Year low	80.90	103.90	58.85	68.60	73.80
Year-end price	87.50	126.20	105.00	93.10	76.30
Share key data					
Earnings per share in CHF	6.95	6.51	4.90	5.47	5.14
Distribution per share in CHF	2.50	2.20	1.80	1.80	2.00
Payout ratio in % of net income	35.9	33.1	36.5	32.7	38.7
Price/earnings ratio (year-end price)	12.6	19.4	21.4	17.0	14.8
Market capitalization					
In CHF million (year-end price × number of shares ranking for dividend)	3,403.8	4,732.5	3,937.5	3,491.3	2,861.3
As a % of net sales	124.3	249.4	230.7	195.9	164.7
As a % of equity	261.1	326.3	308.1	282.2	237.5

Agenda

Wednesday, April 26, 2023 30th Annual General Meeting of SFS Group AG
 Tuesday, July 18, 2023 Publication half-year results 2023

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 SIX Swiss Exchange AG SFSN
 Reuters SFSN.S
 Bloomberg SFSN SW
 Fact Set SFSN-CH

Annual Report 2022

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 →.

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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