

Compensation report

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1 Introduction

This Compensation Report provides information about the compensation system established by SFS Group and the compensation paid to the SFS' Board of Directors and the Group Executive Board. SFS Group updated the compensation system in conjunction with its IPO in 2014 and revised it in the year 2018.

This Compensation Report satisfies the provisions of the Ordinance Against Excessive Compensation in listed companies (OAEC) in effect as of January 2014 and the pertinent provisions of the Swiss Code of Obligations in connection therewith. The structure of this report basically follows the provisions set forth in the Directive on Information relating to Corporate Governance issued by SIX Swiss Exchange AG and the Articles of Association of SFS Group AG.

2 Fundamental principles of the compensation system

The success of SFS Group depends to a large extent on the quality, entrepreneurial mindset and motivation of its workforce. The aim of the compensation system is to attract well-qualified specialists and executives, and foster commitment to the company's long-term goals. The compensation policy of SFS Group satisfies the following criteria:

- Performance-oriented with fixed and variable compensation components
- Based on clearly defined and measurable targets
- Clear and straightforward
- Compensation is fair and market-based
- Predefined maximum and minimum thresholds

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

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

Responsibility for revision of the compensation system and proposal of the amounts of compensation to be paid lies with the Nomination and Compensation Committee (NCC). Its proposals are submitted to the entire Board of Directors. The composition, tasks and duties and working methods of the NCC are disclosed in the Corporate Governance Report. The NCC comprises at least two but not more than four members out of the Board of Directors elected annually by the General Meeting.

2.1 Compensation of the Board of Directors

The members of the Board of Directors receive a fixed basic fee, fixed fees for membership of committees of the Board of Directors and a lump-sum compensation for expenses. The various amounts of compensation are determined annually by the Board of Directors based on a proposal submitted by the NCC. The amount of compensation paid is subject to and within the limits of the aggregate amounts approved by the Annual General Meeting. Compensation is paid in cash and in the form of a fixed number of shares of SFS Group AG. The SFS shares are a compensation component focused on longterm success and are subject to a minimum holding period of three years. The weighting of SFS shares as a component of overall compensation is reviewed on a regular basis by the NCC. Proposals for modification will be submitted to the Board of Directors if and when appropriate.

Basic fee and share allocation

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

An additional compensation, as specified in Art. 25 of the Articles of Association, was not awarded during the year under review or during the previous year. Compensation of the members of the Board of Directors is subject to approval by the Annual General Meeting.

In principal, there will be no payments to pension funds or similar institutions for the members of the Board of Directors. In exceptional cases such payments may be made upon request of the NCC and are subject to the approval by the Annual General Meeting if the members in question do not have other insurable income from subordinate employment.

2.2 Compensation of the Group Executive Board

Members of the Group Executive Board (GEB) receive a base salary in cash commensurate with their responsibilities and experience. In addition, a variable component of compensation based on individual performance and the operational results is paid in cash and in the form of SFS shares. The SFS shares awarded are blocked for a period of at least three years.

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

The compensation for GEB members comprises the following components:

- 1) Base salary
- 2) Variable cash compensation
- 3) Variable SFS share compensation

1) Base salary

As a general rule, the base salary corresponds to the fixed salary as paid in 13 monthly installments. It is fixed individually and considers the function performed and the responsibility of the particular member of the GEB.

2) Variable cash compensation

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

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

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

The financial targets are set in advance for a one-year period of service. For the 2020 financial year, same as in the previous year, the financial targets at Group, segment and divisional level pertained to sales and the EBIT margin.

b) The achievement of individual annual targets

These compensation-relevant targets for the CEO are defined and determined by the Board of Directors; in respect of all other GEB members, they are defined and determined individually by the CEO. Ongoing projects, the established strategic targets and sustainable corporate development serve as guidelines in this process. A floor value is determined for each of the defined targets, below which there is no entitlement to compensation. A cap value determines the maximum amount of variable compensation for each target.

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

health and safety, equal treatment and training and education.

c) A discretionary decision regarding leadership

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

The weighting of the variable cash compensation is determined by the Board of Directors based on a proposal submitted by the NCC. For the year under review and the previous year, these weightings were set as follows:

| | CEO, CFO and Head of Corporate Services | Other members of GEB |
|--|--|----------------------------|
| Financial targets Group | 60% | 30% |
| Financial targets segments and divisions | – | 30% |
| Individual targets | 20% | 20% |
| Leadership, values, conduct | 20% | 20% |

3) Variable SFS share compensation

A second part of the variable compensation is paid out in the form of SFS shares. The Board of Directors determines a certain number of SFS shares to be awarded to each member every year at the beginning of the performance period. The number of the shares should be for the CEO within a target range of 1,500 to 2,500 shares and for the other members of the GEB within a target range of 250 to 1,000 shares. At the end of the performance period, the Board of Directors will determine at its own discretion how many SFS shares will be granted based on the proposal submitted by the NCC, taking into consideration the market environment (economic activity, industry developments, etc.), the execution of Company strategy, the Company's financial situation as well as the individual performance. A factor of 0% to 150% may be applied. The SFS shares are transferred to the members at the end of the Annual General Meeting at which this compensation is confirmed. These SFS shares are blocked for a period of at least three years. Shares awarded to a member of the GEB shall remain their property on separation from the Company.

2.3 Stock ownership plan

SFS Group can periodically offer company shares to selected and long-standing employees. The Board of Directors issued a regulation addressing the following elements in particular: Determination of the purchase price, granting of a potential discount on the purchase price, maximum reference value (valued upon allocation) in relation to the individual annual base compensation as well as a possible blocking period of the shares. The conditions are determined by the Board of Directors based on a proposal of the NCC. Members of the Board of Directors and the Group Executive Board may be

included in this programme. The SFS shares acquired through this plan will be blocked for at least three years. There was no stock ownership plan in 2020.

3 Process used to determine compensation

The NCC discusses the financial and individual targets to be set for the Group Executive Board for the coming financial year at the end of every year. It submits its proposals to the entire Board of Directors for approval.

Compensation of the Board of Directors and the variable compensation of the Group Executive Board is determined every year in February after the close of the financial year by the full Board of Directors based on the proposals of the NCC, subject to approval by the Annual General Meeting. The base salary of the Group Executive Board for the upcoming year is determined in December of the previous year by the full Board of Directors at the request of the NCC.

When setting its own compensation, all members of the Board of Directors are present and they all have decision-making authority.

When setting the aggregate compensation of the Board of Directors and the Group Executive Board, data for listed international industrial companies with a similar geographic footprint and of a similar size and with headquarter in Switzerland are consulted, and the individual responsibilities and experience of the respective member are also taken into consideration. This data is reviewed on a regular basis.

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

Responsibility for determination of variable compensation and aggregate compensation is shown in the following table:

| | Proposal | Decision | Approval |
|-------------------------------|----------|----------|----------|
| Board of Directors | NCC | Board | AGM |
| Chief Executive Officer | NCC | Board | AGM |
| Group Executive Board members | NCC | Board | AGM |

As stated in the Articles of Association, each year the Annual General Meeting casts separate votes on the proposals of the Board of Directors regarding the aggregate amount of:

1. Compensation of the Board of Directors for the term of office up to the next Annual General Meeting;
2. Any additional compensation of the Board of Directors for the preceding financial year;
3. The variable compensation of the CEO and the Group

Executive Board based on the operational results and individual objectives achieved in the preceding financial year, to be paid immediately after approval;

4. The fixed compensation of the CEO and the Group Executive Board to be paid in the following financial year.

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

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

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

4 Compensation in the year under review and in the previous year

This section is subject to inspection by the auditors.

4.1 Compensation of the Board of Directors 2020

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

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

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

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

4.2 Compensation of the Board of Directors 2019

| In CHF except number of shares | Base salary in cash | Number of SFS shares | Value of SFS shares ¹ | Social benefits ² | Total |
|---------------------------------|------------------------|-------------------------|-------------------------------------|---------------------------------|------------------|
| Heinrich Spoerry, Chairman | 213,000 | 1,500 | 132,225 | 43,577 | 388,802 |
| Nick Huber | 80,000 | 500 | 44,075 | 18,358 | 142,433 |
| Urs Kaufmann | 80,000 | 500 | 44,075 | 18,358 | 142,433 |
| Thomas Oetterli | 80,000 | 500 | 44,075 | 18,373 | 142,448 |
| Bettina Stadler | 80,000 | 500 | 44,075 | 18,358 | 142,433 |
| Jörg Walther | 80,000 | 500 | 44,075 | 18,373 | 142,448 |
| Total Board of Directors | 613,000 | 4,000 | 352,600 | 135,397 | 1,100,997 |

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

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

4.3 Compensation of the Group Executive Board 2020

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

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

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

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

| In CHF except number of shares | Base salary gross in cash | Variable cash compensation gross | Number of SFS shares | Value of SFS shares gross ¹ | Other benefits ² | Total |
|-----------------------------------|---------------------------|----------------------------------|----------------------|--|-----------------------------|------------------|
| Jens Breu, CEO | 569,541 | 261,360 | 2,500 | 321,078 | 146,733 | 1,298,712 |
| Other members of GEB ³ | 2,735,867 | 853,423 | 5,666 | 751,329 | 559,503 | 4,900,122 |
| Total GEB | 3,305,408 | 1,114,783 | 8,166 | 1,072,407 | 706,236 | 6,198,834 |

¹ The exchange value of the SFS shares at the time of the determination at the meeting of the Board of Directors on 24 February 2021 was CHF 116.30 per share. Employee contributions to social security had been added to compensation "gross" numbers.

² Employer contributions to social security schemes and occupational pension plans.

³ At the end of the reporting period the Group Executive Board consisted of 9 members (CEO not included).

4.4 Compensation of the Group Executive Board 2019

| In CHF except number of shares | Base salary gross in cash | Variable cash compensation gross | Number of SFS shares | Value of SFS shares gross ¹ | Other benefits ² | Total |
|-----------------------------------|---------------------------|----------------------------------|----------------------|--|-----------------------------|------------------|
| Jens Breu, CEO | 559,000 | 208,000 | 2,500 | 233,271 | 120,805 | 1,121,076 |
| Other members of GEB ³ | 2,928,820 | 827,143 | 6,214 | 592,289 | 508,409 | 4,856,661 |
| Total GEB | 3,487,820 | 1,035,143 | 8,714 | 825,560 | 629,214 | 5,977,737 |

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

Of the approved 8,714 shares 8,557 shares had been effectively allocated.

² Employer contributions to social security schemes and occupational pension plans.

³ At the end of the reporting period the Group Executive Board consisted of 9 members (CEO not included).

4.5 Loans and credit facilities

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

5 Shares owned by the Board of Directors and the Group Executive Board

5.1 Board of Directors

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

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

5.2 Group Executive Board

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

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

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

We have audited the chapter 4 of the compensation report of SFS Group AG for the year ended 31 December 2020.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

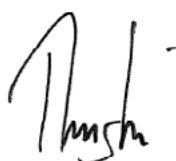
An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of SFS Group AG for the year ended 31 December 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Thomas Illi
Audit expert
Auditor in charge



Gianluca Galasso
Audit expert

St. Gallen, 4 March 2021