

Financial report

Financial statements SFS Group

Consolidated income statement	61
Consolidated balance sheet	62
Consolidated statement of changes in equity	63
Consolidated cash flow statement	64
Notes	66
Auditor's report	96

Financial statements SFS Group AG	102
--	------------

Information for shareholders	111
-------------------------------------	------------

Consolidated income statement

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

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

Consolidated balance sheet

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

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

Consolidated statement of changes in equity

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

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

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

Consolidated cash flow statement

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

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

Notes

1	General information	67
1.1	Summary of significant accounting policies	67
1.2	Consolidation principles and currency conversion	67
1.3	Critical accounting estimates and judgments	68
1.4	COVID-19 pandemic	68
2	Performance	68
2.1	Segment information	68
2.2	Net sales	73
2.3	Other operating income	73
2.4	Personnel expenses	74
2.5	Other operating expenses	74
2.6	Financial result	75
2.7	Income taxes	75
3	Capital employed	76
3.1	Trade receivables	76
3.2	Other current receivables	77
3.3	Inventories	77
3.4	Property, plant and equipment	78
3.5	Intangible assets	80
3.6	Theoretical goodwill	81
3.7	Trade payables	82
3.8	Other current payables	82
3.9	Pension benefit obligations	82
3.10	Non-current provisions	84
3.11	Deferred tax assets (-)/liabilities (+)	85
4	Financing and risk management	86
4.1	Cash and cash equivalents	86
4.2	Financial assets	87
4.3	Borrowings	87
4.4	Leasing	89
4.5	Off-balance sheet transactions	89
4.6	Equity and earnings per share	90
4.7	Derivative financial instruments	91
4.8	Exchange rates	91
5	Group structure	92
5.1	Changes in scope of consolidation	92
5.2	Group companies	93
5.3	Transactions with related parties	95
6	Events after the balance sheet date	95

1 General information

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

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

The structure of the notes is as follows:

- 1 General information
- 2 Performance
- 3 Capital employed
- 4 Financing and risk management
- 5 Group structure
- 6 Events after the balance sheet date

1.1 Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. Swiss GAAP FER provides a true and fair view of the financial position of the SFS Group and of its financial performance. The financial statements are based on the principle of historical acquisition costs (except for securities and derivative financial instruments recognized at fair value) and are based on the going concern principle. The consolidated financial statements for the year ended 31 December comprise the company and its subsidiaries and the group's interest in associates and joint ventures. The directives under the accounting standards (Swiss GAAP FER) have not changed in the reporting period.

1.2 Consolidation principles and currency conversion

The consolidated financial statements include the financial statements of SFS Group AG and all its Swiss and foreign subsidiaries. Using the full consolidation method, all assets and liabilities as well as the expenses and income of the subsidiaries controlled by SFS Group AG are included in the consolidated financial statements. Control is assumed when SFS Group AG directly or indirectly holds more than 50% of the voting rights of a subsidiary. Equity and profit or loss attributable to third parties are presented as separate line items in the consolidated balance sheet and consolidated income statement. The consolidated financial statements have been prepared based on the financial statements of the Group companies, which have been prepared in accordance with uniform Group accounting policies as of 31 December.

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

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

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

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

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

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

1.3 Critical accounting estimates and judgments

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

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

All estimates and judgments are continually reviewed and are based on historical experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances.

1.4 COVID-19 pandemic

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

2 Performance

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

2.1 Segment information

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

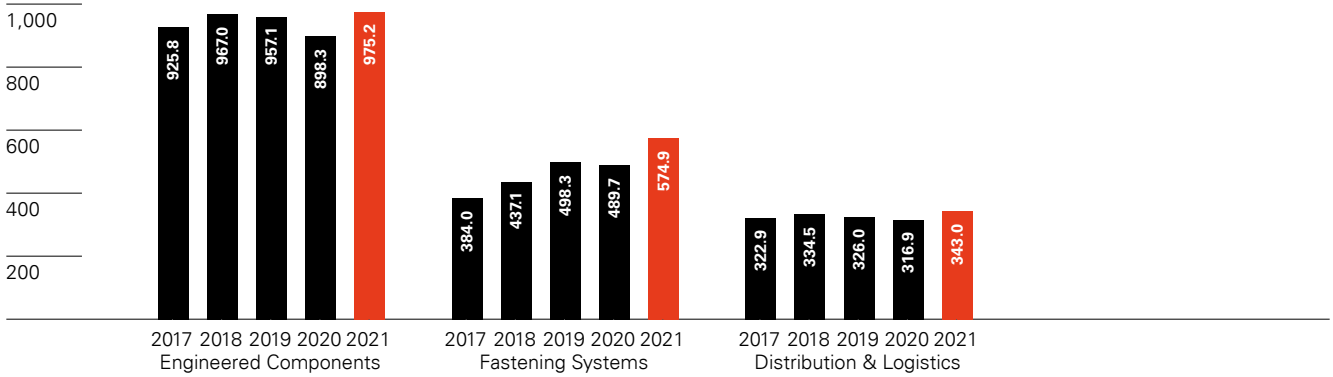
The financial performance of the segments is monitored based on EBIT as well as on operating profit before amortization and depreciation (EBITDA). The segments apply the Group's accounting policies. Internal transactions are conducted based on internal group rates.

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

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

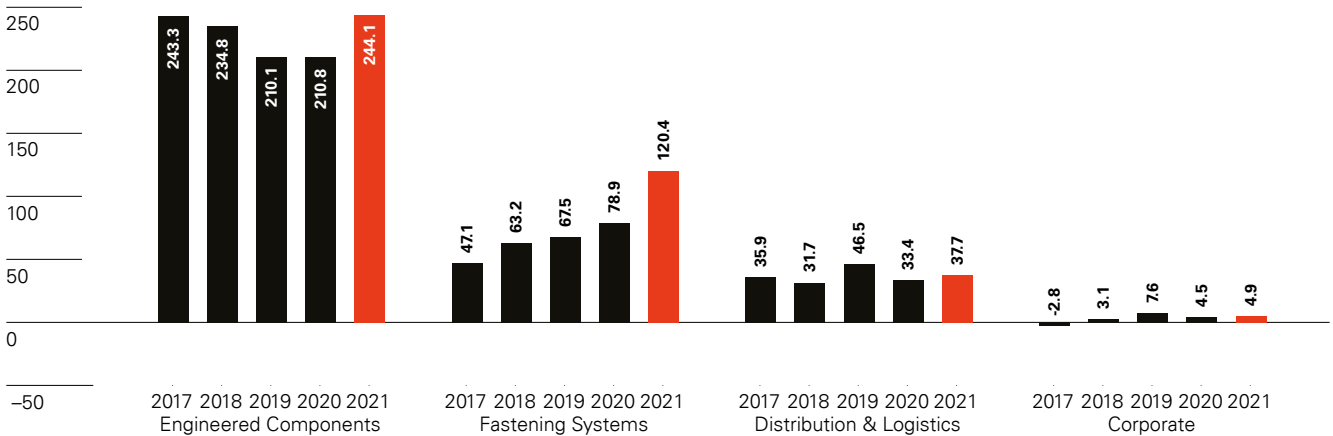
Third party sales

In CHF million



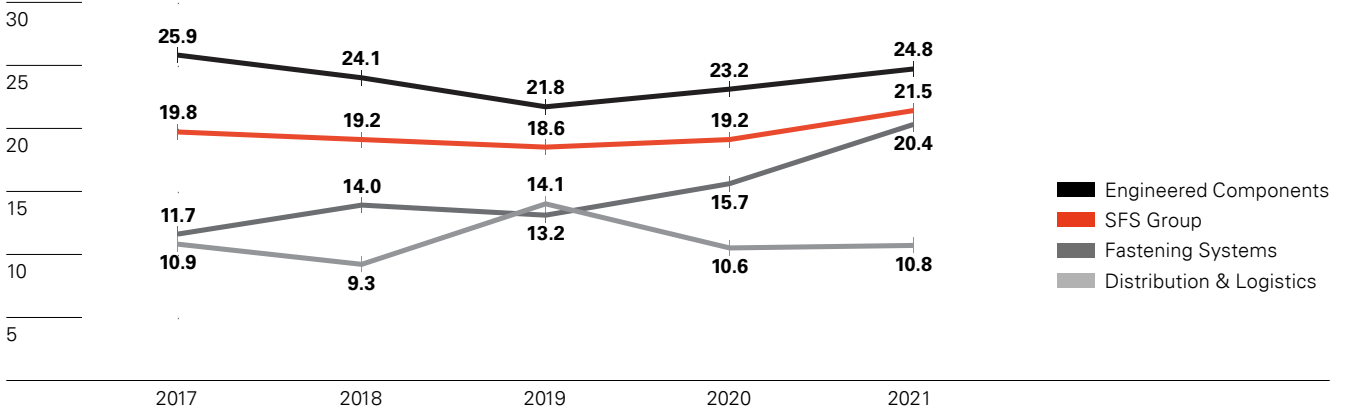
EBITDA

In CHF million



EBITDA

In % of net sales



The key figure EBITDA includes one-off effects:

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

Fastening Systems: 2020 CHF 2.1 million book gains

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

Corporate: 2021 CHF 3.1 million book gains

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

2020

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

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

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

Gross sales to third parties are allocated to the countries of the receiving party. Not assigned items include invoiced freight, hedged foreign currency fluctuations effects and cash discounts.

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

Reconciliation of segments to income statement and balance sheet

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

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

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

Engineered Components

In the Engineered Components segment, SFS develops, manufactures and supplies customer-specific precision components, mechanical fastening solutions and assemblies. As a specialist in the field of cold forming, deep drawing, injection molding, precision machining and mechanical fastening, it aims to be the preferred development partner for customer specific components and assemblies. By focusing on selected customer groups, it ensures high application expertise in business units and key account structures. Within its applied technologies and industries, Engineered Components is seeking to occupy a leading position.

Fastening Systems

The Fastening Systems segment combines the principles of threaded fastening and riveting technologies. Cold forming, and injection molding as well as the related secondary operations are applied in the production of application-optimized products. By combining the basic fasteners with innovative and efficient installation tools and logistic solutions, they support safe, economical and timely processing at the installation site. Having a worldwide network of sales locations, customer demands can be met through local consulting and delivery services.

Distribution & Logistics

The Distribution & Logistics segment is a leading national supply partner for fasteners, tools, architectural hardware and related products to industrial customers, professional trade, wholesalers and DIY centers. Through international alliances and sourcing, Distribution & Logistics serves its customers with fast and reliable processes and products at competitive cost levels. Furthermore, value is added by providing tailor-made supply chain solutions, which employ state-of-the-art e-business, warehouse and IT technologies.

Corporate

In addition to the elimination of intercompany transactions, the «Corporate» column contains the corporate numbers relating to Technology and Services.

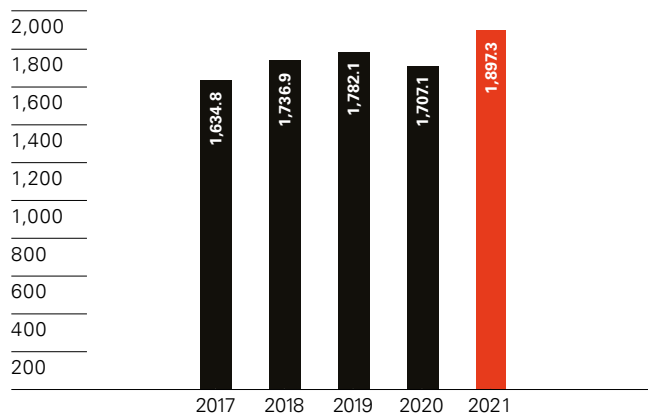
Technology ensures the transfer of know-how among the segments and production sites. Methods, processes and best practices are exchanged and enhanced. Standardized investment policies and engineering processes improve the efficiency of the SFS Group further.

Services provides added value across the Group in the fields of information technology, finance, controlling, human resources, communication as well as other business functions.

2.2 Net sales

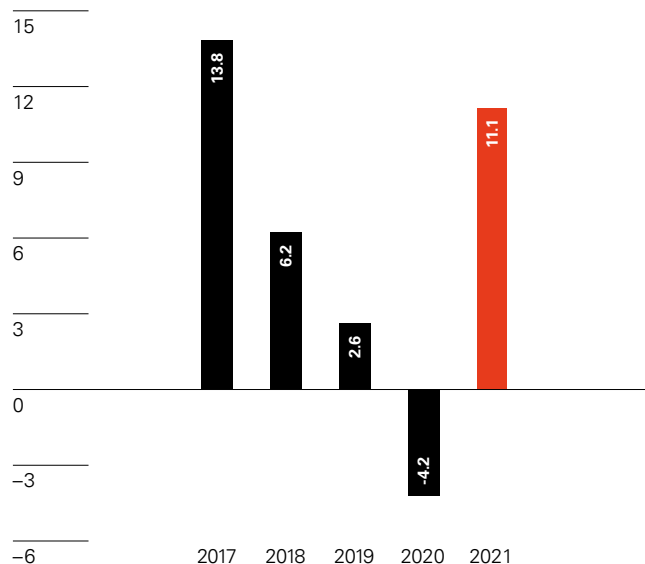
Net sales

In CHF million



Increase of net sales

In %



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

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

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

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

2.3 Other operating income

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

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

2.4 Personnel expenses

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

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

Share-based payments

The members of the Board of Directors and Group Executive Board receive a variable compensation in the form of shares of the SFS Group AG. The shares rewarded must be held for at least three years. The expenses amounting to CHF 2.0 million (PY 1.6) of these shares represent the share price on the day they are granted and are charged to the income statement under the line item «Personnel expenses».

In addition, SFS maintains a share purchase program for its employees. Usually, every other year shares of the SFS Group AG are sold to key management members and specialists at a discount, which is charged to personnel expenses. The last share purchase program took place in 2021.

2.5 Other operating expenses

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

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

Development cost are only capitalized in case the future income covers the capitalized amount and if the other criteria required by Swiss GAAP FER are met. The research and development costs are recognized under different line items in the income statement as the requirements for capitalization according to Swiss GAAP FER have not been met in the reporting period as well in the prior year.

2.6 Financial result

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets. All other borrowing costs are recognized in financial expenses in the period in which they incurred.

2.7 Income taxes

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

The income tax expense includes taxes which have been paid and accrued based on the profits of the taxable entities. These are calculated based on the relevant tax rates in the different countries. The reconciliation summarizes the individual reconciliation calculations which have been prepared based on the applicable tax rates of the respective tax jurisdictions. The expected income tax has been calculated based on the future expected tax rate of 14.5% (PY 14.5%) and corresponds to the maximum tax rate for legal entities in the canton of St. Gallen.

3 Capital employed

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

3.1 Trade receivables

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

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

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

3.2 Other current receivables

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

3.3 Inventories

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

Inventories are generally stated at the lower of cost or net realizable value. The cost of goods comprises raw materials, direct labor, other direct costs and related production overheads based on normal operating capacity utilization. Cash discounts from suppliers are deducted from costs of purchase.

Necessary valuation allowances are based on individual valuation of single items. The inventory quantity of each item is generally compared with annual consumption over the last twelve months. The first annual consumption of stock is assessed recoverable by 100%. If the quantity of inventory is higher than annual consumption, the excess inventory for the second annual consumption is written down to 50% of the value. All inventory above two years annual consumption is completely written off. Items added to the product range during the last 18 months prior to the balance sheet date are defined as new products and are not revalued.

In addition, the average sales price less distribution cost is compared with the cost of inventory. This valuation represents the net realizable value principle and any difference is included in the valuation allowance.

3.4 Property, plant and equipment

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

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

	Years
Buildings	
Buildings	20–33
Infrastructure	10–15
Machines and equipment	
Machinery	5–15
Furniture, fittings and equipment	5–10
Office machinery, computer equipment	3–5
Vehicles	3–8

Based on its infinite useful life, land is stated at cost and is not depreciated.

The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Government grants related to assets are offset against the historical costs of the asset concerned, as long as SFS Group has no obligation for repayment.

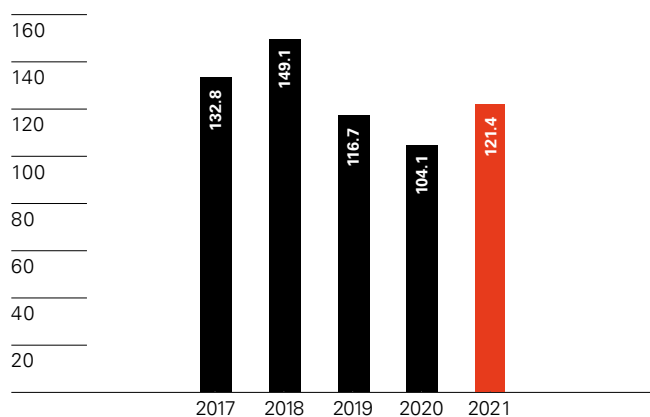
The book value of assets under construction includes down payments to suppliers of CHF 19.6 million (PY 11.3).

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

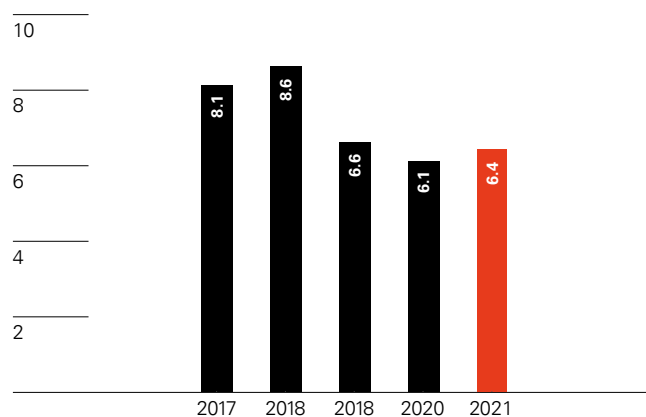
The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 93.7 million (PY 16.5).

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

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



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



3.5 Intangible assets

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

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

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

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

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

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

In 2021, the SFS Group has CHF 7.9 million (PY 5.4) future commitments to purchase software or software-related projects.

3.6 Theoretical goodwill

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

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

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

3.7 Trade payables

	2021	2020
Against third parties	126.0	136.0
Total	126.0	136.0

Liabilities are recognized in the balance sheet at nominal value.

3.8 Other current payables

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

3.9 Pension benefit obligations

SFS Group maintains pension plans in several countries. The Swiss plans are legal entities that are financially independent from the SFS Group. They are compliant with local requirements and the employees and SFS usually fund the plan in equal parts.

The economic impact of the pension plans on SFS Group is reassessed annually. The valuation of a surplus or deficit is based on the plan's financial statement in accordance with Swiss GAAP FER 26 (Swiss plans) or based on an established methodology in the respective jurisdiction (non-Swiss plans). An economic benefit exists if it is permitted and intended to use the surplus to decrease the employer contributions. Surpluses which SFS Group can use as contributions at any time are recognized as assets in SFS Group's balance sheet. In the case of a deficit, an economic obligation exists if the conditions for establishing a provision are met. The change from the previous year in economic benefit and economic obligation is recognized (together with the expenses relating to the business period) as personnel expenses in the result of the period.

Swiss plans

Employees of the SFS Group in Switzerland are insured against the risks of old age, death and disability with the SFS Pension Fund based on the Federal Law on Occupational Retirement, Survivors, and Disability Pension Plans (OPA). The SFS Pension Fund is a foundation, which is legally separated from the SFS Group. As per 31 December 2021, the SFS Pension Fund has an expected coverage ratio according to the OPA of 121.4% (PY 118.2%). The pension liabilities and actuarial reserves are calculated based on a technical interest rate of 1.5% (PY 1.5%) using the life expectancy table BVG 2020 (PY BVG 2015). The present challenge is the sustainable financing of future retirement pensions, which is hard to meet due to an ongoing increase of life expectancy and a rather low interest rate environment. The trustees of the SFS Pension Fund therefore decided to reduce the conversion rate gradually to 5.2% until 2024. At the same time, saving contributions will be increased by 1.1% from 2021 onwards. The determination of the economic impact on the SFS Group is based on the preliminary financial statements of the SFS Pension Fund and the Patronage Fund.

Non-Swiss plans

For non-Swiss plans, an external actuarial report is used to determine the impact on the SFS Group. Depending on the mix of insured persons (employees, retirees), the present value of benefit obligations is calculated using an interest rate of 0.9% to 2.1% (PY 0.4% to 1.6%).

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

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

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

Pension Funds «without surplus/deficit» includes the SFS Pension Fund. At balance sheet date, no non-committed reserves exist. Therefore, neither an economic benefit nor an economic obligation is capitalized in SFS Group's balance sheet. Furthermore, foreign contribution-based plans are included in this category.

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

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

3.10 Non-current provisions

	Anniversaries, severance payments	Other provisions	Total
Balance as at 1.1.2020	11.9	2.7	14.6
Changes in scope of consolidation	–	1.2	1.2
Additions	1.6	1.0	2.6
Used amounts	–1.3	–0.3	–1.6
Unused amounts reversed	–0.1	–0.5	–0.6
Reclassification	–3.1	–	–3.1
Exchange differences	–0.2	–0.1	–0.3
Balance as at 31.12.2020	8.8	4.0	12.8
Additions	1.4	0.7	2.1
Used amounts	–1.2	–0.5	–1.7
Unused amounts reversed	0.0	0.0	0.0
Exchange differences	–0.5	–0.1	–0.6
Balance as at 31.12.2021	8.5	4.1	12.6
Of which non-current	8.5	4.1	12.6

Various countries are obliged to recognize provisions as the employees are entitled to receive severance payments following the termination of employment. These are classified as contribution-based and disclosed in the «Anniversaries, severance payments» column. The «Other provisions» column contains provisions for warranty claims and business risks. Obligations arising from product liability are covered by the SFS Group's insurance policies. In addition to this, provisions are recognized for warranty claims based on historical experience and amount to CHF 2.0 million (PY 1.8). For specific business risks, CHF 2.1 million (PY 2.2) are deferred.

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

A provision is recognized when SFS Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow will be required and the amount of outflows can be estimated reliably. The valuation of provisions is based on SFS Group's best estimate at balance sheet date.

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

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

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

Current tax liabilities arising from the taxable profit of the reporting period are accrued for, irrespective of when they are due for payment. Deferred income tax is recognized on all temporary differences arising between the values determined according to tax law and their carrying amounts in the consolidated financial statements.

The deferred taxes are determined using local tax rates that have been enacted by the balance sheet date and are expected to apply when the deferred tax items are realized or settled. Deferred income tax liabilities arising from future distribution of retained earnings are not recognized when the Group is able to control the timing and a reversal of the temporary difference is unlikely.

The table below shows the tax loss carryforwards:

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

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

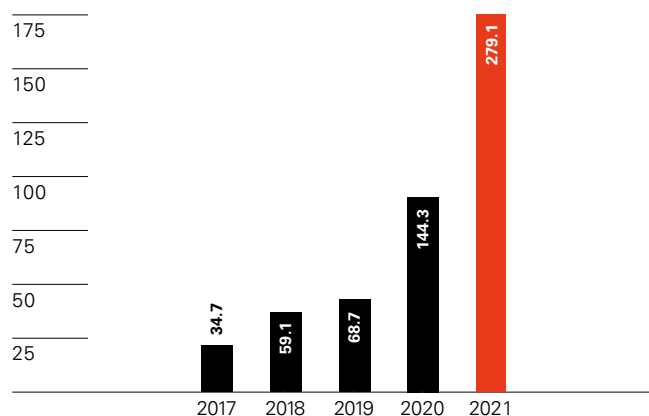
The decrease of unrecognized tax loss carryforwards is primarily caused due to the sale of SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd. Recognized tax loss carryforwards decreased mainly due to utilisation in the US and China.

4 Financing and risk management

This chapter describes the management of the capital structure and its financial risks. The aim is to optimize profits in relation to equity plus net debt, to secure liquidity and to minimize currency risks.

Net cash

In CHF million



4.1 Cash and cash equivalents

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

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments. Due to the short-term maturities of the cash equivalents, the carrying amount is equal to the fair value of these assets. In order to qualify as a cash equivalent, the original maturity of the instrument must be 90 days or less.

4.2 Financial assets

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

Marketable securities and financial assets are measured at market value through profit or loss. In absence of a market value, marketable securities and financial assets are measured at historical costs less any impairment.

4.3 Borrowings

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

The financial liabilities have the following maturities:

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

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

Syndicated loan

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

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

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

4.4 Leasing

Finance leases are capitalized at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. They are amortized over the period of the lease. The related leasing obligations are recognized as liabilities. In the reporting period as well as in the previous year, no material finance leases existed.

Lease payments from operating leases are recognized through profit or loss during the period of the lease. If a contract is terminated early, a provision is made for the full amount owed less income realized from subleasing.

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

4.5 Off-balance sheet transactions

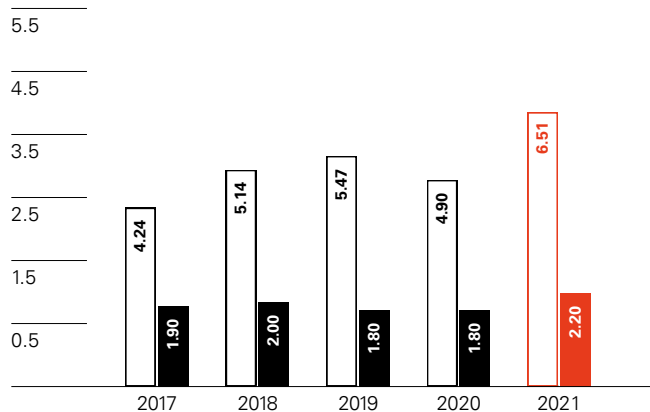
	2021	2020
Debt guarantees	2.7	1.2
Guarantee obligations	12.6	13.2
Other commitments	2.6	2.0

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

4.6 Equity and earnings per SFS share

Earnings per share

In CHF



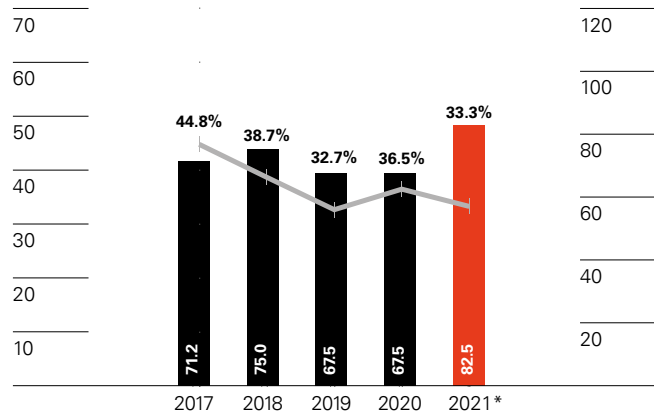
□ Earnings per share

■ Payout per share in CHF

Payout

In %

In CHF million



■ Payout in %

■ Payout in CHF million

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

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

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

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

As of 31 December 2021, 37,500,000 (PY 37,500,000) registered shares at CHF 0.10 are issued and outstanding. The earnings per share are the result of dividing net income entitled to the owners of SFS Group by the weighted average number of shares in issue and outstanding during the year. There are no dilutive effects. There is no authorized or conditional capital as of the balance sheet date (PY none). Statutory and legal reserves that may not be distributed amount to CHF 45.3 million (PY 54.0) as of 31 December 2021.

Share capital and treasury shares

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

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

There exist no obligations to repurchase treasury shares disposed of.

4.7 Derivative financial instruments

Forward foreign exchange contracts	CHF	EUR	USD	Contract value CNY	Market value CHF
2021					
EUR sale/CHF purchase	87.6	-81.5			3.5
USD sale/CNY purchase			-73.4	482.2	1.3
2020					
EUR sale/CHF purchase	62.7	-58.5			-0.5
CHF sale/EUR purchase (FX-Swap)	-7.6	7.0			0.0
USD sale/CNY purchase			-56.7	381.7	1.3

The SFS Group uses derivative financial instruments to reduce the risks from interest and foreign currency fluctuations on business and financial transactions. To hedge foreign currency exposures, usually cash flow hedges are used. To reduce volatility in the income statement, changes in the fair value of derivatives are recognized in equity. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the income statement or the future cash flow is no longer expected to occur. Derivatives are held in 2021 and 2020 exclusively for the purpose of currency hedging.

4.8 Exchange rates

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

5 Group structure

This chapter provides an overview of the Group structure. Changes and related detailed information are explained. Transactions with related parties are also disclosed.

5.1 Changes in scope of consolidation

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

2021

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

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

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

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

2020

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

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

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

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

5.2 Group companies

Subsidiaries

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2021	2020	Currency	(1,000)	
China	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	-	100.0	CNY	93,959	V, P
	Nantong	Unisteel Technology (China) Co., Ltd	100.0	100.0	CNY	466,739	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100,688	L
		SFS Group (Shanghai) Co., Ltd.	100.0	100.0	CNY	14,263	DL
Suzhou	Unisteel Precision (Suzhou) Co., Ltd	-	100.0	CNY	82,674	L	
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	100.0	100.0	CRC	1'804'126	V, P
Germany	Menden	MBE Moderne Befestigungselemente GmbH	100.0	100.0	EUR	300	V, P
	Mörfelden-Walldorf	GESIPA Blindniettechnik GmbH	100.0	100.0	EUR	5,000	V, P
	Oberursel	SFS intec GmbH	100.0	100.0	EUR	5,000	V, P
		SFS intec Beteiligungen GmbH & Co. KG	99.0	99.0	EUR	4,000	H
	Schramberg	Ludwig Hettich Holding GmbH & Co. KG	51.0	51.0	EUR	2,500	H
		Ludwig Hettich Verwaltungs-GmbH	51.0	51.0	EUR	26	H
HECO Schrauben GmbH & Co. KG		51.0	51.0	EUR	1,230	V, P	
Denmark	Roskilde	Jevith A/S	100.0	-	DKK	500	V
Estonia	Tallinn	SFS intec Oy Eesti Filiaal	100.0	100.0	EUR	n/a	V
Finland	Nummela	SFS intec Oy	100.0	100.0	EUR	84	V
France	Valence	SFS Group SAS	100.0	100.0	EUR	3,078	V, P
	Sain-Projet	HECO France Sarl	51.0	51.0	EUR	8	V
United Kingdom	Leeds	SFS Group Fastening Technology Ltd	100.0	100.0	GBP	2,000	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	99.7	99.7	INR	46,654	V, P
Italy	Pordenone	SFS intec S.r.l. unipersonale	100.0	100.0	EUR	10,000	V, P
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P
	Labuan	Unisteel Technology International Ltd	-	100.0	USD	379,850	L
Mauritius	Ebène	Unisteel International Pte Ltd	100.0	100.0	USD	1	L
Mexico	Querétaro	SFS Group Fastening Technology Mexico S.A.	100.0	100.0	MXN	50	V
Netherlands	Helmond	Guardian B.V.	100.0	100.0	EUR	18	V, P
Norway	Frogner	SFS intec AS	100.0	100.0	NOK	2,030	V
Austria	Korneuburg	SFS Group Austria GmbH	100.0	100.0	EUR	146	V, P
Poland	Poznan	SFS Group Sp. z o.o.	100.0	100.0	PLN	11,937	V
Portugal	Malveira	SFS Group Fastening Technology (Iberica), S.A.U. Sucursal em Portugal	100.0	100.0	EUR	n/a	V
Romania	Campia Turzii	HECO Schrauben S.r.l.	51.0	51.0	RON	12,737	P
Sweden	Strängnäs	SFS intec AB	100.0	100.0	SEK	200	V, P

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2021	2020	Currency	(1,000)	
Switzerland	Heerbrugg municipality of Au/SG and Widnau	SFS Group International AG (former SFS intec Holding AG)	100.0	100.0	CHF	5,400	H
		SFS intec AG	100.0	100.0	CHF	6,550	V, P
		SFS unimarket AG	100.0	100.0	CHF	12,550	V, P
		SFS Group Schweiz AG (former SFS services AG)	100.0	100.0	CHF	100	DL
	Emmenbrücke municipality of Emmen	Allchemet AG	100.0	100.0	CHF	340	V
	Hallau	Stamm AG	100.0	100.0	CHF	500	V, P
Singapore	Singapur	Unisteel Technology Limited	100.0	100.0	USD	29,977	V
Spain	Sondika-Bizkaia	SFS Group Fastening Technology (Iberica), S.A.U.	100.0	100.0	EUR	975	V
Taiwan	Kaohsiung	Unisteel Technology Limited Taiwan Branch	100.0	100.0	NTD	n/a	DL
Czech Republic	Turnov	SFS Group CZ s.r.o.	100.0	100.0	CZK	205,000	V, P
Turkey	Torbalı-Izmir	SFS intec Baglanti Teknolojileri Sanayi ve Ticaret A.S.	95.1	95.1	TRY	23,109	V, P
		SFS Group Pazarlama A.S.	95.1	95.1	TRY	100	V
Hungary	Janossomorja	SFS Group Hungary Kft.	100.0	100.0	HUF	412,500	V, P
USA	Wyomissing, PA	SFS Group USA, Inc.	100.0	100.0	USD	37,750	V, P
		SFS Acquisition Holding, Inc.	-	100.0	USD	140,000	H
	Franklin, MA	Tegra Medical, LLC	100.0	100.0	USD	137,839	V, P
		Tegra Medical CR, LLC	100.0	100.0	USD	0	H
	Pittsburgh, PA	Triangle Fastener Corporation	100.0	100.0	USD	1	V
Watertown, CT	Truelove & Maclean, Inc.	100.0	100.0	USD	1	V, P	

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

The closing date of all companies is 31 December.

2021

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

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

2020

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

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

The entity Solheimsveien 44 AS was sold in September 2020.

Joint ventures

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

5.3 Transactions with related parties

Transaction with related parties are generally conducted based on usual market conditions.

Business relationships with related parties

Business transactions with members of the Board of Directors and of the Group Executive Board as well as related companies are summarized in the table below:

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

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

Business relationship with Pension Funds

SFS Group charges CHF 0.6 million (PY 0.6) in connection with the administration of the SFS Pension Fund and the Patronage fund.

Business relationship with associates and joint ventures

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

6 Events after the balance sheet date

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

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

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of SFS Group AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated balance sheet as at 31 December 2021, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 61 to 95) give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview



Overall Group materiality: CHF 15 million

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

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

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

Valuation of inventories

Materiality

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

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

Overall Group materiality	CHF 15 million
Benchmark applied	Profit before Income taxes
Rationale for the materiality benchmark applied	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

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

Audit scope

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

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

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

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

Valuation of inventories

Key audit matter

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

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

- Inventories are not stated at the lower of average acquisition or production cost and net realizable value.
- Write-downs for obsolescent inventory or stock that exceeds the usual sales volume (e.g. slow moving or excess inventory) are inadequate.

Further details regarding inventories can be found in note 3.3.

How our audit addressed the key audit matter

We performed the following audit procedures:

- Sample-based testing of whether inventories were stated at acquisition or production costs in accordance with Swiss GAAP FER. We compared the acquisition costs used for the valuation of raw materials, supplies and consumables, and purchased finished goods with the latest purchase prices or other evidence. We tested the additional costs included in the production costs of semi-finished and finished goods, in particular using overhead recovery variance analysis or alternative methods.
- Sample-based testing of whether the lower of acquisition or production cost and net realizable value has been applied.
- Sample-based testing of the mathematical correctness and appropriateness of Management's calculation of write-downs of obsolescent inventory.

The results of our audit support Management's valuation of the inventories as at 31 December 2021.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Gianluca Galasso
Audit expert
Auditor in charge



André P. Kueffer
Audit expert

St. Gallen, 3 March 2022

Financial statements SFS Group AG

Balance sheet	103
Income statement	104
Notes	104
Proposed appropriation of retained earnings	107
Auditor's report	108

Balance sheet

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

*Includes rounding differences of CHF 0.1 million.

Income statement

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

Notes

1 Accounting policies

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

2 Number of employees

The company does not have any employees (PY none).

3 Shareholdings

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

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

¹Each share represents one voting right

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

4 Share capital

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

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

5 Significant shareholders

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

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

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

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

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

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

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

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

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

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

7 Statutory capital reserves

The disclosed statutory capital reserves amount to CHF 11,549,250 (PY 11,549,250) and result from the share premiums in connection with the share capital increase and the initial public offering. Statutory capital reserves of CHF 311,994,597.50 have been approved by the Federal Tax Administration (FTA) on 12 June 2015. The FTA did not accept the IPO and capital expenses of CHF 11,179,652.50 as statutory capital reserves. In this context, the SFS Group AG is still of the opinion that the share premium before deduction of the IPO and capital expenses qualify to the full extent as statutory capital reserves.

8 Contingent liabilities

Apart from the warranty obligations there are no contingent liabilities.

Contingent liabilities	31.12.2021	31.12.2020
Warranty obligations to Group companies	199.1	227.9
Warranty obligations to third parties	12.6	13.2
Of which used	9.6	45.5

9 Events after the balance sheet date

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

Proposed appropriation of retained earnings

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

Proposed appropriation of retained earnings – Option 1

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

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

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

Proposed appropriation of retained earnings – Option 2**

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

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

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

Proposed appropriation of statutory capital reserves

Balance to be carried forward (PY same).

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

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

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

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

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SFS Group AG, which comprise the balance sheet as at 31 December 2021, income statement and notes for the year then ended, including a summary of significant accounting policies.

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

Basis for opinion

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

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

Our audit approach

Materiality

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

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

Overall materiality	CHF 4.4 million
Benchmark applied	Total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

Audit scope

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

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Gianluca Galasso
Audit expert
Auditor in charge



André P. Kueffer
Audit expert

St. Gallen, 3 March 2022

Information for shareholders

Explanation regarding alternative performance measurements

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

Return on Invested Capital (ROIC)

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

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

Return on Capital Employed (ROCE)

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

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

Organic sales growth

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

Adjusted operating profit (EBIT) and adjusted EBIT margin

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

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

Free Cash Flow

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

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

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

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

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

Agenda

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

Security-n. 23.922.930
 ISIN CH 023 922 930 2
 SIX Swiss Exchange AG SFSN
 Reuters SFSN.S
 Bloomberg SFSN SW
 Fact Set SFSN-CH

Annual report 2021

The annual report is available in German and English. The German language version of the full annual report is the only legally binding version and is available online at www.annualreport.sfs.com/en →.

Exclusion of liability

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

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

Imprint

Publisher	SFS Group AG
Concept and design	SFS Group AG
Text	SFS Group AG
Printing	Galledia Print AG

21