

Compensation report

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1 Introduction

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

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

2 Fundamental principles of the compensation system

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

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

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

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

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

2.1 Compensation of the Board of Directors

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

Basic fee and share allocation

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

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

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

2.2 Compensation of the Group Executive Board

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

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

The compensation for GEB members comprises the following components:

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

1) Base salary

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

2) Variable cash compensation

The variable compensation system of the GEB is based on the MbO (Management by Objectives) process of the SFS Group. A success and performance-oriented target compensation in cash is agreed in advance for each member of the GEB which according to the Articles of Association may not exceed an amount equal to 100% of the base salary. For the Chief Executive Officer (CEO), the variable target cash compensation is limited to 40% to 60%, and for the other GEB members to 30% to 50% of the base salary. If the threshold for the specific target is not met, no variable cash compensation will be paid out. Where the agreed targets are significantly outperformed, a cap for this salary component is set at 150% of the agreed variable cash amount.

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

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

The financial targets are set in advance for a one-year period of service. For the 2021 financial year, same as in the previous year, the financial targets at Group, segment and divisional level pertained to sales and the EBIT margin.

b) The achievement of individual annual targets

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

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

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

c) A discretionary decision regarding leadership

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

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

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

3) Variable SFS share compensation

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

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

2.3 Stock ownership plan

SFS Group can periodically offer company shares to selected and long-standing employees. The Board of Directors issued a regulation addressing the following elements in particular: Determination of the purchase price, granting of a potential discount on the purchase price, maximum reference value (valued upon allocation) in relation to the individual annual

base compensation as well as a blocking period of the shares. The conditions are determined by the Board of Directors based on a proposal of the NCC. Members of the Board of Directors and the Group Executive Board may be included in this programme. The SFS shares acquired through this plan will be blocked for at least three years.

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

3 Process used to determine compensation

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

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

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

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

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

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

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

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

1. Compensation of the Board of Directors for the term of office up to the next Annual General Meeting;
2. Any additional compensation of the Board of Directors for the preceding financial year;
3. The variable compensation of the CEO and the Group Executive Board based on the operational results and individual objectives achieved in the preceding financial year, to be paid immediately after approval;
4. The fixed compensation of the CEO and the Group Executive Board to be paid in the following financial year.

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

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

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

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

This section is subject to inspection by the auditors.

4.1 Compensation of the Board of Directors 2021

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

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

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

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

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

4.2 Compensation of the Board of Directors 2020

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

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

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

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

4.3 Compensation of the Group Executive Board 2021

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

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

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

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

In CHF except number of shares	Base salary gross in cash	Variable cash compensation gross	Number of SFS shares	Value of SFS shares gross ¹	Other benefits ²	Total
Jens Breu, CEO	635,070	450,000	2,500	366,576	173,272	1,624,918
Other members of GEB ³	2,499,465	1,434,435	5,862	883,256	669,639	5,486,795
Total GEB	3,134,535	1,884,435	8,362	1,249,832	842,911	7,111,713

¹ The exchange value of the SFS shares at the time of the determination at the meeting of the Board of Directors on 22 February 2022 was CHF 133.40 per share. Employee contributions to social security had been added to compensation "gross" numbers.

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

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

4.4 Compensation of the Group Executive Board 2020

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

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

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

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

4.5 Loans and credit facilities

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

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

5.1 Board of Directors

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

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

5.2 Group Executive Board

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

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

Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau

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

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report of SFS Group AG for the year ended 31 December 2021 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Gianluca Galasso
Audit expert
Auditor in charge



André P. Kueffer
Audit expert

St. Gallen, 3 March 2022