



SFS Group AG  
Annual report

**Inventing**  
**success**  
**together**

**19**



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## Financial overview

# Increase in sales and net income

	2019 audited	2018 audited	2017 audited	2016 audited	2015 unaudited
<b>Income statement</b> in CHF million					
Third party sales	1,781.4	1,738.6	1,632.7	1,436.5	1,376.3
Change to previous year in %	2.5	6.5	13.7	4.4	-0.5
thereof currency impact	-1.3	1.4	0.5	0.9	-5.1
thereof change in scope	4.4	0.8	5.8	1.5	2.1
thereof organic growth	-0.6	4.3	7.4	2.0	2.5
Net sales	1,782.1	1,736.9	1,634.8	1,436.7	1,371.8
EBITDA	331.7	332.8	323.5	306.2	253.8
As a % of net sales	18.6	19.2	19.8	21.3	18.5
Operating profit (EBIT)	236.3	243.1	197.7	159.8	111.5
As a % of net sales	13.3	14.0	12.1	11.1	8.1
Operating profit (EBIT) adjusted <sup>1</sup>	239.1	243.1	233.3	210.1	174.3
As a % of net sales	13.4	14.0	14.3	14.6	12.6
Net income	206.5	193.9	159.1	124.8	89.7
As a % of net sales	11.6	11.2	9.7	8.7	6.5
<b>Balance sheet</b> in CHF million					
Assets	1,638.6	1,619.3	1,519.0	1,469.7	1,437.3
Net cash (+)/(-debt) (-)	68.7	59.1	34.7	0.5	127.5
Average Capital Employed <sup>2</sup>	1,134.9	1,070.8	947.4	846.6	830.2
Invested Capital <sup>2</sup>	2,153.2	2,058.3	1,960.9	1,692.2	1,698.4
Equity	1,237.2	1,204.6	1,087.0	987.8	1,126.7
As a % of assets	75.5	74.4	71.6	67.2	78.4
<b>Cash flow statement</b> in CHF million					
Cash flow from operating activities	277.6	263.5	226.6	241.5	211.3
Purchase of property, plant, equipment and software	-116.7	-149.1	-132.8	-84.6	-90.4
Acquisition (-)/Disposal (+) of subsidiaries, net of cash	-95.4	-9.6	-10.2	-250.6	-7.2
<b>Employees</b>					
Full-time equivalents (FTE)	10,571	10,231	9,478	9,021	8,330
<b>Financial key ratios</b> (unaudited)					
ROCE in % <sup>2</sup> (Return on Capital Employed)	21.1	22.7	24.6	24.8	21.0
ROIC in % <sup>2</sup> (Return on Invested Capital)	9.2	9.7	9.8	10.2	8.5
<b>Share key ratios</b>					
Earnings per share in CHF	5.47	5.14	4.24	3.32	2.39
Payout per share in CHF	2.10 <sup>3</sup>	2.00	1.90	1.75	1.50
Payout in CHF million	78.8	75.0	71.2	65.6	56.3
Payout ratio in %	38.1	38.7	44.8	52.6	62.7

<sup>1</sup> Adjustments are explained in the annual report on page 105

<sup>2</sup> Calculation of the key figure is shown in the annual report on page 104

<sup>3</sup> Proposed payout at SFS Group's Annual General Meeting on 23 April 2020

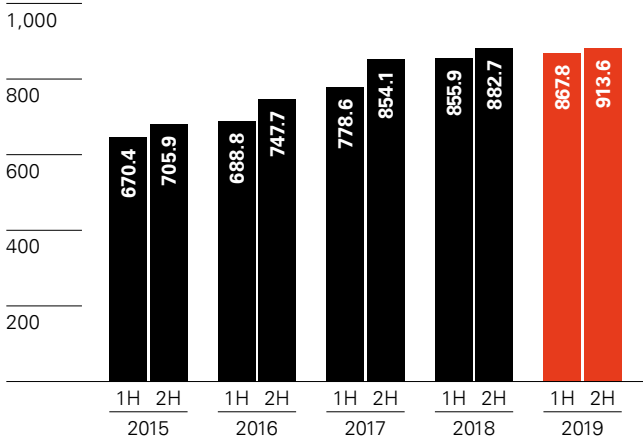


## Key takeaways

# Improvement in 2H

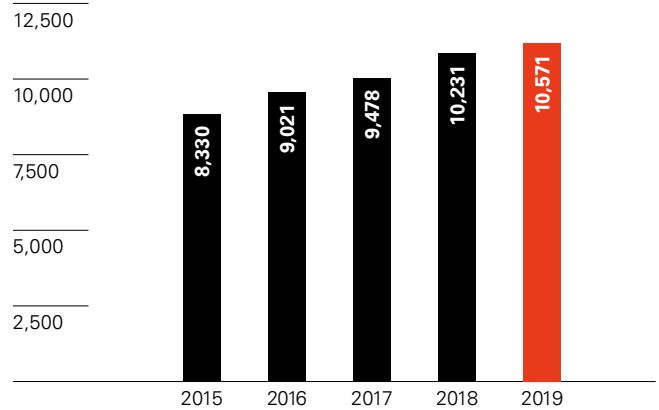
### Organic growth of 1.1% achieved in 2H19

Third party sales in CHF million



### More employees due to takeover of TFC

Number of employees (FTE)



### Adjusted operating profit increased in 2H

2019 EBIT margin, adjusted

# 13.4%

The higher profitability of 14.2% in 2H19 compared to 12.6% in 1H19 resulted from the growth in the Engineered Components segment, the measures taken to strengthen the profitability and positive seasonal effects.

### Investments leveled out in the normal range

in CHF million

# 116.7

Expenditure on property, plant and equipment was mostly spent to realize production lines for growth projects, particularly in the Automotive and Electronics divisions. At 6.6% of net sales, the investment ratio was below the previous year's figure of 8.6%.

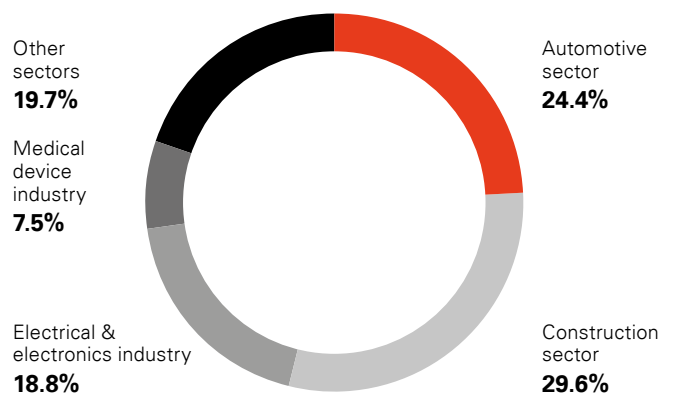
### Acquisitions strengthen market position

The past financial year included two acquisitions that perfectly enhance the established range of services of the Construction division:

- With the acquisition of TFC (Triangle Fasteners Corporation), a leading supplier of fasteners and other products for end users of the commercial construction industry, SFS strengthened its market position in the US and obtained direct access to some 6,000 active customers.
- At the end of 2019, SFS signed a purchasing agreement with mbe (Moderne Befestigungselemente GmbH) to acquire the company as per 1 January 2020. mbe is a specialist in painted fasteners for high-performance façade systems. With this acquisition, SFS is expanding its offering of fastening systems for façade systems, its market reach and its customer base in the European construction market.

### Share of sales in medical device and construction industries increased

Share of sales by end market



# Important progress achieved

**SFS Group coped well with the challenges of the financial year 2019 thanks on the one hand to strong innovation power – true to its claim of “Inventing success together” – and on the other hand to its balanced target market portfolio. Sales grew by 2.5% to CHF 1,781.4 million. The adjusted EBIT margin of 13.4% exceeded the guidance. Full-year results were driven by a significant improvement during the second half.**



Heinrich Spoerry



Jens Breu

Dear shareholders

SFS Group’s financial year 2019 was marked by considerable challenges, such as weak demand from customers in the automotive and electronics markets. Over the course of the year this weakness spread to related market segments, while trade conflicts and political tension put an additional strain on business. Against this backdrop, we can affirm that the SFS Group coped well with the financial year 2019. That was clearly reflected in the significant improvement of its performance during the second half of the year. SFS profited from its presence across a balanced range of different markets and from its clear focus on customer needs and innovation trends. The company is well positioned and successfully defended its competitive position. This was evident in the ramp-up of major projects, in particular during the second half. Thanks to these projects, SFS returned to organic growth as expected. Sales in the second half were 3.5% above the figure of the prior-year period. Organic growth accounted for 1.1% of that growth. Organic sales growth in the first half of 2019 was still negative at –2.4%.

Consolidated third party sales for the full financial year of 2019 amounted to CHF 1,781.4 million. This corresponds to an increase of 2.5% from the previous financial year. Changes in the scope of consolidation had a positive effect of 4.4% on sales growth. Foreign currency translation had a negative effect of –1.3%. Organic sales growth for the full year was slightly negative at –0.6%.

**Share of sales from Americas region significantly increased**

SFS Group’s targeted markets are geographically broadly based. Sales in Asia, Europe and Switzerland were slightly

lower, pressured on the one hand by negative currency effects and on the other hand by decreasing momentum. The sharp increase in sales from the Americas region is attributable to the acquisition of Triangle Fastener Corporation (TFC) and to the organic growth of successful products and services for the construction industry and, in particular, the medical device industry. Total sales in the Americas rose by 25.0% (organic 5.0%) and accounted for 21.6% of consolidated sales.

**Medical device and construction industries sharply higher**

This development is also evident in the sales mix by end markets. Sales generated with the medical device industry grew by 16.8% from the prior year and accounted for 7.5% of share of sales for the financial year 2019. Consolidation effects lifted sales with the construction industry by 14.9% from 2018. Accounting for 29.6% of total sales (previous year: 26.5%), the construction industry is currently the largest end market for SFS in terms of sales. The slight decrease in share of sales with the automotive and electronics industries is also attributable to the above developments. However, the respective market shares and share of sales with key customers in these industries remained stable year-on-year.

**Second-half operating profit improved**

With an adjusted EBIT margin of 14.2%, SFS Group managed to significantly improve its operating performance in the second half. Compared to the first-half EBIT margin, this represented an increase of 160 basis points. Higher profitability was fueled by sales growth in the Engineered Components segment, by measures taken to strengthen profitability, and by positive seasonal effects.

Adjusted operating profit amounted to CHF 239.1 million (previous year: CHF 243.1 million). The corresponding adjusted EBIT margin of 13.4% is better than the guidance given at mid-year 2019.

Reported operating profit amounted to CHF 236.3 million. The difference to the adjusted figure is attributed to non-recurring effects. There was a positive effect from the sale of real estate in the Distribution & Logistics segment. On the negative side, costs were incurred in the Engineered Components segment in connection with the relocation to the new site in Nantong (China). Thanks to the very quick and smooth move to the new site, the actual costs incurred were significantly lower than budgeted. The net effect of the aforementioned extraordinary items on operating profit was CHF -2.8 million.

Consolidated net profit was positively impacted by a one-term effect of CHF 17.2 million arising from the recognition of deferred tax assets. The expected significant improvement in the operating results of the North American activities led to the use of tax-loss carry-forwards and the amortization of goodwill for tax purposes. A change in Swiss tax rates also had a positive effect on net income. Group net profit of CHF 206.5 million (previous year: CHF 193.9 million) corresponds to 11.6% of Group net sales.

**Number of employees increased slightly**

SFS Group employed a workforce of 10,571 full-time equivalents at the end of 2019 (previous year: 10,231). More than half of the increase in the headcount stems from the acquisition of TFC. New jobs were created at the Electronics and Medical divisions in connection with the realization of growth projects. Capacity adjustments at the Automotive and Riveting divisions led to a slight decline in the headcount at both divisions.



The Medical division's accomplishments in the areas of neurology, minimally invasive surgery and orthopedics stand out.

## Engineered Components (EC)

### Solid performance in a challenging year

Demand from customers in the automotive and electronics industries had already shown signs of weakening in late 2018 and this weakness subsequently spread to other market segments in 2019. As the year progressed, demand in most markets stabilized at lower levels compared to the previous year. The Medical division displayed a convincing performance throughout the year driven by its stable growth momentum. Total sales for the EC segment amounted to CHF 957.1 million in 2019 (previous year: CHF 967.0 million). Taking the negative currency translation effect of –1.2% into account, there was a slight organic growth of 0.2%. Compared to the first semester, sales in this segment rose by 10.7% in the second half of the year. The significant growth was broadly based and supported by the seasonal ramp-up of various projects and a recovery in the electronics sector.

Margins were pressured in the first half by demand-induced fluctuations in capacity utilization rates and sales mix effects. To protect its margins, a sweeping package of measures was drawn up and implemented at several of the segment's operating locations. Implementation of these measures and improved capacity utilization rates – due to the successful ramp-up of key projects in the Automotive and Electronics divisions – strengthened segment profitability in the second half of the year. Compared to the first half, the adjusted EBIT margin increased by 170 basis points to 17.8%. In the financial year 2019, the segment generated an adjusted operating profit of CHF 164.1 million, which corresponds to an adjusted EBIT margin of 17.0% (previous year: 18.2%).

## Fastening Systems (FS)

### Market position strengthened

The two divisions that make up the FS segment experienced clearly divergent developments during the period under review. The Construction division, which sells its products to customers in the construction industry, profited from a stable market environment. Its market position in the US market was significantly strengthened through the acquisition of TFC. The Riveting division, by contrast, had to contend with a difficult market environment. It experienced a sharp downturn in sales as it has considerable direct and indirect exposure to the German and the UK automotive industry. Total segment sales amounted to CHF 498.3 million (previous year: CHF 437.1 million), which corresponds to an increase of 14.0% compared to the previous financial year. Changes in the scope of consolidation in the Construction division accounted for 18.5% of the segment's sales growth. In organic terms, sales growth was slightly negative at –2.1%. Foreign-currency translation had a negative impact of –2.4%.

The operating profit in 2019 was CHF 47.1 million, which corresponds to an increase of 6.7% compared to the previous year. The EBIT margin for the whole year was 9.2% (previous year: 9.8%). The diverging development of the divisions was also evident at the level of profitability.

## Distribution & Logistics (D&L)

### Profitability improved

The D&L segment generated sales of CHF 326.0 million in the period under review (previous year: CHF 334.5 million), a slight decline of –2.5% from the prior-year figure. Changes in scope of consolidation and foreign currency translation had a negative effect on sales of –1.7%. Although positive organic growth of 0.3% was realized in the first half, it turned slightly negative in the second half. This is attributed to the generally observed downturn in demand in the course of the year, in particular from our industrial customers.

The trend of rising profitability already observed in the previous financial year was successfully maintained despite the more challenging economic environment. D&L segment generated adjusted operating profit (EBIT) of CHF 26.2 million, which corresponds to an EBIT margin of 7.9% (previous year: 7.6%). Compared to the previous financial year, profitability was thus increased, on a comparable basis, by 30 basis points.

Due to book gains on the disposal of two properties, reported EBIT amounted to CHF 40.5 million.

### Increasing focus on sustainability

Sustainability is important to us and has been part of SFS' DNA from the very beginning. It is an important aspect of our daily work. In order to report more actively and extensively on sustainability at SFS, this topic will be given a disclosure platform of its own. SFS will publish its first stand-alone sustainability report at the end of May 2020. Therefore, the section on sustainability is no longer part of our annual report as of the financial year 2019.

### Potential risks evaluated

The Group Executive Board and the Board of Directors regularly assess the main business risks to which SFS Group is exposed. A comprehensive risk assessment is conducted at least once a year. During this assessment, the relevant risks are systematically classified according to the likelihood of occurrence and the severity of the potential consequences.

During the year under review, potential risks and action to contain these risks were again discussed. This year's risk assessment focused on cybersecurity risks, investment-related risks associated with major projects, risks associated with acquired companies, warranty risks arising from product recalls, company exposure to the global economic environment, compliance and currency-related risks. Other important themes were revised customs duties and tariffs, restrictions in the movement of goods and geopolitical risks.



**R&D activities intensified, investments leveled out in the normal range**

SFS Group’s mission is to create added value for its customers by providing them with innovative products and solutions. To accomplish this goal, SFS Group invests considerable resources in the ongoing development of its core technologies, the launch of new products and systems, and continuous process improvements. Its objective is to fully grasp the customer’s perspective and identify ways to optimize overall cost. Working closely with our customers, we are often able to enhance the efficiency of their value chains and “invent” mutual success – true to our value proposition of “Inventing success together.” Expenditure on research and development amounted to CHF 44.4 million in the financial year 2019 (previous year CHF 37.9 million) and was expensed in full to the income statement for the period. Thanks to these investments, in the future the SFS Group will improve its operating performance.

Expenditure on property, plant and equipment for the period amounted to CHF 116.7 million (previous year CHF 149.1 million), which corresponds to 6.6% of net sales. Most of these investments went to realize production lines for growth projects, mainly in the Automotive and Electronics divisions. The decline in capital expenditure from 2018 is attributed to the completion of the production platform in Nantong and the execution of important large projects in the Automotive and Electronics divisions.

**Composition of Group Executive Board modified and expanded**

The Board of Directors made a decision to strengthen the company’s management structures and integrate Corporate Services, which includes Human Resources, Business Development and Marketing & Communications, directly into the Group Executive Board. Claude Stadler, Head of Corporate Services, has therefore been a member of SFS Group’s Group Executive Board since 1 January 2019.

Effective 1 July 2019, the Board of Directors appointed Urs Langenauer, Head of the Riveting division, as member of the Group Executive Board. He assumed responsibility for the division from Thomas Bamberger. The Board of Directors and the Group Executive Board thank Mr. Bamberger for his many years of service at the Riveting division.

Effective 1 January 2020, Iso Raunjak assumed responsibility as announced for the Distribution & Logistics segment from Josef Zünd, who will retire in March 2020 after a successful 49-year career at SFS. The Board of Directors and Group Executive Board thank Josef Zünd for his valued service to SFS Group over so many years.

**Payout to shareholders**

In view of the robust earnings, the very solid balance sheet and the guardedly optimistic outlook for future business activity, the Board of Directors will propose a dividend of CHF 2.10 per share (previous year: CHF 2.00) at the pending Annual General Meeting.

**Outlook for the 2020 financial year**

Looking ahead to the 2020 financial year, we expect subdued demand in key markets, such as the automotive industry. We also expect the political and economic environment to remain volatile. Thanks to its strong market position and attractive project pipeline, SFS expects sales growth of 0–2% in local currencies and including changes in the scope of consolidation. Amid this challenging environment, we expect the EBIT margin for the 2020 financial year to range between 12–14%. This forecast is based on the assumption that there will be no significant deterioration in the economic conditions.

It is still too early to provide an accurate assessment of the full impact of the ongoing outbreak of the COVID-19 virus.

Due to a shift in SFS’s sales mix and a downturn in global economic activity, we have set a new comparable mid-term sales growth target of 3–6%. Our mid-term EBIT margin target is 13–16%.

**Thank you**

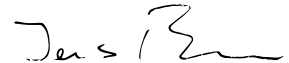
We would like to take this opportunity to thank all employees at SFS Group. Without their great dedication, expertise and innovation skills, SFS would not be able to do the good work it does.

We also thank all our customers and our business partners: Our collaborative partnerships and mutual trust provide a sound basis for development of solutions that generate lasting value.

We thank our shareholders for their trust and loyal support, which enhances the stability of our company.



Heinrich Spoerry  
Chairman of the  
Board of Directors



Jens Breu  
CEO

**Strategy**

# Inventing success together

**Creating value for the customer and inventing success together in close partnership is our number one goal. That claim is based on high levels of application and technology-driven expertise, which enable SFS Value Engineering to create new solutions for the customer day after day.**

**At your side 24/7**

SFS is a reliable companion throughout your day, from early in the morning to late at night, seven days a week. Not many people realize this, since our precision components and mechanical fastening systems are embedded in the successful products of our customers, where they often perform critical functions.

You first come into contact with SFS products in the morning when you get up and use a coffee machine or a smartphone. Driving to work, you are surrounded by numerous SFS products embedded in your car's safety systems, ranging from seatbelts and airbags to braking systems. These SFS products help to save lives in an emergency. At work, hard disc drives are used that contain high-precision miniature components made by SFS.

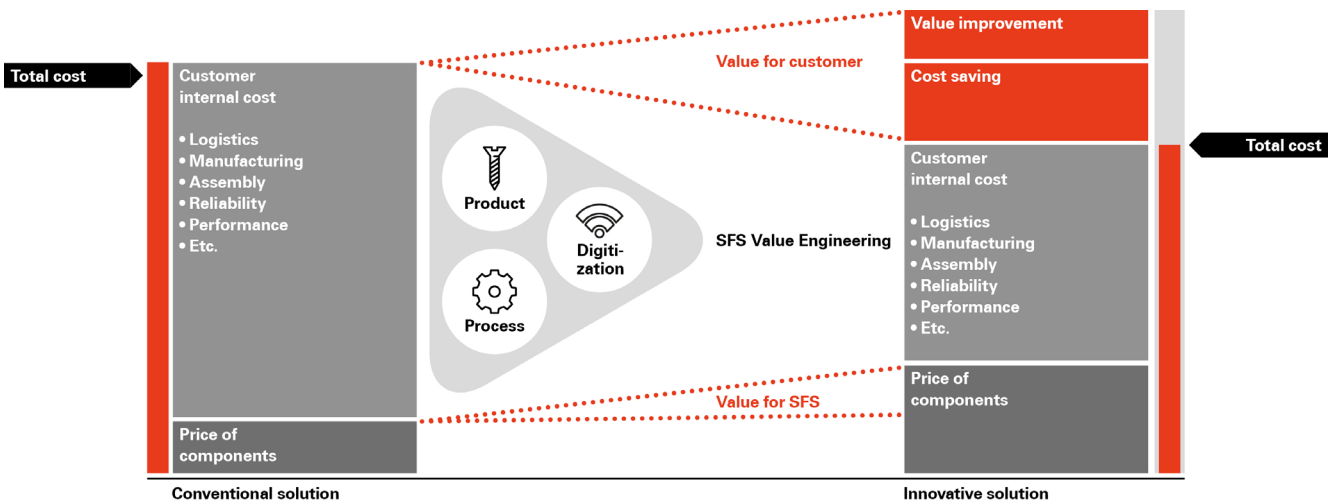
En route to a business meeting on board a modern Airbus, you will be pleased with the high level of travel comfort the

aircraft offers. Here, too, you will be surrounded by SFS fastening solutions. They reduce vibration in the cabin interior and thereby lower noise levels for the passenger.

SFS products can also be found in many electronic lifestyle products, such as adventure cameras, smart watches and smart home devices. In the field of health care, SFS precision components help in bone screws and dental implant fixation solutions to surgical instrument to improve your quality of life.

**Our value proposition: creating value for the customer**

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



potential. Instead, our main goal is to optimize the overall product-related costs of our customers, as shown in the value proposition graph below.

This approach generates significantly more cost-savings potential and allows us to create sustainable value for our customers. Our value engineering model focuses on product design, the fastening processes and workflows, and on exploiting the power of digitization. The result: tailored products and intelligent solutions that give our customers a competitive edge. The SFS solutions thus created lead to greater differentiation and stronger collaborative partnerships. Our aim of continuous improvement as we seek to create value for the customer can be achieved only with a strong work ethic: an unwavering commitment to “invent success together”. That is our DNA.

### **A strong DNA since 1928**

SFS's roots go back more than 90 years, to the opening of a hardware store called Stadler in Altstätten, Switzerland. In 1960, the company branched out into cold forming technology and the production of fasteners. Today the company is one of the world's leading suppliers of mechanical fastening solutions, precision components, and logistics systems for optimal management of C-parts. The mission from Day One – creating value for the customer, every employee an entrepreneur, and achieving sustainable success together – has been continuously pursued. This focus on entrepreneurship and a long-term horizon has been upheld to this very day. It is anchored in our core values and, in accordance with our value proposition “Inventing success together”, it is actively embraced by our employees in their daily dealings with people inside and outside the organization.

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## **SFS in brief**

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

### **Engineered Components**

In the Engineered Components (EC) segment, SFS partners with customers to develop and manufacture customer-specific precision components, mechanical fastening solutions and assemblies. This segment comprises the Automotive, Electronics, Industrial and Medical divisions, and it sells its products and services under the brand names SFS (Automotive, Industrial), Unisteel (Electronics) and Tegra Medical (Medical).

### **Fastening Systems**

In the Fastening Systems segment (FS), which consists of the Construction and Riveting divisions, SFS develops, assembles, manufactures and markets application-specific mechanical fastening systems amongst others under the SFS, HECO and Triangle Fastener Corporation (TFC) (Division Construction) and GESIPA® brands (Division Riveting).

### **Distribution & Logistics**

In the Distribution & Logistics segment (D&L), SFS positions itself as a leading sales and logistics partner for C-parts, hardware tools and fasteners for customers in industrial and skilled trades sectors in Switzerland. The segment also offers customized logistics solutions that significantly improve the competitiveness of its customers.

### **SFS Group**

SFS Group is a global player with manufacturing sites and distribution companies at more than 100 locations in 26 countries around the world. It generated sales of CHF 1,781.4 million in financial year 2019 with a workforce of approximately 10,000 (FTE).

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**Our brand management: clear messages conveyed with distinctive typography and large-scale graphics**

The renewal of SFS’s corporate identity and corporate design in 2018 sharpened the contours of its branding strategy and simplified its brand structure. The SFS brand is front and center and it replaced the SFS intec and SFS unimarket brands. This brand consolidation has clearly enhanced the effectiveness and efficiency of our communications. The SFS brand has a more distinctive profile and differentiates our own services and solutions from the competition even better than before.

Brands such as GESIPA®, Indo Schöttle, Tegra Medical, TFC and Unisteel continue to be used. Their strategic and cultural association with SFS is emphasized with the tagline “A member of SFS”.

The focused brand management strategy is continuously conveyed in our internal and external communication campaigns and actions. Besides SFS’s website and various brochures, our customer magazine “InPractice” was also given a new layout and digitalized last year. These success stories, which have been realized in collaboration with our customers, have been integrated in our website [Success Stories](#) →

Further strengthening its digital branding strategy, SFS acquired the domain name sfs.com, complementing its existing sfs.biz website. This new domain will play a central role in the future.

A number of highlights in the coming financial year will focus on brand communication, including the publication of a Sustainability Report, the launch of several e-shops in the Construction division and the roll-out of an employee app.

**Global production and distribution platform expanded**

In 2019 the new production platform in Nantong, north of Shanghai (China) successfully commenced operations. Well over 1,000 employees and just as many manufacturing machines from the four former nearby production sites were transferred to the new site in Nantong in record time, all the while avoiding any bottlenecks in the processing of customer orders. The financial year was also highlighted by two acquisitions. With the acquisition of TFC (Triangle Fastener Corporation), a leading supplier of fasteners and other products for the commercial construction industry, SFS strengthened its market position in the US and obtained direct access to some 6,000 active customers. At the end of 2019, SFS signed a purchasing agreement with mbe (Moderne Befestigungselemente GmbH) to acquire the company as per 1 January 2020. mbe is a specialist in painted fasteners for high-performance façade systems. With this acquisition, SFS is expanding its offering of fastening systems for façade systems and its market reach, as well as its customer base in the European construction market. These two companies strengthen SFS’s market position in the Construction division and enhance its established technology and product portfolio.

**Digitization potential harnessed**

The digital revolution is one of the most important megatrends for SFS. In order to make optimal use of the opportunities that arise, SFS pursues the approach of participating with its own digital solutions and with tailored solutions for its customers’ intelligent products. Examples of SFS’s in-house-developed solutions are the iBird® Pro from GESIPA® and the newly launched SFS e-commerce platform of the D&L segment. Examples of important innovative customer solutions that – in the truest sense of the word – embody the megatrend of digitalization are intelligent loudspeakers, smart watches and systems that already contain elements of autonomous driving. Using the power of digitization, we



can realize improvements throughout the value chain; for example, through logistics solutions (“M2M”). Furthermore, SFS is currently developing a new solution for the internal, intelligent use of business data.

**Profiting from economic globalization**

Economic globalization is another mega-trend. Thanks to its global network of manufacturing sites, SFS is strategically well positioned for this trend in terms of its production and services capabilities, with operations at more than 100 locations around the world. A global footprint allows us to manage and execute projects worldwide as a local partner, which international customers in particular appreciate.

**Taking advantage of demographic change and changed consumer behavior**

Another megatrend is the ongoing change in consumer behavior pushed forward by demographic trends. Health and well-being are becoming increasingly important themes. In this context, SFS offers innovative and future-ready solutions that meet these needs precisely. Its large portfolio includes components and services for a variety of medical and dental applications. Growing cost pressure is further accelerating outsourcing rates by OEMs. As a value engineering specialist with years of experience in the industrialization of products and processes, SFS has proven time and again that it can create substantial value added for its customers.

**Generating growth through innovation**

Innovation and the continuous quest for improvement are integral elements of SFS’ corporate DNA. Innovation is often

pushed forward by changes in the market landscape attributable: for example, to societal change or to demands for greater efficiency. SFS therefore attaches great importance to maintaining a close relationship with its customers in all its targeted markets and acting as a trusted innovation partner during the early stages of a project. SFS has a robust innovation and new project pipeline that grew stronger during the year under review.

**Growth through acquisitions**

Besides organic growth, acquisitions are also important in the ongoing development of SFS Group. Selective acquisitions give us access to new markets, customers and applications, which in turn lays the groundwork for additional future organic growth. The acquisition of large companies is not our primary objective. Instead, we focus on the performance-enhancing aspects of a potential takeover candidate and are thus attracted to well-positioned, well-managed small to mid-sized companies that do business with blue-chip customers, have attractive products that are sustainably profitable.

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**Strategic priorities**



Markets

# Market position expanded

**With its clear focus on customer needs and innovation trends, SFS is attractively positioned and well-anchored in different regions and markets. Two successful acquisitions have added to its expertise in the construction industry and SFS has also profited from strong growth momentum in the medical device industry.**

## Development by end market

### Product range in construction business expanded

Amid a generally solid market environment, SFS strengthened its competitive position in the construction industry thanks, among other factors, to the success of its innovative products and its acquisition of Triangle Fastener Corporation (TFC) and Moderne Befestigungselemente GmbH (mbe). With TFC, SFS acquired a leading supplier of fasteners and other products for the commercial construction industry in the eastern United States. Thanks to this acquisition in the spring of 2019, SFS expanded its market access and customer base and strengthened its position in the US construction industry considerably. Another strategic milestone was the acquisition of mbe, an expert in painted fasteners for high-performance façade systems. With mbe, SFS expanded its offering of fastening systems for façade systems and enhanced its market access in Central Europe. The construction industry has now become the largest end market addressed by SFS, accounting for 29.6% of total sales (previous year 26.5%), and the corresponding sales grew by 14.9% (previous year 11.2%), mainly driven by acquisitions.

### Growth trend in medical device sector maintained

Particularly pleasing is the positive course of business in the medical device market. This market accounted for 7.5% of total sales (previous year 6.5%) and the corresponding sales showed a high growth rate of 16.8% y-o-y, largely driven by applications and innovations in the areas of neurology, minimally invasive surgery and orthopedics. In view of the good project pipeline, SFS expects also for 2020 attractive growth.

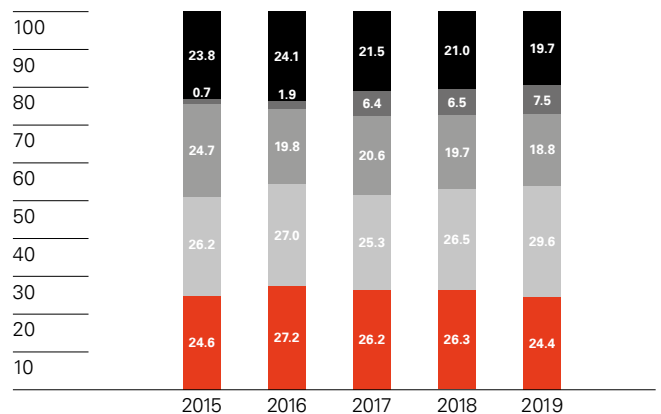
### Demand in automobile and electronics markets stabilized

The challenging situation in the automotive and electronics markets left a mark on business during the past fiscal year.

Nevertheless, after a weak start, SFS sales stabilized over the course of the year, but at an overall lower level compared to the previous year. The share of Group sales generated in the automotive market declined by 190 basis points to 24.4% (previous year 26.3%). The electronics market accounted for 18.8% of total sales (previous year 19.7%), a decline of 90 basis points. The development of the share of sales was also impacted by the mix effect caused by the positive scope effects in the Construction division.

Share of sales by end markets 2015–2019

in %



■ Automotive sector      ■ Medical device industry  
■ Construction sector      ■ Other sectors  
■ Electro and electronics

## Development by region

### Regionally broadly based

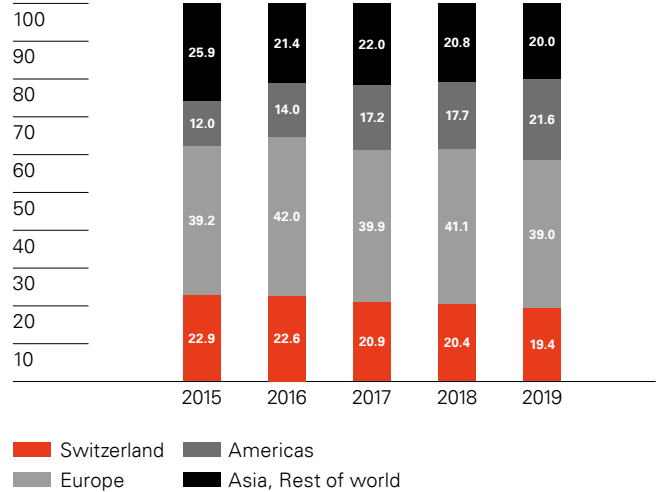
SFS is also well diversified in terms of regional markets. In the development of sales, parallels can be observed between the end market electro and electronics industry and Asia as well as between construction industry and Americas. As in the previous year, the various regions showed stable sales trends, with the exception of the Americas, where sales increased sharply.

### Share of sales from Americas region significantly increased

The disproportionate increase in sales from the Americas region is attributable on the one hand to the effect of the acquisition of TFC and on the other hand to the organic growth of its successful products and services for the construction and medical device sectors. Total sales in the Americas rose a sharp 25.0% and thus accounted for 21.6% of consolidated sales (previous year 17.7%).

Share of sales by region 2015–2019

in %



## Worldwide production and sales locations



With its global manufacturing platform and more than 100 locations around the world, SFS is strategically well positioned in terms of production and services capabilities. The takeover of TFC added 23 new sales branches in the past financial year (depicted by white dots).

## Segment reports – Engineered Components

# Solid performance

**Weak demand in various markets left a mark on the results in the Engineered Components segment. Thanks to project ramp-ups, performance was significantly increased in the second semester.**

### Solid performance in a challenging year

Demand from customers in the automotive and electronics industries had already shown signs of weakening in late 2018 and this weakness subsequently spread to other market segments in 2019. As the year progressed, demand in most markets stabilized at lower levels compared to the previous year. The Medical division displayed a convincing performance throughout the year driven by its stable growth momentum.

Total sales for the Engineered Components segment amounted to CHF 957.1 million in 2019 (previous year: CHF 967.0 million). Taking the negative currency translation effect of -1.2% into account, there was a slight organic growth of 0.2%. Compared to the first semester, sales in this segment rose by 10.7% in the second half of the year. The significant growth was broadly based and supported by the seasonal ramp-up of various projects and a recovery in the electronics sector.

Generally speaking, the overall flat sales development compared to 2018 can be traced to weak market demand. SFS either defended or strengthened its position with customers in every market segment. Its continued strong competitive position is also reflected in the substantial new projects and the healthy project pipeline.

### Better profitability achieved in the second half

Margins were pressured in the first half by demand induced fluctuations in capacity utilization rates and sales mix effects (arising from differences in divisional growth rates and earnings contributions). To protect its margins, a sweeping package of measures was drawn up and implemented at several of the segment's operating locations. Shorter work times (by reducing overtime) in Switzerland and job cuts in the UK, Germany, China and India were among the measures taken. New employees were hired and investments in plant and equipment were made selectively to ensure the smooth realization of new projects. Implementation of these measures and improved capacity utilization rates – due to the successful ramp-up of key projects in the Automotive and Electronics divisions – strengthened segment profitability in the

### Key figures Engineered Components

in CHF million

	2019	+/- PY	2018	2017
Third party sales	957.1	-1.0%	967.0	925.8
Sales growth comparable		0.2%		
Net sales	964.2	-0.9%	972.5	938.2
EBITDA	210.1	-10.5%	234.8	243.3
As a % of net sales	21.8		24.1	25.9
Operating profit (EBIT)	147.0	-16.8%	176.6	145.9
As a % of net sales	15.2		18.2	15.6
Operating profit (EBIT) adjusted <sup>1</sup>	164.1	-7.1%	176.6	185.7
As a % of net sales	17.0		18.2	19.8
Average capital employed	700.4	7.4%	652.1	595.1
Investments	94.1	-19.1%	116.3	80.3
Employees (FTE)	7,153	2.5%	6,977	6,492
ROCE (%) <sup>2</sup>	23.4		27.1	31.2

<sup>1</sup> Adjusted for relocation cost Nantong (CN) CHF 17.1 million (2017: CHF 39.8 million amortization customer relationship Unisteel)

<sup>2</sup> EBIT adjusted in % of average capital employed



Future growth in the Automotive division will be driven by projects such as the electric parking brake (EPB).

second half of the year. Compared to the first half, the adjusted EBIT margin increased by 170 basis points to 17.8%. In the financial year 2019, the segment generated an adjusted operating profit of CHF 164.1 million, which corresponds to an adjusted EBIT margin of 17.0% (previous year 18.2%).

Extraordinary relocation costs of CHF 17.1 million were incurred in 2019 in connection with the new factory site in Nantong. Thanks to the swift and smooth execution of the relocation, these costs were less than budgeted and there will be no further negative impact on costs in the financial year 2020.

Reported EBIT for the EC segment amounted to CHF 147.0 million.

### Performance in China clearly strengthened

The commissioning of the new production platform in Nantong (China) marked a strategic milestone for SFS. Nantong is now home to SFS Group's second-largest site. The four former sites operated by the Electronics division in the Greater Shanghai Region have now been consolidated at a single site. This has the added advantage that SFS can now offer all of its core technologies from the same site. Furthermore, the new set-up creates attractive new business development prospects, in particular for the Electronics and Automotive divisions.

Both the relocation to and the commissioning of the new site, which is about an hour's drive from the old sites, were smoothly executed and completed in record time. Within

just a few weeks, more than 1,000 employees and just as many machines were transferred to the new location, all the while meeting customer needs and processing their orders: a stunning organizational achievement. Three of the four old sites were completely transferred to Nantong in 2019. The few remaining manufacturing units at the fourth site will be relocated to Nantong during the first three months of 2020.

Shortly after relocation, new projects for customers served by the Electronics division were smoothly scaled up, which similarly reflects the local organization's excellent execution capabilities.

The regular capacity at the new factory is about 75% utilized with the current project backlog, which is in line with the original planning. The new production platform has sufficient space to accommodate future growth. The attractiveness of the new site and the range of manufacturing services it offers are highlighted by the new projects it has already been able to win. In addition to the Electronics division, the Automotive division has also acquired its first new projects. Initial sales will be expected in 2021. Intensive collaboration with all other SFS Group sites is in progress to ensure the successful transfer of technology know-how.

Capital expenditure at the Engineered Components segment amounted to CHF 94.1 million during the period under review (previous year CHF 116.3 million). Major capex drivers were new production systems to realize new projects in the Automotive, Electronics and Medical divisions. The significant year-on-year decline in capital expenditure is attributed to the construction of the new site in Nantong and the investments required to set up initial manufacturing capacity for key projects at the Electronics and Automotive divisions during the financial year 2018.

## Automotive division

### Robustly positioned in a challenging environment

Global demand for new cars was weak in 2019, but stabilized at a low level as the year progressed. Germany and India reported sharp drops in demand. Besides a general downturn in economic activity and simmering trade tensions, the competing vehicle propulsion systems may have created some uncertainty and led some buyers to hold off on their purchases. SFS continues to profit from its strong competitive position and its focus on meeting needs associated with safety, efficiency and comfort trends. In addition, ongoing developments in the field of (semi-)autonomous driving have created interesting business opportunities. Currently only about 20% of SFS sales with the automotive industry are related to applications for combustion engines. The strong growth of recent years and the healthy project pipeline are attributable to applications that are required regardless of the propulsion system used. Therefore, the growing number of cars with electric powertrains do not pose any particular risk to the future growth of SFS's Automotive division.



The wide range of services offered by the Electronics division now also includes cold forming.



### Momentum increased as the year progressed

After the expected weak start to the first half of the year, the Automotive division benefited from the scale-up of new projects and a stabilization in demand during the second half. The value of SFS parts per vehicle continued to increase. In local currency, annual sales decreased by -1.1%, compared to an estimated worldwide market decline of approx. -5 to -6%

### Future growth buoyed by project wins

SFS's sharp competitive edge was evident on the one hand in the supplier awards it received, and on the other hand in the new key projects it acquired. Project wins for electric brake systems and sensor housings were particularly pleasing, as were the projects acquired at the new site in Nantong (China) for local delivery to customers.

### Solid course of business expected

Looking ahead to the financial year 2020, the Automotive division expects demand to remain weak. Thanks to the realization of new projects, the division expects a stable development.

## Electronics division

### Challenges well navigated

The last year was in many aspects a special and challenging year for the Electronics division. Overall, it overcame every challenge very well and defended and even strengthened its competitive position in some areas of activity.

### New applications develop promisingly

The first half of the year was characterized by weak demand in most application areas. Demand for hard disk drive products (HDD) was particularly weak and did not show a recovery in the second half. New projects for mobile phone components displayed good growth momentum. Products for lifestyle electronics devices (e.g. smart watches) also sold well. The production ramp-up of components for power adapters contributed to growth too. In these projects the division demonstrated the high level of competence it has built up in cold forming, and thus creating opportunities to win additional projects. Despite the positive developments in the areas of mobile phones and lifestyle electronics, overall divisional sales declined slightly due to the steady fall in sales in the HDD business.

### SFS core technologies united under one roof

On the operational front, besides management's swift reaction to weak demand at the beginning of the year, the successful relocation and start-up of the new production platform in Nantong (CN) is worthy of note (see section "Performance in China clearly strengthened"). The new site, where for the first time, all of SFS's core technologies will be offered under one roof, strengthens the overall offering of the Electronics division, which operates and sells its products under the brand name Unisteel.



## Nantong – core technologies united under one roof

- Production platform in Nantong, north of Shanghai
- SFS Group's second-largest manufacturing plant, extending over 77,000 m<sup>2</sup> / 825,000 ft<sup>2</sup> (manufacturing and office space)
- First site to offer all SFS core technologies under one roof
- Relocation to new site and start-up of operations smoothly executed in record time
- Acquired projects in the Electronics and Automotive divisions underscore the attractiveness of the new site

### Options for switching production locations created

Initial projects from customers that are planning to transfer some of their assembly activities from China to other Asian countries were received by the sites in Malaysia and India.

### Moderately positive developments forecast

The division's outlook for 2020 is cautiously optimistic. While the increase in production activity at the new site in Nantong and the realization of new projects will have a positive impact on sales, uncertainty related to the trade tensions between the US and China could have a negative impact on the course of business.

## Industrial division

### Aircraft back on the growth track

The various business units in the Industrial division that are focused on strategic niche markets showed mixed business trends.

Aircraft, the largest business unit, sustained its positive development from the first half, as had been forecast. Its major sales driver is the Airbus A350 program. On the other hand,

sales were negatively impacted by the commencement of the phase-out of A380 production.

**Market success achieved with plastic injection molding technology**

Particularly strong growth was achieved with solutions incorporating plastic injection molding technology or combining plastic injection molding technology and metal cold forming. These solutions have primarily been used in the fields of digitalization and in medication dispensing devices.

**Site expanded to realize new projects**

The entire division performed very well in acquiring new projects that create a solid platform for future growth. Most of these projects are characterized by a very high level of complexity, which attests to SFS’s positioning as a value engineering specialist. In view of the full project pipeline at Stamm AG (Switzerland), the Groups’ specialist in micro-molding technology, its site will be significantly expanded by 2021. This will create the capacity that is needed to realize the many new projects and the corresponding ramp-up of production activities. Although the general business environment is still volatile, the division expects a flat development in 2020 thanks to its current project pipeline.

**Medical division**

**Strong growth momentum maintained**

The Medical division successfully continued its growth momentum. Sales growth was broadly based across the production sites and targeted application areas. In particular Tegra Medical’s accomplishments in the areas of neurology, minimally invasive surgery and orthopedics stand out. Besides the scaling up of projects, the Medical division was successful in acquiring new projects. These projects will help to continue to fuel its future growth.

**Closeness to the customer a competitive advantage**

In addition to its extensive application and technology expertise, the Medical division benefits from its proximity to key customers. With its four production locations, the division has a presence in major medtech clusters in the US and Costa Rica. Thanks to its standardized manufacturing plat-

forms, it was able to meet the safety standards of its customers, most of which have dual-sourcing strategies. Tegra Medical was able to meet this requirement by providing parallel supply chains from its plants in Franklin (USA) and Costa Rica. Customers benefit on the one hand from a robust value chain and on the other hand from the more efficient processes that arise when working with only one supplier.

**Profitability steadily improved**

Profitability improved year on year. Margins have been pressured by the strong growth momentum and high initial outlays in connection with the scaling up of numerous projects. Vigorous efforts to achieve a higher level of automation and general productivity gains will lead to a further improvement in profitability going forward.

**Positive development expected**

Due to the strong project pipeline, the Medical division expects the good growth momentum to continue in 2020.



The positive growth development in the Medical division was broadly based in terms of production locations and fields of application.

## Segment reports – Fastening Systems

# Market position strengthened

**The acquisition of Triangle Fastener Corporation (TFC) significantly strengthened the Construction division’s position in the US market. Business in the Riveting division was clearly pressured by the challenging environment.**

### Thanks to TFC and HECO, sharply higher sales growth achieved

The two divisions that make up the Fastening Systems segment experienced clearly divergent developments during the period under review.

The Construction division, which sells its products to customers in the construction industry, profited from a stable market environment. Its market position in the US market was significantly strengthened through the acquisition of TFC. In addition to the sales contribution from TFC as of April 2019, sales in the Construction division benefited from the first-time full-year consolidation of HECO’s sales for the first six months of the financial year.

The Riveting division, by contrast, had to contend with a difficult market environment. It experienced a sharp downturn in sales as it has considerable direct and indirect exposure to the German and the UK auto industry.

Total segment sales amounted to CHF 498.3 million (2018: CHF 437.1 million), which corresponds to an increase of 14.0% compared to the previous financial year. Changes in the scope of consolidation accounted for 18.5% of the Construction division’s sales growth. In organic terms, sales growth was slightly negative at –2.1%. Foreign currency translation had a negative impact of –2.4%.

### Inconsistent development of profitability

The operating profit in 2019 was CHF 47.1 million, which corresponds to an increase of 6.7% compared to the same period in the previous year. The EBIT margin for the whole year was 9.2% (previous year 9.8%). The diverging development of the divisions was also evident at the level of profitability. The Construction division continued on its pleasing path of continuous profitability improvement. By contrast, lower capacity utilization, the lack of economies of scale and the necessary restructuring had a negative impact on the profitability of the Riveting division.

### Key figures Fastening Systems

in CHF million

	2019	+/- PY	2018	2017
Third party sales	498.3	14.0%	437.1	384.0
Sales growth comparable		–2.1%		
Net sales	511.4	13.0%	452.4	401.0
EBITDA	67.5	6.8%	63.2	47.1
As a % of net sales	13.2		14.0	11.7
Operating profit (EBIT)	47.1	6.7%	44.2	30.4
As a % of net sales	9.2		9.8	7.6
Average capital employed	297.4	8.7%	273.6	231.2
Investments	17.4	5.2%	16.5	30.6
Employees (FTE)	2,429	7.1%	2,267	1,992
ROCE (%) <sup>1</sup>	15.8		16.1	13.2

<sup>1</sup> EBIT in % of average capital employed



With the acquisition of TFC, SFS significantly expanded its market position in the US construction industry.



## Construction division

### Thanks to attractive products and services, organic growth achieved

The Construction division defended its market position as a specialist for mechanical fastening solutions in the building envelope amid an intact market environment, thanks to its attractive range of products and services. Its growth momentum slowed, however, compared to the prior-year period. Demand in Turkey dropped as a result of the country's difficult economic situation.

### Market position in the US clearly strengthened

SFS's market position in the US construction market was significantly expanded through the acquisition of TFC. Thanks to TFC's excellent network of sales outlets, 23 in all, this transaction broadens SFS' access to customers in the US. This opened up a second sales channel alongside the existing sales channel, which is mostly focused on OEMs and wholesalers. With the additional sales channel, SFS is now closer to the customer and thus pursuing the same sales model that has already yielded successful results in European markets.

Broader access to end customers gives SFS a stronger positioning in the marketplace and enables it to address innovations more quickly than before. The merger between TFC and SFS also creates attractive procurement opportunities that can now be jointly exploited.

The integration of TFC into SFS went very smoothly, which confirms that their corporate cultures are highly compatible and guided by identical values. TFC's operating results have been consolidated since April 2019.

### Positive development benefited from stable market environment

The division expects its market environment to remain stable in 2020, allowing it to generate slightly positive sales growth.



## Product range for façade fastening systems in Germany expanded

With the acquisition of mbe – Moderne Befestigungselemente GmbH ("mbe") – SFS acquired a leading supplier of painted fasteners for high-performance façade systems in December 2019. mbe generated sales of approx. EUR 10 million and employed nearly 70 people. This acquisition expands SFS's offering of fastening solutions and its market reach in central Europe. mbe's operating results will be consolidated from 1 January 2020.

mbe was established in Menden, North Rhine-Westphalia, Germany, in 1979 and it mainly supplies specialty German retailers with painted fasteners for ventilated façade systems. In addition to its strong, long-standing customer relationships with specialty retailers, mbe has vast expertise in painting technology and differentiates itself through its very quick response and delivery times. Customers can individualize the color of the fasteners they order, even in small quantities, and receive the ordered items within 24 to 48 hours.

Acquisition of mbe gives SFS direct access to specialty retailers for premium façade solutions. mbe's customers and distribution partners will benefit from SFS' broad product range.

## Riveting division

### Results burdened by weak markets

In the financial year under review, sales activity at the Riveting division, which markets its products under the brand GESIPA®, was pressured by a number of factors. The division's strong focus on the weakening automobile industry and on customers from auto-related industries in Germany had a clearly negative impact on demand. In the UK, where the Riveting division operates a plant that supplies the UK automobile industry, uncertainty associated with Brexit had a clearly detrimental impact on business activities. Demand stabilized over the course of the year, but at a significantly lower level compared to the previous-year period.

### Profitability weakened by lower capacity utilization

Generally lower and, in some cases, volatile capacity utilization together with the necessary restructuring measures resulted in lower profits for the division compared to the previous year. A broad package of measures to strengthen profitability was implemented during the second and third quarter, and this had an increasingly noticeable impact as the year progressed. In addition to measures such as short-time work and reducing temporary workers, which was used to offset temporary capacity utilization difficulties, job cuts were made where structural problems had been identified.

### Attractive product innovations created

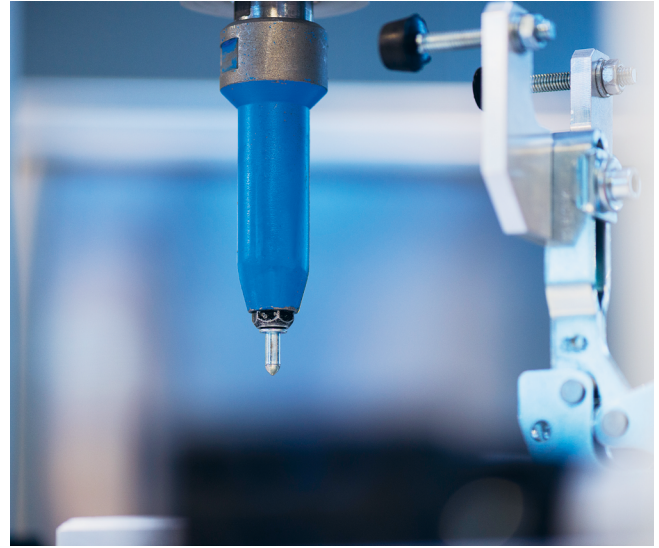
Thanks to its attractive portfolio of setting tools, the Riveting division is well positioned. The possibilities associated with automation and digitization offer customers additional value, be it in the form of efficiency gains or enhanced setting process quality. A particularly interesting development is the "Flow Drilling Rivet®" technology (see infobox "Flow Drilling Rivet®" technology)

### New divisional management appointed

On July 1, 2019, the Board of Directors appointed Urs Langenauer, Head of the Riveting Division, as a member of the Group Executive Board and thus the successor to Thomas Bamberger. With him, SFS relies on a longstanding employee with extensive management experience. Urs Langenauer joined SFS in 1995 and had previously managed the business activities of the Automotive division in North America from 2013 to 2019. He will use his expertise and experience to strengthen the Riveting division and to support the expansion of its fastener business.

### Slightly declining development expected

Amid a persisting challenging environment, the division expects a slightly declining sales development in the financial year 2020.



## "Flow Drilling Rivet®" technology

FDR® – Flow Drilling Riveting – combining the advantages of different joining processes.

Blind riveting without predrilling represents a revolution in mechanical joining technology. Thanks to the special design of the rivet head, the radial movement during the rivet-setting process, and the lower joining forces, this new blind rivet can also be used to join soft metals and plastics. Predrilling is no longer necessary, which saves time and costs. Incorrect alignment and drill hole tolerances are a thing of the past. Meanwhile the classic advantages of blind rivet technology are retained:

- Single-sided riveting
- High-quality, high-strength riveted joints
- A system solution from a single provider: new patented process covering both the rivet and the rivet-setting device

## Segment reports – Distribution & Logistics

# Profitability improved

**The D&L segment defended its market position and further strengthened its profitability. Key drivers were the tools business and intensified multi-channel activities.**

### Market position defended

The D&L segment generated sales of CHF 326.0 million in the period under review, a slight decline of –2.5% from the prior-year figure. Changes in scope of consolidation and foreign-currency translation had a negative effect on sales of –1.3% and –0.4%, respectively.

Although positive organic growth of 0.3% was realized in the first half, it turned slightly negative in the second half. This is attributed to the generally observed downturn in demand in the course of the year, in particular from our industrial customers. However, the market position was further strengthened with the acquisition of new customers for the D&L segment’s innovative logistics systems.

Business activity within the segment was broadly based. As in the first half, the tools business, the HandwerkStadt sales channel and the online store made a positive contribution to growth. With the opening of a new store in Mellingen (canton Aargau, Switzerland) in November 2019, the HandwerkStadt network now comprises 29 locations (see infobox “New HandwerkStadt in Mellingen”).

### Multi-channel activities expanded

With its selection of different sales channels, D&L addresses the different needs of its customers and differentiates itself in the marketplace. During the period under review, D&L expanded its network of specialty retail stores, further enhancing its customer proximity. The now 29 pick-up points are integrated into the offering of the online store ([www.sfs.ch](http://www.sfs.ch)). This means, for example, that express orders placed online can be picked up at one of the retail stores within just two hours. Further optimization of the online store, such as the integration of CAD data, fast checkout and the possibility of scanning barcodes with a smartphone increased the user experience of the digital shopping platform. This puts the conditions in place for future, above-average growth from the digital sales channel.

### Key figures Distribution & Logistics

in CHF million

	2019	+/- PY	2018	2017
Third party sales	326.0	–2.5%	334.5	322.9
Sales growth comparable		–0.8%		
Net sales	330.9	–2.6%	339.7	328.9
EBITDA	46.5	46.5%	31.7	35.8
As a % of net sales	14.1		9.3	10.9
Operating profit (EBIT)	40.5	57.4%	25.8	29.9
As a % of net sales	12.3		7.6	9.1
Operating profit (EBIT) adjusted <sup>1</sup>	26.2	1.7%	25.8	22.6
As a % of net sales	7.9		7.6	6.9
Average capital employed	132.8	–6.6%	142.2	140.8
Investments	2.3	–62.5%	6.2	10.4
Employees (FTE)	622	0.2%	621	655
ROCE (%) <sup>2</sup>	19.7		18.1	16.1

<sup>1</sup> Adjusted for book gains on the disposal of non-core assets CHF 14.3 million (2017: CHF 7.3 million)

<sup>2</sup> EBIT adjusted in % of average capital employed



D&L optimally addresses the different customer needs with a mix of different sales channels.

**Profitability further strengthened**

The trend of rising profitability already observed in the previous financial year was successfully maintained despite the more challenging economic environment. D&L generated adjusted operating profit (EBIT) of CHF 26.2 million, which corresponds to an EBIT margin of 7.9%. Compared to the previous financial year, profitability was thus increased, on a comparable basis, by 30 basis points.

Due to book gains on the disposal of two properties, reported EBIT amounted to CHF 40.5 million.

**Solid course of business expected**

Amid a still challenging environment, the D&L segment expects a stable sales trend in the coming financial year.



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## **New HandwerkStadt in Mellingen – network of specialty retail stores expanded**

SFS is steadily expanding its HandwerkStadt network and last year it opened another specialty retail store for professional trades and crafts in Mellingen (Switzerland). The 29<sup>th</sup> store covers approx. 1,200 m<sup>2</sup> and offers customers:

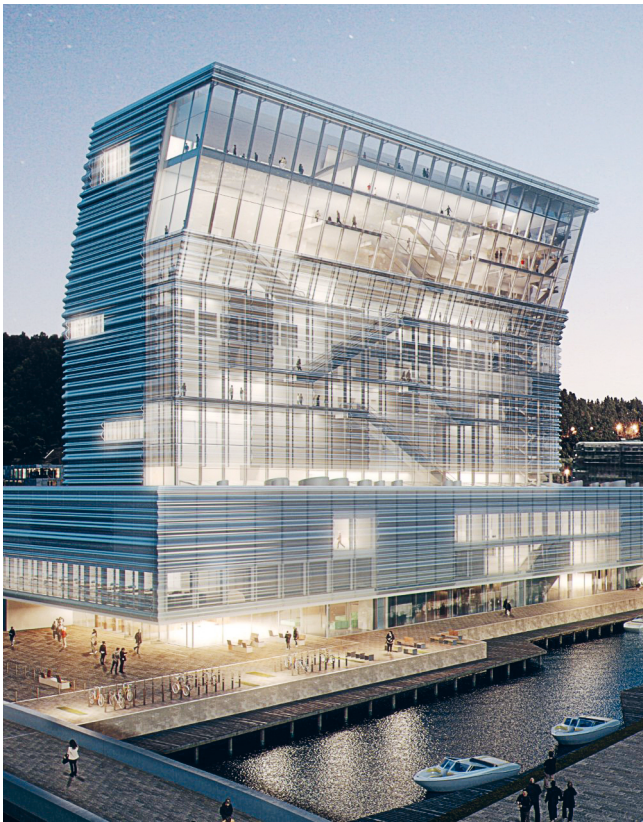
- More than 7,800 items from the successful product portfolio
  - Professional sales consultants
  - Modern and spacious store design
  - Optimized store hours for professional craftsmen
-



**Success Stories**

# Inventing success together

**Our aim of continuous improvement as we seek to create value for the customer can be achieved only with a strong work ethic: an unwavering commitment by the SFS Value Engineers to “invent success together”. That is our corporate DNA, which impressively becomes reality through our success stories.**



## **Innovative interior façade →**

The new Munch Museum in Oslo, dedicated to the memory of the world-famous painter Edvard Munch, is due to open in spring 2020. The Spanish architectural firm Estudio Herreros created the building's design concept. SFS planned and supplied the substructure and fasteners for the internal walling. For the general contractor, Hent AS, it was a combination of technical know-how, top products and supply chain reliability that persuaded them to choose SFS as their partner for this major project.



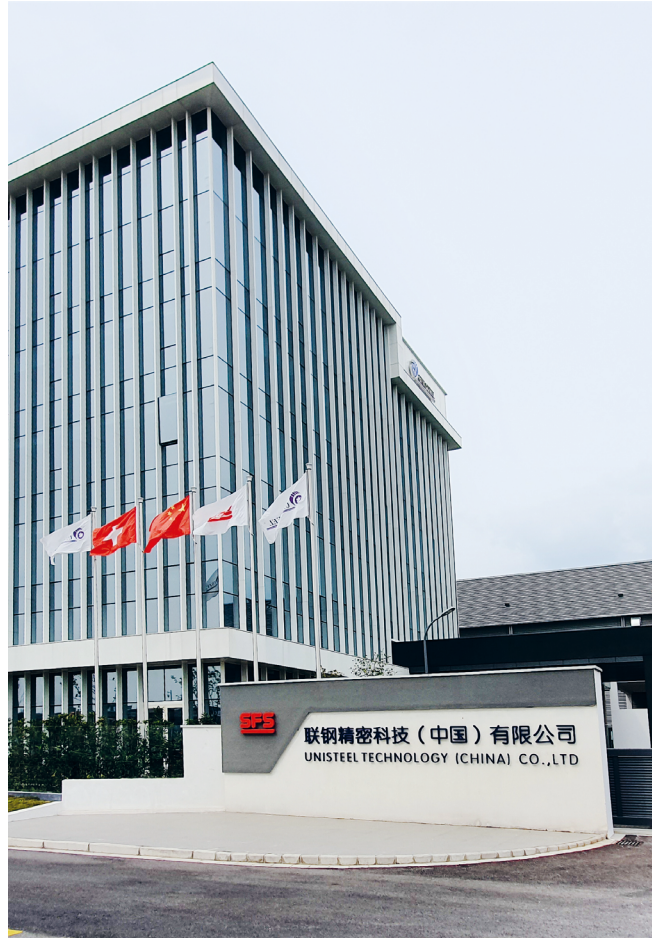
## **Driving experience with ADAS sensor technology →**

It is difficult to imagine modern cars without ADAS (Advanced Driver Assistance Systems). It supports the driver in potentially hazardous everyday situations, such as turning in town traffic or when changing lanes on the motorway by monitoring the blind spot. With ADAS, accidents involving other road users due to lapses in concentration, tailgating or speeding can, in certain circumstances, be effectively eliminated. These smart everyday helpers, in which specially developed components from SFS are embedded, delivers a relaxing and safe driving experience to the driver.



**toolLOG® – digital optimization of process costs →**

toolLOG® stands for a comprehensive inventory management system that simplifies and visualizes business processes. Procurement processes can be easily and digitally depicted from either a stationary or a mobile device with this versatile software. Moreover, all product ranges can be integrated into the toolLOG® system, regardless of which company supplies them. The advantages of this automated inventory management system also impressed Stadler Rail AG.



**Ready for the future →**

Following 15 months of intensive construction, the global production platform of Unisteel Technology China (UTC) is ready for action. The new manufacturing site is located in Nantong Sutong in China, where it unites – as the second largest plant in the SFS Group – the eight core technologies of Unisteel, including extensive surface finishing treatments, under one roof.

## Technology

# Extensive technology portfolio

**SFS's widely recognized cutting-edge technological and process expertise provides a sturdy foundation for innovative and customer-specific solutions.**

### **Cold forming**

#### **Precisely shaped with high pressure**

Ever since its production activities began in 1960, SFS has opted for the beneficial properties of high productivity and material efficiency of cold forming. Starting with a blank – usually a wire cut-off – a formed part is produced in two to six forming stages, during which the metal workpiece takes the shape of the die into which it is pressed. Material loss is extremely low compared with alternative production methods such as machining. The high production capacity of up to 600 workpieces per minute also makes the cold forming process very cost-effective for high-volume production runs.

→ More information on cold forming (video)

### **Deep drawing technology**

#### **Complex moulded parts made from sheet metal**

Deep drawing is the ideal complement to cold forming technology. This technique is used to produce very thin-walled precision parts that cannot be produced through cold forming. Flat blanks serve as the starting material for deep-drawn parts. They are shaped into hollow bodies with diverse functions, undergoing as many as 22 different forming and shaping operations in the process.

→ More information on deep drawing (video)

### **Precision machining**

#### **Delivery of ready-to-fit components**

Precision machining technology, such as milling, turning or grinding, is usually offered as a complementary option to cold forming technology to satisfy customer needs for ready-to-fit components.

→ More information on precision machining (video)

### **Plastic injection molding**

#### **Innovative moulded parts made from plastic**

SFS has years of comprehensive experience and a vast range of skills in plastic injection molding. Thermoplastics are used in a wide range of solutions that would not be possible with formed metal parts, or only with certain limitations. Superior solutions often result from the realization of components made of both metal and plastic. SFS extended its plastic injection molding competencies with the acquisition of Stamm AG in 2016, a precision manufacturing specialist in small and micro-sized molded parts. Micro molding technology is used to fabricate ultra-small parts with high precision tolerances. Super-small geometries and micro structures can, depending on the material used, be engineered with high reproducibility and tolerances in the micrometer range. And at attractive total costs.

→ More information on plastic injection molding (video)



With high production volumes in particular, cold forming offers economic advantages.



### Mechanical fastening technology

#### Holistic optimization of the fastening process

SFS focuses on the holistic optimization of the fastening process in its constant quest to generate extra value for the customer. We make the fastening process more ergonomic, reliable and efficient. By developing application-specific installation devices and tools, customers benefit from tailor-made comprehensive systems solutions. Rivets (blind rivets and blind rivet nuts) are a viable option when screws do not meet the specified requirements, or only inadequately so. Minimal wear, high installation quality, short processing cycles and a long service life are the hallmarks of these cost-effective installation machines and tools.

- More information on fastening technology (video)
- More information on riveting technology (video)

### Laser processing technology

#### Modern technology for medical device industry expanded

Thanks to Tegra Medical, SFS acquired a comprehensive portfolio comprising machining and cleaning technologies, as well as cutting-edge manufacturing tools such as laser welding, cutting, drilling, abrasion and marking. Tegra Medical's deep process knowledge and its ability to find innovative solutions for complex issues help customers to realize

new and improved medical devices and instruments. These are mainly used in orthopedics and in the treatment of cardiovascular diseases or minimally surgical interventions.

- More information on Tegra Medical (video)

### Logistics solutions

#### Significant reductions in the cost of C class logistics

Sourcing costs associated with C parts are often higher than the actual cost of the parts themselves, due to the related administrative tasks, intricate flows of information and complex movements of goods. SFS has developed and implemented numerous solutions under the "M2M by SFS" label to optimize C class inventory management processes in order to address this situation. These solutions lower customers' process costs and required inventory levels while increasing supply availability. They are at the cutting edge of currently available technology for sensors and wireless communications functionality. With these innovative logistics solutions, SFS underscores its technology leadership.

- More information on logistics solutions from SFS (video)

The GAV 8000 from GESIPA® is a fully automated blind rivet setting tool for industrial applications that can also be integrated into robotic systems.





# Corporate governance

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Corporate governance

# Transparency created

**The Board of Directors and Group Executive Board attach very great importance to good Corporate Governance. In the interest of shareholders, customers, business partners and employees, the principles of Corporate Governance ensure the necessary transparency and a healthy balance of management and control.**

The structure of the following Corporate Governance report follows the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange AG (DCG). All figures apply to 31 December 2019, unless otherwise stated.

the corporate cross-functions Technology (technology and knowledge transfer, operations, business development), Corporate IT & Finance (information technology, finance, controlling, tax, legal & compliance) and Corporate Services (human resources, communication, marketing and corporate development).

## 1 Group structure and shareholders

### 1.1 Group structure

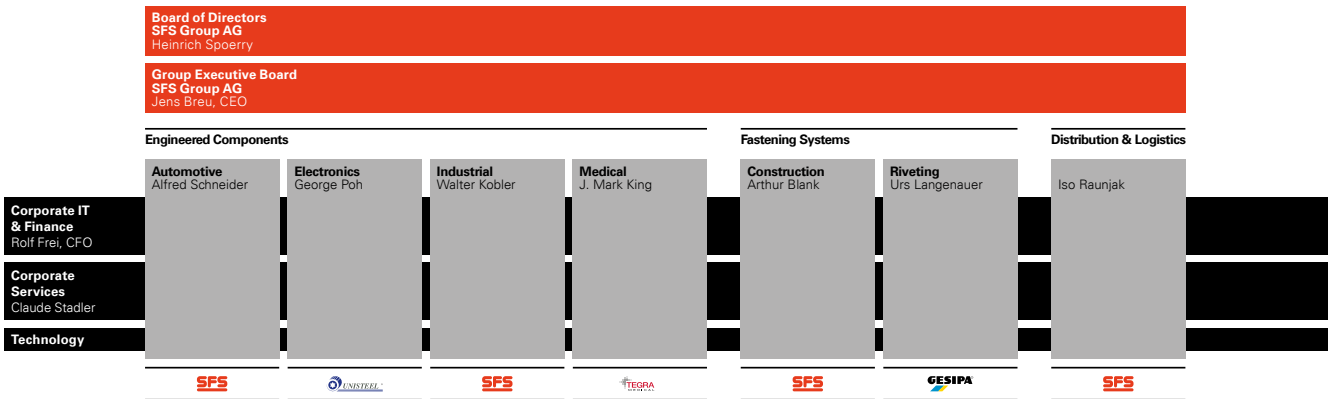
SFS Group is organized in three segments: Engineered Components, Fastening Systems and Distribution & Logistics. Engineered Components develops, manufactures and sells precision components and special screws in four divisions. Fastening Systems combines the principles of threaded fastening and riveting technologies and consists of two divisions. Distribution & Logistics is a leading national supply partner for fasteners, tools and architectural hardware in Switzerland and neighboring countries.

The parent company of SFS Group is SFS Group AG, domiciled in Heerbrugg, municipality of Widnau/SG, Switzerland. It is incorporated under Swiss law and listed on the SIX Swiss Exchange AG under the Swiss Reporting Standard (security number 23.922.930, ISIN CH 023 922 930 2). Its share capital is CHF 3,750,000 (PY 3,750,000) and its market capitalization was CHF 3,491.3 million (PY 2,861.3) as at 31 December 2019.

An overview of all affiliated companies in the scope of consolidation can be found in section 5.2 of the appendix of the Financial Report. The scope of consolidation does not contain any other listed companies besides SFS Group AG.

The Board of Directors and Group Executive Board are supported in their management and supervisory functions by

Group structure and Group Executive Board (since 1 January 2020)



### 1.2 Significant shareholders

The founding families of SFS Group AG, Huber and Stadler/Tschan, form an organized group according to Art. 12 of the Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FINMA Financial Market Infrastructure Ordinance, FMIO-FINMA).

#### Share capital and voting rights

	31.12.2019	31.12.2018
Founding families	54.8%	54.8%

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

The Board of Directors is not aware of any other shareholders listed in the share register or shareholder groups holding more than 3% of the share capital or voting rights (PY none).

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

### 1.3 Cross-shareholdings

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

## 2 Capital structure

### 2.1 Capital

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

### 2.2 Especially authorized and conditional capital

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

### 2.3 Changes in capital

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

### 2.4 Shares and participation certificates

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

### 2.5 Dividend right certificates

SFS Group AG has issued no dividend right certificates.

### 2.6 Limitations on transferability and nominee listings

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

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

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

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

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

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

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

### **2.7 Convertible bonds and options**

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

## **3 Board of Directors**

### **3.1 Members of the Board of Directors**

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

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

In 2017, the property held by SFS at Nefenstrasse 30, 9435 Heerbrugg, was sold to an external body member or a related party. The property estimate by an independent expert formed the basis for determination of the price, made plausible by various purchase offers submitted by third parties.

The SFS Group rendered services for information technology, finance and human resources to external body members or related parties based on internal group rates. In addition and based on usual market conditions, goods were exchanged and property was rented or leased.



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

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### Heinrich Spoerry

- Chairman of the Board of Directors (BoD) since 1999
- External member since 2016
- Chief Executive Officer 1999–2015
- With SFS from 1981–1986 and since 1998
- Swiss citizen, born 1951

#### Other activities

- Mikron Holding AG, Chairman of the BoD since 2010
- Bucher Industries AG, member of the BoD since 2006
- Frutiger AG, Chairman of the BoD since 2016

#### Qualifications

- MBA, Massachusetts Institute of Technology 1979
- Master's degree in economics, University of St. Gallen 1976

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### Nick Huber

- External member since 2017
- With SFS from 1995–2016 in various management positions
- Family shareholder Huber
- Swiss citizen, born 1964

#### Other activities

- COLTENE Holding AG, Chairman of the BoD since 2008
- HUWA Finanz- und Beteiligungs AG, member of the BoD since 1997
- Gurit Holding AG, member of the BoD since 1995

#### Qualifications

- Stanford Executive Program, Stanford University 2013
- SKU, Advanced Management Program, Switzerland 2002
- Matura type E in economics 1984

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### Urs Kaufmann

- Independent, external member since 2012
- Lead Director since 2014
- Chairman of the Nomination and Compensation Committee since 2014
- Swiss citizen, born 1962

#### Other activities/professional background

- HUBER + SUHNER AG, Chairman of the BoD since 2017
- HUBER + SUHNER AG, deputy of the BoD 2014–2017 and Chief Executive Officer 2002–2017
- Schaffner Holding AG, Chairman of the BoD since 2017
- Vetropack Holding AG, member of the BoD since 2017
- Müller Martini Holding AG, member of the BoD since 2009
- Gurit Holding AG, member of the BoD since 2006
- SWISSMEM, member of the Executive Committee since 2012
- Swiss Employer's Association (SAV), member of the Executive Committee since 2018
- Technorama Winterthur, member of the Foundation Board 2010–2019

#### Qualifications

- Senior Executive Program IMD Lausanne 1995
- Master's degree in engineering, Swiss Federal Institute of Technology (ETH) Zurich 1987

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### Thomas Oetterli

- Independent, external member since 2011
- Chairman of the Audit Committee since 2014
- Swiss citizen, born 1969

#### Other activities/professional background

- Schindler Group, Chief Executive Officer since 2016
- Schindler Group, Head of China 2013–2016
- Schindler Group, Head of Europe North & East 2010–2013
- Schindler Group, member of the Executive Management Committee since 2010
- Schindler Group, Head of Switzerland 2006–2009
- Schindler Group since 1994

#### Qualifications

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

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**Bettina Stadler**

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

## Other activities

- EVTI-BEST AG, member of the BoD since 2019
- POLYGENA AG, Head of HR and member of the Executive Board since 2016
- PWB AG, Human Resources manager 2003–2018, Member of the Executive Board 2008–2018
- Frauenhof Immobilien AG, member of the BoD since 2016
- Residenz Frauenhof AG, Chairman of the BoD since 2015, member of the BoD and Managing Director since 2007
- WISTAMA Finanz- und Beteiligungs AG, member of the BoD since 2011
- Raiffeisenbank Oberes Rheintal, member of the BoD 2006–2011
- Raiffeisenbank Lüdingen Altstätten, member of the BoD 2002–2006

## Qualifications

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

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**Jörg Walther**

- Independent, external member since 2014
- Swiss citizen, born 1961

## Other activities/professional background

- Partner at Schärer Attorneys at law since 2010
- HUBER + SUHNER AG, member of the BoD since 2016, Member of the Audit Committee
- Zehnder Group AG, member of the BoD and Chairman of the Audit Committee since 2016
- AEW Energie AG, member of the BoD since 2014, Member of the Audit Committee
- Proderma AG, Chairman of the BoD since 2014
- Kraftwerk Augst AG, member of the BoD since 2015
- Immobilien AEW AG, member of the BoD since 2015
- Resun AG, General Counsel and Head Corporate Services, member of the Executive Committee 2010–2012
- Novartis International AG, Global Head Legal M&A and Antitrust, member of the Group Legal Executive Committee 2001–2009
- ABB Asea Brown Boveri AG, Group Vice President M&A 1999–2001
- ABB Schweiz AG, Senior Legal Counsel 1995–1998
- Danzas Management AG, Senior Legal Counsel and Head Legal Services 1991–1995

## Qualifications

- MBA University of Chicago 1999
- Postgraduate certificate in European economic law, University of St. Gallen 1993
- Admitted to the bar (Attorney at Law) 1990
- MLaw, University of Zurich 1989



### 3.2 Other activities and vested interests

The profiles of the members of the Board of Directors give an overview of other activities and vested interests. Beyond that, no member of the Board of Directors belongs to any important body, is permanent head of or consultant to important interest groups, has public functions or holds public office.

### 3.3 Permitted additional activities

The members of the Board of Directors may have other functions in the executive management or administrative bodies. The number of functions for third parties and legal units that are not controlled by SFS Group is limited to:

- Five mandates in publicly traded companies (Art. 727 para. 1 num. 1 OR); and, in addition;
- Ten mandates in companies that exceeded in two successive reporting years CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees on average (Art. 727 para. 1 num. 2 OR); and, in addition;
- Twenty mandates in legal entities that do not meet the above-mentioned criteria; and, in addition;
- Ten mandates in associations, charity foundations and employee assistance foundations.

Mandates in companies that are under uniform control or the same beneficial ownership are deemed to be one mandate.

### 3.4 Election and terms of office

The terms of office of each member of the Board of Directors correspond to the legally permitted maximum term of one year. The members of the Board of Directors, the Chairman and the members of the Nomination and Compensation Committee are elected by the Annual General Meeting. Every member is elected individually

The term of office ends at the end of the next Annual General Meeting. Re-election is possible as long as the relevant member has not attained the age of 70.

If the office of the Chairman of the Board of Directors is vacant, the Nomination and Compensation Committee is not complete or the company does not have an Independent Proxy, the Board of Directors shall appoint a substitute for the time period until the conclusion of the next Annual General Meeting who must be – with the exception of the Independent Proxy – a member of the Board of Directors.

### 3.5 Internal organizational structure

The Board of Directors is responsible for the ultimate direction, supervision and control of the Group Executive Board.

In support of its directive and supervisory capacity, the Board of Directors has nominated an independent Lead Director and has formed two standing committees, the Nomination and Compensation Committee and the Audit Committee.

#### Board of Directors' procedures

A meeting of the Board of Directors is held whenever the business of the Company requires but at least six times per annum. The meetings are usually spread at regular intervals over the first and second half-year. The Chairman, or in his absence the Lead Director, or in the absence of both, another member of the Board of Directors, chairs the meeting. They convene Board meetings and set meeting agendas. Additionally, they ensure that the meeting agenda and supporting material are sent to Board members no later than 10 days before the meeting date. The Chief Executive Officer, Chief Financial Officer and other members of the Group Executive Board for specific agenda items attend Board meetings with an advisory vote.

Eight (PY eight) ordinary and no (PY two) extraordinary Board meetings took place in the reporting year. Two meetings lasted less than two hours, five meetings lasted for a day and a strategy workshop lasted for three days. The meetings were held at regular intervals of one or two months during the reporting year.

The Chairman of the Board of Directors maintains continuous contact with the members of the Board of Directors and keeps them updated in a regular and timely fashion. Decisions are made by the Board of Directors as a whole. A quorum of the Board of Directors is constituted when a majority of the members attend the meeting in person. In exceptional cases, the presence can take place by telephone or electronic media. The Board of Directors passes its resolutions with the majority of the votes cast. In the event of a tie, the Chairman has the casting vote. Voting by proxy is not allowed. All resolutions and deliberations are recorded. The minutes are signed by the Chairman and the secretary and must be approved by the Board of Directors.

#### Lead Director

The Board of Directors elected Urs Kaufmann as Lead Director until the end of the next Annual General Meeting. In his function, he takes the chair of Board meetings if the Chairman is indisposed. In particular, the Lead Director chairs Board meetings if the Chairman is required to abstain from the deliberation and decision taking if the following items are on the agenda:

- Assessment of the Chairman's work
- Decision of the Board of Directors on the request to the General Meeting for the re-election or not of the Chairman
- Decision about the Chairman's compensation.

#### Committees constitution and procedures

The committees areas of authority and responsibility are defined in Section 5 of the Organizational Regulations of SFS Group. Available on the SFS Group website: [Corporate Governance](#) →

The committees support the Board of Directors in its supervisory and control capacities and act mainly as consulting, assessment and preparation bodies. The committees have

final decision competence only in the topics explicitly mentioned below.

At the end of the reporting period, the committees were set up as follows:

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### Nomination and Compensation Committee

Urs Kaufmann	Chairman
Nick Huber	Member
Heinrich Spoerry	Member

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### Audit Committee

Thomas Oetterli	Chairman
Bettina Stadler	Member
Jörg Walther	Member

The committees meet as often as the business of the company requires. The Audit Committee typically meets in January, February and September. The Nomination and Compensation Committee usually meets in February and December. A record is kept of every meeting, and participants and the Board of Directors are provided with the minutes. The chairmen of the committees report on the committees' activities at the next meeting of the Board of Directors and prepare formal requests to the Board of Directors.

The term of office of the committee members is one year and corresponds to their term of office as members of the Board of Directors.

#### Nomination and Compensation Committee

The committee consists of a chairman and at least one additional member with a maximum of four members of the Board of Directors. The committee members are elected by the General Meeting on a yearly basis by request of the Board of Directors. The Nomination and Compensation Committee constitutes itself. The committee prepares all relevant decisions related to the nomination and compensation of the members of the Board of Directors and the Group Executive Board.

The Chief Executive Officer and the Head of Human Resources attend the meetings of the committee unless their own nomination or compensation is being discussed. In the reporting period, the committee held three meetings (PY four), each lasting about three hours. In particular, the Nomination and Compensation Committee has the following duties:

- requests related to the compensation system of the Group;
- requests related to the setting of compensation-related targets for the Group Executive Board;
- requests related to the approval of the individual compensation of the Chairman and the members of the Board of Directors, the Chief Executive Officer and other members of the Group Executive Board;

- requests related to amendments to the Articles of Association in respect of the compensation system;
- proposals related to a balanced composition of the Board of Directors and determination of the criteria of independence;
- selection process for new members of the Board of Directors, the Chief Executive Officer and members of the Group Executive Board;
- evaluation of proposals of the Chief Executive Officer related to the appointment or removal from office members of the Group Executive Board;
- approval of agreements and employment contracts with the Chairman of the Board of Directors, the Chief Executive Officer and other members of the Group Executive Board;
- approval of the acceptance of external mandates by members of the Board of Directors and the Group Executive Board.

The motions of the committee are proposed to the Board of Directors as a whole. Further functions of the Nomination and Compensation Committee are defined in Section 5.3 of the Organizational Regulations.

#### Audit Committee

The Audit Committee has a minimum of three members, elected by the Board of Directors. The Audit Committee constitutes itself and supports the Board of Directors in its ultimate supervisory function on the completeness of the financial statements, compliance with the legal requirements, the aptitude of the external auditor and the performance of the internal and external auditors. The Audit Committee assesses the appropriateness of the financial reporting, the internal control system and the general control of business risks.

The Chief Financial Officer, the Chief Executive Officer, the Head of Corporate Controlling, the Head of Accounting, the Head of Internal Audit and the external auditor attend the meetings of the Audit Committee. If necessary, the Audit Committee discusses certain agenda items separately with the external auditor. In the reporting period, the committee held three meetings (PY four), each lasting about two hours.

In particular, the Audit Committee has the following duties and competences:

- evaluation of the external auditor and proposal to the Board of Directors on the appointment of the external auditor at the General Meeting;
- assessment of the performance of the current external auditor and approval of the budget for auditing and other fees by the external auditor;
- organization of the internal audit, appointment of the internal auditor and assessment of its performance review and approval of the audit plans of both the internal and external auditors;
- approval of any non audit-related services of the external auditor;
- request for information from the Group Executive Board and the internal and external auditors on major risks, con-



tingent liabilities and other liabilities of the Group and assessment of the minimization measures taken;

- review and discussion of the annual and interim financial statements and other published financial information;
- discussion of the results of the annual audit with the external auditor and the reports of the internal audit and submissions or proposals to the Board of Directors assessment and assurance of the collaboration between external and internal auditors.

Further functions of the Audit Committee are defined in Section 5.2.2 of the Organizational Regulations.

### 3.6 Definition of areas of responsibility

The functions and responsibilities of the various bodies are set out in detail in Section 2 ff. of the Organizational Regulations. The Board of Directors is responsible for the ultimate direction, supervision and control of the Group Executive Board.

The Board of Directors deals with all matters that are not delegated to the General Meeting or another body of the Company either by law, its Articles of Associations or the Organizational Regulations.

Pursuant to the Articles of Association and the Organizational Regulations, the Board of Directors has delegated corporate management responsibility to the Group Executive Board. The Organizational Regulations are reviewed and amended by the Board of Directors on a regular basis.

The Board of Directors approves in particular the business strategy and organization as proposed by the Group Executive Board, the budgets, medium-term plans and any other business that by its nature or financial importance is considered strategically significant. For any projects that require a Board of Directors' decision, written requests are prepared.

### 3.7 Information and control instruments vis-a-vis Group Executive Management

During the Board of Directors' meeting, the Chief Executive Officer and the Chief Financial Officer give information on the current state of business, the most important business transactions of the segments, the divisions and the subsidiaries (management units) and the execution of functions delegated to the Group Executive Board.

The management information system of SFS Group works as follows: the balance sheet, income statement, cash flow statement and key figures of the management units are set up and consolidated on a quarterly, half-yearly and yearly basis, and compared with the previous year's figures and budget. The budget is reviewed based on the quarterly financials in the form of a latest best estimate on the reachability of each unit and on a consolidated basis. The Board of Directors is provided with a monthly overview of the development of the group sales and a quarterly estimate of financial results for the whole reporting year.

The Board of Directors approves the budget of SFS Group, the segments and the divisions. Once a year the Board of Directors is provided with the results of the mid-term planning for the following three to five years. Usually, the Board of Directors deals with strategic questions about the group, the segments and the divisions in a 1.5 to 2 day workshop.

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

The internal audit is executed by the Corporate Controlling team and in cooperation with an external specialized partner. Although the Head of Internal Audit is subordinate to the Chief Financial Officer, he reports directly to the Audit Committee in regard to these activities. The internal audit of SFS Group is aligned with the size of the group. Based on financial risk considerations approved by the Audit Committee, the group companies are audited every two to four years depending on the risk assessment. The written internal audit report is discussed with the management of the companies concerned and the most significant measures are agreed. Material findings of the internal audit and the audit reports are presented to and discussed in the Audit Committee. Internal audit attends the meetings of the Audit Committee. In the reporting period, five (PY six) internal audits took place within the group, one of which was performed by the external partner.

The external auditor assesses the internal control system (ICS) annually in a comprehensive report to the Audit Committee and confirms its existence.

The Group Executive Board selects and assesses the substantial financial, operational and strategic risks annually together with the ICS managers. Based on its own assessment (top-down) and on information provided by the segments and divisions (bottom-up), risks are categorized depending on their probability of occurrence and their potential financial impact. For each listed risk, mitigation measures are defined. The risks assessed and the actions defined are submitted in the Risk Analysis of the SFS Group to the Board of Directors' meeting in December for discussion and approval. In the reporting period, the following potential risks with possible countermeasures were discussed in particular:

- investment risks in large-scale projects;
- cyber risks;
- risks with acquired corporations;
- warranty risks due to recalls;
- dependency on global economic developments;
- compliance risks;
- currency risks.

## 4 Group Executive Board

### 4.1 Members of the Group Executive Board

The Chief Executive Officer, together with the Group Executive Board, is responsible for the management of the SFS Group. Under his leadership, the Group Executive Board addresses all issues of relevance to the Group, takes decisions within its remit and submits proposals to the Board of Directors. The heads of the segments, divisions and corporate cross-functions are responsible for the outline and achievement of their business objectives and for the autonomous management of their units.

At the end of the reporting year, the Group Executive Board consisted of nine (PY nine) members:

As per 1 January 2019, Claude Stadler was elected into the Group Executive Board in his position as Head of the cross-functional Corporate Services. As per 1 July 2019 a change occurred in the position Head of Division Riveting where Urs Langenauer replaced Thomas Bamberger. Additionally the Head of Segment Distribution & Logistics was newly elected as per 1 January 2020. Iso Raunjak succeeds Josef Zünd in this position. In December 2019, SFS announced that CFO Rolf Frei expressed his desire to resign from his position as per Annual General Meeting 2021.



Group Executive Board on 01.01.2020, from left: Iso Raunjak, George Poh, Urs Langenauer, Rolf Frei, Arthur Blank, Jens Breu, J. Mark King, Walter Kobler, Claude Stadler, Alfred Schneider

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**Jens Breu**

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

## Functions within SFS Group

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

## Further functions

- Dätwyler Holding AG, member of the BoD since 2019

## Qualifications

- MBA, Cleveland State University 2007
- Mechanical engineer, FHS St. Gallen 1996

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**Thomas Bamberger**

- Head of Division Riveting 2014–June 2019
- With SFS (GESIPA) 1995–2019
- German citizen, born 1961

## Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Head of GESIPA Group 2008–2013
- Managing Director GESIPA Germany 2006–2008

## Qualifications

- Stanford Executive Program, Stanford University 2013
- Degree in mechanical engineering, University of Applied Sciences, Darmstadt 1989

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**Arthur Blank**

- Head of Division Construction since 2014
- With SFS since 1983
- Swiss citizen, born 1959

## Functions within SFS Group

- Member of the BoD of several SFS Group companies
- General Manager Europe 2010–2013
- Head of various Business Units 2008–2010
- General Manager International Manufacturing 1998–2008

## Qualifications

- SKU Advanced Management Program, Switzerland 2000
- International management program with focus on manufacturing management, IMD Lausanne 1994
- Bachelor of Science (B. Sc.), Buchs Institute of Technology (NTB) 1982

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**Rolf Frei**

- Chief Financial Officer since 2003
- With SFS since 1981
- Swiss citizen, born 1958

## Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Head of Corporate Controlling 1994–2003
- Corporate Controller 1981–1994

## Further functions

- Chamber of Commerce and Industry St. Gallen–Appenzell, member since 2015

## Qualifications

- Stanford Executive Program, Stanford University 2010
- SKU Advanced Management Program, Switzerland 1995
- Swiss certified expert for accounting and controlling 1987
- Degree in business administration, FHS St. Gallen 1981

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### J. Mark King

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

#### Functions within SFS Group

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

#### Further functions

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

#### Qualifications

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

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### Walter Kobler

- Head of Division Industrial since 2014
- With SFS since 1987
- Swiss citizen, born 1963

#### Functions within SFS Group

- Member of the BoD of several SFS Group companies
- General Manager of SFS intec aerospace activities 2004–2014

#### Qualifications

- Stanford Executive Program, Stanford University 2012
- Sales manager at the Institute of Marketing, University of St. Gallen 1994
- Advanced courses in sales and leadership, Management Center St. Gallen 1992
- Federally certified marketing planner, Kaderschule St. Gallen 1990

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### Urs Langenauer

- Head of Division Riveting since 2019
- With SFS since 1995
- Swiss citizen, born 1979

#### Functions within SFS Group

- General Manager Division Automotive, SFS Group USA 2013–2019
- Vice President Manufacturing, SFS Group USA 2008–2013

#### Qualifications

- Engineer in mechatronics, University of Applied Sciences St. Gallen, 2003

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### George Poh

- Head of Division Electronics since 2014
- With SFS (Unisteel) since 1995
- Singapore citizen, born 1963

#### Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Chief Operating Officer Unisteel 2012–2014
- Chief Technology Officer Unisteel 2011–2012
- Managing Director Unisteel 2003–2011
- Various management positions within Unisteel 1995–2003

#### Qualifications

- MBA, University of Hull, UK 1998
- Bachelor of Engineering (B.Eng.), mechanical engineering, University of Sheffield, UK 1988
- Diploma mechanical engineering, Singapore Polytechnic 1983

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### Iso Raunjak

- Head of Segment Distribution & Logistics since 2020
- With SFS since 1992
- Swiss citizen, born 1976

#### Functions within SFS Group

- Head of BU Architectural Hardware 2018–2019
- Head of BU Central Logistics 2010–2018

#### Qualifications

- Diploma in logistics management at the University of St. Gallen 2014
- Training in antitrust law at the University of 2008
- Training as a technical merchant in 2004

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**Alfred Schneider**

- Head of Division Automotive since 2014
- With SFS since 1987
- Swiss citizen, born 1959

## Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Member of the BoD of the joint venture in China, Sunil SFS intec since 2008
- General Manager Automotive Products 2008–2013
- General Manager Industrial Products 2002–2008

## Further functions

- Libracore AG, Member of the BoD since 2019

## Qualifications

- SKU Advanced Management Program, Switzerland 1999
- Diploma in sales management, University of St. Gallen 1994
- Business management, Swiss Engineering STV 1986
- Mechanical engineer, Buchs Institute of Technology (NTB) 1982

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**Claude Stadler**

- Head of Corporate Services since 2018
- With SFS since 2013
- Swiss citizen, born 1976

## Functions within SFS Group

- Head of Corporate Communications and Investor Relations 2013–2017

## Further functions

- University of Applied Science of St. Gallen, Member of the BoD since 2019
- Rügen AG, Member of the BoD since 2019
- icotec AG, Member of the BoD since 2015
- Avantama AG, Member of the BoD since 2015

## Qualifications

- Swiss Board School, IMP-HSG, University of St. Gallen, 2015
- University of St. Gallen, Master's degree in Information & Technology Management, 2001
- Stockholm School of Economics, CEMS MIM, 2000

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**Josef Zünd**

- Head of Segment Distribution & Logistics 2014–2019
- With SFS since 1971
- Swiss citizen, born 1955

## Functions within SFS Group

- Member of the BoD of several SFS Group companies
- Chief Executive Officer SFS unimarket 2000–2013
- Various sales and management positions SFS unimarket

## Further functions

- Locher Bewehrungen AG, Member of the BoD since 2013
- SWISSAVANT trades and household services association, Management Board member since 2013

## Qualifications

- SKU Advanced Management Program, Switzerland 1995
- Federally certified sales manager, Kaderschule St. Gallen 1986

#### 4.2 Other activities and vested interests

The profiles of the members of the Group Executive Board in Section 4.1 give an overview of other activities and vested interests. Beyond that, no member of the Group Executive Board belongs to any important body, is permanent head of or consultant to important interest groups, has public functions or holds public office.

#### 4.3 Permitted additional activities

The members of the Group Executive Board may have other functions in the executive management or administrative bodies if approved by the Nomination and Compensation Committee. The number of functions for third parties and legal units that are not controlled by SFS Group is limited to:

- two mandates in publicly traded companies (Art. 727 para. 1 num. 1 CO); and, in addition;
- three mandates in companies that exceeded in two successive reporting years CHF 20 million of total assets, CHF 40 million of total sales and 250 full-time employees on average (Art. 727 para. 1 num. 2 CO); and, in addition;
- five mandates in legal entities that do not meet the above-mentioned criteria.

Mandates in companies that are under uniform control or the same beneficial ownership are deemed one mandate.

#### 4.4 Management contracts

No management contracts exist with companies or individuals outside SFS Group.

## 5 Compensation, shareholdings and loans

All information on this subject can be found in chapter 2 Fundamental principals of the compensation system of the Compensation Report of this Annual Report.

## 6 Shareholders' participation

#### 6.1 Voting rights and representation restrictions

Shareholders' participation rights are detailed in Art. 11 of the Articles of Association.

Each share entitles to one vote, subject to the provisions in Section 2.5 Limitations on transferability and nominee listings. In the reporting year, no exceptions were granted (PY none).

The Board of Directors determines the requirements related to proxies and voting instructions.

An easement or abolition of the restriction of the transferability of the registered shares can be resolved by the General Meeting. A resolution passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required.

The Articles of Association do not contain any regulations concerning the issuance of instructions to the Independent Proxy or the electronic participation at the Annual General Meeting.

Each shareholder may be represented by the Independent Proxy. The term of office of the Independent Proxy ends at the next Annual General Meeting. Re-election is possible. Its duties are governed by the relevant statutory provisions. The Annual General Meeting of 1 May 2019 elected *bürki bolt nemeth Rechtsanwälte*, 9435 Heerbrugg, as Independent Proxy until the next Annual General Meeting.

#### 6.2 Statutory quorums

For:

- the cases listed in Art. 704 para. 1 CO and in Art. 18 and 64 of the Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act);
- the easement or abolition of the restrictions of the transferability of registered shares;
- any change to the provisions of Art. 13 of the Articles of Association (Quorums);

a resolution of the General Meeting passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required.

#### 6.3 Convocation of the Annual General Meeting

No regulations deviate from the relevant statutory provisions.

#### 6.4 Inclusion of items on the agenda

The Board of Directors states the items on the agenda.

Registered shareholders with voting rights individually or jointly representing at least 5% of the share capital may demand that items are put on the agenda. Such demands must be submitted in writing to the Chairman of the Board of Directors at least 45 days before the date of the Annual General Meeting.

#### 6.5 Registration in the share register

No registrations are made in the share register in the ten days before and the five days after the date of the Annual General Meeting. The exact dates are set out in the invitation to the Annual General Meeting. In the reporting year, the Board of Directors has granted no exceptions to this rule (PY none).



## 7 Changes of control and defense measures

### 7.1 Duty to make an offer

According to Art. 31 of the Articles of Association, the obligation to submit a public takeover offer pursuant to Art. 32 and 52 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA) has been waived in accordance with Art. 22 para. 2 SESTA (Opting out).

### 7.2 Clauses on changes of control

No contractual clauses governing changes in control exist in agreements or plans with the members of the Board of Directors. The employment contracts of the members of the Group Executive Board do not contain any provisions related to change of control. The blocking period of shares continues to apply in the event of a change of control. There are no clauses related to a change of control in the employment contracts of other key members of the management.

The contractual notice period for members of the Group Executive Board is six months. The agreed non-competition clause of members of the Group Executive Board of two years is not applicable if employment is terminated due to a change of control.

## 8 Auditing body

### 8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, St. Gallen, has been the independent auditor of SFS Group AG and several subsidiaries since 1993. The independent auditor is elected by the Annual General Meeting for a period of one year. The lead auditor in the present mandate, Thomas Illi, took office at the Annual General Meeting of 2016.

### 8.2 Audit fees

In the reporting period, PricewaterhouseCoopers charged SFS Group about CHF 0.8 million (PY CHF 0.7 million) for the audit of SFS Group AG, the Group financial statements and several subsidiaries.

### 8.3 Additional fees

PricewaterhouseCoopers AG and affiliated companies raised no invoices for audit-related services in the reporting period (PY CHF 0.1 million). For additional services related to tax compliance and other tax consulting services, a total amount of CHF 0.2 million (PY CHF 0.3 million) was paid to PricewaterhouseCoopers AG and affiliated companies.

### 8.4 Informational instruments pertaining to an external audit

The Audit Committee briefs the Board of Directors on the work done by and the working relation with the external auditor at least once a year.

Each year, the external auditor submits an audit plan and a comprehensive report on the financials for the attention of the Board of Directors and the Audit Committee. The report contains conclusions on financial accounting, the internal control system and the process and results of the audit.

The Audit Committee evaluates the scope of the annual audit and the audit plans, and discusses audit results with the external auditor. In the reporting period, the external and internal auditors were present at three meetings of the Audit Committee (PY four).

The Audit Committee makes an annual assessment of the effectiveness, performance, independence and fees paid to the external auditor, and provides the Board of Directors with a proposal for the election of the auditor by the General Meeting.

This evaluation is based on the reports and presentations provided by the external auditor, the discussions held in the meetings, its objectivity and its technical and operational competency.

The Audit Committee assesses the sustainability, the scope and the fee for the services rendered by the external auditor.

## 9 Information policy

Open and regular communication on all levels is an important part of the managerial responsibility. All information measures are based on a commitment to uphold the credibility of the group. Communication is carried out in an active, open and timely way with all stakeholders.

Numbers and figures about the group, presentations on important activities and dates of significant events for shareholders, analysts and media are available on the website:

[Financial publications](#) →

As a company listed on the SIX Swiss Exchange AG, SFS Group AG is subject to the ad hoc publicity regulations; i.e. the obligation to report any information that is potentially relevant to the share price.

SFS Group maintains a dialog with investors and media on a regular basis, including media and analyst conferences in March and in July, an investor day every other year in August/September, roadshows in spring and autumn, a volume notification with sales numbers in January and investors days at various banks.

Interested parties can subscribe to an email service free of charge at the following link: [Mailing list subscription](#) →

Shareholders receive the short version of the Annual Report automatically with the invitation to the Annual General Meeting. The long version of the Annual Report is available electronically on the website: [Financial publications](#) →

Other interested parties receive the reports on request. Official announcements and company notices are published in the Swiss Commercial Gazette (SOGC).

The following information is available on the SFS Group website [www.sfs.biz](http://www.sfs.biz)

[Investor information](#) →

[Organizational regulation](#) →

[Articles of Association](#) →

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

[Financial publications](#) →

Corporate Communications/Investor Relations

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## 10 Non-applicability/negative statement

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

# Compensation report

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# 1 Introduction

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

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

## 2 Fundamental principles of the compensation system

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

- performance-oriented with fixed and variable compensation components
- based on clearly defined and measurable targets
- clear and straightforward
- compensation is fair and market-based
- predefined maximum and minimum thresholds

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

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

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

### 2.1 Compensation of the Board of Directors

The members of the Board of Directors receive a fixed basic fee, fixed fees for membership of committees of the Board

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

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 Nomination and Compensation Committee 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 the business and travel expense policy document approved by the competent cantonal tax authority.

The compensation for GEB members comprises the following components:

- 1) base salary
- 2) variable cash compensation
- 3) variable SFS share compensation

#### 1) base salary

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

2) variable cash compensation

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

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

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

The financial targets are set in advance for a one-year period of service. For the 2019 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 Chief Executive Officer are defined and determined by the Board of Directors; in respect of all other GEB members, they are defined and determined individually by the Chief Executive Officer. 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.

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

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

	CEO, CFO and Head of Corporate Services	Other members of GEB
Financial targets	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 Chief Executive Officer within a target range of 1,500 to 2,500 shares and for the other members of the GEB within a target range of 250 to 1,000 shares. At the end of the performance period, the Board of Directors will determine at its own discretion how many SFS shares will be granted based on the proposal submitted by the NCC, taking into consideration the market environment (economic activity, industry developments, etc.), the execution of Company strategy, the Company's financial situation as well as the individual performance. A factor of 0% to 150% may be applied. The SFS shares are transferred to the members at the end of the Annual General Meeting at which this compensation is confirmed. These SFS shares are blocked for a period of at least three years. Shares awarded to a member of the GEB shall remain their property on separation from the Company.

**2.3 Stock ownership plan**

SFS Group can periodically offer company shares to selected and long-standing employees at conditions to be determined by the full Board of Directors based on the proposal of the Nomination and Compensation Committee. The Board of Directors issued a regulation addressing the following elements in particular: Determination of the purchase price, granting of a potential discount on the purchase price, maximum reference value (valued upon allocation) in relation to the individual annual base compensation as well as a possible blocking period of the shares. 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 contrast to the previous year there was no stock ownership plan in 2019.



### 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, Swiss market data for listed international industrial companies with a similar geographic footprint and of a similar size 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. During the year under review no such verification has taken place.

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

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

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 Chief Executive Officer 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 Chief Executive Officer 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 2019

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

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

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

### 4.2 Compensation of the Board of Directors 2018

The statement of the compensation of Board of Directors had been adjusted in the year under review.

in CHF except number of shares	Base salary in cash	Number of SFS shares	Value of SFS shares <sup>1</sup>	Social benefits <sup>2</sup>	Total
Heinrich Spoerry, Chairman	220,000	1,500	169,950	49,655	439,605
Nick Huber	80,000	500	56,650	19,487	156,137
Urs Kaufmann	80,000	500	56,650	20,228	156,878
Thomas Oetterli	80,000	500	56,650	20,246	156,896
Bettina Stadler	80,000	500	56,650	20,228	156,878
Jörg Walther	80,000	500	56,650	20,246	156,896
<b>Total Board of Directors</b>	<b>620,000</b>	<b>4,000</b>	<b>453,200</b>	<b>150,090</b>	<b>1,223,290</b>

<sup>1</sup> The exchange value of the SFS shares at the time of the allocation of the number of shares on 3 May 2018 was CHF 113.30 per share.

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

The following statement 2018 allows a comparison with last year's compensation report.

in CHF except number of shares	Base salary in cash	Number of SFS shares	Value of SFS shares <sup>1</sup>	Other benefits <sup>2</sup>	Total
Heinrich Spoerry, Chairman	233,194	1,500	179,838	26,573	439,605
Nick Huber	85,311	500	60,219	10,607	156,137
Urs Kaufmann	85,311	500	60,411	11,156	156,878
Thomas Oetterli	85,311	500	60,411	11,174	156,896
Bettina Stadler	85,311	500	60,411	11,156	156,878
Jörg Walther	85,311	500	60,411	11,174	156,896
<b>Total Board of Directors</b>	<b>659,749</b>	<b>4,000</b>	<b>481,701</b>	<b>81,840</b>	<b>1,223,290</b>

<sup>1</sup> The exchange value of the SFS shares at the time of the allocation of the number of shares on 3 May 2018 was CHF 113.30 per share. Employee contributions to social security had been added to compensation "gross" numbers.

<sup>2</sup> Employer contributions to social security schemes.

#### 4.3 Compensation of the Group Executive Board 2019

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

<sup>1</sup> The exchange value of the shares at the time of the determination at the meeting of the Board of Directors on 25 February 2019 was CHF 84.85 per share. Employee contributions to social security had been added to compensation "gross" numbers.

<sup>2</sup> Employer contributions to social security schemes and occupational pension plans.

#### 4.4 Compensation of the Group Executive Board 2018

in CHF except number of shares	Base salary gross in cash	Variable cash compensation gross	Number of SFS shares	Value of SFS shares gross <sup>1</sup>	Discount stock ownership plan <sup>3</sup>	Other benefits <sup>2</sup>	Total
Jens Breu, CEO	559,000	222,000	3,000	279,044	0	125,758	1,185,802
Other members of GEB	2,652,243	797,667	6,730	634,986	9,510	469,242	4,563,648
<b>Total GEB</b>	<b>3,211,243</b>	<b>1,019,667</b>	<b>9,730</b>	<b>914,030</b>	<b>9,510</b>	<b>595,000</b>	<b>5,749,450</b>

<sup>1</sup> The exchange value of the shares at the time of determination of the numbers of shares at the meeting of the Board of Directors on 26 February 2019 was CHF 84.65 per share (exchange value applied in table above). On 2 May 2019, at the time the shares were allocated, the exchange value was CHF 93.25 per share. Employee contributions to social security had been added to compensation "gross" numbers.

<sup>2</sup> Employer contributions to social security schemes and occupational pension plans.

<sup>3</sup> Granted discount for members of GEB based outside Switzerland.

#### 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 <b>31.12.2019</b>	Number of shares 31.12.2018
Heinrich Spoerry, Chairman, external member	199,460	197,960
Nick Huber, external member*	114,152	332,932
Urs Kaufmann, external, independent member	9,760	9,260
Thomas Oetterli, external, independent member	7,760	7,260
Bettina Stadler, external member	391,900	391,400
Jörg Walther, external, independent member	4,640	4,140
<b>Total Board of Directors</b>	<b>727,672</b>	942,952

\* In December 2019 privately owned shares (219,280) were transferred to the family company HUWA Finanz- und Beteiligungs AG.

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 <b>31.12.2019</b>	Number of shares 31.12.2018
Thomas Bamberger, Head of Division Riveting (until June 2019)	n/a	3,366
Arthur Blank, Head of Division Construction	15,580	14,830
Jens Breu, Chief Executive Officer	15,310	12,310
Rolf Frei, Chief Financial Officer	49,710	50,130
J. Mark King, Head of Division Medical	1,400	800
Walter Kobler, Head of Division Industrial	22,000	21,250
Urs Langenauer, Head of Division Riveting (since July 2019)	3,100	n/a
George Poh, Head of Division Electronics	55,661	54,386
Alfred Schneider, Head of Division Automotive	17,360	16,610
Claude Stadler, Head of Corporate Services (since January 2019)	391,080	n/a
Josef Zünd, Head of Segment Distribution & Logistics	7,391	17,916
<b>Total Group Executive Board</b>	<b>578,592</b>	191,598

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 2019.

## 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 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Thomas Illi  
Audit expert  
Auditor in charge



Gianluca Galasso  
Audit expert

St. Gallen, 5 March 2020



# Financial report

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## Consolidated income statement

in CHF million	Notes	2019		2018		+/- %
<b>Net sales</b>	2.2	<b>1,782.1</b>	<b>100.0%</b>	1,736.9	100.0%	2.6%
Other operating income	2.3	32.6		19.8		
Change in work in progress and finished goods		-3.7		10.4		
Material expenses		-641.2		-643.2		
<b>Contribution margin</b>		<b>1,169.8</b>	<b>65.6%</b>	<b>1,123.9</b>	<b>64.7%</b>	<b>4.1%</b>
Personnel expenses	2.4	-550.6		-519.3		
Other operating expenses	2.5	-287.5		-271.8		
Depreciation property, plant and equipment	3.4	-91.9		-86.5		
Amortization of intangible assets	3.5	-3.5		-3.2		
<b>Total operating expenses</b>		<b>-933.5</b>	<b>-52.3%</b>	<b>-880.8</b>	<b>-50.7%</b>	<b>6.0%</b>
<b>Operating profit (EBIT)</b>		<b>236.3</b>	<b>13.3%</b>	<b>243.1</b>	<b>14.0%</b>	<b>-2.8%</b>
Financial result	2.6	-6.5		-7.2		
Share of profit/(loss) from associates/joint ventures		-0.1		-0.8		
<b>Earnings before tax</b>		<b>229.7</b>		<b>235.1</b>		<b>-2.3%</b>
Income taxes	2.7	-23.2		-41.2		
<b>Net income</b>		<b>206.5</b>	<b>11.6%</b>	<b>193.9</b>	<b>11.2%</b>	<b>6.5%</b>
Attributable to non-controlling interests		1.2		1.1		
Attributable to owners of SFS Group AG		205.3		192.8		
<b>Earnings per share of the owners of SFS Group (in CHF) basic and diluted</b>	4.6	<b>5.47</b>		<b>5.14</b>		<b>6.4%</b>

The notes on pages 59 to 88 are an integral part of these consolidated financial statements.

## Consolidated balance sheet

<b>Assets in CHF million</b>	Notes	<b>31.12.2019</b>		31.12.2018		+/-%
Cash and cash equivalents	4.1	130.7		129.7		
Trade receivables	3.1	313.3		314.5		
Other current receivables	3.2	35.7		38.1		
Inventories	3.3	341.1		342.2		
Prepayments and accrued income		12.2		11.1		
<b>Current assets</b>		<b>833.0</b>	<b>50.8%</b>	835.6	51.6%	-0.3%
Property, plant and equipment	3.4	710.0		706.5		
Intangible assets	3.5	13.6		14.8		
Financial assets	4.2	47.4		43.8		
Deferred tax assets	3.11	34.6		18.6		
<b>Non-current assets</b>		<b>805.6</b>	<b>49.2%</b>	783.7	48.4%	2.8%
<b>Assets</b>		<b>1,638.6</b>	<b>100.0%</b>	1,619.3	100.0%	1.2%

<b>Liabilities and equity in CHF million</b>	Notes	<b>31.12.2019</b>		31.12.2018		+/-%
Trade payables	3.7	117.9		122.9		
Current borrowings	4.3	9.8		22.0		
Other current payables	3.8	54.6		64.2		
Accrued liabilities and deferred income		89.3		74.6		
<b>Current liabilities</b>		<b>271.6</b>	<b>16.6%</b>	283.7	17.5%	-4.3%
Non-current borrowings	4.3	52.2		48.6		
Pension benefit obligations	3.9	6.0		5.8		
Non-current provisions	3.10	14.6		14.1		
Deferred tax liabilities	3.11	57.0		62.5		
<b>Non-current liabilities</b>		<b>129.8</b>	<b>7.9%</b>	131.0	8.1%	-0.9%
<b>Liabilities</b>		<b>401.4</b>	<b>24.5%</b>	414.7	25.6%	-3.2%
Share capital		3.8		3.8		
Capital reserves		11.5		73.8		
Retained earnings		1,205.5		1,104.5		
<b>Equity attributable to SFS</b>	4.6	<b>1,220.8</b>	<b>74.5%</b>	1,182.1	73.0%	3.3%
Non-controlling interests		16.4		22.5		
<b>Total equity</b>		<b>1,237.2</b>	<b>75.5%</b>	1,204.6	74.4%	2.7%
<b>Liabilities and equity</b>		<b>1,638.6</b>	<b>100.0%</b>	1,619.3	100.0%	1.2%

The notes on pages 59 to 88 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

in CHF million	Notes	Share capital	Capital reserves	Goodwill offset against equity	Cash flow hedging	Currency translation adjustments	Other retained earnings	Retained earnings	Equity attributable to SFS	Non-controlling interests	Total equity
<b>Balance as at 1.1.2018</b>		<b>3.8</b>	<b>145.0</b>	-908.6	-3.2	9.7	1,835.1	<b>933.0</b>	<b>1,081.8</b>	<b>5.2</b>	<b>1,087.0</b>
Changes of cash flow hedges		-	-	-	4.4	-	-	<b>4.4</b>	<b>4.4</b>	-	<b>4.4</b>
Acquisitions	5.1	-	-	-4.2	-	-	-	<b>-4.2</b>	<b>-4.2</b>	<b>17.1</b>	<b>12.9</b>
Currency translation adjustments		-	-	-	-	-20.8	-	<b>-20.8</b>	<b>-20.8</b>	<b>0.3</b>	<b>-20.5</b>
Net income		-	-	-	-	-	192.8	<b>192.8</b>	<b>192.8</b>	<b>1.1</b>	<b>193.9</b>
Dividend for 2017		-	<b>-71.2</b>	-	-	-	-	-	<b>-71.2</b>	<b>-1.2</b>	<b>-72.4</b>
Other changes		-	-	-	-	-	-0.7	<b>-0.7</b>	<b>-0.7</b>	-	<b>-0.7</b>
<b>Balance as at 31.12.2018</b>		<b>3.8</b>	<b>73.8</b>	-912.8	1.2	-11.1	2,027.2	<b>1,104.5</b>	<b>1,182.1</b>	<b>22.5</b>	<b>1,204.6</b>
Changes of cash flow hedges		-	-	-	-0.5	-	-	<b>-0.5</b>	<b>-0.5</b>	-	<b>-0.5</b>
Acquisitions	5.1	-	-	-70.0	-	-	-	<b>-70.0</b>	<b>-70.0</b>	-	<b>-70.0</b>
Change of minorities	5.1	-	-	-1.9	-	-	3.5	<b>1.6</b>	<b>1.6</b>	<b>-5.4</b>	<b>-3.8</b>
Currency translation adjustments		-	-	-	-	-21.0	-	<b>-21.0</b>	<b>-21.0</b>	<b>-0.3</b>	<b>-21.3</b>
Net income		-	-	-	-	-	205.3	<b>205.3</b>	<b>205.3</b>	<b>1.2</b>	<b>206.5</b>
Dividend for 2018		-	<b>-62.3</b>	-	-	-	-12.7	<b>-12.7</b>	<b>-75.0</b>	<b>-1.6</b>	<b>-76.6</b>
Other changes		-	-	-	-	-	-1.7	<b>-1.7</b>	<b>-1.7</b>	-	<b>-1.7</b>
<b>Balance as at 31.12.2019</b>		<b>3.8</b>	<b>11.5</b>	-984.7	0.7	-32.1	2,221.6	<b>1,205.5</b>	<b>1,220.8</b>	<b>16.4</b>	<b>1,237.2</b>

The notes on pages 59 to 88 are an integral part of these consolidated financial statements.

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

## Consolidated cash flow statement

in CHF million	Notes	2019	2018	+/-%
Net income		206.5	193.9	
Income taxes		23.2	41.2	
Financial result		6.5	7.2	
Depreciation / amortization	3.4/3.5	95.4	89.7	
Interest paid	2.6	-5.0	-4.4	
Income tax paid		-44.5	-42.0	
Changes in provisions and allowances		-0.6	5.0	
Other non-cash expenses / income		1.6	-0.8	
Profit (-) / loss (+) from disposal of property, plant and equipment		-15.6	-1.3	
<b>Cash flow before changes in net working capital</b>		<b>267.5</b>	<b>288.5</b>	<b>-7.3%</b>
Changes in trade receivables		2.8	9.7	
Changes in other receivables and prepayments and accrued income		-0.7	4.0	
Changes in inventories		7.3	-24.9	
Changes in trade payables		-5.1	-2.1	
Changes in other current liabilities, accrued liabilities and deferred income		5.8	-11.7	
Changes in net working capital		10.1	-25.0	
<b>Cash flow from operating activities</b>		<b>277.6</b>	<b>263.5</b>	<b>5.4%</b>
Purchases of property, plant and equipment	3.4	-114.5	-146.1	
Proceeds from sale of property, plant and equipment		21.7	4.3	
Purchases of intangible assets	3.5	-2.2	-3.0	
Acquisition of subsidiaries, net of cash acquired	5.1	-95.4	-9.6	
Changes in loans granted		0.7	-0.2	
Investment in / dividends from associates / joint ventures		-2.5	-1.0	
Proceeds from interest and securities		1.6	1.0	
<b>Cash flow from investing activities</b>		<b>-190.6</b>	<b>-154.5</b>	<b>23.4%</b>
Proceeds / repayment from / of current borrowings		-11.2	1.3	
Proceeds / repayment from / of non-current borrowings		4.0	-18.9	
Dividends to the shareholders		-75.0	-71.2	
Dividends to non-controlling interests		-1.6	-1.2	
<b>Cash flow from financing activities</b>		<b>-83.8</b>	<b>-90.0</b>	
Translation adjustment on cash and cash equivalents		-2.2	-2.1	
<b>Changes in cash and cash equivalents</b>		<b>1.0</b>	<b>16.9</b>	
Cash and cash equivalents at beginning of period	4.1	129.7	112.8	
<b>Cash and cash equivalents at end of period</b>	<b>4.1</b>	<b>130.7</b>	<b>129.7</b>	

The notes on pages 59 to 88 are an integral part of these consolidated financial statements.





# Notes

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## 1 General information

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

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

The structure of the notes is as follows:

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

### 1.1 Summary of significant accounting policies

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

### 1.2 Consolidation principles and currency conversion

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

Intercompany transactions, balances, income and expenses between Group companies are eliminated. Intercompany profits arising from inventories supplied within the Group and disposal of assets are eliminated.

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

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

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

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

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

### **1.3 Critical accounting estimates and judgments**

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

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

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

## **2 Performance**

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

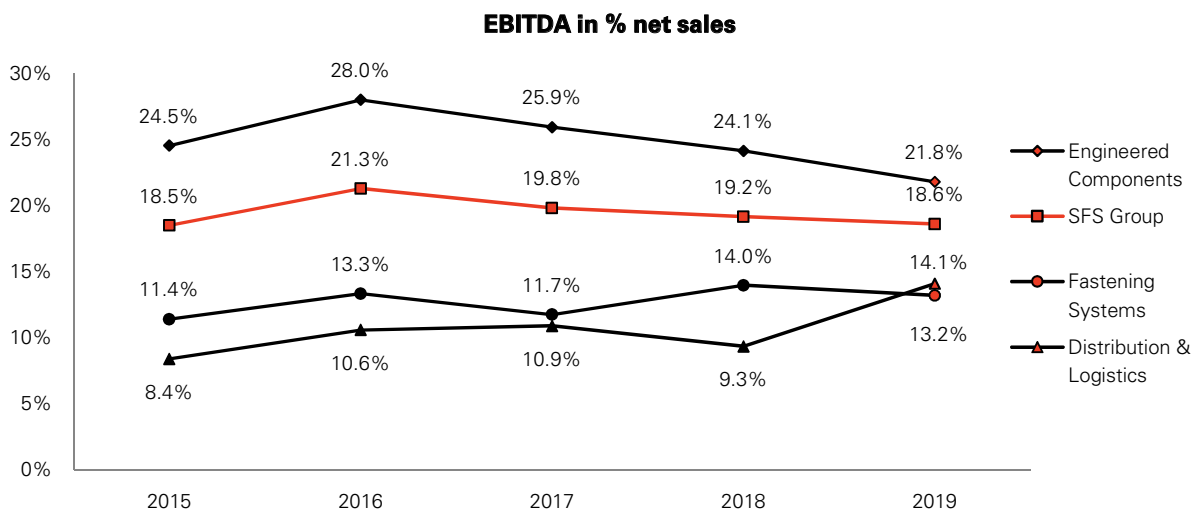
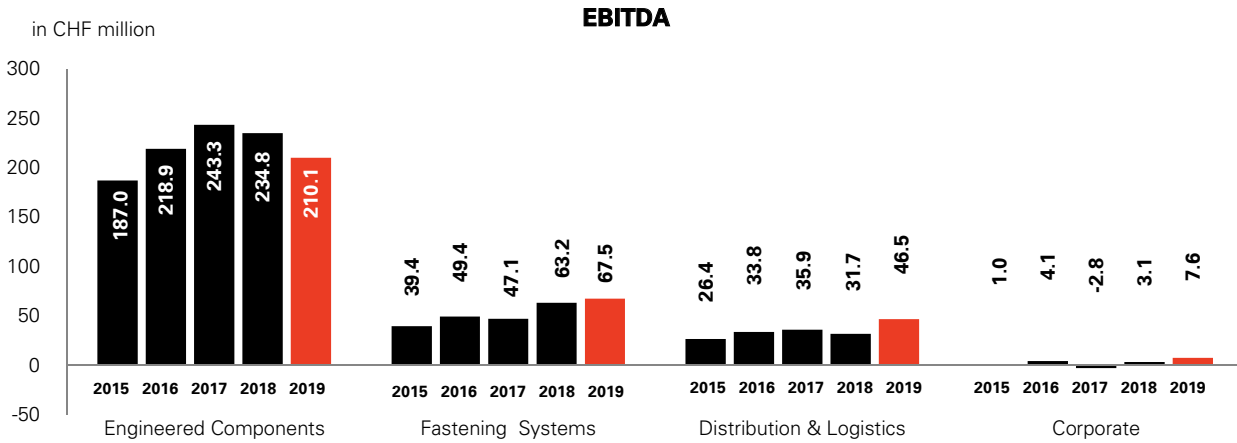
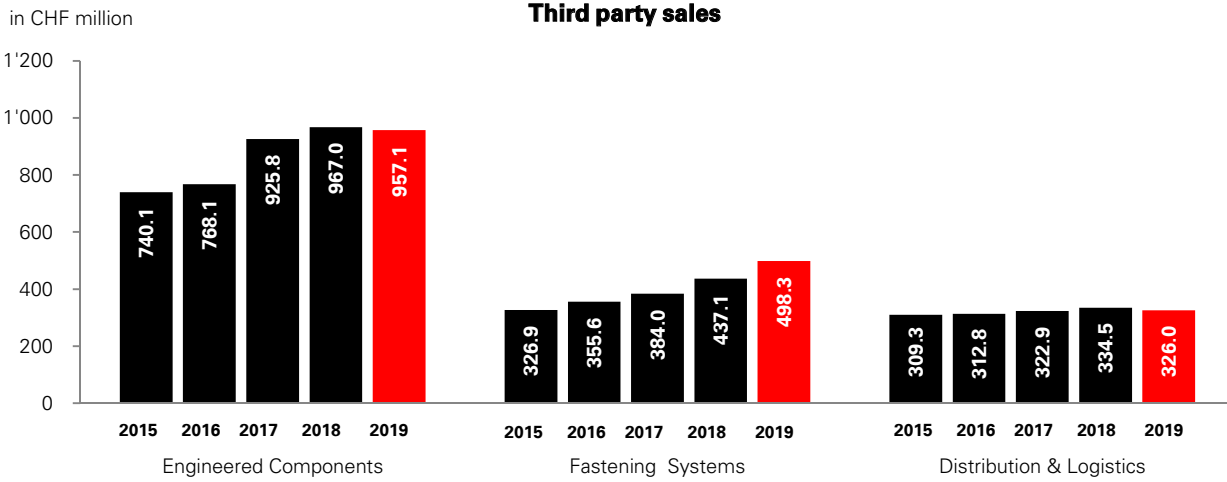
### **2.1 Segment information**

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

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

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

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



The 2015 figures in the table above are unaudited. The key figure EBITDA includes one-off effects:  
 Engined Components: 2019 CHF 17.1 million relocation costs in CN-Nantong  
 Distribution & Logistics: 2019 CHF 14.3 million and 2017 CHF 7.3 million book gains from the sale of real estate



	Notes	Engineered Components	Fastening Systems	Distribution & Logistics	Corporate	Total SFS Group
<b>2019</b>						
Third party sales	2.2	957.1	498.3	326.0	-	1,781.4
Increase to previous year in %		-1.0	14.0	-2.5	-	2.5
<b>Net sales</b>	2.2	<b>964.2</b>	<b>511.5</b>	<b>330.9</b>	<b>-24.5</b>	<b>1,782.1</b>
<b>EBITDA</b>		<b>210.1</b>	<b>67.5</b>	<b>46.5</b>	<b>7.6</b>	<b>331.7</b>
In % of net sales		21.8	13.2	14.1		18.6
<b>Operating profit (EBIT)</b>		<b>147.0</b>	<b>47.1</b>	<b>40.5</b>	<b>1.7</b>	<b>236.3</b>
In % of net sales		15.2	9.2	12.3	-	13.3
Capital expenditure		94.1	17.4	2.3	2.9	116.7
Operating assets		893.2	360.7	154.7	51.2	1,459.8
Operating liabilities		187.8	72.3	32.0	47.3	339.4
Capital employed		705.4	288.4	122.7	3.9	1,120.4
of which net working capital		241.4	139.9	83.7	-25.1	439.9

#### 2018

Third party sales	2.2	967.0	437.1	334.5	-	1,738.6
Increase to previous year in %		4.5	13.8	3.6	-	6.5
<b>Net sales</b>	2.2	<b>972.5</b>	<b>452.4</b>	<b>339.7</b>	<b>-27.7</b>	<b>1,736.9</b>
<b>EBITDA</b>		<b>234.8</b>	<b>63.2</b>	<b>31.7</b>	<b>3.1</b>	<b>332.8</b>
In % of net sales		24.1	14.0	9.3		19.2
<b>Operating profit (EBIT)</b>		<b>176.6</b>	<b>44.2</b>	<b>25.8</b>	<b>-3.5</b>	<b>243.1</b>
In % of net sales		18.2	9.8	7.6	-	14.0
Capital expenditure		116.3	16.5	6.2	10.1	149.1
Operating assets		851.5	357.7	167.6	66.6	1,443.4
Operating liabilities		181.8	73.0	34.8	54.5	344.1
Capital employed		669.7	284.7	132.8	12.1	1,099.3
of which net working capital		240.2	129.5	87.3	-15.2	441.8

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

## Sales by region

	Notes	2019		2018	
Switzerland		346.0	19.4%	354.0	20.4%
Germany		270.6	15.2%	278.8	16.0%
Other Europe		423.7	23.8%	435.8	25.1%
America		384.5	21.6%	307.6	17.7%
China		234.1	13.1%	215.9	12.4%
Other Asia		117.5	6.6%	142.1	8.2%
Africa, Australia		5.0	0.3%	4.4	0.2%
<b>Third party sales</b>	2.2	<b>1,781.4</b>	<b>100.0%</b>	1,738.6	100.0%
Not assigned items		0.7		-1.7	
<b>Total net sales</b>	2.2	<b>1,782.1</b>		1,736.9	

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	2019		2018	
Automotive		434.6	24.4%	456.5	26.3%
Construction		528.1	29.6%	459.4	26.5%
Electronics		334.1	18.8%	343.1	19.7%
Medical		132.8	7.5%	113.7	6.5%
Other industries		351.8	19.7%	365.9	21.0%
<b>Third party sales</b>	2.2	<b>1,781.4</b>	<b>100.0%</b>	1,738.6	100.0%
Not assigned items		0.7		-1.7	
<b>Total net sales</b>	2.2	<b>1,782.1</b>		1,736.9	

## Reconciliation of segments to income statement and balance sheet

Income statement	Notes	2019	2018
<b>Operating profit (EBIT)</b>		<b>236.3</b>	243.1
Financial result	2.6	-6.5	-7.2
Share of profit from associates / joint ventures		-0.1	-0.8
<b>Earnings before tax</b>		<b>229.7</b>	235.1

### Assets

<b>Operating assets</b>		<b>1,459.9</b>	1,443.4
+ Cash and cash equivalents	4.1	130.7	129.7
+ Derivative financial instruments	4.7	0.6	2.4
+ Financial assets	4.2	47.4	43.8
<b>Assets</b>		<b>1,638.6</b>	1,619.3

### Liabilities and equity

<b>Operating liabilities</b>		<b>339.4</b>	344.1
+ Current borrowings	4.3	9.8	22.0
+ Long-term borrowings	4.3	52.2	48.6
<b>Liabilities</b>		<b>401.4</b>	414.7
<b>Equity (Net assets)</b>		<b>1,237.2</b>	1,204.6

### **Engineered Components**

The Engineered Components segment is a global developer, manufacturer and supplier of precision formed components, engineered fasteners 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**

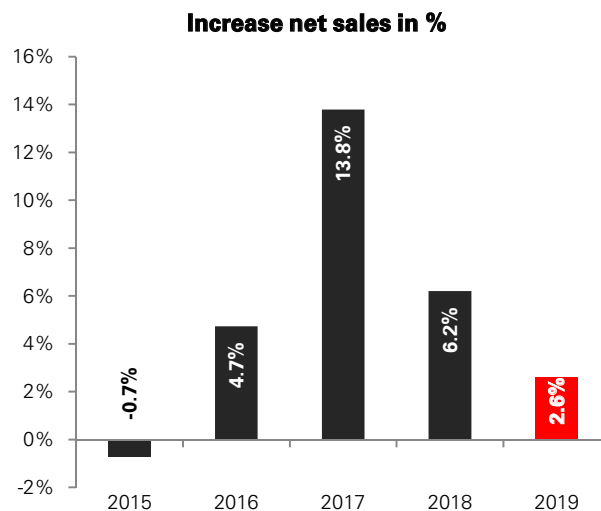
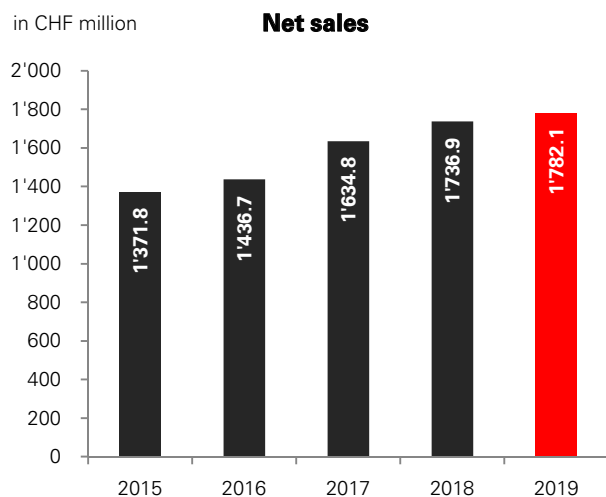
In addition to the elimination of intercompany transactions, the «Corporate» column contains the corporate numbers relating to Technology and Services.

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

in CHF million



	2019	2018	+/- %
Third party sales	1,781.4	1,738.6	2.5%
Other items	0.7	-1.7	
<b>Net sales</b>	<b>1,782.1</b>	1,736.9	2.6%

Third party sales increased by 2.5% (PY 6.5). The growth due to changes in the scope of consolidation amounts to 4.4% (PY 0.8). Based on a like-for-like view and ignoring foreign currency effects, sales decreased by 0.6% (PY increased by 4.3). The currency translation effect amounts to -1.3% (PY 1.4).

The service revenues account for less than 1% of total revenue (PY less than 1%). It does not comprise interest, 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

	2019	2018
Revenue from services	8.1	10.2
Lease income	0.7	1.0
Own-built machinery	7.4	6.2
Gain on disposals of assets	16.4	2.4
<b>Total</b>	<b>32.6</b>	19.8

## 2.4 Personnel expenses

	2019	2018
Wages and salaries	431.6	412.2
Profit sharing	7.9	9.0
Social security	87.9	85.2
Other employment expenses	23.2	12.9
<b>Total</b>	<b>550.6</b>	519.3

Personnel expenses include one-off costs of CHF 11.6 (PY none) million due to the move to CN-Nantong.

### Share-based payments

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

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

## 2.5 Other operating expenses

	2019	2018
Tools, energy, maintenance	146.4	141.4
Selling and distribution	92.1	86.8
Other operating expenses	49.0	43.6
<b>Total</b>	<b>287.5</b>	271.8

Other operating expenses include one-off costs of CHF 3.1 million (PY none) due to the move to CN-Nantong

Other operating expenses include operating lease expenses amounting to CHF 16.0 million (PY 14.7). The total costs for research and development recognized during the reporting period amount to CHF 44.4 million (PY 37.9). The main items responsible for those costs include the fields development, tools, sampling and preparation for large-lot production.

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



## 2.6 Financial result

	2019	2018
Interest expenses	-4.8	-4.3
Loss on financial investments	-3.2	-4.0
<b>Financial expenses</b>	<b>-8.0</b>	-8.3
Interest income	1.5	1.1
<b>Financial income</b>	<b>1.5</b>	1.1
<b>Financial result</b>	<b>-6.5</b>	-7.2

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

	2019	2018
Current income tax	37.7	46.4
Deferred income tax	-14.5	-5.2
<b>Income tax expense</b>	<b>23.2</b>	41.2
<b>Reconciliation:</b>		
Earnings before tax	229.7	235.1
Expected tax rate	14.5%	17.4%
<b>Expected income tax</b>	<b>33.3</b>	40.9
Variance in tax rates	10.6	3.3
Impact of change in tax rate on deferred taxes	-5.9	-0.3
Items not subject to tax	-0.4	1.4
Changes in tax loss carry-forwards	0.1	-4.0
Goodwill amortisation for tax purposes	-12.7	-
Adjustment in respect of prior years and other items	-1.8	-0.1
<b>Income tax</b>	<b>23.2</b>	41.2
<b>Effective tax rate</b>	<b>10.1%</b>	17.5%

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 17.4%) and corresponds to the maximum tax rate for legal entities in the canton of St. Gallen.

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

### 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

	2019	2018
From third parties	315.8	317.3
From associates/joint ventures	0.5	0.1
From related parties	0.3	0.3
Valuation allowances	-3.3	-3.2
<b>Total</b>	<b>313.3</b>	314.5

<b>Ageing analysis</b>	2019	2018
Not yet due	256.1	251.6
Overdue 1 to 30 days	43.8	49.8
Overdue 31 to 90 days	14.2	12.5
Overdue more than 91 days	2.5	3.8
<b>Trade receivables - gross</b>	<b>316.6</b>	317.7
Valuation allowances	-3.3	-3.2
<b>Trade receivables - net</b>	<b>313.3</b>	314.5

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

### 3.2 Other current receivables

	2019	2018
VAT and withholding tax	16.1	16.0
Other receivables	19.0	19.7
Derivative financial instruments	0.6	2.4
<b>Total</b>	<b>35.7</b>	38.1

### 3.3 Inventories

	2019	2018
Raw materials	37.6	41.8
Consumables	8.4	8.5
Work in progress	86.0	88.4
Finished goods	253.7	248.2
Valuation allowances	-44.6	-44.7
<b>Total</b>	<b>341.1</b>	342.2

Inventories are generally stated at the lower of cost and 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 in inventory is higher than annual consumption, the excess inventory for the second annual consumption is written down to 50% of the value. All inventories 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

	Un-developed property	Land and buildings	Machines and equipment	Assets under construction	Total
Cost as at 1.1.2018	9.3	614.6	986.9	48.8	1,659.6
Changes in scope of consolidation	-	24.8	29.8	4.0	58.6
Additions	-	8.8	56.3	81.0	146.1
Disposals	-3.2	-2.1	-47.1	-	-52.4
Reclassification	-	8.5	39.4	-49.0	-1.1
Exchange differences	-	-10.4	-18.0	-1.9	-30.3
<b>Cost as at 31.12.2018</b>	<b>6.1</b>	<b>644.2</b>	<b>1,047.3</b>	<b>82.9</b>	<b>1,780.5</b>
Changes in scope of consolidation	-	0.9	0.6	-	1.5
Additions	1.0	16.6	56.1	40.8	114.5
Disposals	-0.8	-27.9	-50.0	-	-78.7
Reclassification	-	34.1	39.6	-74.3	-0.6
Exchange differences	0.2	-10.0	-15.1	-0.9	-25.8
<b>Cost as at 31.12.2019</b>	<b>6.5</b>	<b>657.9</b>	<b>1,078.5</b>	<b>48.5</b>	<b>1,791.4</b>
Accumulated depreciation as at 1.1.2018	-	-331.9	-689.5	-	-1,021.4
Changes in scope of consolidation	-	-9.5	-19.9	-	-29.4
Depreciation	-	-21.3	-65.2	-	-86.5
Disposals	-	1.7	47.6	-	49.3
Exchange differences	-	4.4	9.6	-	14.0
<b>Accumulated depreciation as at 31.12.2018</b>	<b>-</b>	<b>-356.6</b>	<b>-717.4</b>	<b>-</b>	<b>-1,074.0</b>
Depreciation	-	-23.1	-68.8	-	-91.9
Disposals	-	22.6	50.0	-	72.6
Reclassification	-	-0.2	0.2	-	-
Exchange differences	-	4.2	7.7	-	11.9
<b>Accumulated depreciation as at 31.12.2019</b>	<b>-</b>	<b>-353.1</b>	<b>-728.3</b>	<b>-</b>	<b>-1,081.4</b>
Net book value as at 1.1.2018	9.3	282.7	297.4	48.8	638.2
Net book value as at 31.12.2018	6.1	287.6	329.9	82.9	706.5
<b>Net book value as at 31.12.2019</b>	<b>6.5</b>	<b>304.8</b>	<b>350.2</b>	<b>48.5</b>	<b>710.0</b>

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:

<b>Buildings</b>	Years
Buildings	20–33
Infrastructure	10–15
<b>Machines and equipment</b>	
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.

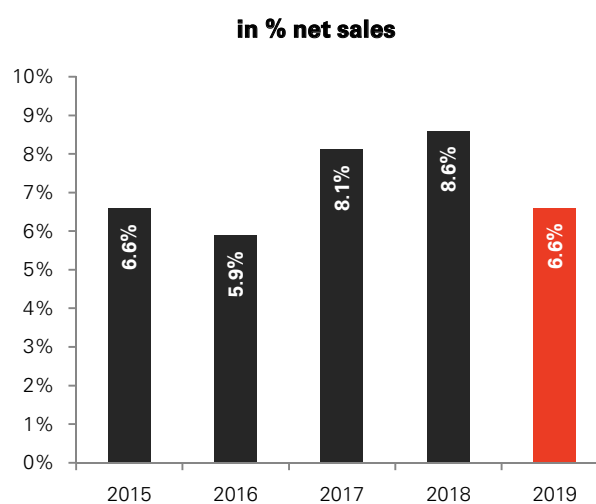
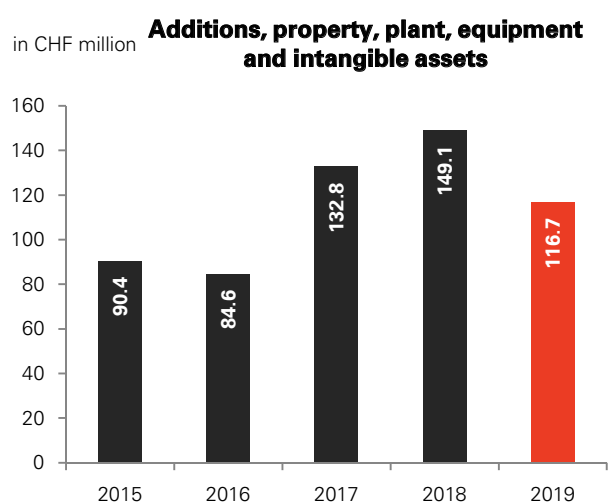
The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Government grants related 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 to CHF 16.5 million (PY 15.3).

In order to collateralize borrowings, assets amounting to CHF 25.9 million (PY 37.1) have been pledged with CHF 17.0 million (PY 31.2), of which CHF 10.0 million (PY 15.7) have been drawn.

The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 22.5 million (PY 29.0).

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





### 3.5 Intangible assets

	Customers, brands, technology	Software	Building leases, patents	Total
Cost as at 1.1.2018	295.9	66.0	3.4	365.3
Changes in scope of consolidation	-	2.8	0.1	2.9
Additions	-	3.0	-	3.0
Disposals	-	-0.1	-	-0.1
Reclassification	-	1.1	-	1.1
Exchange differences	2.4	-0.2	-0.2	2.0
<b>Cost as at 31.12.2018</b>	<b>298.3</b>	<b>72.6</b>	<b>3.3</b>	<b>374.2</b>
Additions	-	2.2	-	2.2
Disposals	-	-0.9	-	-0.9
Derecognition	-301.0	-	-	-301.0
Reclassification	-	0.6	-	0.6
Exchange differences	2.7	-0.5	-0.1	2.1
<b>Cost as at 31.12.2019</b>	<b>-</b>	<b>74.0</b>	<b>3.2</b>	<b>77.2</b>
Accumulated amortization as at 1.1.2018	-295.9	-56.1	-0.3	-352.3
Changes in scope of consolidation	-	-1.7	-	-1.7
Amortization	-	-3.1	-0.1	-3.2
Disposals	-	0.1	-	0.1
Exchange differences	-2.4	0.2	-0.1	-2.3
<b>Accumulated amortization as at 31.12.2018</b>	<b>-298.3</b>	<b>-60.6</b>	<b>-0.5</b>	<b>-359.4</b>
Amortization	-	-3.4	-0.1	-3.5
Disposals	-	0.6	-	0.6
Derecognition	301.0	-	-	301.0
Exchange differences	-2.7	0.3	0.1	-2.3
<b>Accumulated amortization as at 31.12.2019</b>	<b>-</b>	<b>-63.1</b>	<b>-0.5</b>	<b>-63.6</b>
Net book value as at 1.1. 2018	-	9.9	3.1	13.0
Net book value as at 31.12.2018	-	12.0	2.8	14.8
<b>Net book value as at 31.12.2019</b>	<b>-</b>	<b>10.9</b>	<b>2.7</b>	<b>13.6</b>
Intangible assets generated internally	-	0.8	-	0.8
of which purchased intangible assets	-	10.1	2.7	12.8

The purchased intangible assets in the «Customers, brands, technology» column include the assets from the Unisteel Technology acquisition. These were fully amortized and derecognized in the current financial period.

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

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

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

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

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

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

In 2019, the SFS Group had CHF 0.6 million (PY none) future commitments to purchase software or software-related projects.

### 3.6 Theoretical goodwill

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

	2019	2018
Balance as at 1.1.	248.8	800.3
Acquisitions	71.9	4.2
Derecognition	-	-553.8
Exchange differences	-6.6	-1.9
<b>Balance as at 31.12.</b>	<b>314.1</b>	<b>248.8</b>
Accumulated amortization as at 1.1.	-125.1	-631.0
Amortization	-57.8	-49.4
Derecognition	-	553.8
Exchange differences	3.7	1.5
<b>Accumulated amortization as at 31.12.</b>	<b>-179.2</b>	<b>-125.1</b>
<b>Theoretical value of goodwill as at 31.12.</b>	<b>134.9</b>	<b>123.7</b>
Equity attributable to SFS	1,237.2	1,204.6
Theoretical value of goodwill	134.9	123.7
<b>Theoretical shareholders' equity as at 31.12.</b>	<b>1,372.1</b>	<b>1,328.3</b>
Net income	206.5	193.9
Amortization of goodwill	-57.8	-49.4
<b>Theoretical net income</b>	<b>148.7</b>	<b>144.5</b>

The derecognitions of CHF 553.8 million in the previous year relates to the fully amortized goodwill from the Unisteel acquisition in 2012.

### 3.7 Trade payables

	2019	2018
Against third parties	117.9	122.9
<b>Total</b>	<b>117.9</b>	122.9

Liabilities are recognized in the balance sheet at nominal value.

### 3.8 Other current payables

	2019	2018
VAT and other liabilities	29.0	32.4
Tax liabilities	25.6	31.8
<b>Total</b>	<b>54.6</b>	64.2

### 3.9 Pension benefit obligations

SFS Group maintains pension plans in several countries. Most 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 2019, the SFS Pension Fund has an expected coverage ratio according to the OPA of 119.5% (PY 111.8%). The pension liabilities and actuarial reserves are calculated based on a technical interest rate of 1.75% (PY 2.0). The present challenge is the sustainable financing of future retirement pensions, which is hard to meet due to an ongoing increase of life expectancy and a rather low interest rate environment. The trustees of the SFS Pension Fund therefore decided to reduce the conversion rate gradually to 5.2% until 2024. At the same time, saving contributions of all age groups will be increased by 1.1% from 2021 onwards. The determination of the economic impact on the SFS Group is based on the preliminary financial statements of the SFS Pension Fund and the Patronage Fund. The SFS Patronage Fund holds 29,000 shares (PY 31,380) in SFS Group AG.

### Non-Swiss plans

For non-Swiss plans, an external actuarial report is used to determine the impact on the SFS Group. Depending on the mix of insured persons (employees, retirees), the present value of benefit obligations is calculated using an interest rate of 0.5% to 2.1% (PY 0.7% to 2.9%).

Employer contribution reserve (ECR)	Nominal value	Waiver of use 2019	Balance sheet	Accumulation 2019	Balance sheet	Result from ECR in personnel expenses	
	31.12.2019		31.12.2019		31.12.2018	2019	2018
Patronage Fund	19.0	-	19.0	0.6	18.4	-	-
SFS Pension Fund	1.3	-	1.3	0.1	1.2	-	-
<b>Total</b>	<b>20.3</b>	<b>-</b>	<b>20.3</b>	<b>0.7</b>	<b>19.6</b>	<b>-</b>	<b>-</b>

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.

In the previous year, non-committed reserves of the Patronage Fund have been reclassified as employer contribution reserves amounting to CHF 10.0 million.

### Economic benefit / economic obligation and pension benefit expenses

	Surplus / deficit	Economical part of SFS		Change to prior year	Contribution concerning 2019	Pension benefit expenses within personnel expenses	
	31.12.2019	31.12.2019	31.12.2018			2019	2018
Patronage Fund	3.3	3.3	1.6	1.7	-	1.7	1.8
Pension Funds							
without surplus / deficit	-	-	-	-	23.6	23.6	23.4
with deficit	-2.4	-2.4	-2.0	-0.4	-	-0.4	-0.3
without own assets	-3.6	-3.6	-3.8	0.2	-	0.2	1.4
<b>Total</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-4.2</b>	<b>1.5</b>	<b>23.6</b>	<b>25.1</b>	<b>26.3</b>

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 whose benefit obligations exceed the plan's assets. As of 31 December 2019 as well as of 31 December 2018 this is the case for plans in Germany and UK. The frozen plan in the US was liquidated in 2018.

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

### 3.10 Non-current provisions

	Anniversaries, severance payments	Other provisions	Total
Balance as at 1.1.2018	12.1	4.4	16.5
Changes in scope of consolidation	-	1.2	1.2
Additions	1.1	0.8	1.9
Used amounts	-1.0	-1.2	-2.2
Unused amounts reversed	-	-2.9	-2.9
Exchange differences	-0.4	-	-0.4
<b>Balance as at 31.12.2018</b>	<b>11.8</b>	<b>2.3</b>	<b>14.1</b>
Changes in scope of consolidation	-	0.5	0.5
Additions	1.2	0.4	1.6
Used amounts	-0.7	-	-0.7
Unused amounts reversed	-	-0.2	-0.2
Exchange differences	-0.4	-0.3	-0.7
<b>Balance as at 31.12.2019</b>	<b>11.9</b>	<b>2.7</b>	<b>14.6</b>
of which non-current	11.9	2.7	14.6

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 1.6 million (PY 1.7). For other business risks, CHF 1.1 million (PY 0.6) are deferred.

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

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

Deferred taxes have been calculated using the applicable tax rates of the respective tax jurisdictions.

<b>Net deferred tax balances</b>	<b>31.12.2019</b>	31.12.2018
Deferred tax assets	-34.6	-18.6
Deferred tax liabilities	57.0	62.5
<b>Total</b>	<b>22.4</b>	43.9

<b>Movement in net deferred tax balances</b>	<b>2019</b>	2018
Balance as at 1.1.	43.9	48.4
Changes in scope of consolidation	-5.4	-1.8
Charged (+)/credited (-) to income statement	-16.4	-5.2
Charged (+)/credited (-) to equity	-0.1	0.9
Exchange differences	0.4	1.6
<b>Balance as at 31.12.</b>	<b>22.4</b>	43.9

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 carry forwards:

<b>Tax loss carry forwards</b>	recognized		unrecognized	
	<b>2019</b>	2018	<b>2019</b>	2018
Expiry within 3 years	-	0.1	6.1	3.2
Expiry in 4 to 7 years	31.8	2.1	3.1	3.6
Expiry after 7 years	16.0	19.0	14.8	21.1
<b>Total</b>	<b>47.8</b>	21.2	<b>24.0</b>	27.9

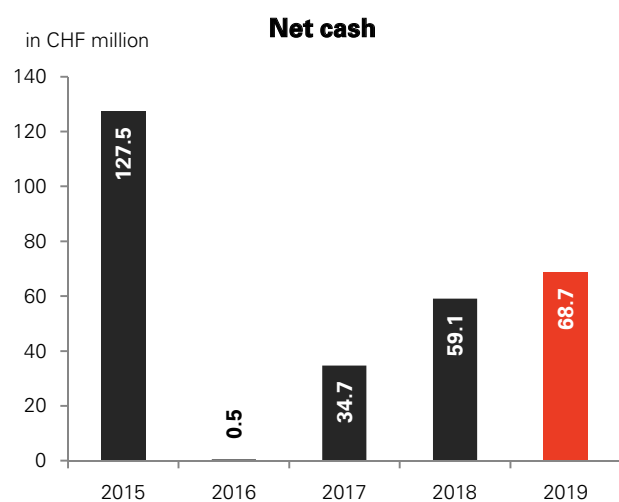
Deferred tax assets are recognized for tax loss carry forwards and on other temporary differences to the extent that is expected to be realizable within the next five years.

The increase of recognized deferred tax assets for loss carry forwards is primarily related to Unisteel Technology (China) Co., Ltd in Nantong. The entity gradually ramped up its operations in 2019. For tax purposes, the investments in tangible assets were fully depreciated in the year of purchase.



## 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.



### 4.1 Cash and cash equivalents

	2019	2018
Cash at bank and on hand	130.0	123.2
Current bank deposits	0.7	6.5
<b>Total cash and cash equivalents</b>	<b>130.7</b>	129.7

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

	2019	2018
Loans to third parties	1.1	1.0
Financial assets from associates / joint ventures	22.0	21.0
Assets from employer contribution reserves	20.3	19.6
Economic benefit from pension plans	3.3	1.6
Other financial assets	0.7	0.6
<b>Total</b>	<b>47.4</b>	43.8

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. In the previous year part of the economic benefit from pension plans has been reclassified to assets from employer contribution reserves in the amount of CHF 10 million.

## 4.3 Borrowings

	2019		2018	
	CHF million	Interest	CHF million	Interest
Bank borrowings	9.8	4.0%	22.0	13.0%
<b>Current borrowings</b>	<b>9.8</b>	<b>4.0%</b>	22.0	13.0%
of which EUR	5.4	1.9%	6.6	1.9%
of which USD	-	-	0.5	5.1%
of which other currencies	4.4	6.5%	14.9	18.2%
Bank borrowings	51.8	1.0%	48.1	0.9%
Non-current borrowings against third parties	0.4	0.5%	0.5	0.0%
<b>Non-current borrowings</b>	<b>52.2</b>	<b>1.0%</b>	48.6	0.9%
of which CHF	35.0	0.4%	40.1	0.6%
of which EUR	7.5	2.2%	8.5	2.3%
of which USD	9.7	2.2%	-	-
<b>Total borrowings</b>	<b>62.0</b>	<b>1.5%</b>	70.6	4.7%

The financial liabilities have the following maturities:

<b>Cash-outflows</b>	<b>Total 2019</b>	in 3 months	in 4–12 months	in 13–24 months	later
Borrowings	62.0	5.0	4.8	46.4	5.8
Interest payments	1.3	0.2	0.5	0.3	0.3
<b>Financial liabilities as at 31.12.2019</b>	<b>63.3</b>	<b>5.2</b>	<b>5.3</b>	<b>46.7</b>	<b>6.1</b>

	Total 2018	in 3 months	in 4–12 months	in 13–24 months	later
Borrowings	70.6	6.6	15.4	42.2	6.4
Interest payments	3.7	0.8	2.4	0.3	0.2
Financial liabilities as at 31.12.2018	74.3	7.4	17.8	42.5	6.6

### Syndicated loan

A loan contract was negotiated with five banks in August 2014. In 2015, SFS Group exercised an option to extend the final maturity by one year. In October 2019, the contract has been extended prematurely. The new contract term is for five years and ends on 18 October 2024. SFS can extend the final maturity by one year each in 2020 and in 2021. The committed and uncollateralized revolving credit line amounts to CHF 150 million and is drawn down 30% (PY 27%) at the end of 2019. It may be increased by a maximum amount of an additional CHF 150 million, provided the lenders agree to the application of the SFS Group. This option may be exercised until three months prior to 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:

Leverage Ratio: Net senior debt / EBITDA	Threshold maximum 2.5x
--	---------------------------

#### 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.

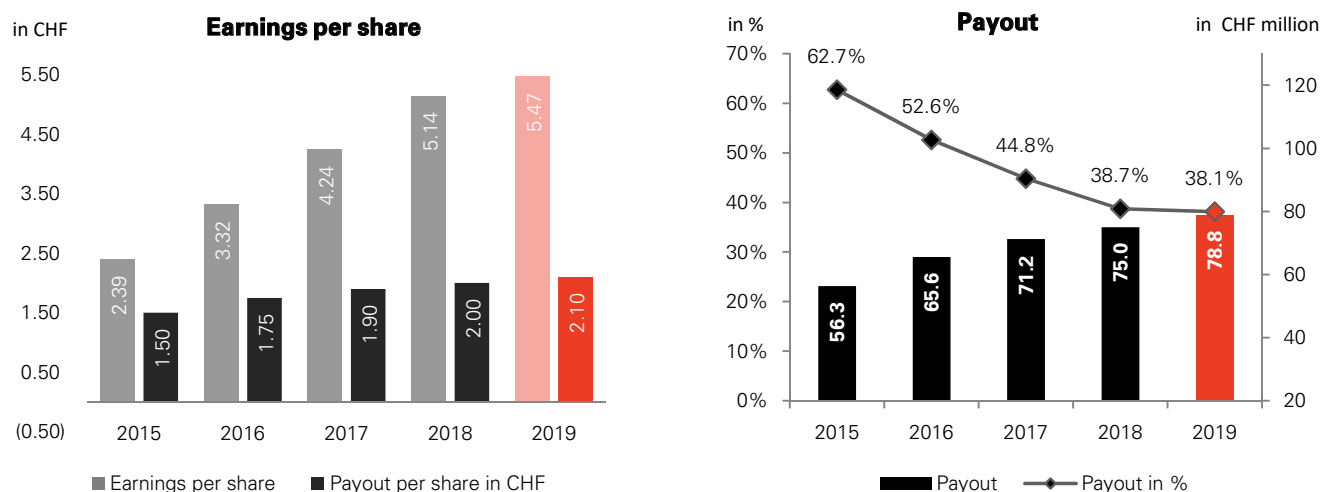
<b>Future aggregate minimum lease payments</b>	<b>2019</b>	2018
No later than 1 year	12.9	11.2
Later than 1 year and no later than 5 years	24.0	25.4
Later than 5 years	5.0	5.9
<b>Total</b>	<b>41.9</b>	42.5

#### 4.5 Off-balance sheet transactions

	<b>2019</b>	2018
Debt guarantees	1.2	1.2
Guarantee obligations	11.1	11.4
Other commitments	2.2	2.2

Contingent liabilities are mainly due to potential warranty claims, guarantee obligations and liens in favor of third parties. Inter-company 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



The 2015 figures in the chart are unaudited.

In the years 2015 to 2017 net income was negatively impacted by the amortization of intangible assets resulting from customer relations Unisteel. Excluding these effects, the payout ratio for the years 2015 to 2018 would have amounted to 40.8% in 2015, 37.5% in 2016 and 36.9% in 2017.

The payout for the financial year 2019 of CHF 2.10 (PY 2.00) per registered share, amounting to a total of CHF 78.8 million (PY 75.0), will be proposed at the Annual General Meeting of SFS Group AG on 23 April 2020. A payout from retained earnings will be realized and accounted in the books after the approval of the Annual General Meeting.

	2019	2018
Weighted average number of shares	37,500,000	37,500,000
Net income attributable to owners of SFS Group AG	205.3	192.8
<b>Earnings per share (in CHF) basic and diluted</b>	<b>5.47</b>	5.14

As of 31 December 2019, 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 56.1 million (PY 55.7) as of 31 December 2019.

#### Share capital and treasury shares

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

#### 4.7 Derivative financial instruments

Forward foreign exchange contracts	Contract value				Market CHF
	CHF	EUR	USD	CNY	
<b>2019</b>					
EUR sale / CHF purchase	55.9	-50.7			0.9
CHF sale / EUR purchase (FX-Swap)	-22.9	21.0			-0.1
CHF sale / USD purchase (FX-Swap)	-6.9		7.0		-0.1
USD sale / CNY purchase			-35.9	250.6	-0.1
<b>2018</b>					
EUR sale / CHF purchase	75.3	-64.9	-	-	2.4
CHF sale / EUR purchase (FX-Swap)	-6.8	6.0	-	-	0.0
CHF sale / USD purchase (FX-Swap)	-4.5	-	4.5	-	0.0

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 2019 and 2018 exclusively for the purpose of currency hedging.

#### 4.8 Exchange rates

		Balance sheet		Income statement	
		<b>2019</b>	2018	<b>2019</b>	2018
China	CNY 100	13.879	14.310	14.233	14.687
EU	EUR 1	1.085	1.127	1.114	1.155
United Kingdom	GBP 1	1.276	1.260	1.268	1.307
Singapore	SGD 1	0.718	0.723	0.729	0.725
USA	USD 1	0.966	0.984	0.993	0.978



## 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

	2019	2018
<b>Acquisition of subsidiaries</b>		
Cash and cash equivalents	1.2	0.4
Trade receivables	7.1	5.9
Inventories	12.1	17.4
Other current assets	0.8	5.2
Property, plant, equipment and software	1.6	30.3
Other non-current assets	6.3	2.6
Current liabilities	-3.5	-11.7
Non-current liabilities	-2.7	-15.2
<b>Acquired net assets</b>	<b>22.8</b>	<b>34.9</b>
Thereof non-controlling interest	-	-17.1
Formerly acquired shares	-	-12.0
Purchase non-controlling interests	1.9	-
Goodwill offset against equity	71.9	4.2
<b>Purchase price incl. acquisition cost</b>	<b>96.6</b>	<b>10.0</b>
Cash and cash equivalents	-1.2	-0.4
<b>Consideration in cash flow statement</b>	<b>95.4</b>	<b>9.6</b>

#### 2019

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

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

#### 2018

SFS Group increased its share in HECO Group from 30% to 51% with effect of 1 July 2018. The HECO Group, reported in segment Fastening Systems, with head office in Schramberg (Germany) achieved a turnover of EUR 41 million with 322 employees in 2017. Subsequent HECO is no longer reported as associates but as fully consolidated entity since 1 July 2018.

#### Disposial of subsidiaries

In May 2018, SFS unimarket AG (Segment Distribution & Logistics) disposed the activities of the security system that generated a turnover of 10 million (in 2017) with 26 employees.

## 5.2 Group companies

### Subsidiaries

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2019	2018		(,000)	
Austria	Korneuburg	SFS Group Austria GmbH	100.0	100.0	EUR	146	V, P
Canada	Dundas	SFS intec Inc.	100.0	100.0	CAD	4,000	V, P
Czech Republic	Turnov	SFS Group CZ s.r.o.	100.0	100.0	CZK	205,000	V, P
China	Nansha-Guangzhou	SFS intec (China) Advanced Precision Parts Manufacturing Co., Ltd	100.0	100.0	CNY	93,959	V, P
	Nantong	Unisteel Technology (China) Co., Ltd	100.0	100.0	CNY	242,986	V, P
	Shanghai	Unisteel Fastening Systems (Shanghai) Co., Ltd	100.0	100.0	CNY	100,688	V
	Suzhou	Unisteel Precision (Suzhou) Co., Ltd	100.0	100.0	CNY	89,095	L
Costa Rica	La Aurora Heredia	Tegra Medical Costa Rica S.A.	98.8	98.8	USD	0	V, P
Estonia	Tallinn	SFS intec Oy Eesti Filiaal	100.0	100.0	EUR	n/a	V
Finland	Nummela	SFS intec Oy	100.0	100.0	EUR	84	V
France	Valence	SFS Group SAS	100.0	100.0	EUR	3,078	V, P
	Sain-Projet	HECO France Sarl	51.0	51.0	EUR	8	V
Germany	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	
Hungary	Janossomorja	SFS Group Hungary Kft.	100.0	100.0	HUF	412,500	V, P
India	Pune	Indo Schöttle Auto Parts Pvt. Ltd	99.7	94.7	INR	46,654	V, P
Italy	Pordenone	SFS intec S.r.l. unipersonale	100.0	100.0	EUR	10,000	V, P
Malaysia	Johor Bahru	Unisteel Technology (M) Sdn Bhd	100.0	100.0	USD	1,372	V, P
	Labuan	Unisteel Technology International Ltd	100.0	100.0	USD	379,850	L
Mauritius		Unisteel International Pte Ltd	100.0	100.0	USD	1	L
Mexico	Monterrey	SFS Group Fastening Technology Mexico S.A.	100.0	100.0	MXN	50	V
Netherlands	Helmond	Guardian B.V.	100.0	100.0	EUR	18	V, P
Norway	Lorenskog	SFS intec AS	100.0	100.0	NOK	2,030	V
		Solheimsveien 44 AS	100.0	-	NOK	470	DL
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
Singapore	Singapore	Unisteel Technology Limited	100.0	100.0	SGD	8,033	V
Spain	Arrigorriaga	SFS Group Fastening Technology (Iberica), S.A.U.	100.0	100.0	EUR	975	V
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
			2019	2018		(,000)	
Switzerland	Heerbrugg municipality of Au/SG and Widnau	SFS intec Holding AG	100.0	100.0	CHF	5,400	H
		SFS intec AG	100.0	100.0	CHF	6,550	V, P
		SFS unimarket AG	100.0	100.0	CHF	12,550	V, P
		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
Taiwan	Kaohsiung	Unisteel Technology Limited Taiwan Branch	100.0	100.0	NTD	n/a	DL
Turkey	Torbali-Izmir	SFS intec Bağlantı Teknolojileri Sanayi ve Ticaret A.Ş.	95.1	91.4	TRY	47,259	V, P
United Kingdom	Leeds	QBM Distributors Ltd	-	100.0	GBP	-	-
		SFS Group Fastening Technology Ltd	100.0	100.0	GBP	2,000	V, P
		Ncase Ltd	-	100.0	GBP	-	-
		Nvelope Rainscreen Systems Ltd	-	100.0	GBP	-	-
USA	Wyomissing, PA	SFS Group USA, Inc.	100.0	100.0	USD	37,750	V, P
		SFS Acquisition Holding, Inc.	98.8	98.8	USD	140,000	H
	Franklin, MA	Tegra-CTW Holdings, LLC	98.8	98.8	USD	41,473	H
		Tegra Medical, LLC	98.8	98.8	USD	23,465	V, P
		Tegra Medical CR, LLC	98.8	98.8	USD	0	H
	Hernando, MS	Tegra Medical (MS), LLC	98.8	98.8	USD	17,275	V, P
	Pittsburgh, PA	Triangle Fastener Corporation	100.0	-	USD	1	V

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

The closing date of all companies is 31 December (2018: exception Indo Schöttle Auto Parts Pvt. Ltd).

## 2019

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

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

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

## 2018

In 2018 an increase in share to 51% of the HECO Group led to disclosure of their companies in Germany (Schramberg), France (Sain-Projet) and Romania in the table «subsidiaries» above.

The two companies GESIPA Polska Sp. z o.o. and SFS intec Sp. z o.o. became merged in 2018 and renamed into SFS Group Sp. z o.o.

## Joint ventures

Country	Registered office	Name of the company	Shareholding in %		Share capital in local currency		Activities
			2019	2018		(,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:

	2019	2018
Sales of goods and services	3.1	2.9
Purchases of goods and services	0.6	0.6
Receivables	0.3	0.3

The sale of goods and services mainly involves 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

	2019	2018
Sales of goods and services	1.7	0.9
Sales of machines and tools	-	0.3
Purchase of goods and services	-	4.0
Receivables	0.5	0.1
Loans	9.2	10.3
Bank guarantees	12.5	11.4

## 6 Events after the balance sheet date

In December 2019 SFS Group signed a purchase agreement to acquire 100% of the shares of Moderne Befestigungselemente GmbH (mbe). On 4 February the German competition authority (deutsches Bundeskartellamt) approved the acquisition. mbe will be consolidated in the segment Fastening Systems as of 1 January 2020. In 2018 the company achieved a turnover of EUR 10 million with 70 employees.

The consolidated financial statements of the SFS Group were approved by the Audit Committee and the Board of Directors on 5 March 2020 and are subject to final approval at the Annual General Meeting of shareholders, which will take place on 23 April 2020.

# Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau/SG

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of SFS Group AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated balance sheet as at 31 December 2019, 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 54 to 88) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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

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### Overview



Overall Group materiality: CHF 11'500'000

We concluded full scope audit work at twelve Group companies in seven countries. We further, concluded reviews at three Group companies in two countries.

Our activities addressed 78% of the net sales and 69% of the assets of the Group.

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

Valuation of inventories

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### 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.



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<b>Overall Group materiality</b>	CHF 11'500'000
<b>How we determined it</b>	5% of earnings before tax
<b>Rationale for the materiality benchmark applied</b>	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

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#### **Audit scope**

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

We designed the scope of our audit in order to cover the significant subsidiaries with a full scope audit or review. For the other companies, we relied on the results of the completed statutory audits and on analyses of significant changes. In particular, for these companies we checked the reconciliation of the statutory financial statements to Swiss GAAP FER. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. Our involvement included, for example, telephone conferences during the audit planning stage and after completion of the local audits.

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

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

## Valuation of inventories

### Key audit matter

Inventories as at 31 December 2019 amount to CHF 341.1 million. This represents 20.8% 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 2019.

### 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 EXPERT-suisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

### Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Thomas Illi

Audit expert  
Auditor in charge



Gianluca Galasso

Audit expert

St. Gallen, 5 March 2020



## **Financial statements SFS Group AG**

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## Balance sheet

<b>Assets in CHF million</b>	<b>31.12.2019</b>	31.12.2018
Cash and cash equivalents	12.5	12.7
Other current receivables from Group companies	16.2	7.5
<b>Current assets</b>	<b>28.7</b>	20.2
Financial assets	-	0.1
Financial assets from Group companies	845.0	825.8
Shareholdings	90.8	90.8
<b>Non-current assets</b>	<b>935.8</b>	916.7
<b>Assets</b>	<b>964.5</b>	936.9
<b>Liabilities and equity in CHF million</b>		
Interest-bearing borrowings from Group companies	28.6	20.0
Deferred income and accrued expenses	0.7	0.8
<b>Current liabilities</b>	<b>29.3</b>	20.8
Interest-bearing borrowings	35.0	40.0
Interest-bearing borrowings from Group companies	36.2	19.2
<b>Non-current liabilities</b>	<b>71.2</b>	59.2
Share capital	3.8	3.8
Statutory capital reserves	11.5	73.8
Statutory retained earnings	1.9	1.9
Voluntary retained earnings	275.1	275.1
Retained earnings	571.7	502.3
<b>Total equity</b>	<b>864.0</b>	856.9
<b>Liabilities and equity</b>	<b>964.5</b>	936.9



# Income statement

Income in CHF million	2019	2018
Investment income	77.5	79.0
Interest income	6.2	6.2
<b>Total income</b>	<b>83.7</b>	85.2
<b>Expenses in CHF million</b>		
Interest expense	-0.7	-0.5
Administration expenses	-0.4	-0.4
<b>Total expenses</b>	<b>-1.1</b>	-0.9
<b>Net income before taxes</b>	<b>82.6</b>	84.3
Direct taxes	-0.5	-0.5
<b>Net income</b>	<b>82.1</b>	83.8

## Notes

### 1 Accounting policies

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

### 2 Number of employees

The company does not have any employees.

### 3 Shareholdings

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

	2019		2018	
	Share capital	Share-holding <sup>1</sup>	Share capital	Share-holding <sup>1</sup>
SFS intec Holding AG, Heerbrugg, municipality of Widnau, Switzerland	5.4	100%	5.4	100%
SFS unimarket AG, Heerbrugg, municipality of Widnau, Switzerland	12.6	100%	12.6	100%
SFS services AG, Heerbrugg, municipality of Widnau, Switzerland	0.1	100%	0.1	100%

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

<sup>1</sup> each share represents one voting right

#### 4 Share capital

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

#### 5 Significant shareholders

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

<b>Share capital and voting rights</b>	<b>31.12.2019</b>	31.12.2018
Founding families	<b>54.8%</b>	54.8%

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

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

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

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

<b>Board of Directors</b>	<b>Number of shares 31.12.2019</b>	Number of shares 31.12.2018
Heinrich Spoerry, Chairman, external member	199,460	197,960
Nick Huber, external member *	114,152	332,932
Urs Kaufmann, independent, external member	9,760	9,260
Thomas Oetterli, independent, external member	7,760	7,260
Bettina Stadler, external member	391,900	391,400
Jörg Walther, independent, external member	4,640	4,140
<b>Total</b>	<b>727,672</b>	<b>942,952</b>

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

\* In December 2019, 219,280 privately owned shares were transferred to the family company HUWA Finanz und Beteiligungs AG.

	Number of shares <b>31.12.2019</b>	Number of shares 31.12.2018
<b>Group Executive Board</b>		
Thomas Bamberger, Head of Division Riveting until June 2019	n/a	3,366
Arthur Blank, Head of Division Construction	15,580	14,830
Jens Breu, Chief Executive Officer	15,310	12,310
Rolf Frei, Chief Financial Officer	49,710	50,130
J. Mark King, Head of Division Medical	1,400	800
Walter Kobler, Head of Division Industrial	22,000	21,250
Urs Langenauer, Head of Division Riveting since July 2019	3,100	n/a
George Poh, Head of Division Electronics	55,661	54,386
Alfred Schneider, Head of Division Automotive	17,360	16,610
Claude Stadler, Head of Corporate Services since January 2019	391,080	n/a
Josef Zünd, Head of Segment Distribution & Logistics	7,391	17,916
<b>Total</b>	<b>578,592</b>	191,598

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 73,799,250) 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.

	<b>31.12.2019</b>	31.12.2018
<b>Contingent liabilities</b>		
Warranty obligations to Group companies	209.7	216.8
Warranty obligations to third parties	11.1	11.4
Of which used	55.1	64.9

## Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of shareholders to payout a total of **CHF 2.10** (PY 2.00) per registered share with a nominal of CHF 0.10 per share.

### Proposed appropriation of retained earnings

Payment from retained earnings **CHF 2.10** (PY 0.34) per registered share with a nominal of CHF 0.10 per share.

<b>Retained earnings</b> in CHF million	<b>31.12.2019</b>	31.12.2018
Profit carry forward	489.6	418.5
Net income	82.1	83.8
Earnings available for distribution	571.7	502.3
<b>Payout from retained earnings</b>	<b>-78.8</b>	-12.7
Carry forward to retained earnings	492.9	489.6

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 payment from statutory capital reserve CHF 1.66 per registered share).

<b>Statutory capital reserves</b> in CHF million	<b>31.12.2019</b>	31.12.2018
Carry forward	11.5	73.8
<b>Payout from statutory capital reserves</b>	<b>-</b>	-62.3
Carry forward to statutory capital reserves	11.5	11.5

# Report of the statutory auditor

to the General Meeting of SFS Group AG

Heerbrugg, municipality of Widnau/SG

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of SFS Group AG, which comprise the balance sheet as at 31 December 2019, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 96 to 100) as at 31 December 2019 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.

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<b>Overall materiality</b>	CHF 4'300'000
<b>How we determined it</b>	5% of profit before tax
<b>How we determined it</b>	5% of profit before tax

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#### **Audit scope**

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

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

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

#### **Responsibilities of the Board of Directors for the financial statements**

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

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

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

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

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

### Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Thomas Illi

Audit expert  
Auditor in charge



Gianluca Galasso

Audit expert

St. Gallen, 5 March 2020



## 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.

In the following tables, the values for 2015 are unaudited.

### 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	2019	2018	2017	2016	2015
Equity at year end	1,237.2	1,204.6	1,087.0	987.8	1,126.7
- invested capital related to the acquisition of Tegra Medical	-	-	-	-202.2	-
+ Goodwill offset against equity	984.7	912.8	908.6	907.1	699.2
- Net cash / + net debt	-68.7	-59.1	-34.7	-0.5	-127.5
<b>Invested capital</b>	<b>2,153.2</b>	2,058.3	1,960.9	1,692.2	1,698.4
Operating profit (EBIT) adjusted	239.1	243.1	233.3	210.1	174.3
- Tax 17.5%	-41.8	-42.5	-40.8	-36.8	-30.5
<b>Operating profit (EBIT) adjusted less tax</b>	<b>197.3</b>	200.6	192.5	173.3	143.8
<b>ROIC</b>	<b>9.2%</b>	9.7%	9.8%	10.2%	8.5%

### Return on Capital Employed (ROCE)

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

in CHF million	2019	2018	2017	2016	2015
Ø net working capital	615.8	580.1	535.6	510.2	503.1
- Ø cash and cash equivalents	-147.8	-124.3	-122.8	-151.4	-157.0
+ Ø tangible and intangible assets	723.1	686.8	608.5	565.5	564.6
- Ø net deferred tax liabilities and provisions	-56.2	-71.8	-73.7	-77.6	-80.5
<b>Ø capital employed</b>	<b>1,134.9</b>	1,070.8	947.4	846.6	830.2
<b>Operating profit (EBIT) adjusted</b>	<b>239.1</b>	243.1	233.3	210.1	174.3
<b>ROCE</b>	<b>21.1%</b>	22.7%	24.6%	24.8%	21.0%

### 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.

<b>in CHF million</b>	<b>2019</b>	2018	2017	2016	2015
Operating profit (EBIT)	236.3	243.1	197.7	159.8	111.5
- Book gain on disposal of non-operating assets	-14.3	-	-7.3	-9.5	-
- Amortization of customer relationship Unisteel	-	-	39.8	59.8	58.4
+ Relocation cost CN-Nantong	17.1	-	-	-	-
+/- Other one-time effects	-	-	3.1	-	4.4
<b>Operating profit (EBIT) adjusted</b>	<b>239.1</b>	243.1	233.3	210.1	174.3
Net sales	1,782.1	1,736.9	1,634.8	1,436.7	1,371.8
<b>EBIT margin adjusted</b>	<b>13.4%</b>	14.0%	14.3%	14.6%	12.7%

### Free Cash Flow

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

<b>in CHF million</b>	<b>2019</b>	2018	2017	2016	2015
Cash flow from operating activities	277.6	263.5	226.6	241.5	211.3
- Purchases of					
property, plant and equipment	-114.5	-146.1	-128.8	-83.5	-88.7
intangible assets	-2.2	-3.0	-8.2	-1.1	-1.7
+ Proceeds from government grants	-	-	4.2	-	-
<b>Free cash flow</b>	<b>160.9</b>	114.4	93.8	156.9	120.9

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

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Number of registered shares (in 1,000)	37,500	37,500	37,500	37,500	37,500
Number of shares ranking for dividend (in 1,000)	37,500	37,500	37,500	37,500	37,500
Weighted average number of shares (in 1,000)	37,500	37,500	37,500	37,500	37,500
Number of shareholders	8,353	7,960	7,530	6,641	6,941
<b>Stock exchange quotation (in CHF)</b>					
Year high	97.00	121.80	123.50	83.15	79.00
Year low	68.60	73.80	82.55	60.45	56.90
Year-end price	93.10	76.30	113.20	83.10	70.00
<b>Share key data</b>					
Earnings per share in CHF	5.47	5.14	4.24	3.32	2.39
Distribution per share in CHF	2.10	2.00	1.90	1.75	1.50
Payout ratio in % of net income	38.1	38.7	44.8	52.6	62.7
Price/earnings ratio (year-end price)	17.0	14.8	26.7	25.0	29.3
<b>Market capitalization</b>					
In CHF million (year-end price x number of shares ranking for dividend)	3,491.3	2,861.3	4,245.0	3,116.3	2,625.0
As a % of net sales	195.9	164.7	259.7	216.9	191.4
As a % of equity	282.2	237.5	390.5	315.5	233.0

## Agenda

Thursday, 23 April 2020	27th Annual General Meeting of SFS Group AG
Tuesday, 21 July 2020	Publication half year results 2020

Security-no.	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 2019**

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 <https://annualreport.sfs.biz/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**

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