

# 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.

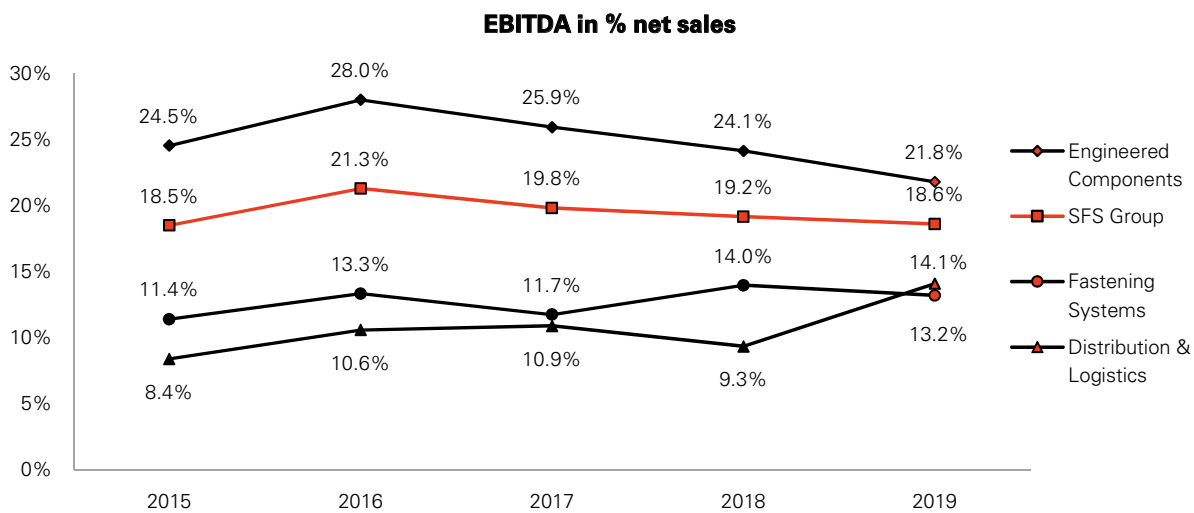
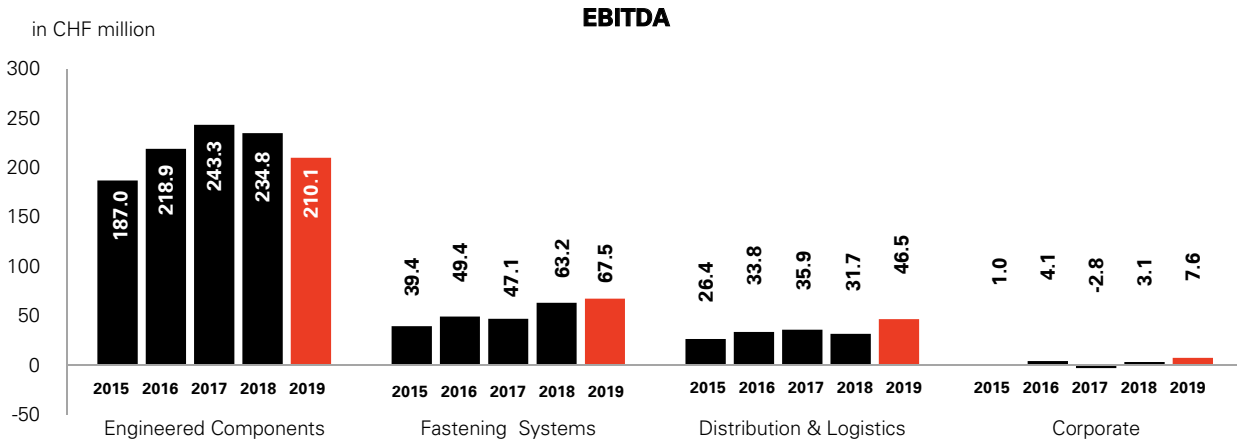
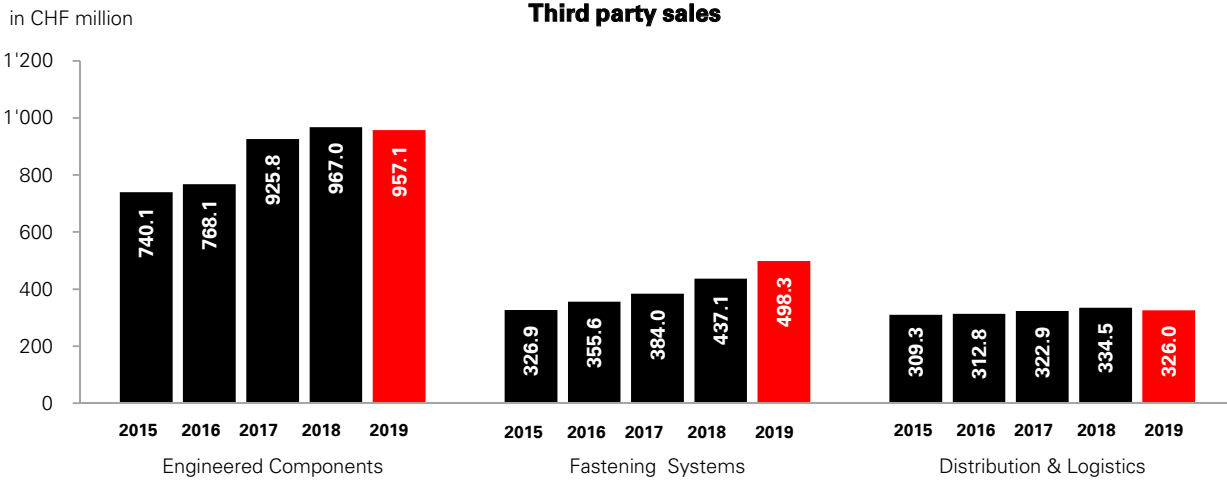
### **2.1 Segment information**

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.

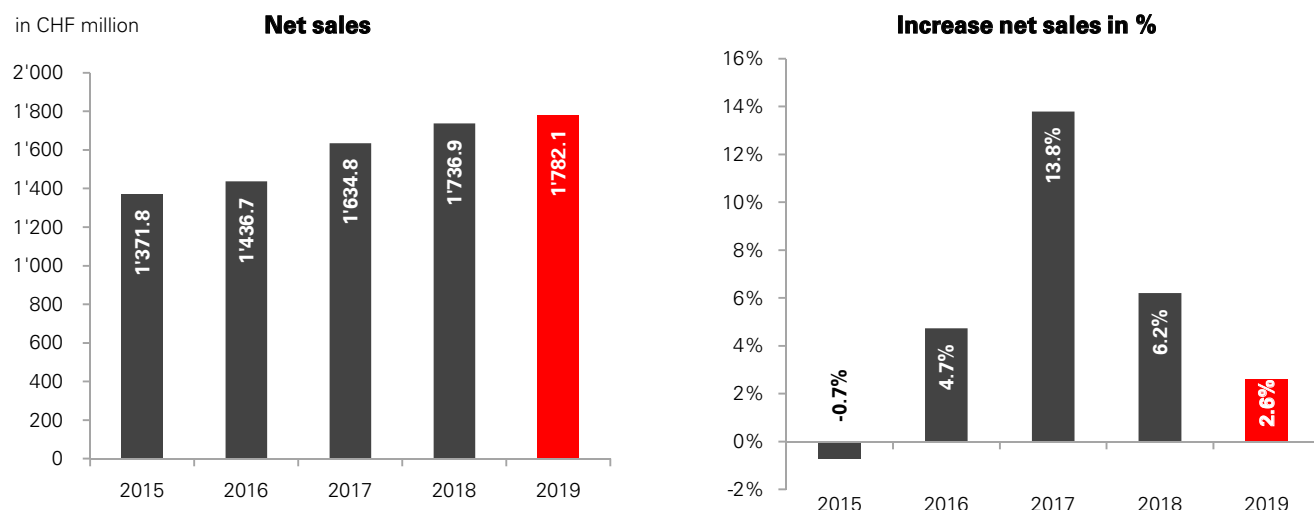
### **Corporate**

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



	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>	<b>2019</b>	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.

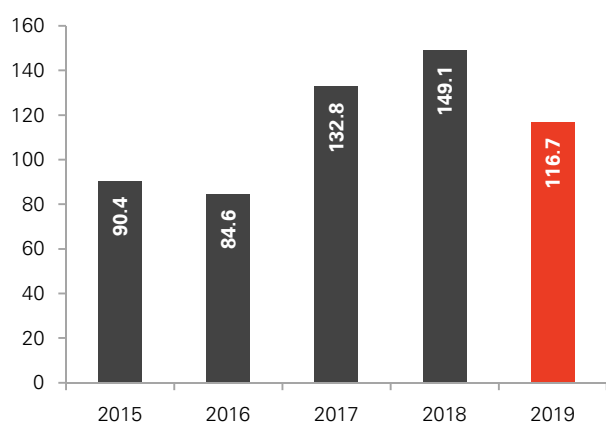
The book value of assets under construction includes down payments to suppliers to CHF 16.5 million (PY 15.3).

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.

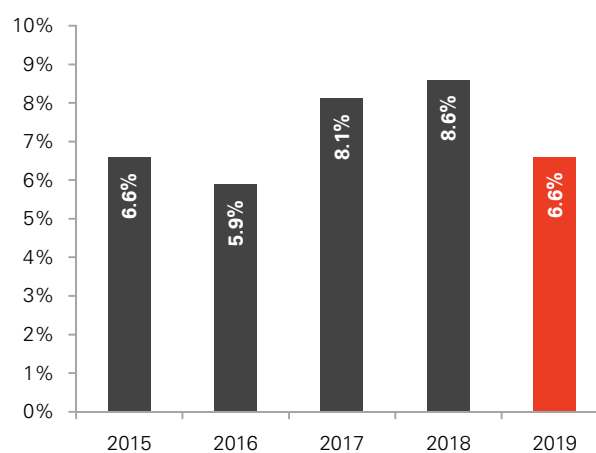
The financial commitments for contracted purchases of property, plant and equipment as well as for assets under construction amount to CHF 22.5 million (PY 29.0).

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

in CHF million **Additions, property, plant, equipment and intangible assets**



**in % net sales**



### 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>	<b>122.9</b>

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>	<b>64.2</b>

### 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
Balance as at 31.12.2018	11.8	2.3	14.1
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:

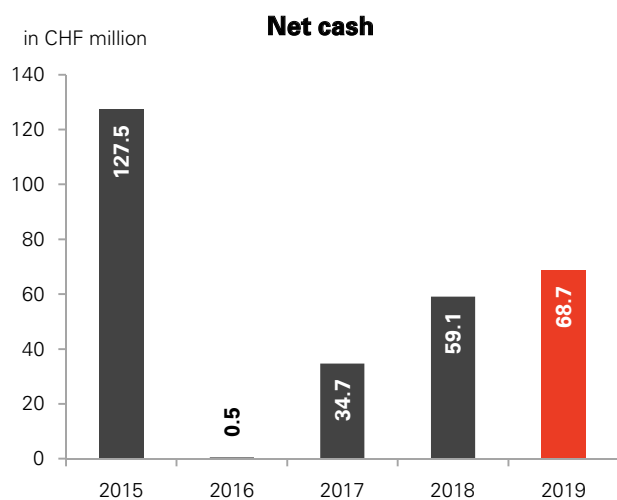
<b>Tax loss carry forwards</b>	recognized		unrecognized	
	<b>2019</b>	2018	<b>2019</b>	2018
Expiry within 3 years	-	0.1	6.1	3.2
Expiry in 4 to 7 years	31.8	2.1	3.1	3.6
Expiry after 7 years	16.0	19.0	14.8	21.1
<b>Total</b>	<b>47.8</b>	21.2	<b>24.0</b>	27.9

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.

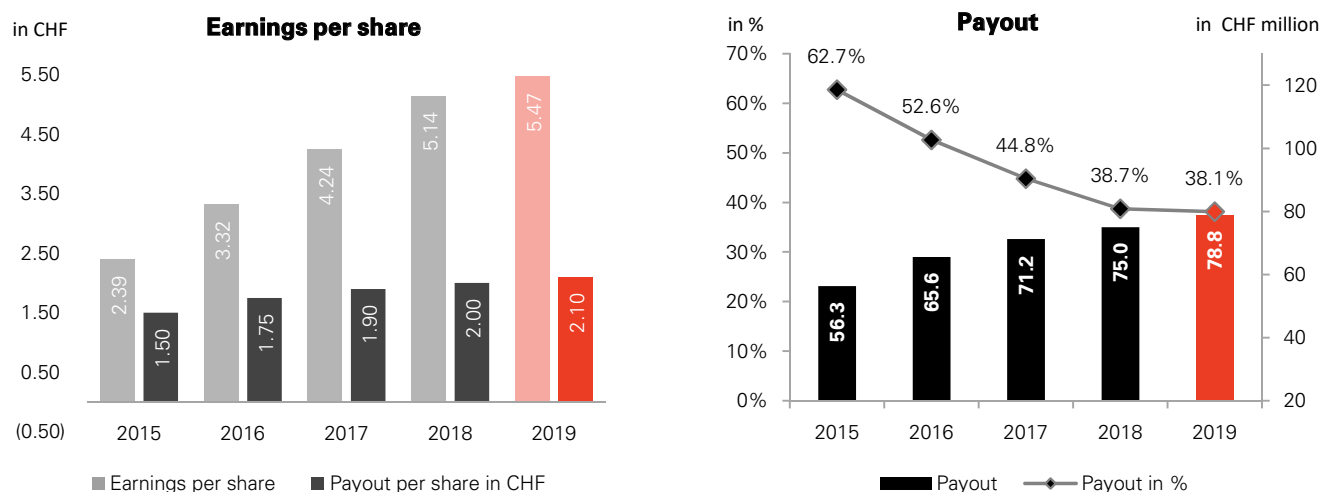
<b>Future aggregate minimum lease payments</b>	<b>2019</b>	2018
No later than 1 year	12.9	11.2
Later than 1 year and no later than 5 years	24.0	25.4
Later than 5 years	5.0	5.9
<b>Total</b>	<b>41.9</b>	42.5

#### 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

<b>Income in CHF million</b>	<b>2019</b>	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:

	<b>2019</b>		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