ANNUAL REPORT 2016:

From a small company founded in 1965 to the global leader in one of the most dynamic and technologically demanding markets in the world.

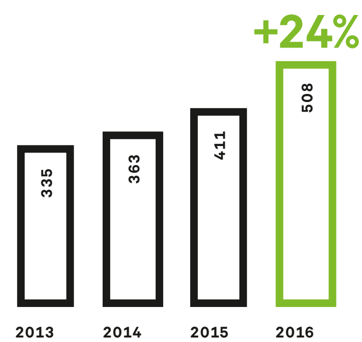
VAT is the world's leading producer of high-end vacuum valves, bellows and modules for ultra-clean and near particle-free manufacturing processes. Our competitive advantages are our single focus on high-end vacuum valves, our No. 1 technology and market position, long-standing relationships with the world's leading customers, large installed base, and highly skilled people working through our global manufacturing and service footprint. This positions us to benefit from long-term growth trends, such as the proliferation of semiconductors and digital displays in consumer and industrial applications and the miniaturization of manufacturing processes. Our financial strength is reflected in a record of profitable growth over the cycle and a commitment to an attractive dividend based on sustainable free cash flow generation.

PASSION. PRECISION. PURITY.

Net sales
in CHF million

507.9

Net sales development
in CHF million



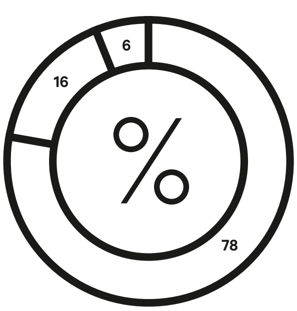
Adjusted EBITDA
in CHF million

158.1

Adjusted EBITDA margin
in %

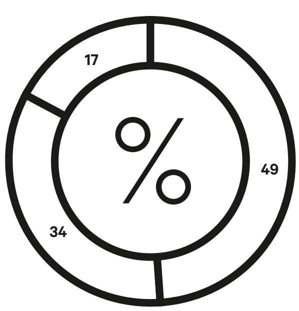
31.1

Net sales
by segment



78 VALVES
16 GLOBAL SERVICE
6 INDUSTRY

Net sales
by region



49 ASIA
34 AMERICAS
17 EMEA

Free cash flow
in CHF million

128.1

Dividend per share
in CHF

4.00

VAT's ambition is to be the world's most trusted provider of high-performance vacuum solutions for our customers in the semiconductor, digital display, solar panel and many other industries. Our success will be driven by continued technology innovation, commitment to the highest levels of quality, trusted relationships with our customers and suppliers and a competitive global footprint.

Key Figures

In CHF million	2016	2015	Change
Order intake	561.9	427.8	+31.3%
Order backlog as of December 31	122.1	71.9	+69.8%
Net sales	507.9	411.0	+23.6%
Gross profit	318.0	261.0	+21.8%
Gross profit margin	62.6%	63.5%	
EBITDA	149.6	119.6	+25.0%
Adjusted EBITDA[1]	158.1	126.8	+24.7%
Adjusted EBITDA margin	31.1%	30.8%	
EBIT	118.3	89.4	+32.3%
EBIT margin	23.3%	21.8%	
Net income[2]	67.2	7.1	+852.2%
Net income margin	13.2%	1.7%	
Basic earnings per share (in CHF)[2]	2.43	0.34	+614.7%
Diluted earnings per share (in CHF)[2]	2.42	0.34	+611.8%
Cash flow from operating activities	146.4	117.5	+24.6%
Capex[3]	19.2	12.9	+48.8%
Capex margin	3.8%	3.1%	
Free cash flow[4]	128.1	105.6	+21.3%
Free cash flow margin	25.2%	25.7%	
Free cash flow conversion rate[5]	85.6%	88.3%	
Free cash flow to equity[6]	117.5	71.5	+64.3%

As of December 31 In CHF million	2016	2015	
Total assets	883.4	893.5	–1.1%
Total liabilities	372.8	844.3	–55.8%
Equity[7]	510.6	454.3	+12.4%
Net debt[8]	133.9	223.5	–40.1%
Net Debt/EBITDA	0.9	1.9	–52.6%
Invested capital[9]	246.1	279.3	–11.9%
NOPAT[10]	110.1	77.9	41.3%
Return on invested capital (ROIC)	44.7%	27.9%	
Dividend per share[11]	4.00	–	
Payout ratio[12]	102.1%	–	
Number of employees	1,439	1,189	+250

1 Adjusted EBITDA excludes one-off items, see page 32.
2 2015 includes interest cost on shareholder loan.
3 Capex contain purchases of property, plant equipment and intangible assets.
4 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
5 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
6 Free cash flow to equity is calculated as free cash flow less interest paid less current portion of loans.
7 Equity in 2015 includes a shareholder loan of CHF 405.1 million as at December 31, 2015.
8 Net debt in 2015 is calculated excluding the shareholder loan of CHF 405.1 million as at December 31, 2015.
9 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks and deferred income taxes) less current liabilities (excluding loans & borrowings and current income tax liabilities) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities).
10 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization (excluding amortization of acquired technology and customer relationships) plus finance income (including net foreign exchange gains/losses from financing activity and excluding other finance income) less adjusted tax expenses based on the adjusted effective tax rate of 18.9% for 2015 and the average group tax rate of 18.1% in 2016.
11 Proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2017.
12 Percentage of free cash flow to equity proposed to be paid out as dividend.

Dear Shareholders,

2016 was an exciting, eventful and successful year for VAT Group. What company founder Siegfried Schertler started in 1965 as a small business in a corner of Switzerland, has grown into the strong global leader in one of the most dynamic and demanding markets in the world.

Our 2016 results tell part of the story, as demand continued to grow across all of our key end markets, from semiconductors to high-performance displays and other high-technology industries. Net sales reached a record CHF 508 million, up 24 percent compared with 2015. Adjusted EBITDA reached CHF 158 million, up 25 percent, while our adjusted EBITDA margin was 31 percent, slightly higher than the previous year. Net income was CHF 67 million and free cash flow amounted to CHF 128 million. Thanks to this strong result, and in line with our attractive dividend policy, the Board of Directors is proposing a dividend of CHF 4.00 per share.

Record sales were not the only landmark in 2016. It was also the year we went from a privately held company to one whose shares are traded on the SIX Swiss Exchange. The Initial Public Offering (IPO) in April has set a beacon in the development of the company. The transition from private to public company was not trivial. We had to develop new legal and corporate structures and functions that can both support a dynamic and growing business as well as meet the highest standards of corporate governance, to work on new business processes across all functions while managing unprecedented growth at the same time.

The results of the IPO are encouraging so far. The company's share price increased by almost 90 percent, from CHF 45 at the launch to CHF 84.85 at the end of 2016. That is not merely a reflection of a good short-term result in 2016. It also reflects investor confidence in our longer-term market position and strategy. Throughout the year senior management invested considerable effort and time into keeping shareholders informed of key business developments in a clear and timely manner.

VAT is the world's undisputed No. 1 manufacturer of high-end vacuum valves used in the manufacturing of semiconductors, advanced flat-screen displays, solar panels and a high number of other industrial processes where complex, ultra-clean assembly environments are becoming increasingly important. We are approximately eight times the size of our nearest competitor in terms of market share with more than one million vacuum valves in operation around the world.

That puts us in a strong position to benefit from long-term structural growth trends, such as the proliferation and interconnectivity of personal digital devices, the Internet of Things and Industry 4.0 and the continuing miniaturization of a broad range of electronic devices across a wide range of industries and applications, from automotive and food & beverage to new forms of energy generation and medical devices.

VAT has achieved its leading position through a passion for technology innovation as well as by meeting the requirements, expectations and wishes of the world's most demanding customers over more than 50 years. About 20 percent of our employees are directly involved in the innovation process, including research, product management and development, business units or testing labs, whether searching for solutions to the potential technology challenges of the future, or custom-designing today's most sophisticated vacuum valves. Almost a third of 2016 sales were generated from products that were developed or modified within the previous three years. Innovation will remain a key success factor for VAT.

DR. HORST HEIDSIECK
CHAIRMAN OF THE BOARD OF DIRECTORS

Increasing our global footprint is another important element in our growth strategy. We have production, sales, service and engineering facilities in all our key markets around the world. In 2016, we continued to ramp up our new manufacturing facility in Penang, Malaysia, and we expect to more than double the output from this plant in 2017. Our expansion into Asia allows us to deepen our relationships with many of our largest customers and suppliers in South Korea, Taiwan, Japan and, increasingly, in China. This is a key competitive advantage that we intend to build on in the years to come.

Our solid results in 2016 also reflect the success of our ongoing VATmotion program to drive operational excellence throughout the company. We are working hard to adjust capacity more rapidly to meet quickly changing market demand by shortening production cycles and lead times. We want to benefit more from global economies of scale in the supply chain and continue to improve customer satisfaction. These will definitely be our highest priorities as we move into 2017 and beyond.

Achieving these goals takes passion, commitment, and teamwork – that means great people. On behalf of the Board of Directors, I would like to thank our more than 1,400 employees at all levels of the company for their efforts to make 2016 such a success. Their experience, skill, and commitment to quality and customer satisfaction are another of VAT's most important competitive advantages.

“We have achieved our leading position through our passion for technology innovation and more than 50 years of experience meeting the needs of the world's most demanding customers.”

As they say, staying at the top is as demanding as getting there in the first place. Maintaining our people advantage will be one of our priorities in 2017. The Board of Directors is sharpening its focus on developing talent and leaders from within the company, people with the VAT DNA, who can take the company forward with passion and the commitment to innovation, precision and quality that is VAT's hallmark.

At the same time, we need to attract new people – not only in Switzerland, but also in Asia and the US who can help us meet the demands of growing markets – maintaining high-quality, on-time delivery, and competitive costs under the pressure of growing customer needs. We grew our workforce by some 20 percent in 2016 to adapt to this demand, and this trend is likely to continue into 2017.

It was a strong first year for VAT Group as a public company. This performance is not just about being in the right market with the right product at the right time. It's also about people like Siegfried Schertler. He and his successors had a passion for innovation, precision and quality. They had a vision to create a technology for a young and exciting industry they were convinced had a big future.

They were willing to take risks for what they believed in and they brought together a team of skilled and talented people who shared their vision and passion. They saw the trend towards miniaturization and precision in electronics manufacturing and the increasingly complex and "pure" assembly environments they required. They understood the importance of constant innovation and product quality. They saw the market potential and competitive dynamics far beyond Switzerland and Europe and knew they would have to achieve the highest levels of performance in all areas to be successful.

That history, experience and set of values are the helix of the VAT Group's DNA today, which we are committed to preserve and to develop further.

PASSION. PRECISION. PURITY. These values were the foundation of VAT's success in 2016 and will remain the underlying drivers of success.

Looking ahead, growing demand means we all need to work together to ensure we continue to meet and surpass customer expectations on quality and on-time delivery while delivering improved results and value creation for our shareholders in 2017 and beyond.

Longer term, the outlook is positive. There is no end in sight to the digitalization of society around the world and the miniaturization of electronics and other high-technology products and processes. Semiconductors and high-performance displays will become ubiquitous as interconnectivity between devices increases. They will also become more complex as even more functionality is squeezed into spaces measured on the scale of molecules. The super-clean, near particle-free environments needed to manufacture such products cannot be achieved without the vacuum valves and related products and services that VAT has been successfully providing for more than 50 years.

VAT is looking forward with confidence into 2017 and beyond. We have the technology, people, passion and values to maintain and expand our leading market position, and to continue to deliver value to all of our stakeholders in the years ahead.

Finally, let me express on behalf of the Board our thanks for the confidence shareholders have placed in VAT during this important first year as a listed company. We are committed to build on this strong start and continue the VAT success story.

Sincerely,
Dr. Horst Heidsieck
Chairman of the Board of Directors

CEO Interview

What were the highlights of 2016 from your perspective as CEO?
We reported record sales, earnings and free cash flow and successfully launched a number of important new products that keep us at the leading edge of technology development, which is key for our customers. We continued to build our global footprint in terms of manufacturing capacity, engineering and research resources, and expanded our service portfolio. On top of that, we continued to improve our own productivity and to reduce costs. Last but not least, 2016 saw us transitioning from a private firm to a publicly listed company.

What management challenges did that transition present?
Our goal was to implement the various corporate and structural changes needed in a publicly listed company while continuing to meet our customers' high expectations in a fast-moving market. So we implemented a comprehensive change management program to build an organization that can deliver on the various governance requirements of a listed company while at the same time be flexible and scalable enough to support our growth ambitions.

What drove your strong growth in 2016?
Our markets are seeing several positive drivers right now. Some are long-term structural trends, like the rapid pace of digitalization around the world. The use of microelectronics and displays is growing everywhere in society: consumer gadgets including smartphones, communication networks, the Internet of Things, Industry 4.0 to make manufacturing more efficient, the automotive industry and many other areas. Behind all of these trends is the use of high-vacuum manufacturing processes.

It sounds like new technology is a key driver.
There were definitely some important technology inflections in 2016. For example, we saw a rapid adoption of organic light-emitting diode (OLED) displays by key display manufacturers in Asia and major technology inflections in microelectronics resulting in higher computing performance at lower power and smaller form factors. The manufacture of these products demands significantly more thin-film deposition and etching process steps under vacuum than earlier generations, and with a higher vacuum purity.

How do these technology shifts impact your customers, and how do you respond?
Our customers need a partner with deep knowledge of their industry, who understands future market trends, who can innovate quickly and then deliver top quality on time. They also want a partner they can trust over the long term.

For more than 50 years, our approach has been to collaborate closely with our customers at the earliest stages of product development to ensure our products meet all their technology and quality requirements before going into high volume manufacturing. We also work with our suppliers to make sure the whole value chain is geared to meeting our customers' needs. We invest several times more than our peers into research and development as well as the renewal of our facilities and manufacturing technology.

Do you consider this a competitive advantage?
The approach I described above has allowed us to build a trusted customer relationship that is second to none. Based on the reliability of our performance, the proven quality of our products and our customer focus we have been able to establish a level of trust that truly is a competitive advantage.

Do you have specific examples from 2016?
One is the ramp-up of our manufacturing capability in Asia, where many of our largest customers are located. We more than doubled output from our Malaysia facility last year and expect that to continue in 2017. Being physically close to our customers makes collaboration easier, allows us to tap into local supply chains, and keep pace with developing market trends. China is now embarking on a major investment program to build its domestic semiconductor industry and we intend to participate in that growth opportunity. We also just launched a new engineering facility in the Silicon Valley, close to key US customers, to investigate nanoparticles and develop advanced high-vacuum valves that achieve near zero defects.

Are you seeing any changes in your customers' business models?
Certain customers are outsourcing non-core engineering activities, like multi-valve subassemblies, to focus more on what they do best. In 2016, we expanded our modules offering to include motion components, such as lifters and actuators. By combining valve technology with motion equipment and other critical process components in a pre-assembled vacuum chamber, we create plug-and-play customized solutions that reduce our customers' manufacturing footprint and shorten throughput times.

How important is your service business?
We have over one million valves installed worldwide, so service not only provides a steady stream of revenues, but is also an important way to deepen our customer relationships. We saw double-digit growth in our service business in 2016 as we continued to globalize our service footprint in terms of spare parts delivery, short repair turn arounds and retrofits.

Do you think the current growth is sustainable, or is this a cyclical market?
Twenty years ago, the market was dominated by mainframe computers, then PCs and mobile phones. Today, microelectronics and displays are everywhere. That diversity of applications makes the market much more stable than before. The rapid consolidation in our industry has also lowered cyclicality: with fewer and larger players in the market, capital spending has become more stable and predictable compared to the past. In this regard, I would say our industry is now comparable with any other capital goods industry sector.

More than 60 percent of your sales are to the semiconductor and display sectors. What about other markets?
We have a large and diverse industrial customer base that we serve through our general vacuum and bellows businesses. We generated moderate sales growth there in 2016 and see opportunities for additional growth in the automotive, thin-film and large-scale processing industries. We also expect growth in analytical systems, fusion reactors, particle accelerators at research institutes and universities, as well as at some OEMs.

It's good to have growing markets, but aren't there risks that you run up costs to meet the higher demand, or that you can't deliver on time?
In 2016, we successfully managed growth by investing early in our facilities in Switzerland and Malaysia. We invested in new manufacturing equipment and hired 250 new employees – that's an increase of about 20 percent – and we expect to add a similar number in 2017. We are also identifying and qualifying new suppliers in Asia which will serve both the plant in Malaysia and Switzerland. With these measures, we will increase the share of our outsourced purchased material from today's level of 60 percent. On top of that, we have implemented an operational excellence program called VATmotion to drive improvements in both growth and cost. That gives us greater flexibility and additional capacity to adjust to rapid market changes.

“Our customers need a trusted partner with deep knowledge of their industry, who understands future market trends, who can innovate quickly and then deliver top quality on time.”

HEINZ KUNDERT, CEO

Do you see any new technologies evolving that could threaten vacuum-based manufacturing?
Because of the nature of miniaturization in microelectronics, the need for vacuum-based manufacturing is going to increase in the years ahead. For example, innovations in the semiconductor industry, such as 3D devices made from more than 100 very thin and structured layers, will need numerous additional deposition and etching steps performed in a high-vacuum environment. There are still plenty of potential applications and technologies for high-vacuum-based manufacturing processes in the near and longer-term future.

What are your priorities and outlook for 2017?
With the unprecedented boom in digitalization, combined with breathtaking new technologies and higher investment in semiconductor and display fabrication, particularly in Asia, high-vacuum-based equipment will see continued strong growth. To meet that demand and grow our market leadership, we will continue to focus on technology innovation, capacity expansion and initiatives to drive growth and efficiency. Trusted partnerships with our customers and suppliers will remain one of the key success factors. We remain confident that we can continue to increase our market share, revenues, profitability and free cash flow.

From a small Swiss company to a global high-tech leader

VAT was founded in 1965 by Siegfried Schertler, an Austrian entrepreneur and mechanical engineer, in the town of Flawil, Switzerland. The company relocated soon thereafter to its current headquarters in Haag, Switzerland, in the Rhine Valley.

The company originally focused on vacuum valves for use in scientific research. After several years, VAT began to diversify its product portfolio and entered the thin-film market. In 1983, VAT established its COMVAT AG subsidiary to manufacture bellows that are used as flexible sealing elements. In 1988, VAT entered the semiconductor sector with its proprietary VATSEAL gate valve.

As its product scope broadened, VAT also expanded its business beyond its traditional European markets by establishing both manufacturing and service operations in the US and Asia to better align its operations with those of its biggest customers.

In 2008, VAT acquired Sysmec in Arad, Romania, for the machining and manufacture of components and assemblies. In 2012, VAT acquired the vacuum valves product line from Inficon AG, part of the ongoing consolidation in the vacuum valve market.

A key development was the establishment in 2012 of its Malaysian manufacturing site in Penang. Other growth actions included establishing gate valve manufacturing in Taiwan, as well as service centers in the US, Japan, South Korea, China, Singapore and Taiwan.

VAT Group was acquired by Capvis and Partners Group in 2014, after which the company underwent substantial development, including the launch of the VATmotion operational excellence program and the expansion of the senior management team to include people with broad industry, operational and geographic experience.

In April 2016, VAT went public with the conclusion of its successful Initial Public Offering on the SIX Swiss Exchange.

Milestones

- **1965** Founded in Flawil, Switzerland
- **1983** Established COMVAT AG
- **1988** Entry into the semiconductor industry
- **2008** Acquisition of Sysmec, Romania
- **2009** Gate manufacturing in Taiwan
- **2012** Manufacturing center in Malaysia; Acquisition of vacuum valves product line from Inficon AG
- **2014** Acquisition of VAT by Partners Group and Capvis
- **2015** Ramp-up of manufacturing center in Malaysia
- **2016** IPO at Six Swiss Exchange

At the heart of today's most advanced manufacturing processes

VAT's vacuum technology is at the heart of today's most advanced manufacturing processes. Whether it's semiconductors, flat panel displays, photovoltaic solar panels, or high-end sensors used in automotive or medical applications – they can only be manufactured under high-vacuum conditions free of air, humidity and contaminants. More importantly, the manufacture of many of these products requires hundreds of process steps, such as cleaning, etching, thin-film coating, baking and packaging, all of which need to be performed under high-vacuum conditions.

VAT's offering – vacuum valves, modules, bellows and related services – is essential to create, maintain and operate such ultra-clean environments. The key is a tight and consistent vacuum seal that can be opened and closed repeatedly and reliably at high speed and that can withstand chemical, temperature and pressure extremes. The smallest failure can result in costly defects and production delays. That is why wafer manufacturing is one of the most technologically challenging and demanding manufacturing processes in the world.

VAT and the digital revolution
Digitalization is transforming the way we work and live. More and more devices are being interconnected to collect and record data, communicate with other devices, analyze and display information, recommend and even carry out actions. They are becoming ubiquitous, used in mobile digital devices, for example, and built into all kinds of industrial products to enable the Internet of Things. And they are becoming smaller, more powerful and more energy efficient.

VAT is positioned close to the beginning of the manufacturing value chain for these devices. We sell our vacuum valves to companies that manufacture specialized vacuum-based manufacturing equipment, so-called original equipment manufacturers (OEMs). They, in turn, sell their vacuum systems to the manufacturers of digital devices, such as integrated circuits and flat panel displays. Finally, these components are purchased by the manufacturers of the final products, such as smartphones, televisions, data server banks, solar cells or automotive sensors.

The high-vacuum manufacturing value chain
According to VLSIresearch[1], VAT's total addressable market across all its businesses in 2016 was approximately USD 1.7 billion of which semiconductors (including LED and HDD) made up some USD 800 million, displays and solar around USD 300 million, and industry and research approximately USD 450 million. The service market, comprising retrofits, spareparts and repair services, accounted for about another USD 175 million. VAT's total addressable market is expected to grow at a compound annual growth rate (CAGR) of approximately 5 percent between 2016 and 2021.

Semiconductors The core of digital devices is the semiconductor, and at the core of semiconductor manufacturing are the process purity and reliability enabled by VAT vacuum valves.

Our customers' technology requirements are among the most stringent of any industry. The latest generation of semiconductors, for example, contains tens of billions of transistors built upon a thin silicon substrate by deposition and etching. These integrated

1 Based on March 2017 data

circuits are connected with nodes less than 20 nanometers in size (to put that in context, a human hair is about 80,000 to 100,000 nanometers in diameter). The presence of particles no bigger than a molecule could be enough to reduce the yield in wafer production substantially. That's why the environment in which they are manufactured needs to be close to a pure vacuum.

As semiconductor devices become smaller, the manufacturing process becomes more complex. Ten years ago, when chip component sizes were near 90 nanometers, manufacturing computer processors required just under 400 process steps. Today's 20-nanometer processors require close to 700 steps. It's expected that semiconductor miniaturization will continue, heading to 10 nanometers and smaller, which would require up to 1,200 process steps. VAT is one of the few companies able to deliver components for this level of manufacturing, a sector which is outgrowing the overall high-vacuum market.

Smaller sizes are not the only challenge. There are new trends towards combining and stacking semiconductors into three-dimensional integrated circuits (3D). These act as a single device to achieve performance improvements – especially speed – using less power and a smaller footprint than conventional two dimensional processors. This adds even further steps and complexity to the manufacturing process.

High-performance displays and solar photovoltaic Flat panel displays and photovoltaic solar cells are manufactured under high-vacuum conditions similar to those used to produce semiconductors. Glass and other screen materials need to be cleaned, polished and coated with silicon dioxide before other materials are applied to the surface, all steps taking place within a vacuum chamber. High-performance displays and solar cells require the same kind of etching, coating and implanting technologies used in semiconductors. A vacuum is also needed to assemble the products.

The popularity of mobile applications has created a need for advanced display technologies in portable and wearable devices that combine high-performance with a slick form factor and low energy use. As displays become smaller, brighter and achieve higher resolution, new and more complex manufacturing processes are needed, with higher levels of process purity. The production of large high-resolution screens in televisions also requires innovative manufacturing processes requiring high-vacuum purity. Since production lines are commonly dedicated to specific screen dimensions and layer structures, the increasing range in screen sizes and use of new materials is likely to result in further capacity investments by our customers.

The growth of solar energy depends on a combination of regulatory policies, such as measures to reduce greenhouse gas emissions, and technology innovations to make it more cost competitive. A key driver of higher solar cell energy efficiency is the use of new materials and layer structures which, in turn, depends on the achievement of even higher quality vacuum conditions.

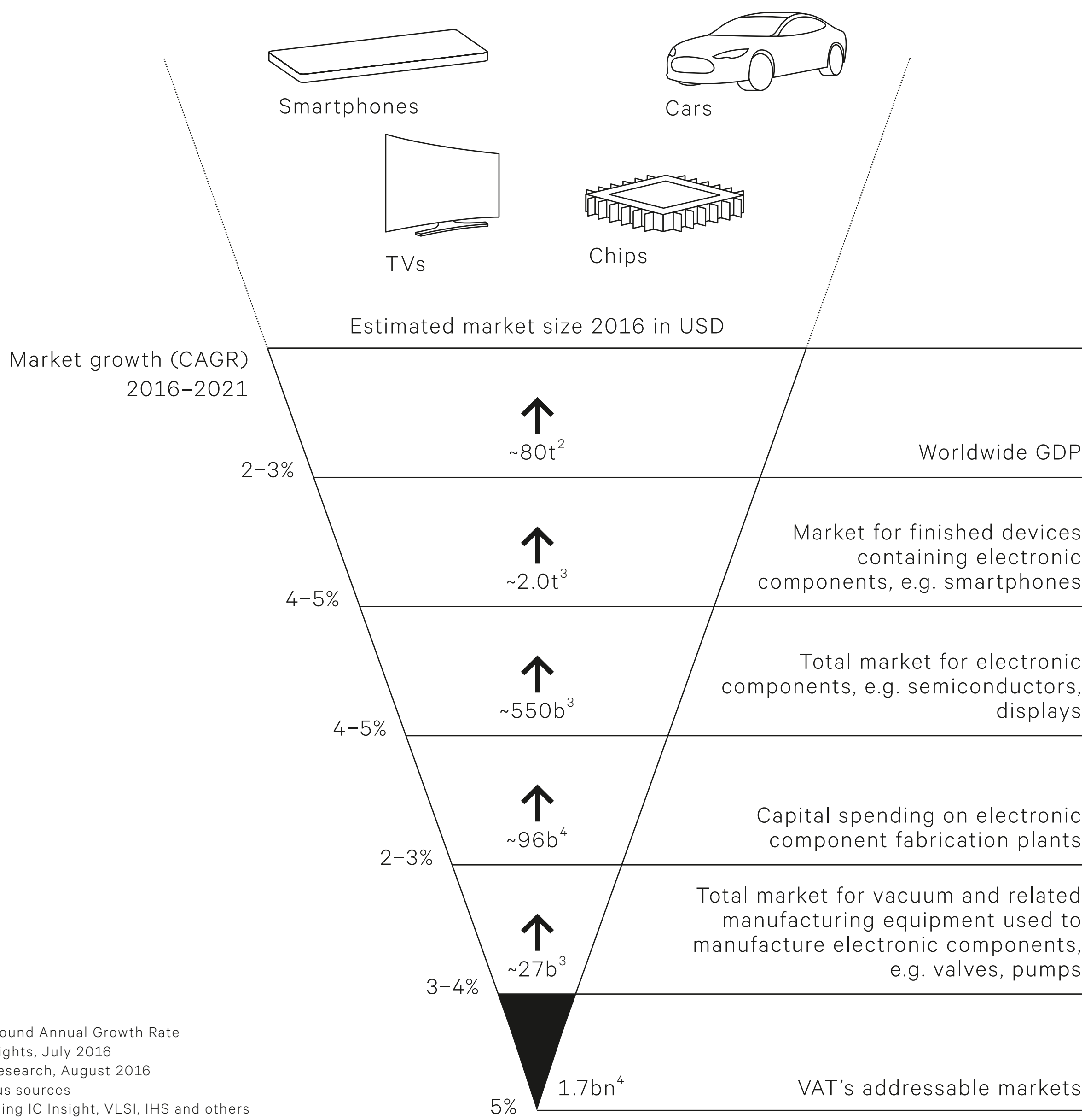
Other industrial applications Manufacturing processes that take place at the scale of nanometers, or that require especially clean high-vacuum environments, are expanding into other industry sectors.

For example, the use of microelectromechanical systems (MEMS) is growing in the automotive industry, where tiny sensors are used in the deployment of airbags, tire pressure monitoring and vehicle stability control systems. They are also used in accelerometers and gyroscopes in the aerospace industry, where sensors are no larger than a human hair.

Advances in medical technology require high-vacuum environments in many areas, from chemical measurement and analysis to the manufacture of small devices to monitor patient data and even deliver drugs to specific areas of the body.

Trends in the electronics market

Entire supply chain is expected to grow at a CAGR[1] >3% 2016–2021



1 Compound Annual Growth Rate
2 IC Insights, July 2016
3 VLSIresearch, August 2016
4 Various sources including IC Insight, VLSI, IHS and others

VAT's product overview
VAT is the world leader in high-end vacuum valves used in the manufacture of a wide range of products, from advanced industrial sensors and computer server banks to flat panel displays and smartphones.

Vacuum valves are used in many steps of the manufacturing process. Isolation valves are used, for example, to seal high-vacuum process chambers from neighboring elements of the manufacturing process that are at different pressure levels. Control valves regulate the flow of sometimes highly aggressive gases used in different steps of the manufacturing process, while transfer valves are used to move substrates such as wafers, glass panels and other materials into and out of manufacturing process chambers. We have the leading market share in each of these applications.

Our valves' main performance characteristics are leak tightness, zero particle generation, high surface cleanliness, fast, reliable and reproducible open and close operations and easy replacement and maintenance. Our product portfolio comprises approximately 140 valve series with more than 8,000 customized products and 2,500 standard products.

VAT also offers customized multi-valve modules consisting of several valves, sometimes in combination with pressure sensors and motion components, such as wafer lifters, integrated directly into a vacuum or process chamber. By optimizing the way all module elements work together, we can reduce chamber size and energy costs, leading to higher process efficiency, throughput and productivity.

VAT also manufactures edge-welded bellows which are used as sealing elements in semiconductor manufacture, medical implants and high-performance fuel injection systems. They are also used in certain experimental applications in the study of physics. Bellows separate the vacuum side of the process chamber from the atmosphere side during the opening and closing of the vacuum valve.

Positioned for healthy long-term growth
VAT has successfully grown from a small company at its founding in Switzerland in 1965 to become the undisputed global leader in high-end vacuum valve technology thanks to a number of key competitive advantages. Our ambition is to continuously build on these advantages to achieve sustainable growth and value creation for all our stakeholders.

Single focus on mission-critical high-end vacuum valves VAT dedicates all its resources – with 100 percent focus – to improving vacuum sealing technology.

That focus sets us apart from most of our competitors, who include vacuum valves as part of a broader product offering, such as pumps and power systems. It's an advantage because vacuum valves are considered mission critical. They are the closest component to the wafer or substrate during the manufacturing process. They must ensure leak tightness, minimal particle contamination and process flexibility. And they must be able to open and close millions of times with maximum reliability. Otherwise, the whole manufacturing process would fail.

Our single focus has enabled us to develop the most comprehensive product portfolio to meet all of our customers' needs, including highly customized solutions with stringent certification procedures for a wide variety of applications. In short, no one knows more about high-vacuum and sealing technology than VAT, which is a key value driver for our customers.

Technology leadership supports deep customer relationships Serving some of the world's most demanding customers requires the highest levels of innovation and product quality. It also requires an understanding of the market that only comes through deep and long-term relationships with our customers and suppliers, working together to ensure our customers' success.

About 20 percent of our employees are directly involved in the innovation process, including research, product management and development, business units or testing labs. They are involved in areas such as particle management, cleaning and packaging, sealing, mechatronics, high-temperature coating, new materials and exploring potential future manufacturing processes. Every year we invest approximately 7 percent of our revenues into R&D. In 2016, that amounted to around CHF 33 million.

We have a strong pipeline of new products which has helped us grow revenues in a market where customer needs change rapidly. In 2016, VAT filed a number of new patent applications for future key technologies. Overall, the number of patents VAT has been granted, and the more than 170 applications filed, is unmatched in the industry. Typically, about a third of revenues are generated from products that have been introduced or redesigned within the previous three years.

Furthermore, almost 80 percent of our valves are custom-made, reflecting the specific needs of our customers' manufacturing processes and requirements for uptime, efficiency and yield.

Our technology leadership has allowed us to develop lasting trust-based relationships with our customers which we cultivate and strengthen by synchronizing our R&D roadmap with their long-term technology and capacity requirements. That means our vacuum valve solutions are often designed into our customers' products at the earliest stages of product development, positioning us as joint development partners and incumbent supplier. That, in turn, means we are not only strategically positioned to supply our customers over the lifetime of their equipment, but we're also better able to anticipate and prepare for future trends together with our customers. The level of trust between our customers and VAT, which has developed over decades, is a true competitive advantage.

Future technology trends
The need for high-vacuum manufacturing is increasing in many industry sectors, opening new opportunities for VAT as the technology leader
Medical: devices made from non-toxic, non-reactive materials for drug delivery
Energy: next generation heating and cooling systems using pure water vapor as a substitute for cooling gases
Extreme temperature applications: bellows using new materials in high-temperature fuel cell technology for distributed power generation
Transportation: extreme-sized vacuum applications for ultra-high-speed maglev trains
New materials: high-vacuum applications to create new materials, for example, graphene, a light, super-strong and highly heat- and electricity-conductive form of carbon

VAT's technology focus will remain a key competitive advantage as the need for increasingly clean, high-vacuum manufacturing processes continues to accelerate.

Undisputed No. 1 market position Our clear focus on a single mission-critical technology and proven track record of innovation in close collaboration with our customers have made VAT the clear market leader in high-end vacuum valves.

According to market research firm VLSIresearch, our market share in 2015 was 39 percent, up from 37 percent three years earlier. In addition, according to VLSI, VAT's market share is about eight times larger than our next competitor, with more than one million valves in operation.

We have taken additional steps in recent years to strengthen our market position by expanding our global footprint. In addition to our primary manufacturing facility in Haag, Switzerland, we opened a new production facility in Penang, Malaysia, in 2012, to bring us closer to key customers in South Korea, Taiwan, Japan and now also China. We have component production facilities in Romania and Taiwan, and in December 2016, we opened a new engineer-

Global footprint – flexible set-up close to customers

VAT HEADQUARTER
VAT MANUFACTURING
VAT LOCATIONS
VAT REPRESENTATIVES

ing facility in the Silicon Valley in the US, working closely with key customers there. Moreover, VAT operates service centers in the US, South Korea, Japan, Taiwan and Singapore.

Our global footprint brings us not only closer to our customers, it also enables us to tap into pools of local expertise around the world, regionalize parts of our supply chain to shorten cycle times and delivery lead times as well as make our cost base more competitive.

Market leadership brings us several advantages, such as economies of scale in supply management and manufacturing, a strong brand position among major customers, and attractiveness as an employer among the best talents in the industry.

Multidimensional growth with declining cyclicality VAT's market growth is expected to be driven along multiple dimensions. One is the structurally expanding market for semiconductors and high-performance displays. The number of products containing these devices is growing quickly, which means our customers need to produce more high-vacuum manufacturing equipment. Related to this is the development of the semiconductor manufacturing sector in China, where a multi-billion-dollar investment program to develop a homegrown chip industry is underway.

Another dimension is the increasing complexity of the products being manufactured in high-vacuum processes. As product complexity rises, so does the number of manufacturing process steps that need to take place under vacuum. That means customers need to both increase capacity and produce new or upgraded vacuum equipment that can handle the requirements of their customers' increased process complexity. Growth in this highest end of the market is significantly outpacing conventional demand.

A further dimension is the ongoing consolidation in the semiconductor industry among both OEMs and device manufacturers. Our leading market share and strong customer relationships with most of the large industry players gives us economies of scale and a strong position to benefit from current and future growth trends.

In addition, as the number of vacuum valves and the complexity of vacuum manufacturing process increases, so does the demand for rapid and comprehensive service, whether it's traditional repair and replacement or system retrofit and upgrades. At the same time, our deep knowledge of high-vacuum manufacturing allows us to offer modules of multiple valves that help customers address growing process complexity with equipment solutions that help increase uptime and overall productivity.

Our exposure to so many growth drivers has the additional advantage of reducing the demand volatility that was previously a strong characteristic of the semiconductor industry. That allows us to deliver more consistent returns over the economic cycle.

Proven people We have a globally experienced and culturally diverse management team, consisting of our Group Executive Committee and our Group Management Board with more than one hundered years of combined international experience in our core markets.

Our workforce comprises over 1,400 highly skilled employees with industry-leading experience in engineering, electronics, physics, chemistry and material science. Many are recognized experts in their fields with a long-term commitment to the company. The high loyalty to the company is reflected by an average tenure of employees at VAT's facility in Haag, Switzerland, of around ten years. Supported by ongoing training programs and a rigorous program of quality certification, our highly qualified employees give us an advantage that is difficult to copy.

Financial strength We have a strong financial profile based on high profitability and consistent free cash flow generation across economic cycles. We have successfully tapped our strong market position to take advantage of healthy end market trends and consistently increase sales. Net sales increased from CHF 335 million in 2013 to CHF 508 million in 2016, a compound annual growth rate (CAGR) of 15 percent.

During the same period, we more than doubled our adjusted EBITDA[1] from CHF 78 million to CHF 158 million, supported by operational improvements. Many of these improvements are specifically linked to our VATmotion operational excellence program, which focuses on high-impact improvement initiatives. These initiatives are aimed at maintaining and improving our “ramp-ability,” which allows us to quickly make capacity adjustments in line with the market demand. Other initiatives are aimed at cutting cycle and supplier lead times despite the currently strong demand for our products and to manage our net trade working capital.

Our free cash flow more than tripled from CHF 40 million in 2013 to CHF 128 million in 2016 and reflects not only solid growth and operational efficiencies, but also our modern manufacturing footprint, which will limit our capital expenditure requirements going forward. Our cash generative business model allowed us to quickly pay down debt without affecting the business while supporting our attractive dividend policy to pay out up to 100 percent of free cash flow to equity[2] so long as net debt[3] does not significantly exceed 1.0x EBITDA. VAT reduced its net debt to EBITDA multiple from 3.1x at the end of 2014 to 0.9x at the end of 2016.

Finally, a solid equity ratio of 58 percent provides flexibility to support VAT’s growth strategy and ensures resilience in down cycles.

Positioned for long-term growth and value creation

VAT has grown from a small company in a high tech region of Switzerland to become the world’s leading producer of advanced vacuum valves, bellows and modules for ultra-clean and near particle-free manufacturing processes.

Our competitive advantages are our single focus on high-end vacuum valves; our clear No. 1 market position; our exposure to a broad range of growth drivers that reduce cyclicality; technology leadership that forms the basis for long-standing customer relationships with the industry’s leading players; experienced, highly skilled people delivering value to customers through our global manufacturing and service footprint; and our financial strength, reflected in a record of profitable growth over the cycle and a commitment to an attractive dividend.

This positions us to benefit from long-term growth trends, such as the proliferation of semiconductors and digital displays in consumer and industrial applications and the expansion of manufacturing processes that require increasingly pure high-vacuum environments in a growing number of industries.

We will continue to build on these strengths, working closely with our customers to provide the highest quality products and services, keeping our fingers on the pulse of this rapidly changing industry and committed to remaining a technology pioneer. This will be the key to delivering sustainable value to our customers, employees, and shareholders.

1 Earnings before interest, taxes, depreciation and amortization
2 Cash flow from operating activities less cash flow from investing activities less interest paid and scheduled debt amortization
3 Current and non-current loans and borrowings less cash and cash equivalents

MAPS:

VAT is the world's leading producer of high-end vacuum valves, mission-critical for the advanced industrial processes behind the global digital revolution.

VAT is operating in a fast-moving business environment shaped by continuous technology innovation, extremely demanding customers and structural growth megatrends, such as digitalization, the Internet of Things and the increasing miniaturization of manufacturing that requires high-vacuum processes. VAT believes it has the innovative products, global scope and talented people to meet these challenges. The following pages provide short visual maps of our key technologies and markets, and how we are positioned for continued industry leadership.

SEMICONDUCTORS:

>10 QUINTILLION

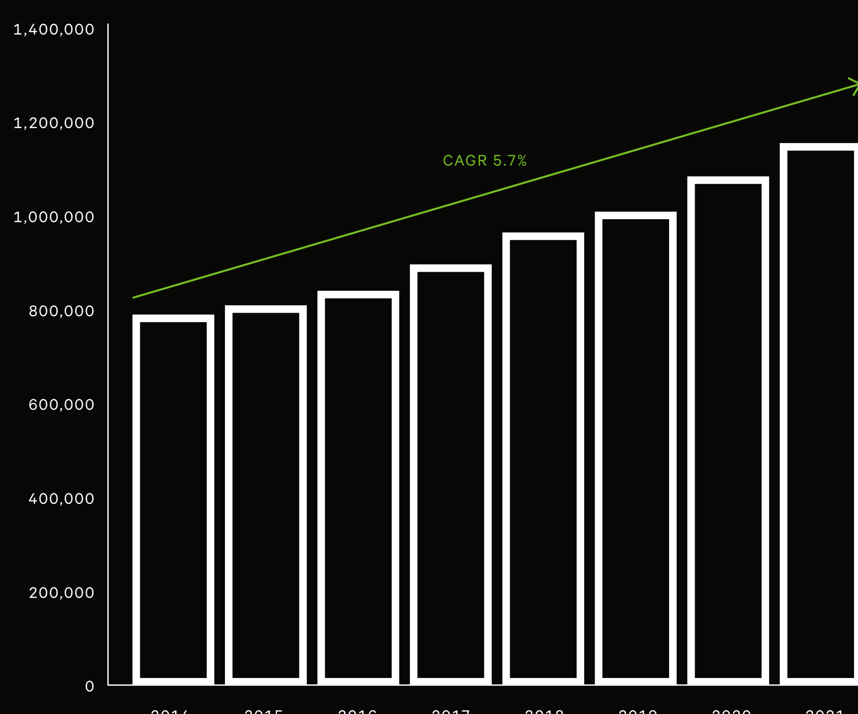
TRANSISTORS PRODUCED PER YEAR

**Series
65**

- Downstream pressure control and isolation valve for SEMI & FPD processes
- Optimal for corrosive etching and cleaning processes
- Virtually particle-free operation
- 1 mn throttling cycles before 1st service
- Controller algorithm continuously adjusts operation to current gas type and flow
- Weight of up to 68 kg
- Nominal diameter of up to 40 cm

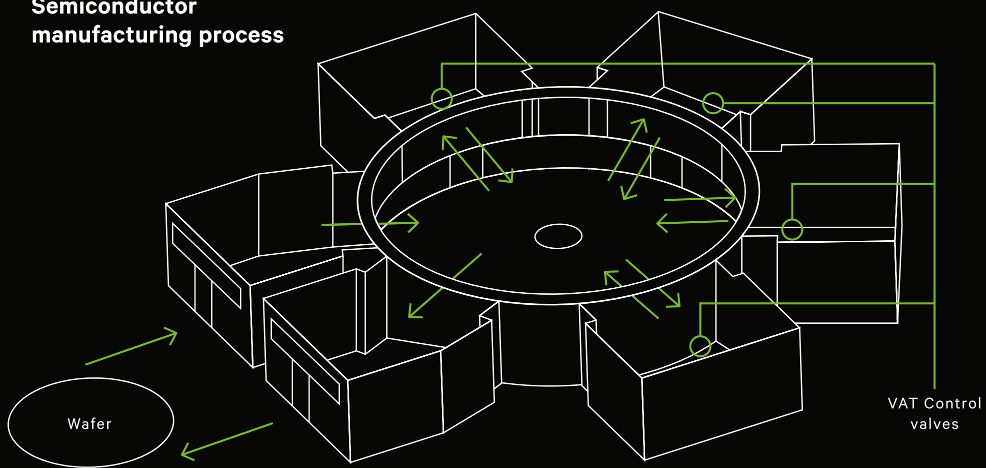
Transistors
A transistor is a semiconductor device used to amplify or switch electronic signals. A computer processor in a current smartphone contains a couple of billion transistors. Transistors are made of different layers of materials, which are deposited, etched and doped under vacuum – often utilizing VAT valves.

Semiconductor market continues to grow
Semiconductor production unit shipments 2014–2021[1]



Source: 1 VLSI (2016)

Semiconductor manufacturing process



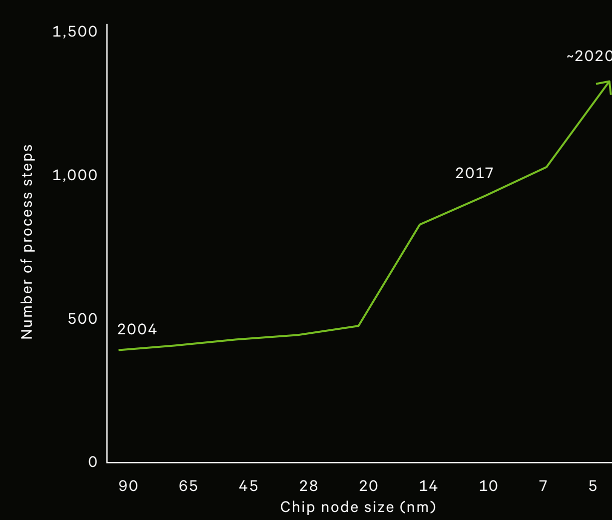
The heart of semiconductor manufacturing is the wafer fabrication facility, where the integrated circuit is formed. The fabrication process involves a series of steps carried out under high-vacuum conditions, such as etching and deposition. VAT valves play a key role in ensuring process purity and precision.

Control valves, which are integrated into the bottom of the process chamber, adjust vacuum pressure during fabrication processes, such as etching and deposition.

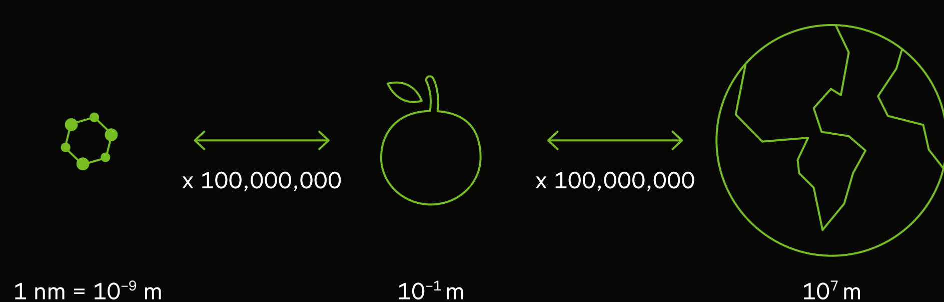
> “Our new pendulum control and symmetrical flow valves for use below 10 nanometers help customers implement the latest semiconductor manufacturing applications.”

Urs Gantner, Head of Semiconductors

Semiconductor processes becoming smaller and more complex
New production technologies require more process steps



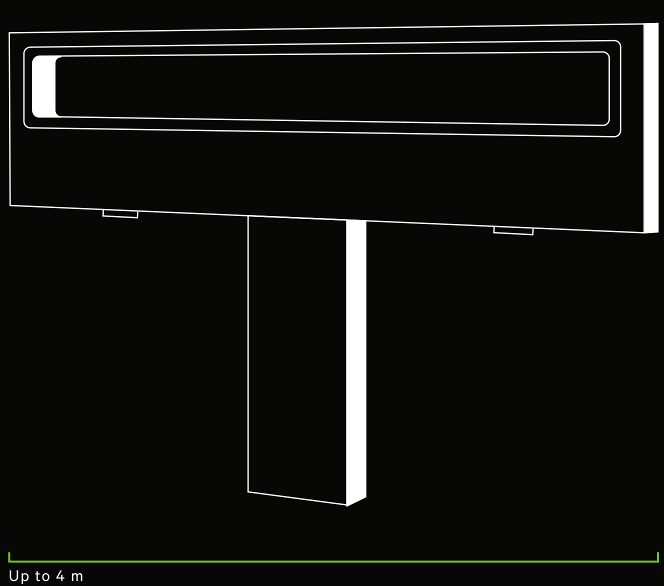
Nanometer-scale manufacturing
Semiconductor production requires a high-purity environment and manufacturing precision measured in nanometers. To put that in context, a molecule of sugar is about 1 nanometer in diameter. The size of that molecule compared to an apple is the same as the size of an apple compared to the Earth.



DISPLAY & SOLAR:

99 % OF VALVES
EXPORTED FROM SWITZERLAND

TwinVAT



- TwinVAT provides outstanding performance to display manufacturers with closing and opening times faster than two seconds with 15 cm opening height
- Valve can be serviced while keeping the deposition equipment in operation
- Near particle-free operation

Display Facts

Growing end markets

- Smartphones and tablets
- Flatpanel TVs
- Touch panel applications

Technology inflections

- OLED provides brighter color intensity and uses less power in a thinner display panel
- OLED production requires more vacuum valves for additional evaporation process steps

Solar facts

Growing end markets

- Megatrend shift from fossile fuel towards renewable energy
- Decentralized energy production, storage and consumption
- Government policies

Technology inflections

- Emergence of new PV technologies, e.g. thin-film, hybrid PV
- Higher efficiencies with advanced anti-reflection coatings

Display layers

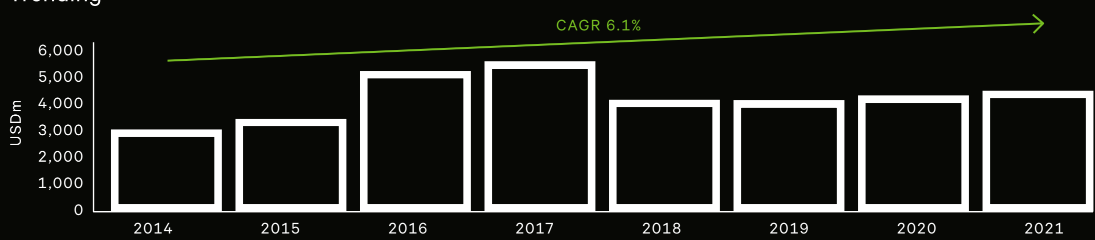
OLED	LCD
Polarizer	Polarizer
Cover glass	Color filter glass
Glass with organic layer	Liquid crystal
TFT glass	TFT glass
	Polarizer
	Diffuser
	Light guide
	Back light (LED)

The number and complexity of process steps under vacuum is higher for OLED displays compared with conventional LCDs.

> “By tapping into the fast-growing OLED market in 2016, we doubled sales and further strengthened our market position.”

Jürgen Zoller, Head of Displays & Solar

Expected market growth for vacuum-related process equipment in the displays sector[1]
Trending

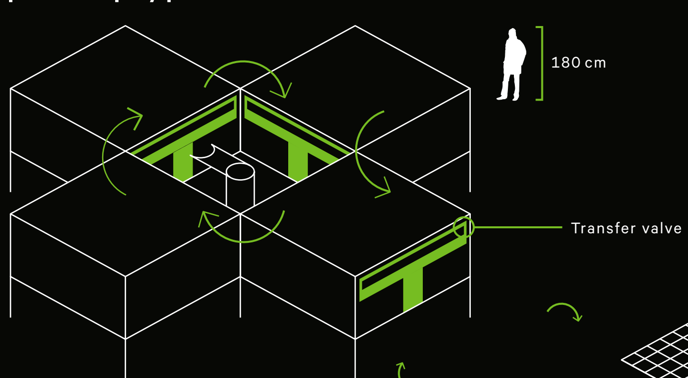


Global demand for OLED displays is expected to continue to grow as their use expands beyond mobile applications to include TVs and a wide variety of monitors and automotive displays.

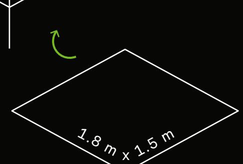
Smartphone display production

Types of valves used in production process

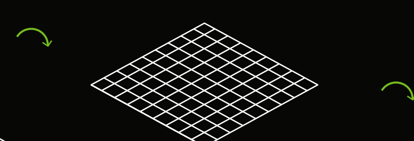
- Transfer valves are used as passthroughs for the substrates and isolation of separate process chambers
- Control valves are used to regulate and control the process pressure in the vacuum chamber
- Isolation valves are used to separate vacuum pumping systems and other instruments



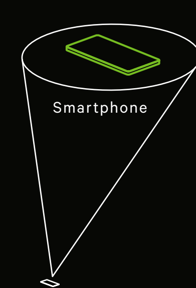
Pixel forming
Pixels are manufactured in different process steps, such as coating, lithography, etching and stripping. Most of the process steps require a highvacuum environment. VAT valves are mission-critical components in this process.



Substrate
Glass or plastic on glass are used as subtrate for displays.



Cut of glass to final display size
Individual displays are cut for assembly into the smartphone.



Display assembly
The display equipped with microchips is placed in the phone case.

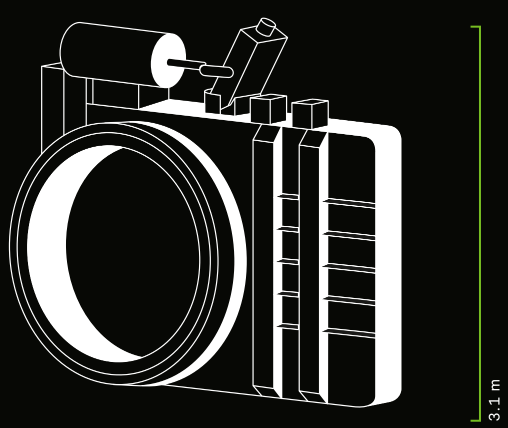
Source: 1 VLSI (2016), Includes flat panel Displays and LED vacuum-related process equipment

GENERAL VACUUM:

>1,500

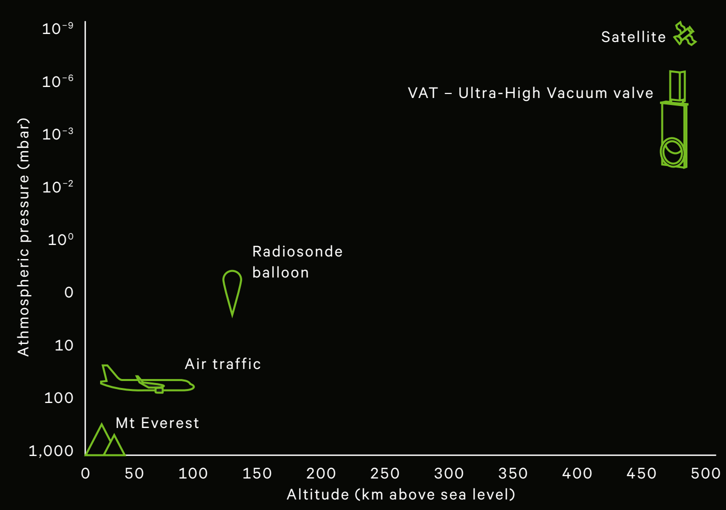
CLIENTS SERVED WITH 60,000 VALVES

DN1600 All-Metal Valve



- All-metal valves are chosen for demanding environments which require highest leak tightness, lower outgassing and/or extreme temperature resistance from below -150 °C to 450 °C
- Largest all-metal valves ever, customer specific and complying with design regulations and dimensional restrictions maintaining the common functionality of field proven VAT all-metal valves
- Collaboration to leverage knowledge of research institutes and industry

VAT valves operating at pressure levels as low as those at an altitude of almost 400 kilometers



VAT manufactures a wide range of vacuum valves Examples

Series 264 | Series 121 | Series 108 | Series 010

“In 2016, we shipped 470 first time built customer specific valve solutions to our customers worldwide.”

Arno Zindel, Head of General Vacuum

Valve diameter ranges from pocket size “X-RAY analysis” to big enough to drive a car through

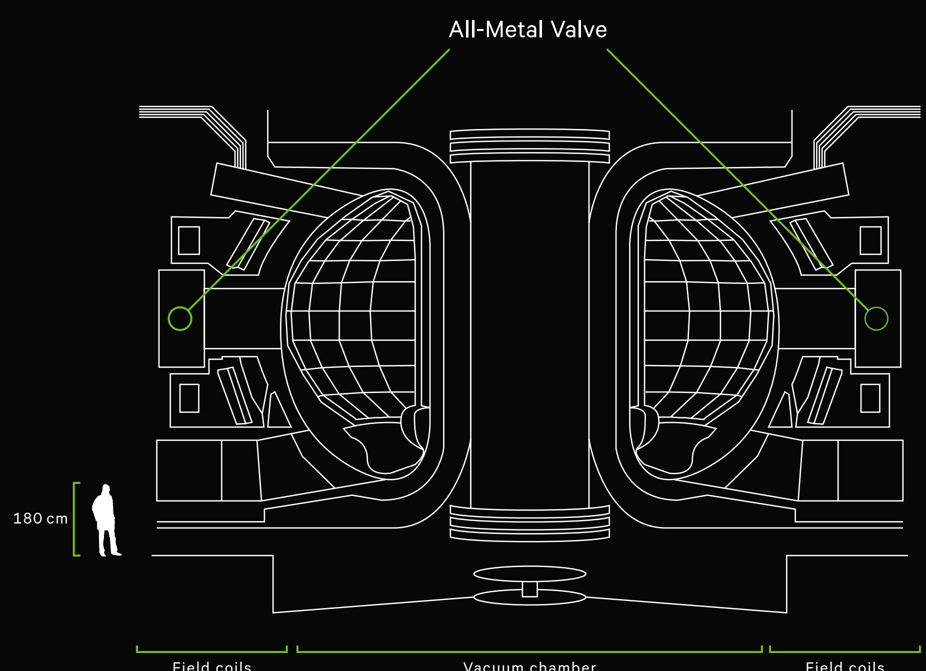
mm mm
5–2,000

Vacuum levels and applications

< 10^{-7} mbar	**V**	**Vacuum** Packaging Pharmaceutical Food
< 10^{-8} mbar	**HV**	**High Vacuum** Coating Leak detection
< 10^{-10} mbar	**UHV**	**Ultra-high vacuum** Surface analysis Semiconductor deposition X-RAY analysis
< 10^{-12} mbar	**XHV**	**Xtreme high vacuum** Synchrotron Scientific research Surface science

Iter
Unlimited energy

In southern France, 35 nations are collaborating to build the world's largest tokamak, a magnetic fusion device that has been designed to prove the feasibility of fusion as a large-scale and carbon-free source of energy based on the same principle that powers our sun and stars.
VAT’s DN1600 All-Metal Valve will isolate the tokamak vacuum vessels and neutral beam vacuum vessels from one another, allowing them to be independently vented to atmospheric pressure.

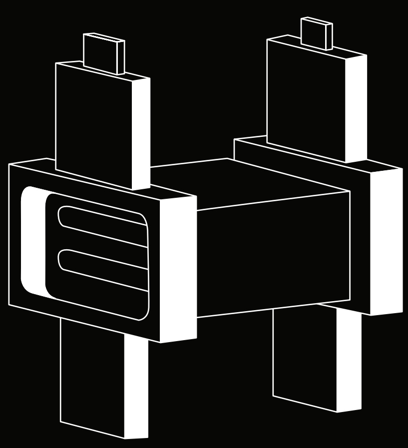


MODULES:

>10,000

MODULES IN FIELD

Load lock module



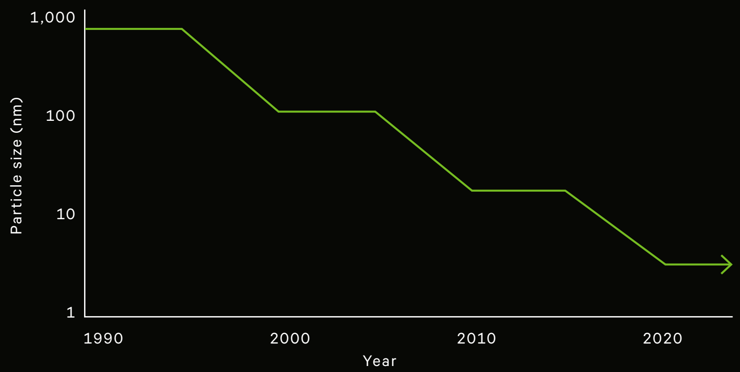
- Multi-valve solution for semiconductor industry
- Load lock volume reduced by 36 % (vacuum exposed surface was reduced accordingly)
- Significant reduction of vacuum sealing lines
- System optimization allowed to achieve faster pump down even with a smaller pump
- Footprint was significantly reduced which allowed sharing one pump between two load locks
- Higher pumping speed using smaller pump

Valve integration leads to footprint reduction

"By integrating a VAT module, we achieved a 50 mm reduction of the robot reach that saved us significant costs by selecting a smaller handler."

PVD-System Designer

Continous improvement in VAT's particle detection capability

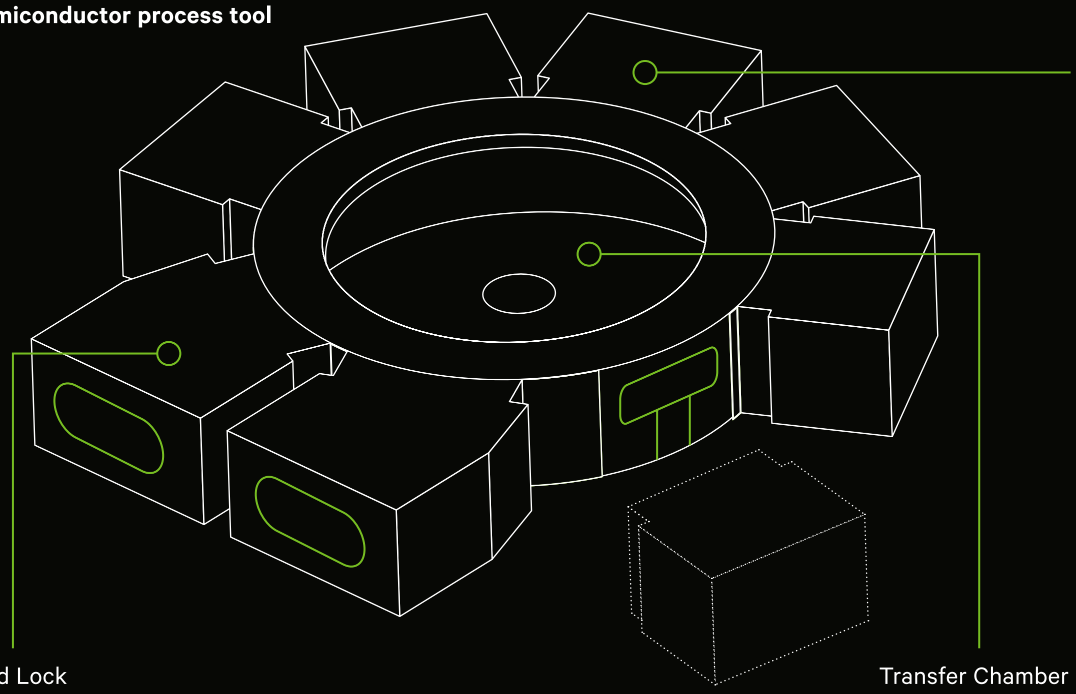


VAT's ability to detect the smallest particles and identify their source allows the company to develop and manufacture ultra-clean multi-valve modules.

"One of our key successes was a module specification win that gave us a significant opportunity with a major OEM."

Gebhard Lutz, Head of Modules

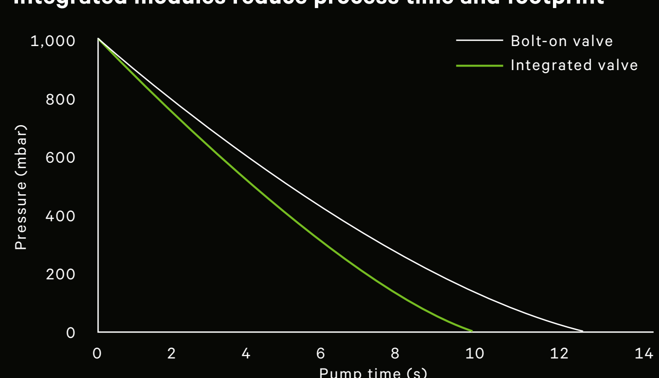
Semiconductor process tool



VAT defines a module as an assembly of vacuum valves and other vacuum components in a customer-specific housing. Each module creates a value proposition for the customer, the end user, the suppliers, and VAT.

Engineering together: modules address specific customer demands which go beyond single valves.

Integrated modules reduce process time and footprint



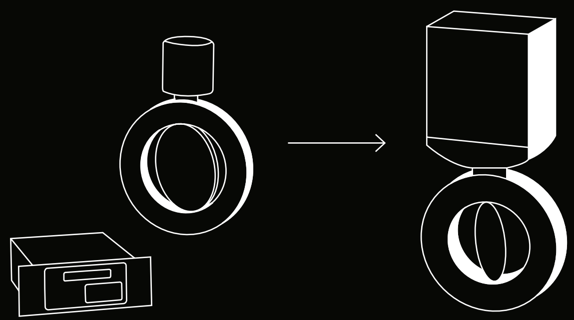
Multi-valve solutions reduce chamber volume and thus overall footprint and pump time to achieve a vacuum.

GLOBAL SERVICE:

>1,000,000

VALVES WORLDWIDE

Retrofit
Valve Upgrade Series 61.1
to 61.2



- Retrofits can be performed on a multitude of valves to update equipment to the newest generation
- Retrofit from series 61.1 to 61.2 is a plug and play solution
- Depending on available space in the tool, VAT can provide the valve with assembled or separate controller
- Customer benefits include increased uptime, improved quality and ensured consumables and spare parts supply

Global service offering

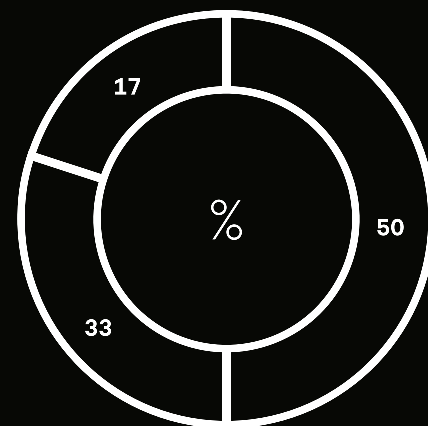
Key technologies / competencies

- VAT global service provides local expert support to our worldwide customers
- Service centers across the globe ensure that vacuum valves are running at the best performance level
- Customized valve upgrade / retrofit solutions optimize customer's total cost of ownership and productivity / yield
- Training for operation, maintenance and service personnel
- Global spare parts availability and delivery

"Global Service signed an important partnership agreement, providing superior value to the semiconductor fab market."

Ronald Pschenitschnigg, Head of Global Service

Breakdown by service offering
2016



50 % Spare parts & Consumables
17 % Service Centers
33 % Retrofits

Global service and after-sales support

EMEA
Switzerland
Haag – Headquarters

China
Shanghai

Japan
Himeji

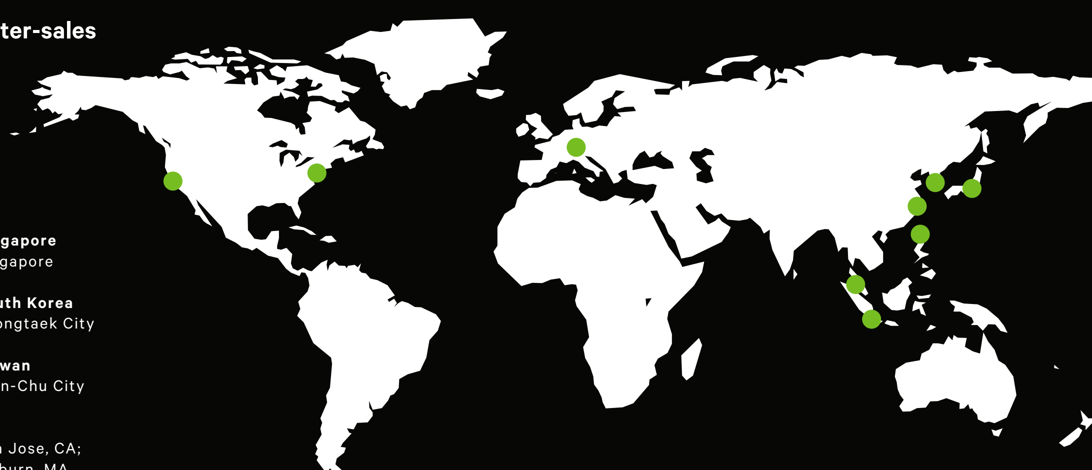
Malaysia
Penang

Singapore
Singapore

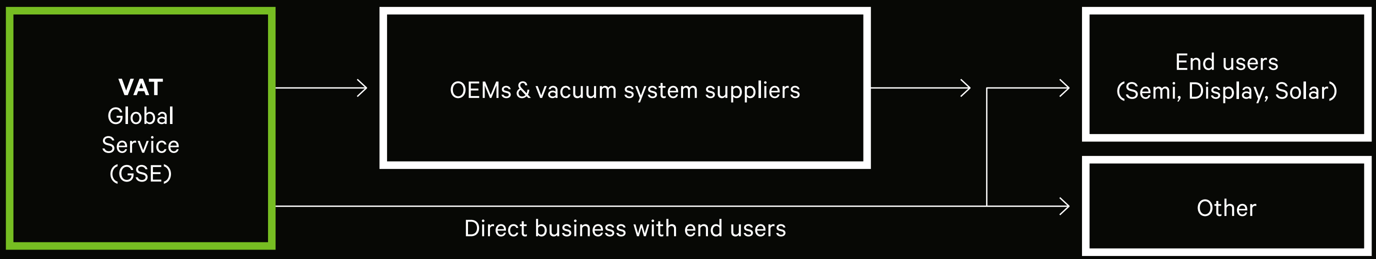
South Korea
Pyongtaek City

Taiwan
Hsin-Chu City

US
San Jose, CA;
Woburn, MA



GSE Market Structure and Customer Segments



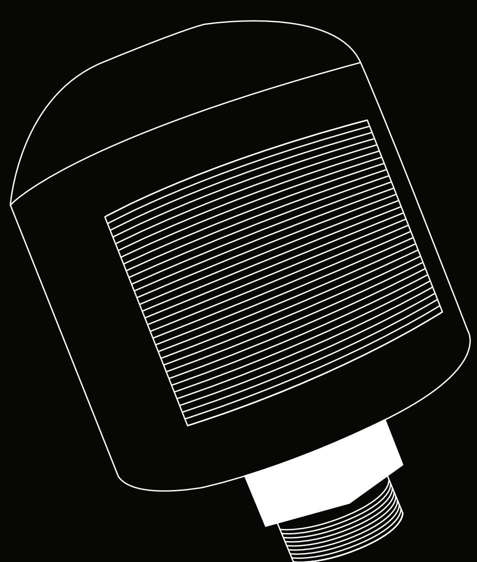
The Global Service market is clustered into different customer segments to provide tailored service offerings and optimal solutions. Global Service serves OEMs and vacuum system suppliers, end users and other customers, such as research labs, scientific institutions and various technology enterprises.

INDUSTRY:

3,000 KM

LASER WELDING SEAMS PRODUCED PER YEAR

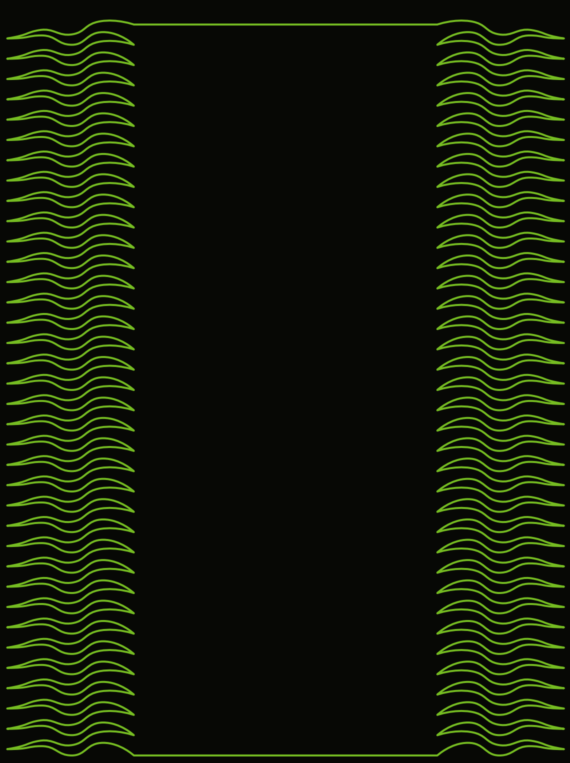
Suction flow stabilizer



Aerospace Success Story

- Welded bellows for accumulators used in aircraft hydraulic systems
- 2013–2016 R&D process in cooperation with HYDAC
- First prototypes delivered in 2014
- 2016 start of series production for Airbus A350
- Suction flow stabilizer compensates pressure drop in hydraulic systems of aircrafts

Advantage of edge-welded bellows in aerospace applications

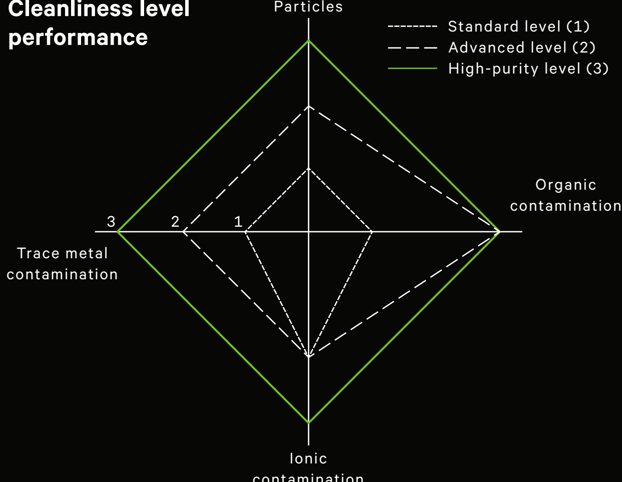


- Compact size
- Excellent compressed length
- Low weight
- Low spring rate
- Maintenance free
- Gas tight

"We offer the world's highest cleanliness standards for the most advanced applications in the semiconductor and medical markets, standards that have been approved by large semiconductor OEMs."

Arno Zindel, Head of Bellows

Cleanliness level performance



Different customer applications require different cleanliness levels. Our bellows provide customers the flexibility they need to achieve the right cleanliness level at the right cost.

VAT Bellows milestones

1983
Launch of VAT bellows by VAT founder Siegfried Schertler

1996
First-ever fully-automated bellows production system

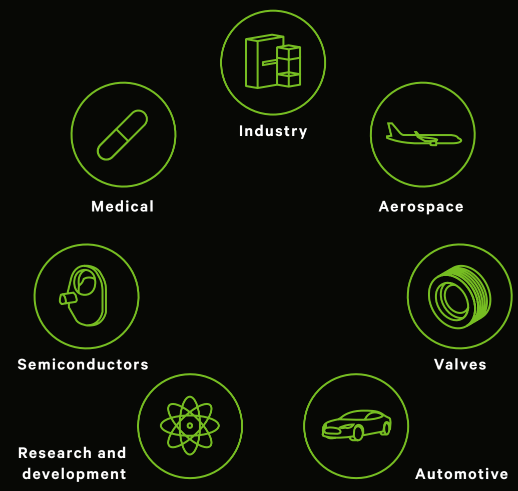
2006
Supply of first damper capsules for fuel injection systems. Today's volume is more than 12 mn pieces/year

2008
Clean room expansion and additional automated welding machines

2015
Commissioning of a new high purity cleaning system and ISO5 clean room

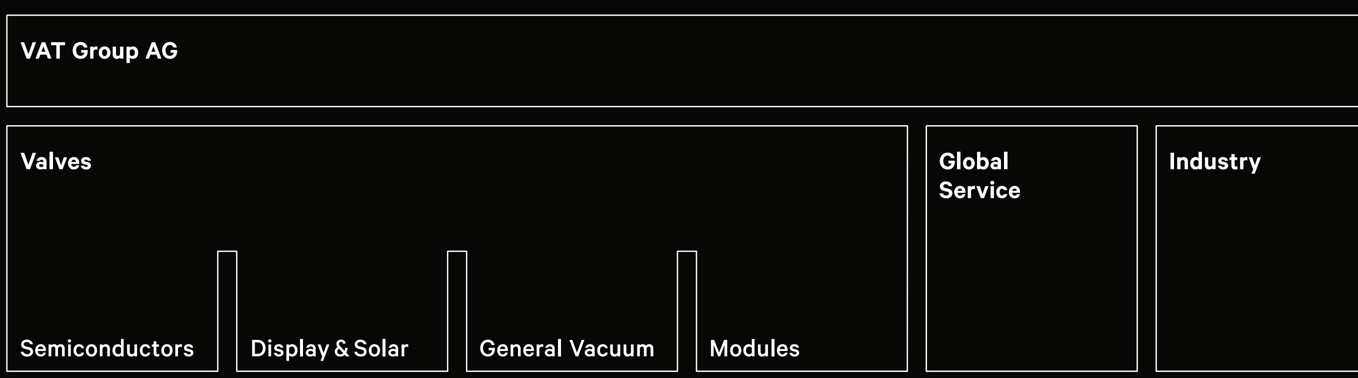
2016
Next generation fully-automated bellows welding plus 2 end-seam welding machines in operation

Bellows are used in various applications and industries

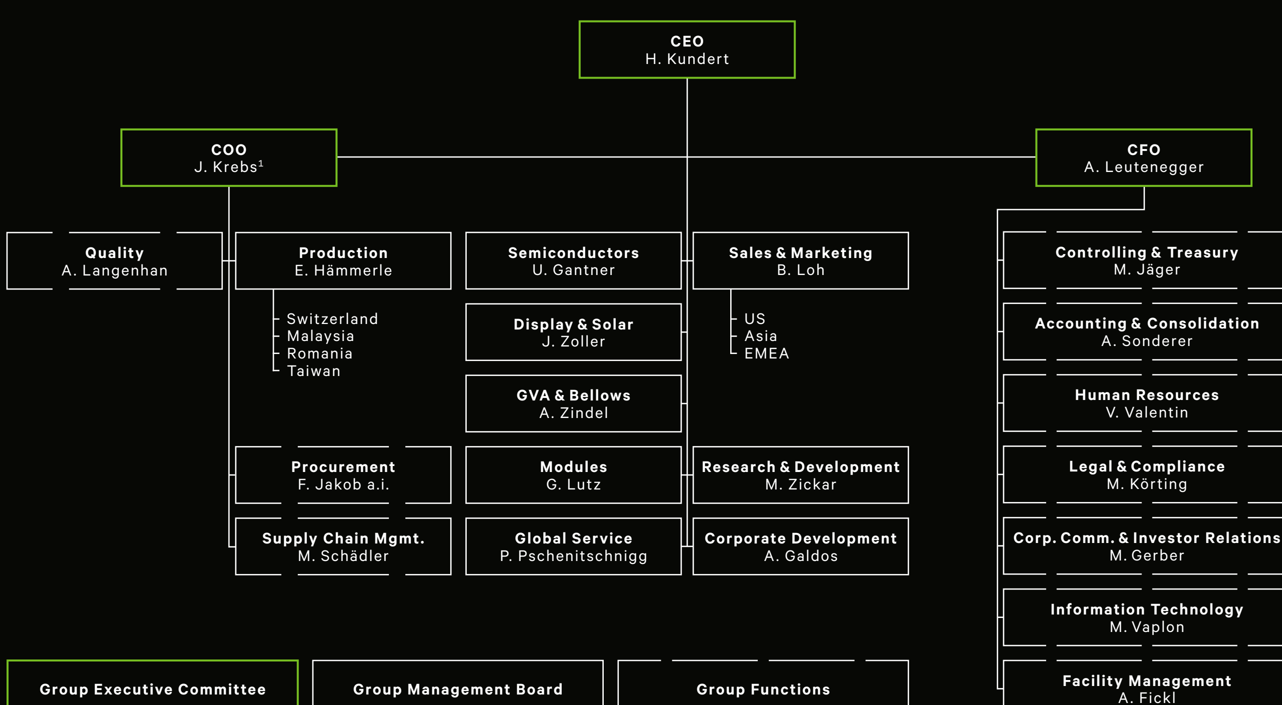


ORGANIZATION:

VAT Group is organized and managed in the three segments: Valves, Global Service, and Industry. The segment Valves unites the four market areas of Semiconductors, Display and Solar applications, General Vacuum technology and Modules.



The VAT Group is led by the Group Executive Committee (GEC) consisting of the CEO, CFO and COO. The GEC is supported by the Group Management Board and Group Functions.



[1] effective July 1, 2017
Organization Chart per March 31, 2017

VAT successfully starts a new chapter, record 2016 results confirm market leadership

VAT Group AG and its subsidiaries (VAT) reported record results in 2016, driven by strong customer demand and a further expansion of its leading market position. 2016 was also the year when VAT entered a new chapter in its history with the successful initial public offering (IPO) on April 14, 2016, on the SIX Swiss Exchange. The transition from a privately held enterprise with more than 50 years' experience in vacuum valve technology to a publicly listed company marked a major step forward and further enhanced VAT's position as a global market leader in the vacuum Valves segment.

Positive business development with strong demand for vacuum technology

The pace of growth in VAT's markets accelerated throughout 2016, primarily driven by technology advances, particularly in the display market, and increasing demand for manufacturing equipment in the semiconductor industry. As the global market leader in high-end vacuum valves, VAT was able to benefit from this positive development to outgrow the market.

In the semiconductor market, technological innovations gave rise to ever-more complex production processes, miniaturization and additional production steps, such as 3D NAND solid-state flash memory devices, which consist of stacked chips to improve storage density and power efficiency. Such devices require a very clean production process free of particles and contamination which, in turn, can only be achieved in a reliable high-vacuum environment. Customer investments to meet this increasing demand for high-performance semiconductors drove strong sales growth in VAT's Valves segment in 2016.

VAT's Display & Solar business also experienced a strong 2016. Demand began to accelerate early in the year, driven by investments in new manufacturing capacity due to the changeover from liquid crystal displays (LCDs) to displays featuring organic light-emitting diode (OLED) technology. The production of these next-generation high-resolution displays, with much improved coloration and lower energy consumption, requires more demanding manufacturing processes in high-vacuum environments.

Growth across most business segments

In 2016, VAT's order intake was CHF 561.9 million, up 31.3% from the previous year, while the order backlog increased to CHF 122.1 million. Net sales of CHF 507.9 million represented an increase of 23.6% compared to a year earlier. This includes a positive impact from foreign exchange movements in 2016 of about 5%.

Net sales increased in the Valves and Global Service segments and were flat in the Industry segment. Net sales in the Valves segment, the largest segment representing 77.7% of VAT's net sales, improved on a year-on-year comparison to CHF 394.6 million. The major growth driver in this business segment was the Display & Solar business which in 2016 more than doubled its revenues, followed by a strong performance in the Semiconductor business, where demand accelerated in the second half of the year. The modules and general vacuum businesses also contributed to the strong performance.

The segment Global Service reported a 17.3% year-on-year increase in net sales to CHF 81.9 million. The business performed particularly well in the second half of the year as the result of strong demand for retrofits.

In the Industry segment, growth in edge-welded bellows continued, mainly related to high demand from the semiconductor market. This was largely offset by slightly weaker business conditions in the mechanical components and assemblies manufacturing business. Overall, Industry posted a steady result with net sales of CHF 31.4 million, 0.5% lower than in 2016.

Strong top-line development feeds through to bottom-line

As a result of the strong growth in net sales, VAT increased its gross profit by CHF 57.0 million, or 21.8%, to CHF 318.0 million. The decline in the gross margin from 63.5% to 62.6% is mainly the result of the change in the product mix as the Display & Solar business more than doubled its sales in 2016, but has slightly lower gross margins than the Semiconductor business, for example.

Adjusted EBITDA for the year improved by 24.7% to CHF 158.1 million. The adjusted EBITDA margin increased to 31.1% compared to 30.8% in the previous year despite investments in future growth and additional costs associated with the strong increase in demand in 2016.

Summary of reconciliation

In CHF million	2016	2015	Change
Net income attributable to owners of the Company	**67.2**	**7.1**	**846.9%**
Income tax expenses	20.7	13.5	53.0%
Finance costs	37.7	71.4	–47.2%
Finance income	–7.3	–2.6	180.4%
Amortization	16.5	16.3	1.4%
Depreciation	14.8	13.9	6.2%
EBITDA	**149.6**	**119.6**	**25.0%**
Adjustments			
Personnel expenses[1]	2.2	1.5	46.7%
Other expenses[2]	6.3	5.7	10.5%
Adjusted EBITDA[3]	**158.1**	**126.8**	**24.7%**

1 IPO bonus costs of CHF 4.4 mn and pension gains of CHF 2.3 mn (2015: hiring and termination costs)
2 Consultant costs for IPO and structural changes
3 Adjusted EBITDA is calculated as earnings before interest, taxes, depreciation and amortization excluding items that we do not consider to form part of the ongoing business of the Group. Adjusted EBITDA is not a measure of financial performance calculated in accordance with IFRS and should be viewed as a supplement to, not a substitute for, our results of operations presented in accordance with IFRS.

The conversion of the shareholder loan of CHF 414.1 million into equity as part of the IPO in April, the refinancing of the outstanding senior secured credit facility of USD 276 million with a new syndicated five-year revolving credit facility of USD 300 million and further deleveraging of the balance sheet lowered finance costs from CHF 71.4 million to CHF 37.7 million and will have a positive impact on VAT's future cash flows from financing activities.

The effective tax rate in 2016 of 23.5% was higher than the target range of between 18% to 20%, due to the non-tax deductibility of certain IPO-related costs.

For the full year 2016, VAT realized a net income attributable to shareholders of CHF 67.2 million. The improvement was the result of higher operating profits coupled with lower net finance costs and a lower tax rate.

On December 31, 2016, VAT's net debt amounted to CHF 133.9 million, representing a leverage ratio expressed as Net Debt to EBITDA of 0.9 times. The equity ratio at year-end amounted to 57.8%.

Free cash flow supported by increased operating performance and tight working capital management

One of VAT's key performance indicators is free cash flow, which improved in 2016 to CHF 128.1 million from CHF 105.6 million in 2015. The improvement was driven by the better operating performance coupled with tight working capital management.

Net trade working capital decreased from 22.9% at the end of 2015 to 20.2% of sales at the end of 2016. In the medium term, VAT expects trade working capital to be below 20% of sales. The free cash flow margin was 25.2% and the free cash flow conversion rate was 85.6% of EBITDA.

At the end of 2016, VAT had 1,439 employees worldwide, an increase of 250, or 21.0%, compared with the end of 2015, reflecting the strong growth of our business.

The Board of Directors of VAT is proposing to its Annual General Meeting on May 17, 2017, a dividend for the business year ending December 31, 2016, of CHF 4.00 to be paid out of reserves from capital contributions, representing a total dividend amount of CHF 120 million.

Order intake
in CHF mn

561.9

VAT to focus on technology innovation, capacity expansion and initiatives to drive growth and efficiency

Megatrends such as Big Data, the Internet of Things, Industry 4.0, cloud computing and e-mobility are resulting in ever greater demand for advanced manufacturing technologies, including mission-critical vacuum components. Leading digital device and display manufacturers are continuing to invest in fabrication expansion and technology upgrades. As the world market leader for advanced high-vacuum valves, VAT expects to continue to benefit from these developments.

For 2017, VAT expects market demand to remain strong. Ongoing investments in semiconductor manufacturing equipment and the strong investment cycle for high-vacuum equipment for OLED display manufacturing are expected to be the main drivers of continued growth. The Modules, General Vacuum, Global Service and Industry businesses are also expected to contribute to a positive 2017 development.

VAT expects to grow full-year net sales by at least 20% at constant FX rates. The company also expects to maintain its adjusted EBITDA margin compared with the level in 2016. The mid-term EBITDA margin target of 33% remains in place. However, investments to support VAT's ongoing growth, as well as increased costs needed to quickly adapt capacity, are expected to temporarily slow down the rate of margin expansion towards this target.

VAT expects capital expenditures in 2017 and 2018 to be around 5% of sales, above the target level of 4% of sales over the cycle, again as the result of investments to meet the demands of the growing market.

Mid-term EBITDA margin target
in %

33

Valves

The Valves segment offers the broadest range of high-end vacuum valves in the industry, both standard and customized products. The segment serves mainly original equipment manufacturers (OEMs) and comprises four business units: Semiconductor, serving the semiconductor sector; Display & Solar, serving high-end flat-panel display and solar photovoltaic OEMs; General Vacuum for customers in research and OEMs in various industries; and Modules, delivering customized multi-valve solutions. The segment draws from VAT's manufacturing facilities in Switzerland, Taiwan and Malaysia, plus sales, service, and engineering operations in all major markets.

In 2016, Valves generated strong sales growth, led by accelerating demand from OEMs that manufacture equipment needed to make the newest generation of semiconductor and display products. Growth was supported by longer-term structural trends, especially the rapidly growing use and complexity of semiconductors and displays in digital devices, as well as customer investments to improve throughput, uptime and overall productivity of their installed high-vacuum systems and equipment.

VAT's long-term customer relationships, based on collaborative product and technology development, enabled the company to tap these growth opportunities and expand its leading market position.

Semiconductors: Accelerating growth

Net sales growth accelerated in the fourth quarter after stable growth rates in the previous quarters. Sales of the main product groups – control valves and transfer valves – were driven to a large extent by growing demand for etch and deposition wafer fabrication equipment needed to manufacture the latest semiconductor generation. Demand for smaller, more powerful and more energy-efficient memory storage devices was another key growth driver. Such devices include dynamic random-access memory (DRAM) and NAND solid-state flash memory used in portable wireless devices like smartphones and increasingly in big-data storage and notebook computers. Because they are smaller and more complex than earlier product generations, their manufacture requires more process steps under vacuum and, in turn, more high-vacuum equipment.

VAT's history of early collaboration with key customers in the development of leading-edge technologies resulted in the successful launch of new symmetrical flow valves and the redesign of VAT's Pendulum Control System. This, in turn, helped VAT outgrow the overall semiconductor high-vacuum equipment market in 2016.

Display & Solar: Product innovation drives large orders

Sales in the Display & Solar business unit more than doubled in 2016, reflecting rapid market and technology developments. In displays, the ongoing shift in mobile devices from liquid crystal displays (LCDs) to organic light-emitting diode (OLED) displays accelerated and drove OEM investment in new production capacity. In solar photovoltaics, increasing use of passivated emitter rear cell (PERC) technology in solar cell manufacturing – designed to increase the conversion rate of solar energy to electricity – also resulted in higher customer spending in 2016.

VAT could meet these demands with its own technology innovations, such as a new generation of pendulum valves that improve vacuum performance and significantly lower particle levels for contamination-sensitive OLED evaporation processes. Another example is the new TwinVAT transfer valve that improves productivity in both display and solar cell manufacture. Because it can be serviced while keeping the deposition equipment in operation, the TwinVAT valve reduces equipment downtime.

A further innovation is an advance in the algorithms used in VAT's newest control valves that allows them to respond more quickly to changing pressure regimes, making them especially suitable for dry-etching applications.

The steady development of new products along with expanded global manufacturing capacity and service footprint enabled VAT to both expand existing supply contracts with key display and solar cell customers as well as win new high-volume orders in 2016.

General Vacuum: Supporting major research projects

Net sales in the General Vacuum business were steady in 2016, reflecting the long-term stability of its diverse customer base across both the research sector as well as various industrial markets, such as automotive and medical equipment.

In 2016, VAT delivered specialized high-performance valves to ITER, a collaboration of 35 nations working to build a device at their facility in southern France that will test the feasibility of fusion power as a large-scale and carbon-free source of energy. The valves are used to seal a vacuum chamber containing a high-energy neutral beam injector needed to heat the plasma used in fusion reactions.

Additional research fields served by VAT's General Vacuum unit include particle acceleration, space simulation, and materials research, all of which require ultra-high vacuum (UHV) or even extreme high vacuum (XHV) systems. VAT is one of the few companies in the world with the technology expertise, such as all-metal valves that minimize particle contamination, to meet these demands.

Modules: Improved productivity in a smaller manufacturing footprint

Sales grew in VAT's Modules business unit, mainly reflecting growth initiatives to position the company as a provider of multi-valve systems that also integrate other high-vacuum components that help OEMs improve yield and throughput while reducing their manufacturing footprint.

For example, by integrating multiple transfer valves into a handler chamber – an environment for moving and manipulating manufacturing components under high vacuum – VAT can reduce the size of the chamber, which allows the use of smaller robots, smaller valve openings and fewer chamber interfac-

Key Figures Valves

In CHF million	2016	2015	Change
Order intake	443.3	331.7	+33.6%
Net sales	394.6	309.6	+27.5%
Inter-segment sales[1]	32.2	n.a.	n.a.
Segment net sales	426.7	309.6	+37.8%
Segment EBITDA	129.3	98.0	+32.0%
Segment EBITDA margin[2]	30.3%	31.6%	
Segment net operating assets	564.2	n.a.	n.a.
of which net trade working capital	84.9	n.a.	n.a.

1 Inter-segment sales reporting for the valves division only available for 2016
2 Segment EBITDA as a percentage of Segment net sales

es for reduced particle contamination risk. Smaller chambers also require less pumping and venting time, which improves throughput and yield, and lowers maintenance costs.

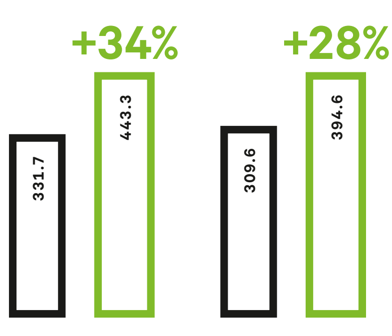
In 2016, VAT shipped modules for both semiconductor and display applications. The largest modules measure more than 3 meters in length and 2 meters in height. The company also established a local module engineering team to serve OEM customers in the US.

The introduction of motion components to VAT's modules offering also contributed to sales growth. Motion components are used to move parts during vacuum manufacturing processes and range from wafer lifters inside a process chamber to actuators that move shields, gates or similar vacuum valve components. VAT expects its ability to deliver precision motion components integrated into more compact high-end vacuum valve modules will provide an additional competitive advantage moving forward, as miniaturized vacuum-based manufacturing continues to expand in a wider range of applications and industries.

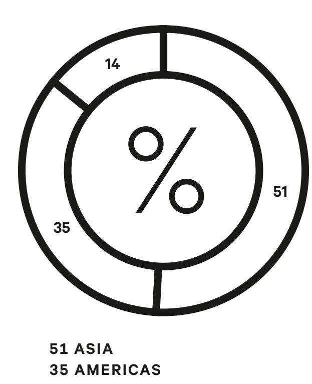
Performance review 2016 and outlook
Net sales in the Valves segment grew to CHF 394.6 million in 2016, an increase of 27.5% compared to the previous year. Growth was strongest in the Semiconductor and Display & Solar business units. Sales increased in Modules and were stable in General Vacuum. Segment EBITDA rose 32.0% to CHF 129.3 million, leading to a segment EBITDA margin of 30.3%. The decline in margin was mainly the result of changes in the product mix as the display business carries slightly lower average margins, and by costs associated with growing the business, such as investments to increase production and higher research and development expenses.

The market for valves is expected to grow further in 2017. The increasing use of microchips and integrated circuits in both industrial and consumer applications is forecasted to continue for several years. The global demand for OLED displays is also expected to grow, driven by expansion beyond mobile devices to monitors, televisions and lighting. Further miniaturization in semiconductor and other manufacturing processes is also expected to drive demand. The diversification in end markets, along with ongoing industry consolidation, is expected to reduce the cyclicality of the business in the future.

Order intake & net sales
in CHF mn



Net sales
by region



Global Service

Global Service offers a wide range of service products, from original spare parts and service and maintenance to equipment retrofits and customized upgrades, along with training and around-the-clock support in all key markets: the US, Japan, South Korea, Taiwan, China, Singapore, Malaysia and Switzerland.

The segment achieved double-digit sales growth in 2016, driven by several factors. First, the overall market for vacuum valves grew strongly as customers invested in new capacity to meet accelerating demand, especially in semiconductors and displays. This resulted in increased demand for service and spare parts, especially for high-performance components such as gate valves, which must operate reliably at high speeds and under extreme temperature and pressure conditions, and often involving the use of corrosive gases.

Another factor was the technology shift towards smaller and more powerful semiconductor chips and integrated circuits, which in turn increased the number of manufacturing process steps under vacuum. The Global Service business helped customers meet this challenge with customized valve retrofits of their existing equipment.

In a rapidly changing and highly competitive market, customers need to focus continuously on improving uptime and yield from their fixed assets. VAT's Global Service teams work directly with customers to identify areas of operational improvements – often through continuous improvement projects – and then carry out the valve upgrades and retrofits to improve tool uptime and reduce particle contamination. The end result is higher yield and lower total cost of ownership. VAT qualified its retrofit valves with a number of global customers in 2016, which yielded substantial volume orders for complete tool upgrades.

Sales growth in 2016 was also supported by the continued expansion of VAT's service footprint, especially in the US and Asia. In December 2016, the company also launched a new service facility in the Silicon Valley to better serve US manufacturers and their installed equipment.

Key Figures Global Service

In CHF million	2016	2015	Change
Order intake	85.0	67.4	+26.1%
Net sales	81.9	69.8	+17.3%
Inter-segment sales	–	–	–
Segment net sales	81.9	69.8	+17.3%
Segment EBITDA	40.5	35.8	+12.9%
Segment EBITDA margin[1]	49.4%	51.3%	
Segment net operating assets	118.7	n.a.	n.a.
of which net trade working capital	9.4	n.a.	n.a.

1 Segment EBITDA as a percentage of Segment net sales

Global Service continued to implement specific growth initiatives aimed at, for example, establishing collaborations with selected distribution and service partners close to customers. This minimizes production interruptions for end users as the demand for original spare parts, consumables and technical support is fulfilled directly at the customer's site. In 2016, Global Service signed an aftermarket engagement contract with a leading distributor of vacuum and industry components in the US, improving sales coverage in all important regions within that key market. In a service contract with a large OEM in Japan, VAT acts as a subcontractor on behalf of the customer to provide valve overhaul services in all of its Asian facilities. VAT services delivered through the contract received positive ratings in rigorous performance audits conducted by the customer.

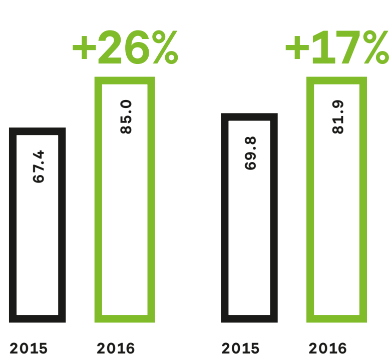
Performance review 2016 and outlook

Net sales increased 17.3% in 2016 to reach CHF 81.9 million. Growth was strongest for retrofits while spare parts and service sales also increased. Segment EBITDA rose 12.9% to CHF 40.5 million, leading to a segment EBITDA margin of 49.4%. The margin was supported by ongoing performance improvement programs such as the optimization of valve repair turnaround time to increase throughput, while costs associated with growing the business had a slight dampening effect.

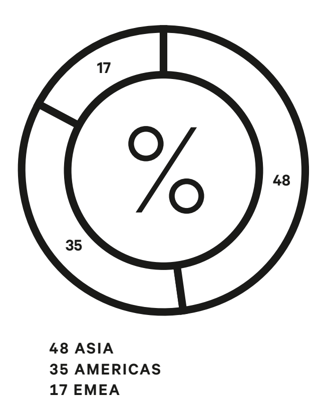
The market for vacuum valve service is expected to remain positive in 2017. The need for valve upgrades and retrofit due to aging equipment and new technological developments is expected to drive continued customer investments in the refurbishment and modernization of their installed equipment. VAT plans to continue expanding its service footprint in 2017, with additional resources targeted for China, South Korea and Taiwan. The company also intends to further build its service offering in key markets with innovative solutions, such as a service center planned at the refurbishing facility of a major US OEM to help the customer deliver faster retrofits for aging vacuum valve equipment.

Trusted partnerships with our customers will remain a key success factor, along with innovative service products combined with a strong service network. The expansion into Asia will strengthen customer relationships and increase our competitive advantage.

Order intake & net sales in CHF mn



Net sales by region



Industry

The Industry segment manufactures innovative and technologically advanced edge-welded bellows that act as flexible sealing elements in certain high-vacuum applications. The business also manufactures related mechanical components and assemblies through its Sysmec subsidiary. Edge-welded bellows are highly specialized components manufactured using high-precision laser welding technology, often at microscopic levels. They are used in a variety of applications and industries, the largest being the high-vacuum equipment industry, including semiconductor manufacturing. The business also serves customers in the automotive and medical equipment industries, as well as other sectors.

Sales increased slightly in 2016, led mainly by improved demand from the semiconductor equipment sector. Edge-welded bellows are often used in vacuum manufacturing processes involving the highest levels of purity (ultra-high vacuum, or UHV) or where motion components, such as lifters or pumps, are in operation. Because edge-welded bellows are all-metal components, they eliminate the risk of particle contamination present in other feedthroughs using elastomer sealing. Increased customer spending for advanced high-vacuum equipment needed to make the newest generations of semiconductors supported Industry segment sales in 2016.

In the automotive sector, VAT received a large long-term order from a Germany-based OEM in the first half of 2016 to deliver damper capsules used in high-performance fuel injection systems. Damper capsules use high-precision laser-welded bellows technology to control fuel pump pressure in high fuel efficiency engines. The supply contract, which extends over several years, was the result of extensive collaboration with the customer to develop a technology solution tailored to their specific needs.

Edge-welded bellows are also used in other products and market segments, including medical applications like implantable drug pumps and in medical imaging technologies. They are also used in industrial actuators, in aerospace applications such as altitude sensors and fluid management devices, and in advanced research, such as experimental physics.

Key Figures Industry

In CHF million	2016	2015	Change
Order intake	33.6	28.7	+17.1%
Net sales	31.4	31.5	–0.5%
Inter-segment sales	15.4	14.2	+8.8%
Segment net sales	46.8	45.7	+2.2%
Segment EBITDA	10.3	9.8	+5.8%
Segment EBITDA margin[1]	22.1%	21.4%	
Segment net operating assets	67.4	70.3	–4.1%
of which net trade working capital	9.3	9.7	–3.6%

1 Segment EBITDA as a percentage of Segment net sales

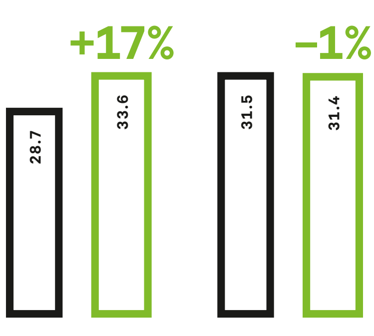
VAT continued to strengthen its competitive position in 2016 with further investments in its manufacturing facilities in Switzerland and Romania. The company introduced an advanced, fully automated bellows welding system in the second quarter of 2016, along with two new end seam welding machines. These investments resulted in reduced lead-times and increased productivity, while at the same time improving the scalability of production, enabling VAT to better meet customer demands for both high-volume delivery and customized solutions. The business also introduced and certified a high-purity cleanliness standard for its products that makes it easier for customers to choose the level of cleanliness on edge-welded bellows and valve components that best meets their specific production requirements. This will allow semiconductor OEMs to achieve the required purity level for the latest 3D semiconductors and device architectures at 10 nanometers and below.

Performance review 2016 and outlook
Net sales in the Industry segment were CHF 31.4 million in 2016, a decrease of 0.5% compared with the year before. However, internal sales (not included in the net sales number) to the Valves segment grew, reflecting the positive market for semiconductor manufacturing equipment in 2016. Sales to the automotive sector remained stable, while sales to other markets were steady to slightly lower.

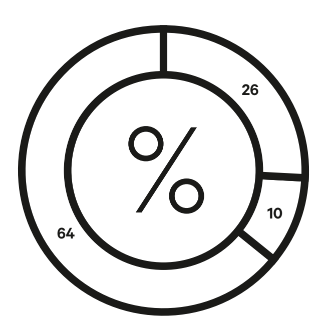
Segment EBITDA rose by 5.8% to CHF 10.3 million, leading to a segment EBITDA margin of 22.1%. The positive margin development was supported by productivity improvements in VAT's facilities in Switzerland and Romania, as well as other operational excellence measures implemented as part of the VATmotion initiative.

The market for edge-welded bellows is expected to see steady growth. The growth of the semiconductor market is expected to continue and the trends in the automotive and medical device fields components are also expected to support growth.

Order intake & net sales in CHF mn



Net sales by region



26 ASIA
10 AMERICAS
64 EMEA

Group Executive Committee

Heinz Kundert
was appointed CEO of the VAT Group in June 2015. Previously, Mr. Kundert served in various management positions in Asia for Balzers AG, a global supplier of thin-film equipment for semiconductor manufacturing and related applications. He was Head of Oerlikon-Bührle's Electronic Equipment Business Unit and later Balzers Process Systems. Mr. Kundert served as COO and then CEO of Unaxis Holding AG (later renamed OC Oerlikon AG). He has served as a member of the Board of Directors of SEMI International, a global semiconductor industry association, and was elected the organization's Vice President and European President in 2005. Mr. Kundert currently serves on the Board of Directors of Camox GP Ltd and the Fraunhofer Society in Germany. He holds a certificate in mechanical engineering and a degree in industry management from the Institute of Technology in Architecture (ITA) in Switzerland, as well as a degree in business management from the University of St. Gallen.

Mr. Kundert has a successful track record of more than 30 years of senior management in the global semiconductor industry. He has proven experience in the implementation of marketing and operational strategies that deliver sustainable, profitable growth. At Balzers, he successfully expanded the company's Asia business and has participated in several significant acquisitions and divestitures in the coating and semiconductor equipment industries.

Andreas Leutenegger
joined the VAT Group as CFO in 2015. Mr. Leutenegger started his career in the audit department of KPMG in Zurich, Switzerland. He later served in the corporate controlling and reporting teams at Holcim Group before assuming the role of CFO at Siam City Cement Public Company Limited in Thailand, at that time a member of the Holcim Group. Prior to joining VAT Group, Mr. Leutenegger was Head of Group Controlling at Holcim Group. He holds a Master's degree in Business Administration from the University of St. Gallen, is a Swiss Certified Public Accountant and is a graduate of the Advanced Management Program at Harvard Business School in the US.

Mr. Leutenegger has significant global experience in finance and treasury, controlling and accounting, capital investment, and strategy and business development. He has successfully led change management programs in an international environment with a focus on maximizing return on investment.

Jürgen Krebs
was named Chief Operating Officer of VAT Group AG in December 2016, with his appointment effective from July 1, 2017. Previously, Dr. Krebs was Executive Vice President, Operations, and a member of the Group Executive Board at Hauni Maschinenbau AG, Hamburg, Germany, a position he held from 2004. Before that, Dr. Krebs held various management positions at Heidelberg Druckmaschinen AG and Heidelberg Web Systems Inc. Dr. Krebs holds an engineering degree from the Technical University of Kaiserslautern, Germany, and a PhD in Mechanical Engineering from the University of Auckland, New Zealand.

Dr. Krebs has many years of experience in the field of mechanical engineering and high-technology manufacturing processes. He has also held senior management positions responsible for global operations and supply chain management in production, service and sales, as well as manufacturing excellence quality and the application of Industry 4.0 internet-based technologies to operational management.

Heinz Kundert, CEO

Andreas Leutenegger, CFO

Jürgen Krebs, COO[1]

1 Effective July 1, 2017

Board of Directors

Horst Heidsieck, PhD
was appointed Chairman of the Board of Directors of VAT Group AG in March 2016. Dr. Heidsieck was previously chairman of the Board of Directors of VAT Holding AG from 2014 to 2016. Prior to that, he was Chief Executive Officer of Leybold AG and of Balzers Leybold Group within the Oerlikon Bührle Group. In addition, Dr. Heidsieck served as CEO of Heraeus Holding GmbH and of Demag Holding S.à r.l. Since 2007, Dr. Heidsieck has worked as a business and management consultant and serves on the advisory board of EAC-Euro Asia Consulting. Dr. Heidsieck graduated with a doctorate in physics from the Technical University of Aachen, Germany.

Dr. Heidsieck has more than 30 years of experience in vacuum technology and related industries, as well as proven track record in senior management roles in the high-tech sector. He has particular management expertise in companies experiencing rapid growth in global markets.

Alfred Gantner
Alfred Gantner is a Partner and Co-Founder of global private markets investment manager Partners Group, which is based in Zug. He is the Chairman of Partners Group's Global Investment Committee and a member of the Board of Directors of Partners Group Holding AG and other associated companies. He co-founded Partners Group in 1996 and served as Chief Executive Officer from then until 2005, when he became Executive Chairman. In 2014, Mr. Gantner stepped down as Executive Chairman and took up his current role. Prior to founding Partners Group, he worked at Goldman Sachs & Co. He has 25 years of industry experience and holds an MBA from the Brigham Young University Marriott School of Management, Utah. Alongside his Board of Directors membership at VAT Group AG, he is a member of the Board of Directors at two other Partners Group portfolio companies, Fermaca Luxembourg s.à.r.l. and PCI Pharma Services. He is also a member of the Board of Directors of PG Impact Investments Foundation and PG3 AG, Switzerland, the family office of the founders of Partners Group.

Mr. Gantner brings 25 years of international finance and management expertise to VAT's Board of Directors, including several successful Initial Public Offerings (IPOs).

Urs Leinhäuser
was elected as a member of the Board of Directors of VAT Group AG in March 2016. From 1995 to 1999, Mr. Leinhäuser held senior finance roles at Georg Fischer AG. In 1999 he was appointed CFO of Mövenpick Holding AG and later served as CFO at Rieter Holding AG and as CFO and deputy CEO at Autoneum Holding AG. He currently serves on the Board of Directors of Ammann Group Holding AG, Ascom Holding AG, Burckhardt Compression Holding AG and Liechtensteinische Landesbank AG. He is also a member of the management committee of the Institut für Finanzwissenschaft und Finanzrecht (IFF) at the University of St. Gallen in Switzerland and partner at Adulco GmbH. Mr. Leinhäuser graduated with a degree in business administration from the University of Applied Sciences, in Zurich, Switzerland.

With more than 30 years in senior finance and operational management, Mr. Leinhäuser's financial expertise and management experience are valuable assets to the Board and its Committees.

Ulrich Eckhardt
joined the Board of Directors of VAT Group AG in February 2016 after serving as a member of the Board of VAT Holding AG from 2014 to 2016. He is a partner at Capvis Equity Partners AG and serves as Head of their Value Creation Team. Mr. Eckhardt has also worked at Swiss Reinsurance Company Ltd, Young & Rubicam Group, SBC Warburg & Co., and UBS AG. He currently also serves on the Board of Directors of Beauvoir Investments AG. Mr. Eckhardt holds a Master's degree in economics from the University of Zurich and a Master of Science degree in management science and engineering from Stanford University in the US.

Mr. Eckhardt brings over 15 years of private equity experience and more than 10 years of Board of Directors experience in different roles. His management focus has been in the areas of strategy and transformation, including change management, as well as M & A, risk management, and information technology management.

Karl Schlegel
joined the VAT Group as a member of the Board of Directors of VAT Holding AG from 2014 to 2016 and was named to the Board of Directors of VAT Group AG in March 2016. Mr. Schlegel previously served as CEO of Hamilton Medical AG and was the CEO of VAT Holding AG. Mr. Schlegel is also a member of the Foundation Board of Stiftung Arwole, a charity for individuals with disabilities. Mr. Schlegel holds a Bachelor of Science degree from the medical engineering department of the University of Applied Sciences and Technology in Buchs, Switzerland, and an Executive MBA from the University of St. Gallen.

Mr. Schlegel has more than 30 years of experience in high-technology industries in medical devices and high-vacuum equipment. He brings the Board first-hand knowledge of both the VAT Group as the former CEO and of its global industries and customers.

Corporate Governance Report

VAT Group AG is committed to the highest principles of good corporate governance, aimed at ensuring transparency, achieving a balanced relationship between management and control, and safeguarding shareholder interests. VAT Group AG regularly reviews its corporate governance framework and discloses information on corporate governance in accordance with the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the Swiss Ordinance against Excessive Compensation with respect to Listed Stock Corporations, and the Swiss Code of Best Practice for Corporate Governance. In addition, VAT Group is currently implementing a Code of Conduct, setting out VAT Group's key principles and rules on corporate governance.

To avoid duplication, some sections contain cross-references, in particular to the Annual Report 2016 published at ir.vatvalve.com, the Compensation Report 2016 published at ir.vatvalve.com/ar2016/compensation-report/ and the Articles of Association of VAT Group AG, published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

For those disclosures under the SIX Swiss Exchange Directive on Information relating to Corporate Governance that are included in the notes to the consolidated financial statements, please consult the Consolidated Financial Statements 2016 of VAT Group AG published at ir.vatvalve.com/ar2016/financial-statements/.

The financial year of VAT Group AG ends on December 31 of each calendar year.

1. Group structure and shareholders

1.1 Group structure

VAT Group AG, a stock corporation, was founded on February 25, 2016 (registration number CHE-202.223.983) and its registered seat is at Seelistrasse 1, 9469 Haag, Switzerland. VAT Group consists of VAT Group AG (the ultimate holding company) and its subsidiaries in Switzerland and abroad: five production companies that can also hold a distribution function in Switzerland, Romania, Malaysia and Taiwan; eight distribution companies in Europe, North America and Asia; and six holding and financing companies. An overview of this structure, with Company names, place of incorporation, share capital and VAT Group AG's participation is provided in the Consolidated Financial Statements 2016 of VAT Group AG on page 111.

VAT Group's operational structure is organized into three business segments aimed at delivering maximum value to customers: Valves, Global Service, and Industry. This structure is described in more detail in the segment information in the notes to the financial statements on pages 79 to 82.

1.2 Significant shareholders

As of December 31, 2016, 7,243 shareholders were registered in VAT Group AG's share register. 17,903,486 shares (as defined below under 2.1) were held by minority shareholders, holding each less than 3% of VAT Group AG's share capital.

Disclosure notifications of significant shareholdings in VAT Group AG that were filed in 2016 with VAT Group AG and the SIX Swiss Exchange are available from the online publication platform of the SIX Swiss Exchange: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

As of December 31, 2016, VAT Group AG was notified of the following shareholders, each representing 3% or more of the share capital of VAT Group AG:

Name of Shareholder

	In % of total Share Capital
Partners Group[1]	29.3%
Capvis[2]	7.7%
BlackRock, Inc., New York, USA	3.4%

1 Comprising the PG Selling Shareholders, which are Partners Group Client Access 8, L.P. Inc., Partners Group Barrier Reef, L.P., Partners Group Direct Inv. 2012 (EUR), L.P. Inc., St Peter Port, Guernsey GY1 1BT, Channel Islands, and Partners Group Private Equity (Master Fund), LLC, New York, NY 10036, USA, all of whose ultimate sole shareholder is Partners Group Holding AG, Zugerstrasse 57, CH-6341 Baar.
2 Comprising the Capvis Selling Shareholders, which are Capvis Equity III L.P., Capvis III Limmat L.P. (both acting through its general partner Capvis General Partner III Limited), and Capvis Equity IV L.P. (acting through its general partner Capvis General Partner IV Limited), St. Helier, Jersey JE2 3TE, Channel Islands.

VAT Group AG is not aware of any other person or institution holding, as of December 31, 2016, directly or indirectly, on its own account or in concert with third parties, 3% or more of VAT Group AG's share capital.

1.3 Lock-up agreements

Partners Group, Capvis, the Other Selling Shareholders[1] and the Management Shareholders[2] each entered into lock-up agreements under which they undertook not to transfer, sell, pledge or otherwise dispose of their shares within a certain timeframe. The parties entered into these agreements constituted a group of shareholders acting in concert within the meaning of the Financial Market Infrastructure Ordinance of the Swiss Financial Market Supervisory Authority (FINMA). The lock-up undertaking of Partners Group and Capvis was initially scheduled to expire on October 14, 2016. They were released from this undertaking on August 31, 2016, after which Capvis decreased its shareholding from 16.48% to approximately 8.14%. Partners Group and Capvis entered into a subsequent lock-up agreement that expired on December 4, 2016.

The lock-up undertaking of the Other Selling Shareholders expired on October 14, 2016.

The Management Shareholders agreed to a three-year staggered lock-up, with the last portion of shares being released on April 15, 2019.

1.4 Shareholders' agreements and other arrangements among shareholders

Partners Group and Capvis entered into a shareholders' agreement in April 2016 stipulating that they will exercise their rights as shareholders in accordance with the shareholders' agreement. They constitute a group of shareholders acting in concert within the meaning of the FINMA ordinance mentioned above, with an aggregate shareholding as of December 31, 2016, of 11,106,076 shares and 37.0% of the voting rights. In addition, Partners Group and Capvis each have the right to nominate one member of the Board of Directors as long as either party owns at least 5% of the shares. This includes the right to request, at any time, the removal or replacement of the nominated member of the Board of Directors.

The shareholders' agreement further contains certain provisions regarding the coordination of filings relating to mandatory disclosure obligations under applicable stock exchange laws, the transfer of shares between funds managed and/or advised by the same investment manager/advisor or their affiliates and the subsequent sale of shares following the expiration of the lock-up agreements. The shareholders agreement will remain in place until December 31, 2026, and may not be terminated prior to that date. Thereafter, the shareholders agreement will be extended by one year, unless terminated by either party upon six months' notice.

1 This group includes three shareholders who retained a participation in VAT at the time of sale of VAT Holding AG to VAT Holding S.à r.l. in 2014.
2 This group, owning together less than 3%, includes 22 members of VAT Group management or of the Board of Directors and a legal entity, majority-owned by relatives of a member of the Board of Directors.

1.5 Cross shareholdings

VAT Group AG does not have any cross-shareholdings exceeding 5% of capital holdings or voting rights.

2. Capital structure

2.1 Company's share capital

The share capital of VAT Group AG amounts to CHF 3,000,000 divided into 30,000,000 registered shares with a nominal value of CHF 0.10 each. The shares are fully paid-in. The shares have been listed on the SIX Swiss Exchange since the Company's Initial Public Offering on April 14, 2016. The VAT Group AG's International Securities Identification Number (ISIN) is CH0311864901, its market capitalization as of December 31, 2016, was CHF 2.55 billion with a free float of 63.0%.

VAT Group AG issues its registered shares only as uncertificated securities and registers them as book-entry securities. Shareholders have no right to request conversion of the form in which the registered shares are issued into another form. Shareholders may, however, at any time require from VAT Group AG the delivery of an attestation certifying their current shareholdings. Uncertificated securities may only be transferred by way of assignment provided that they are not registered as book-entry securities. The transfer of book-entry securities and grants of security rights on book-entry securities have to be compliant with the Book Entry Securities Act. The transfer of book-entry securities or grants of security rights on book-entry securities by way of assignment are excluded.

2.2 Conditional and authorized capital

According to art. 3a of the Articles of Association[3], VAT Group AG's share capital may be increased by a conditional capital of up to CHF 150,000 by issuing up to 1,500,000 fully paid-in registered shares with a nominal value of CHF 0.10 each, upon the exercise of option rights or in connection with similar rights regarding shares (including restricted stock units) granted to officers and employees at all levels of the Company. The pre-emptive rights and the advance subscription rights of the shareholders are excluded. The acquisition and subsequent transfer of registered shares is limited under art. 5 of the Articles of Association. The conditions for the allocation and exercise of the option rights and similar rights are determined by the Board of Directors. The shares may be issued at a price below the market price.

VAT Group AG does not have any authorized share capital.

2.3 Changes in share capital

VAT Group AG was founded on February 25, 2016, with an initial share capital of CHF 100,000, divided into 1,000,000 registered shares. On March 29, 2016, VAT Group AG increased its capital from CHF 100,000 to CHF 3,000,000 by issuing 29,000,000 fully paid-in registered shares with a nominal value of CHF 0.10 each against contribution in kind of (i) claims of certain shareholders of VAT Holding S.à r.l., Luxembourg, into VAT Group AG in exchange for 9,103,284 shares; (ii) the shares of VAT Holding S.à r.l., Luxembourg, into VAT Group AG by the holders of 95% of such shares in exchange for 18,901,883 shares; and (iii) all of the shares of VAT Management S.à r.l., Luxembourg, into VAT Group AG by the holders of such shares in exchange for 994,833 shares.

2.4 Participation certificates, profit-sharing certificates, preference shares and modified voting rights

As of December 31, 2016, VAT Group AG has not issued any participation certificates or profit sharing certificates, nor has it issued any preference shares or shares with increased, limited, privileged or restricted voting rights.

3 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

2.5 Own Shares

As of December 31, 2016, VAT Group AG held 110,000 of its own shares. None of its subsidiaries held any shares in VAT Group AG.

2.6 Transfer restrictions and nominee registrations

Persons acquiring registered shares will on application be entered in the share register without limitation as shareholders with voting rights, provided they expressly declare themselves to have acquired the shares in their own name and for their own account and comply with the disclosure requirement stipulated by the Swiss Financial Market Infrastructure Act. Entry in the share register as shareholder with voting rights is subject to the approval of VAT Group AG and may be refused if the applicant fails to declare expressly that he/she has acquired and will hold the shares on his/her own behalf and for his/her own account.

A resolution of the shareholders' meeting passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required for the easement or abolition of the restriction of the transferability of the registered shares.

Persons not expressly declaring themselves to be holding shares for their own account (nominees) will be entered in the share register with voting rights without further inquiry up to a maximum of 3% of the share capital outstanding at that time. Above this limit registered shares held by nominees will be entered in the share register with voting rights only if the nominee in question makes known the names, addresses and shareholdings of the persons for whose account he is holding 0.5% or more of the share capital outstanding at that time and provided that the disclosure requirement stipulated by the Swiss Financial Market Infrastructure Act (FMIA) is complied with. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements. Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with the intent to circumvent the entry restriction are considered as one shareholder or nominee. VAT Group AG may in special cases approve exceptions to these restrictions. No such cases were approved in 2016.

2.7 Convertible bonds and options

VAT Group AG has neither convertible bonds nor options regarding its shares outstanding.

3. Board of Directors

3.1 Members of the Board of Directors

The Articles of Association[4] provide that the Board of Directors shall consist of a minimum of three members, including the Chairman of the Board of Directors who is appointed by the meeting of shareholders. The Board of Directors currently consists of five non-executive members (including the Chairman).

None of the members of the Board of Directors has held executive functions in VAT Group AG or one of its Group companies during the last three business years prior to December 31, 2016. From 2004 to 2013, Karl Schlegel, member of the Board of Directors, served as Chief Executive Officer (CEO) of VAT Group.

Other than as disclosed below, none of the members of the Board of Directors has or had any significant business connection with VAT Group AG or any of its Group companies during the three years prior to December 31, 2016.

4 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

Board of Directors

Name	Age	Position	Year of Appointment
Horst Heidsieck	69	Chairman[1]	2016[3]
Alfred Gantner	48	Vice-Chairman[1]	2016[4]
Ulrich Eckhardt	45	Member[2]	2016[4]
Urs Leinhäuser	57	Member[1]	2016
Karl Schlegel	63	Member[1]	2016[4]

Prior to the initial public offering, Walter Keller was a member of the Board of Directors from February 2016 until March 2016.
1 Since March 2016
2 Served as Chairman in February/March 2016
3 From 2014 until 2016 Chairman of the Board of Directors of VAT Holding AG
4 From 2014 until 2016 member of the Board of Directors of VAT Holding AG

3.2 Background, other activities and functions

As of December 31, 2016, the members of the Board of Directors were:

Dr. Horst Heidsieck, Chairman, was born in 1947 and is a German citizen. Mr. Heidsieck was Chairman of the Board of Directors of VAT Holding AG from 2014 to 2016. He became Chairman of the Board of Directors of VAT Group AG in March 2016.

Mr. Heidsieck has broad experience in the vacuum technology industry as Chief Executive Officer of Leybold AG from 1990 to 1995 and of Balzers Leybold Group within the Oerlikon Bührle Group from 1995 to 1998. In addition, Mr. Heidsieck served as CEO of Heraeus Holding GmbH (2000–2003) and of Demag Holding S.à r.l. (2003–2006). Since 2007, Mr. Heidsieck has worked as a business and management consultant and serves on the advisory board of EAC-Euro Asia Consulting (since 2007).

Mr. Heidsieck holds a diploma and a doctorate in physics from the Technical University of Aachen.

Alfred Gantner, Vice-Chairman, was born in 1968 and is a Swiss citizen. Mr. Gantner was a member of the Board of Directors of VAT Holding AG from 2014 to 2016. He became Vice-Chairman of the Board of Directors of VAT Group AG in March 2016.

Mr. Gantner co-founded Partners Group in 1996 and is a partner serving as the Chairman of Partners Group's Global Investment Committee and a member of Partners Group Holding AG's Board of Directors. Mr. Gantner also currently serves as a member of the Board of Directors for two charities in addition to serving as a Chairman of the Board of Directors of PG3 AG (since 2013) and Cap-Real AG (since 2015), and as Director of LGT Private Equity Advisers AG, Partners Group AG, Nivalion AG, North Colours AG, Wildbiene + Partner AG, Bruggeboge plus AG, Fermaca Luxembourg S.à r.l. and PCI Pharma Services (USA).

Mr. Gantner holds an MBA from the Brigham Young University Marriott School of Management, Utah, USA.

Ulrich Eckhardt was born in 1971 and is a Swiss citizen. Mr. Eckhardt was a member of the Board of Directors of VAT Holding AG from 2014 to 2016. He joined the Board of Directors of VAT Group AG in February 2016.

Mr. Eckhardt is a partner at Capvis Equity Partners AG serving as Head of Value Creation Team. He joined Capvis Equity Partners AG in 2004. Currently, Mr. Eckhardt serves also on the Board of Directors of Beauvoir Investments AG (a financial holding company, since 2014). He also served on the Board of Directors of SFC KOENIG AG, an industrial manufacturing company, from 2009 until 2016.

Mr. Eckhardt holds a Master's degree in economics from the University of Zurich and a Master of Science in management science and engineering from Stanford University.

Urs Leinhäuser was born in 1959 and is a Swiss citizen. Mr. Leinhäuser has been a member of the Board of Directors of VAT Group AG since March 2016.
From 1995 to 1999, Mr. Leinhäuser was Head of Corporate Controlling at Georg Fischer AG and later Head of Finance and Controlling of Georg Fischer's Piping Systems Division. Between 1999 and 2003, he was Chief Financial Officer (CFO) of Mövenpick Holding AG. From 2003 until 2011, he was CFO and Head Corporate Center at Rieter Holding AG. After the spin-off of Autoneum Holding AG from Rieter Holding AG in 2011, Mr. Leinhäuser was CFO and Deputy CEO of Autoneum Holding AG until 2014. He currently serves on the Board of Directors of Ammann Group Holding AG (since 2013), Ascom Holding AG (since 2015), Burckhardt Compression Holding AG (since 2007) and Liechtensteinische Landesbank AG (since 2014). Since 2015, he is also a member of the management committee of the IFF-Institute at the University of St. Gallen (HSG). Further, since 2016, Mr. Leinhäuser is a partner at Adulco GmbH.

Mr. Leinhäuser holds a degree in business administration from the University of Applied Sciences, Zurich.

Karl Schlegel was born in 1953 and is a Swiss citizen. Mr. Schlegel rejoined the VAT Group as a member of the Board of Directors of VAT Holding AG from 2014 to 2016. He became a member of the Board of Directors of VAT Group AG in March 2016.
Mr. Schlegel served as CEO of Hamilton Medical AG between 1997 and 2003. Between 2004 and 2013 he was the CEO of VAT Group. Mr. Schlegel is also a member of the Foundation Board of Stiftung Arwole (a charity for individuals with disabilities, since 2014).

Mr. Schlegel holds a Bachelor of Science degree from the medical engineering department of the University of Applied Sciences and Technology Buchs (NTB) and an Executive MBA from the University of St. Gallen.

3.3 Mandates and other permitted activities

According to art. 23 of the Articles of Association[5], the members of the Board of Directors may have as a member of the Board of Directors or any other superior management or administrative body up to six mandates in publicly traded companies, up to ten mandates in private companies and up to 20 mandates in other commercial legal entities. Mandates are activities in the superior management or administrative bodies in legal entities that are obliged to register themselves in a Swiss commercial register or a foreign equivalent and which are not controlled by VAT Group AG, do not control VAT Group AG or do not constitute pension funds insuring employees of the VAT Group. Board members may also exercise up to ten mandates of any function in associations, charity foundations and employee assistance foundations.

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

3.4 Election and term of office

Each member of the Board of Directors, including the Chairman, has to be elected, and may only be removed by a shareholders' resolution. The maximum term of office for a member of the Board of Directors is one year. In this context, a year means the time period between one ordinary shareholders' meeting and the next or, if a member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next ordinary shareholders' meeting. Re-election is allowed as long as the relevant member has not completed the age of 72 at the time of re-election and has not served on the Board of Directors for more than nine years. The Board of Directors appoints the secretary who does not need to be a member of the Board of Directors.

5 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

3.5 Powers and duties

The Board of Directors is entrusted with the ultimate direction of VAT Group AG's business and the supervision of the persons entrusted with VAT Group AG's management. It represents VAT Group AG towards third parties and manages all matters which have not been delegated to another body of VAT Group AG by law, the Articles of Association[6] or by other regulations.

The Board of Directors has the following non-transferable and irrevocable duties:

- ultimately directing VAT Group AG and issuing the necessary directives,
- determining the organization,
- organizing the accounting, the internal control system (ICS), the financial control and the financial planning as well as performing a risk assessment,
- appointing and recalling the persons entrusted with the management and representation of VAT Group AG and granting signatory power,
- ultimately supervising the persons entrusted with the management, in particular with respect to compliance with the law, the Articles of Association, regulations and directives,
- preparing the annual report, as well as the shareholders' meeting and implementing the latter's resolutions,
- preparing the compensation report,
- informing the judge in the event of over-indebtedness,
- passing resolutions regarding the subsequent payment of capital with respect to non-fully paid-in shares and regarding the amendments to the Articles of Association entailed thereby,
- passing resolutions confirming increases in share capital regarding the preparation of the capital increase report and regarding the amendments to the Articles of Association entailed thereby,
- examining compliance with the legal requirements regarding the appointment, election and the professional qualifications of the auditors,
- executing the agreements pursuant to Articles 12, 36 and 70 of the Swiss Merger Act.

If the office of the Chairman of the Board of Directors is vacant, the Board of Directors shall appoint, for the time period until the conclusion of the next ordinary General Meeting, a substitute who must be a member of the Board of Directors.

3.6 Meetings of the Board of Directors

According to the Organizational Regulations[7], the Board of Directors meets at the invitation of the Chairman as often as required to fulfill its duties and responsibilities, but at least four times each year, or whenever a member or the CEO indicating the reasons requests so in writing. If the Chairman of the Board of Directors does not comply with such a request within ten working days, the Vice-Chairman of the Board of Directors will be entitled to convene such meetings.

Resolutions of the Board of Directors are passed with the majority of the votes cast. In the case of a tie, the Chairman has a casting vote. To validly pass a resolution, at least the majority of the members of the Board of Directors must attend the meeting or be present by telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Absent members cannot be represented. A resolution in writing is permitted, provided that no member of the Board of Directors requests oral deliberation. No quorum is required for confirmation resolutions and amendments of the Articles of Association[6] in connection with capital increases or measures related thereto pursuant to Articles 651a, 652e, 652g and 653g of the Swiss Code of Obligations. If a conflict of interest is believed to exist, a member of the Board of Directors shall abstain from voting upon all matters involving the interest at stake.

6 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.
7 The Organizational Regulations of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-vat-group-ag.

Members of the Group Excecutive Committee can attend meetings of the Board of Directors in an advisory capacity. The members of the Group Management Board attended all meetings of the Board of Directors at which the strategy of VAT Group or other specific topics related to their responsibilities were on the agenda.

3.7 Committees of the Board of Directors

In compliance with the Articles of Association[8], the Board of Directors issued Organizational Regulations[9] that govern tasks and areas of responsibility of the Board of Directors and its Committees as described in this section 3. They are regularly reviewed and updated.

The Board of Directors has established the Audit Committee (AC) and the Nomination and Compensation Committee (NCC), which aim to strengthen and support VAT Group AG's corporate governance structure. The Committees may conduct or authorize investigations within their areas of responsibility; if necessary, they may involve external experts.

The table below outlines the Committee memberships of the current members of the Board of Directors.

Board of Directors

	Audit Committee (AC)	Nomination and Compensation Committee (NCC)
Horst Heidsieck	Member	Chairman
Alfred Gantner	–	–
Urs Leinhäuser	Chairman	–
Ulrich Eckhardt	Member	Member
Karl Schlegel	–	Member

3.8 Audit Committee (AC)

In accordance with the AC charter[10], the AC consists of at least three members of the Board of Directors. The members of the AC are appointed by the Board of Directors. The term of office of the members of the AC is one year. Re-appointment is possible.

The AC is currently chaired by Urs Leinhäuser who is supported by Ulrich Eckhardt and Horst Heidsieck.

The AC assists the Board of Directors in fulfilling its duties to supervise management. In particular, the AC has the following duties:

- evaluating the external auditors, with regard to the fulfillment of the necessary qualifications and independence according to the applicable legal provisions, and making proposals to the Board of Directors concerning the choice of the external auditors,
- assessing the work performed by the external auditors and, upon request of the CFO, approving the budget for auditing fees,
- examining, reviewing and approving the accounting policies and the auditing plan of the internal and external audit,
- approving the necessary non-audit specific services provided by the external auditors,
- organizing and evaluating the work of the internal audit and issuing recommendations to the Board of Directors,
- reviewing the outcome of the annual accounts (including material items not shown on the annual balance sheet) of VAT Group AG and the VAT Group with the external auditor and the relevant members of the Group Executive Committee as well as issuing the necessary applications and recommendations to the Board of Directors,

8 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.
9 The Organizational Regulations of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-vat-group-ag.
10 The AC charter of VAT Group AG is published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/audit-committee-charter-of-vat-group-ag.

- discussion of the outcome of the annual audits and the reports of the internal audit with the external auditors and issuing the necessary applications and recommendations to the Board of Directors,
- interviewing the Group Executive Committee and the external and internal auditors regarding major risks, contingent liabilities and other responsibilities of the VAT Group as well as evaluating the respective measures taken by the VAT Group and issuing recommendations to the Board of Directors,
- assessing and assuring the cooperation of the external and the internal auditors and issuing recommendations to the Board of Directors,
- generally assessing the yearly business expenses of the members of the Group Executive Committee and issuing recommendations to the Board of Directors.

3.9 Nomination and Compensation Committee (NCC)

In accordance with the NCC charter[11], the NCC consists of at least three members of the Board of Directors. The members of the NCC are each elected by the shareholders' meeting. The term of office of the members of the NCC is one year. In this context, a year means the time period between one ordinary shareholders' meeting and the next or, if a member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next ordinary shareholders' meeting. Re-election is possible. If there are vacancies on the NCC, the Board of Directors shall appoint substitutes from amongst its members for the remaining term of office.

The NCC is currently chaired by Horst Heidsieck who is supported by Ulrich Eckhardt and Karl Schlegel.

The function of the NCC is to support the Board of Directors in establishing and reviewing a compensation strategy as well as in preparing the proposals to the shareholders' meeting regarding the compensation of the Board of Directors and the Group Executive Committee.

The NCC is responsible for preparing proposals to the full Board of Directors regarding:

- the compensation scheme of the VAT Group pursuant to the principles of art. 25 and 26 of the Articles of Association[12],
- the determination of compensation-related targets for the executive management,
- the approval of the individual compensation of the Chairman of the Board of Directors, the other members of the Board of Directors as well as the maximum individual aggregate compensation of the CEO,
- the individual compensation (fixed and variable compensation) of the members of the executive management as well as their further terms of employment and titles,
- amendments to the Articles of Association with respect to the compensation scheme for members of the executive management,
- mandates pursuant to art. 23 of the Articles of Association and further additional occupation of the members of the executive management.

Further duties and responsibilities may be provided in the Articles of Association, the Organizational Regulations[13] such as the NCC charter[11] or law.

Further information about the NCC and its duties is provided in the Compensation Report on pages 63 to 64.

3.10 Meetings of the Committees of the Board of Directors

According to the Organizational Regulations[13], the meetings of the Committees are convened by their Chairman, usually ahead of each ordinary Board of Directors meeting, and are held as often as required (NCC at least three times a year).

In order to perform their duties, at least half of the Committee members have to be present in person or participate in electronic communications. In any case a minimum attendance of two is required.

11 The NCC charter of VAT Group AG is published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/ncc-charter-of-vat-group-ag.
12 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.
13 The Organizational Regulations of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-vat-group-ag.

Resolutions or motions to the Board of Directors must be passed by a majority of the votes cast. Abstentions from voting are regarded as non-delivered votes. Resolutions and motions to the Board of Directors may also be made in writing, unless a member requires oral deliberation. Upon the invitation of its Chairman and in consultation with the Chairman of the Board of Directors and, if applicable, the CEO, other representatives of the Group Executive Committee and other persons may participate in the Committee's meetings. If a conflict of interest is believed to exist, a member of the Committee shall abstain from voting upon all matters involving the interest at stake.

The Committees inform the Board of Directors at the following regular meeting of the Board of Directors, in case of urgency also immediately.

3.11 Overview of meetings in 2016

During 2016, the Board of Directors held six informal calls to discuss current subjects between meetings. The NCC held 16 informal calls and meetings.

Formal Meetings and Conference Calls

	Board of Directors	AC	NCC
Total number of meetings/ calls in 2016	7	4	3
Horst Heidsieck	7	4	3
Alfred Gantner	6	–	1
Ulrich Eckhardt	7	4	2
Urs Leinhäuser	7	4	–
Karl Schlegel	7	–	2
KPMG	–	1	–
External Advisors	4	–	2
Average duration, approx. (in hours)	6	2	2

The CEO and the CFO attended all meetings and calls of the Board of Directors, all meetings of the AC and two formal and one informal meeting of the NCC. External advisors were invited to meetings of the Board of Directors on legal and operational topics and to meetings of the NCC on compensation and corporate governance topics.

3.12 Determination of areas of responsibility of Board of Directors and Group Executive Committee

The Board of Directors is responsible for the ultimate direction of VAT Group AG as well as the supervision of the Group Executive Committee. The Board of Directors attends to all matters which are not delegated to or reserved for another corporate body of VAT Group AG by applicable laws, the Articles of Association[14] or the Organizational Regulations.[15] The Board of Directors is regularly informed about developments of VAT Group AG and the VAT Group and decides upon proposals and reports provided by the Committees or the Group Executive Committee.

The Board of Directors delegated the executive management of VAT Group AG and of the VAT Group to the Group Executive Committee acting under the leadership of the CEO, subject to applicable laws and the Articles of Association[14]. Further, the Board of Directors may delegate the preparation, proposal and execution of its resolutions or the supervision of certain projects and topics to one or several members of the Board of Directors, to a Committee, to the CEO, or to one of the members of the Group Executive Committee.

14 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.
15 The Organizational Regulations of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-vat-group-ag.

3.13 Information and control instruments vis-à-vis the Group Executive Committee

Each Member of the Board of Directors can anytime require any information on every and all matters relating to VAT Group AG and its Group companies.

Meetings of the Board of Directors are attended by the CEO and the CFO and, whenever necessary by the COO. At each meeting, the Board of Directors is to be informed by the attending members of the Group Executive Committee on the current course of business and significant business transactions. This includes, but is not limited to a consolidated annual budget, monthly financial reportig, quarterly financial projections, profit and loss forecasts, monthly KPI reports and strategic risk management reports. Extraordinary events have to be reported immediately to the members of the Board of Directors by means of a circular, if necessary after prior information by phone, e-mail or fax. Any member of the Board of Directors may, anytime, require information or disclosure of business documents. Such requests are to be addressed in writing to the Chairman of the Board of Directors. As far as necessary for the completion of a task, each member of the Board of Directors may request the Chairman to provide him with accounts and files. Financial reports are submitted to the Board of Directors on a monthly basis. Full financial consolidation, including the cash flow statement, is performed on a monthly basis.

Based on the Organizational Regulations[16] of the Board of Directors, the AC has implemented a comprehensive system for monitoring and controlling the risks linked to the Company's business activities. This includes risk identification, analysis, control and periodical reporting to the AC. Operationally, the Group Executive Committee is responsible for controlling risk management. In addition, responsible persons are designated in the Company for significant individual risks and control activities, such as periodic internal audits of internal control systems.

An internal audit function was set up in 2016, reporting to the AC on completed audits and on the status of proposals from previous audits. PricewaterhouseCoopers (PwC) was appointed as co-sourcing partner for this function by the Board of Directors and will be supported by qualified staff from the finance and controlling departments of VAT Group AG dedicated to this function. The internal audit function will issue a risk report to the Board of Directors for the first time in 2017. The audit plan as approved by the AC includes three to four audits as well as two meetings with the AC per year.

4. Group Executive Committee

Subject to those affairs which lie within the responsibility of the Board of Directors according to Swiss law, the Articles of Association[17] and the Organizational Regulations[16], the Board of Directors has delegated the executive management of VAT Group AG to the Group Executive Committee acting under the leadership of the CEO. The Group Executive Committee is mainly responsible for the financial and operational management and for the efficiency of the corporate structure and organization of the VAT Group.

4.1 Members of the Group Executive Committee

The Group Executive Committee currently consists of three members, the CEO, CFO and COO, and is headed by the CEO.

The CEO is appointed and dismissed by the Board of Directors upon recommendation of the NCC. The other Group Executive Committee members are appointed and dismissed by the Board of Directors upon recommendation of the CEO and the NCC.

16 The Organizational Regulations of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-vat-group-ag.
17 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

As of December 31, 2016, the members of the Group Executive Committee were:

Heinz Kundert, CEO, was born in 1952 and is a Swiss citizen. Mr. Kundert was elected as a member of the Board of Directors of VAT Holding AG in 2014. In June 2015, Mr. Kundert was appointed CEO of the VAT Group.
Mr. Kundert has extensive experience in the semiconductor industry. Beginning in 1981, Mr. Kundert served in various management positions in Asia for Balzers AG (which later became Balzers & Leybold), a division of OerlikonBührle AG (later renamed Unaxis Holding AG), a global supplier of thin-film equipment for various applications. In 1991, he subsequently became the Head of Oerlikon-Bührle's Electronic Equipment Business Unit, and then, in 1995, he assumed responsibility for Balzers Process Systems. From 1999 to 2004, Mr. Kundert served as COO and then CEO of Unaxis Holding AG (later renamed OC Oerlikon AG). At Oerlikon-Bührle AG, Mr. Kundert participated in the acquisition of Leybold AG and the divestments of Pfeiffer AG and Inficon AG. Thereafter, Mr. Kundert worked as a strategy consultant until 2015. Between 2002 and 2015, Mr. Kundert served on the Board of Directors of SEMI International, a global semiconductor industry association serving the manufacturing supply chain for the micro- and nanoelectronics industries, in San Jose, CA, USA, and was elected Vice President in 2005. In 2005, he was also appointed President of SEMI Europe in Berlin. Mr. Kundert currently serves on the Board of Directors of Camox GP Ltd, an investment fund, (since 2014) and on the advisory board of the Fraunhofer Society in Germany (since 2010).

Mr. Kundert holds a federal certificate of mechanical engineering and a degree in industry management from ITA Switzerland as well as a degree in business management from the FAH I University of St. Gallen.

Andreas Leutenegger, CFO, was born in 1968 and is a Swiss citizen. Mr. Leutenegger joined the VAT Group as CFO in May 2015.
Mr. Leutenegger started his career in 1994 in the audit department of KPMG in Zurich. Between 1999 and 2004, he served as a Corporate Controller and then Head of Corporate Reporting at Holcim Group and between 2004 and 2010 he served as CFO of Siam City Cement Public Company Limited, a member of the Holcim Group at the time. From 2010 until 2015, he was Head of Group Controlling at Holcim Group.

Mr. Leutenegger holds a Master's degree in business administration from the University of St. Gallen, is a Swiss Certified Public Accountant and completed the Advanced Management Program (AMP 166) at Harvard Business School in 2004.

Kurt Trippacher, COO, was born in 1959 and is a German citizen. Mr. Trippacher joined the VAT Group in July 2015.
Mr. Trippacher started his career with NCR in Augsburg in 1983. Between 1994 and 1998, he was the Head of Global Procurement at Landis & Gyr AG. Between 1998 and 2003, he held various positions at ABB Ltd, where in his last position he was Supply Chain Manager both at the Group level and for the Power Technology division. From 2004 to 2013, Mr. Trippacher held several divisional COO and CEO positions at OC Oerlikon (formerly Unaxis AG), including, from 2005 to 2008, CEO of Oerlikon ESEC, a leading global manufacturer of die and wire bonding equipment for the semiconductor industry. Between 2014 and 2015, Mr. Trippacher worked as a consultant at OPEX Group and was a partner at SeestattExperts.

Mr. Trippacher holds a degree in business administration from the University of Applied Sciences Augsburg.

On October 14, 2016, the Company announced that Mr. Trippacher had decided to pursue opportunities outside of VAT Group AG and that he would leave the Company effective April 30, 2017. As announced by VAT Group AG in December 23, 2016, Jürgen Krebs has been appointed as new COO with effect as of July 1, 2017.

4.2 Mandates and other permitted activities

According to art. 23 of the Articles of Association[13], with the approval of the NCC, the members of the Group Executive Committee may have as a member of the Board of Directors or any other superior management or administrative body up to three mandates in publicly listed companies, up to five mandates in companies pursuant to art. 727 para. 1 number 2 of the Swiss Code of Obligations, and up to five mandates in other legal entities. Mandates are activities in the superior management or administrative bodies in legal entities that are obliged to register themselves in a Swiss commercial register or a foreign equivalent and which are not controlled by VAT Group AG, do not control VAT Group AG or do not constitute pension funds insuring employees of the VAT Group.

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

4.3 Management contracts

There are no management contracts with companies not belonging to the VAT Group.

4.4 Transactions of members of the Board of Directors or the Group Executive Committee

Detailed information regarding related party transactions with members of the Board of Directors and Group Executive Committee is provided on the website of SIX Swiss Exchange: https://www.six-exchange-regulation.com/de/home/publications/management-transactions.html.

5. Compensation of the Board of Directors and Group Executive Committee

5.1 Compensation, shareholdings and loans

Information on compensation and shareholdings of the members of the Board of Directors and the Group Executive Committee can be found in the Compensation Report starting on page 62. The provisions regarding the principles of performance-related compensation, the allocation of equity securities, participation plans, the additional amount for payments to members of the Group Executive Committee appointed after the vote on remuneration by the shareholder's meeting, as well as regarding loans, credits and pension benefits are set in art. 25 to 29 of the Articles of Association[13]. The rules regarding the approval of the remuneration by the shareholders' meeting are set in art. 12 of the Articles of Association[13].

According to the Articles of Association[18], VAT Group AG may not grant loans, credits, pension benefits other than from occupational pension funds or securities to members of the Board of Directors or the Group Excecutive Committee, advance paments of fees for lawyers, court fees and similar costs relating to the defence against corporate liability claims up to a maximum of CHF 1,000,000 are not subject to this provision. See also information provided in the Compensation Report on page 63, 67 and 68.

6. Shareholders' Participation

6.1 Voting rights restrictions

The identity of the owners or beneficiaries shall be entered in the share register stating first/last name (company name), domicile (registered seat), address and citizenship.

Voting rights may be exercised only after a shareholder has been registered in VAT Group AG's share register as a shareholder with voting rights. In shareholders' meetings, each shareholder has equal rights, including equal voting rights. According to the Articles of Association[13], each share carries one vote. All shares are entitled to dividends. At shareholders' meetings, shareholders may be represented by a proxy appointed in writing, a representative by law or the independent proxy. The proxy need not be a shareholder.

18 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

Under the Articles of Association[14] and after due consultation with the persons concerned, VAT Group AG is authorized to delete entries in the share register with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information. The person concerned has to be immediately informed about the deletion.

6.2 Independent proxy

The provisions of the Swiss Ordinance against Excessive Compensation provide that the Board of Directors must ensure that the shareholders are able to electronically grant proxies and instruct the independent proxy on (i) agenda items included in the invitation to the shareholders' meeting, and (ii) new motions which were not disclosed in the invitation to the shareholders' meeting. The independent proxy is required to exercise the voting rights granted by shareholders only in accordance with shareholder instructions. Further, absent express voting instructions, the independent proxy is required to abstain from voting. If VAT Group AG does not have an independent proxy, the Board of Directors shall appoint a substitute for the time period until the conclusion of the next ordinary shareholders' meeting.

At the extraordinary shareholders' meeting held on March 29, 2016, Mr. Roger Föhn of ADROIT, Kalchbühlstrasse 4, 8038 Zurich, Switzerland was elected as the independent proxy for the term ending at the conclusion of the next ordinary shareholders' meeting.

6.3 Quorums required

No statutory quorums other than those defined by Swiss corporate law and the Swiss Federal Merger Act apply. Any article of the Articles of Association[19] providing for a greater voting requirement than is prescribed by law or the existing Articles of Association must be adopted by a qualified majority of at least two thirds of the represented share votes and the absolute majority of the represented shares par value. The Articles of Association do not prescribe that a quorum of shareholders is required to be present at a shareholders' meeting.

6.4 Convocation of shareholders' meetings

Shareholders may be convened by the Board of Directors or, if necessary, by a company's statutory auditor or liquidator. The Board of Directors is further required to convene an extraordinary shareholders' meeting within two months if resolved at a shareholders' meeting or requested by one or more shareholders representing in aggregate at least 10% of VAT Group AG's nominal share capital registered in the commercial register.

Registered shareholders with voting rights individually or jointly representing at least 5% of the share capital of VAT Group AG may demand that items be put on the agenda. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 calendar days before the date of the shareholders' meeting and shall be in writing specifying the items and the proposals.

A shareholders' meeting is convened by publishing a notice of such meeting in the Swiss Official Gazette of Commerce at least 20 days before the date of the meeting. To the extent the post or e-mail addresses of the shareholders are known, notice shall be sent simultaneously by post or e-mail. The notice shall state the day, time and place of the meeting, the agenda, the proposals of the Board of Directors and the proposals of the shareholders who have requested the shareholders' meeting or that an item be included on the agenda.

19 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

6.5 Entry in the share register

The Articles of Association[20] do not specify the date by when shareholders have to be entered into the share register to participate in the shareholders' meeting. For organizational reasons, no shareholders will be registered 12 calendar days prior to the shareholders' meeting.

7. Change of control provisions

7.1 Duty to make an offer/Opting-out, opting-up

Under the Swiss Financial Market Infrastructure Act (FMIA), if a person acquires shares of a listed Swiss company exceeding more than 33⅓% of the voting rights, that person must make a takeover bid to acquire all of the other listed shares of that company. A company's Articles of Association may either eliminate this provision (opting-out) or may raise the relevant threshold to 49% (opting-up).

Art. 33 of VAT Group AG's Articles of Association[15] provide for a selective "opting-out" for the stated entities of Partners Group and Capvis, which are, when acting alone or in concert, exempted from the duties pursuant to the FMIA. This opting-out provision will automatically expire on December 31, 2020, meaning that if following such date any of the exempted persons (alone or acting in concert) newly exceeds the threshold of 33⅓% of the voting rights (whether exercisable or not) art. 135 FMIA will apply to that person as well.

7.2 Change of control

There are no change of control clauses for the members of the Board of Directors, except for the restricted shares, for which the three-year blocking period will be released in case of a successful takeover bid or the delisting of VAT Group AG. Information on the restricted shares is provided in the Compensation Report, page 64.

There are no change of control clauses for the members of VAT Group AG's Group Executive Committee or of senior management.

8. Auditors

The external auditor is elected for a period of one year at the shareholders' meeting. KPMG AG, St. Gallen, was appointed as statutory auditor and group auditor in 2016, auditing the consolidated financial statements and the individual financial statements of VAT Group AG. Mr. Toni Wattenhofer was named lead auditor in 2016. The holder of this office changes every seven years, in accordance with Swiss law.

In 2016, aggregate fees and expenses for KPMG's audit of VAT Group AG and the VAT Group amounted to CHF 0.3 million. Fees for audit-related services amounted to CHF 0.4 million. These services include assurance and accounting advise services, but mainly refer to attestation services in connection with the IPO (comfort letters).

KPMG rendered in 2016 additional tax services, mainly related to the IPO, in respect to compliance, tax returns and tax advice as well as other services including advice related to process improvements amounting to aggregate fees of CHF 1.0 million.

The Board of Directors is responsible for the supervision and control of the external audit process. Its remit includes reviewing internal and external audit reports; it is assisted by the AC when discharging this duty. The AC receives regular reports from representatives of the external auditor and it discusses these reports and evaluates their quality and comprehensiveness. The lead auditor in charge who represents the external auditor attended one meeting of the AC in the year under review. An overview of meetings and attendance can be found in section 3.11 herein.

20 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

9. Information Policy

VAT Group AG engages in transparent, timely and regular communication with its shareholders, the capital markets and the general public.

VAT Group AG publishes its annual results, interim reports (semi-annually) and quarterly trading updates on the dates listed in the financial calendar published on the Investor Relations website at www.vatvalve.com/InvestorRelations/Investor-relations/financial-calendar. The financial statements are prepared according to the International Financial Reporting Standards (IFRS). Printed annual reports are available upon request. All interim reports, Company press releases and ad-hoc publications are also available on the VAT Group AG's website, as are subscription services for all such publications.

VAT Group AG convenes media and investors conferences on a regular basis. Press releases and ad-hoc publications containing potentially price-sensitive information are published regularly and in accordance with the rules of the SIX Swiss Exchange. The SIX Swiss Exchange regulations can be found at www.six-exchange-regulation.com.

Information about the share price, annual results and interim reports, financial calendar, minutes of the annual shareholders' meeting, press releases as well as the Articles of Association are available at www.vatvalve.com/InvestorRelations/Investor-relations.

All upcoming dates can be found in the financial calendar on page 137 of this annual report.

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Notices to shareholders are validly made by publication in the Swiss Official Gazette of Commerce (Schweizerisches Handelsamtsblatt). The Board of Directors may designate further means for official publications. Notices of VAT Group AG to shareholders are to be made by official publications of VAT Group AG. Notices to shareholders may also be made in writing to the addresses of the shareholders recorded in the share register.

Compensation Report

The Compensation Report describes the compensation principles and programs as well as the governance framework related to the compensation of the Board of Directors and the members of the Group Executive Committee (GEC) of VAT Group AG. The report also provides details on the compensation awarded to members of the Board and GEC in the 2016 financial year.

The Compensation Report is written in accordance with the Swiss Ordinance against Excessive Compensation with respect to Listed Stock Corporations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the principles of the Swiss Code of Best Practice for Corporate Governance of economiesuisse.

1. Letter from the Nomination and Compensation Committee

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present VAT's first compensation report.

VAT looks back on a successful financial year 2016. Highlight was the initial public offering (IPO) on April 14, 2016, on SIX Swiss Exchange. The listing enhances the positioning of VAT as global market leader in the vacuum valves segment. VAT achieved strong operational results in 2016, confirming the expectations placed in our company. High demand in the display and semiconductor markets supported a substantial increase of order and sales volumes. Profitability was at expected levels despite investments in the future growth of our company.

The Board believes VAT's compensation system is key to attracting, motivating and retaining talented people who can strengthen the Company's leading global position in high-end vacuum valve technology. Our aim is to balance fixed and variable compensation and short- and long-term incentives so that management's interests are aligned with those of other stakeholders. In short, we want to create a culture of sustainable value creation.

In 2016, the NCC focused on nomination matters such as the search for a new COO, strengthening the succession pipeline for GEC positions, and identifying potential future candidates for the Board. Further, the NCC reviewed and refined the compensation philosophy and programs to ensure alignment with VAT's business strategy and long-term interests of shareholders, complying with the various regulations applying to a Swiss listed company. The NCC has developed a directive on Board compensation and proposes to implement a long-term incentive plan for GEC members. At the upcoming Annual General Meeting (AGM), we will seek shareholders' approval on the required adjustments to the Company's Articles of Association.

Throughout the year, the NCC performed its regular activities such as setting performance goals and assessing performance, determining the level of compensation for the Board and GEC members, as well as preparing the compensation report and the say-on-pay vote for the 2017 AGM. You will find further information on our activities and on VAT's compensation system and governance on the following pages.

This Compensation Report will be submitted to a non-binding, consultative shareholders' vote at the upcoming AGM. You will also be asked to vote on the maximum aggregate compensation amount of the Board for 2017 until the 2018 AGM, on the maximum aggregate amounts of fixed compensation of the GEC for the financial years 2017 and 2018, on the variable compensation amount paid out to GEC members for the financial year 2016 and on the maximum grant values for the GEC under the new long-term incentive plan for financial years 2017 and 2018.

We will continue to review our compensation programs to ensure they support the achievement of our business goals and are aligned to the interests of our shareholders. We trust that you will find this report interesting and informative.

NCC of VAT Group
Haag, March 30, 2017

2. Compensation Governance

2.1. Articles of Association

The Articles of Association of VAT can be found on the corporate website www.vatvalve.com/InvestorRelations/investor-relations/articles-of-association-vat-group-ag. The provisions on compensation in the Articles of Association include the principles of compensation applicable to the Board and the GEC, the structure of the shareholders' vote on compensation and provisions on credit and loans. Those provisions as well as the suggested amendments that will be submitted to a shareholders' vote at the 2017 AGM are summarized in section 7 "Compensation changes for 2017."

2.2. Nomination and Compensation Committee

In accordance with the NCC charter[1], the NCC consists of at least three members of the Board. The members of the NCC are each elected by the shareholders' meeting. The term of office of the members of the NCC is one year. Currently, Horst Heidsieck (Chairman), Ulrich Eckhardt und Karl Schlegel are members of the NCC.

It is the responsibility of the Nomination and Compensation Committee to:

- periodically review the company's compensation policy and principles applicable to the GEC,
- annually review and propose to the Board the total compensation of the CEO and other members of the GEC,
- prepare all relevant Board proposals and recommendations related to the nomination and compensation of the members of the Board and of the GEC.

Additional information on the responsibilities of the NCC is provided in section 3.9 of the Corporate Governance Report on page 54.

The NCC acts in a preparatory capacity while the Board retains the decision authority on compensation matters, except for the maximum aggregate compensation amounts of the Board and of the GEC, which are subject to shareholders' approval at the AGM. The approval and authority levels of the different bodies on compensation matters are detailed in Table 1.

Table 1: Decision authorities in compensation matters

	CEO	NCC	Board	AGM
Maximum aggregate compensation amount Board		Proposes	Reviews	Approves
Individual compensation of Board members		Proposes	Approves	
Group compensation policy and principles		Proposes	Approves	
Maximum aggregate compensation amount GEC		Proposes	Reviews	Approves
Performance target setting and assessment of CEO		Proposes	Approves	
Performance target setting and assessment of GEC members	Proposes	Reviews	Approves	
CEO compensation		Proposes	Approves	
Individual compensation of other GEC members	Proposes	Reviews	Approves	
Compensation report		Proposes	Approves	Consultative vote

The NCC meets as often as business requires, but at least three times a year. In 2016, the NCC held three formal meetings and 16 informal meetings and conference calls. Details on meeting attendance of the individual NCC members are provided in section 3.11 of the Corporate Governance Report on page 55.

1 The NCC charter of VAT Group AG is published at www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/ncc-charter-of-vat-group-ag.

The Chairman of the NCC reports to the Board on the activities of the Committee after each meeting. The minutes of the NCC meetings are available to all members of the Board. The Chairman of the NCC may decide to invite executives to attend the meetings as appropriate. Executives do not attend the meeting when their own compensation and/or performance are being discussed.

The NCC may decide to consult external advisors for specific compensation matters. In 2016, Lilja & Co. were mandated to provide services related to corporate governance and executive compensation matters. Lilja & Co. were also mandated to provide independent IPO advisory by VAT Holding S.à r.l. from November 2015 to July 2016.

3. Compensation principles

VAT Group's compensation principles support the Company's business strategy and foster the commitment of all employees to the Company's long-term goals. The compensation principles are:
- internal fairness,
- reward for performance,
- focus on sustainable long-term value creation,
- alignment to shareholders' interest,
- compensation competitive with relevant benchmarks,
- straightforward and transparent programs.

4. Compensation structure: Board of Directors

Members of the Board receive a fixed compensation consisting of both cash and restricted shares, which is aimed at better aligning their economic interests with the long-term interests of shareholders.

The compensation period relates to the term of office, which starts with the election at the ordinary AGM and ends at the next ordinary AGM. The compensation of the Board is benchmarked against the compensation of non-executive Board members of publicly traded companies in Switzerland that are comparable to VAT in terms of size and consists of a fixed basic fee and additional fixed fees for membership in its Committees. The amount of the fixed basic fee and the fixed Committee fees reflect the responsibility and time requirement inherent to the function, as illustrated in Table 2. Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of the VAT Group.

Table 2: Structure and levels of Board compensation

In CHF per year (gross)	Chairman of the Board	Member of the Board
Fixed basic fee	200,000	75,000
	Chairman of the Committee	**Member of the Committee**
Audit Committee (AC)	25,000	10,000
Nomination and Compensation Committee (NCC)	25,000	10,000

70% of total compensation is awarded in cash and 30% is awarded in restricted shares. The restricted shares are subject to a three-year blocking period during which they cannot be transferred, sold, pledged or otherwise disposed of. The blocking period of the restricted shares can only lapse prior to the predefined date of unblocking (and will do so automatically) in case of death or due to a successful takeover bid or the delisting of the company.

In exceptional circumstances, members of the Board may be asked to perform special tasks or projects that go beyond their function and normal duties of their mandate. Such additional work may be compensated at a daily rate of maximum CHF 3,500 (gross) in cash. Further, Board members receive a lump sum expense reimbursement of CHF 1,500 (gross) per annum in cash to cover all expenses that occur in relation to meetings of the Board or its Committees, as well as shareholder meetings.

The cash compensation is paid out on a quarterly basis and the restricted shares are allocated and transferred to each Board member's depository account within one month after the end of the compensation period. The number of restricted shares is determined by dividing 30% of each Board member's compensation by the average closing share price over the last 20 trading days prior to the AGM preceeding the payment and rounded up to the next whole number of shares.

5. Compensation structure: GEC

In the context of the IPO process, the compensation of the GEC was benchmarked against a group of companies. This group consisted of two Swiss companies active in the vacuum industry (Comet and Inficon) as well as selected companies of the Swiss Performance Index of comparable size to VAT, measured in terms of free-float market capitalization, sales, EBITDA and employees (APG SGA, Bossard, Burckhardt Compression, Huber + Suhner, Siegfried, Tecan).

The compensation structure of GEC members consists of several elements: a fixed remuneration comprising an annual base salary (ABS) and benefits, a variable component consisting of an annual cash incentive (Variable Cash Compensation, STI) and, starting in 2017, a long-term share-based remuneration (LTI) (subject to shareholder approval) as illustrated in Table 3.

Table 3: Structure of compensation for GEC

	Program	Purpose	Plan period
ABS	Monthly cash	Attract and retain	Continuous
STI	Cash bonus	Reward annual financial and individual performance	1 year
LTI	Share plan	Reward long-term performance Align to shareholder's interests	3 years
Benefits	Pension and insurances	Protect against risks	Continuous
Non tangible rewards such as work environment and culture, personal development and career opportunities			

5.1. Annual base salary

The ABS is a fixed component of compensation paid in cash, typically monthly. It reflects the scope and key responsibilities of the role as well as the qualification and skills required to perform the role, along with the employee's skill set and experience.

The ABS is reviewed annually on the basis of the following factors:

- external benchmark: market value of the role,
- internal benchmark: internal pay structure and internal peer comparison,
- individual profile and past performance of the employee,
- financial considerations such as budget and affordability.

5.2. Variable Cash Compensation (STI)

The STI is designed to drive outstanding performance throughout the organization by closely aligning compensation with the achievement of annual financial and non-financial objectives.

These objectives, disclosed in Table 4 on the following page, are set as part of the annual performance management process. For the CEO, performance objectives are proposed by the NCC and approved by the Board. For the other GEC members, performance objectives are proposed by the CEO, reviewed by the NCC and approved by the Board at the beginning of the financial year. The GEC's performance against those objectives is assessed, and the corresponding STI payment approved, by the Board after year-end.

The target STI value is expressed as a percentage of ABS and amounts to 75% for the CEO and between 50% and 75% for the other GEC members, assuming they achieve an average performance achievement of 100%. The plan also includes a minimum performance threshold below which the STI payout is zero, and a maximum level of performance above which the payout factor is capped at 150% of the target STI value.

Table 4: STI performance objectives for the CEO and other GEC members in 2016*

	CEO	CFO	COO
Focus in 2016	Free cash flow Growth	Free cash flow IPO Profitability	Free cash flow Productivity
Performance objectives	Free cash flow (50%) Net sales (16.7%)* OEM contracts (16.7%)* Orders (16.7%)*	Free cash flow (50%) Achievement of IPO schedule (25%) Group EBITDA margin (25%)	Free cash flow (50%) Productivity (12.5%)* Working capital (12.5%) Net sales (12.5%)* Procurement savings (12.5%)

* Those objectives relate to a certain product, segment or division. The company does not disclose certain internal financial and strategic targets as they are considered commercially and competitively sensitive information. Communicating such objectives in detail would allow significant insight into the strategy of VAT and therefore may create a competitive disadvantage for the Company. Therefore, the decision was made not to disclose the specifics of those objectives at the time of their setting, but to provide a general comment on the performance at the end of the cycle.

The STI is paid out latest by June 30 of the following year.

5.3. Long-term Incentive (LTI)

Subject to shareholder approval of the changes to the Articles of Association, a LTI plan will be implemented starting in the financial year 2017 to further enhance a culture of sustainable value creation for the company and its shareholders. Information on the LTI plan is provided in section 7 “Compensation changes for 2017.”

5.4. Benefits

GEC members participate in the benefits plan available in the country of their employment contract. Benefits consist mainly of retirement, insurance and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents with respect to retirement, risk of disability, death and illness/accident. The current members of the GEC are all employed under a Swiss employment contract. They participate in VAT’s pension plan offered to all employees in Switzerland, in which a base salary and the Variable Cash Compensation are insured up to the maximum amount permitted by law. VAT’s pension benefits exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors’ and Disability Pension Plans (BVG) and are in line with what other international industrial companies offer.

In addition, GEC members are eligible for standard benefits, such as a representation allowance and other benefits in kind, according to competitive market practice. The monetary value of these other elements of compensation is evaluated at fair value and is disclosed in the compensation tables.

5.5. Employment contracts

GEC members are employed under employment contracts of unlimited duration with a notice period of six months. GEC members are not contractually entitled to termination payments or any change-of-control provisions.

6. Compensation awarded to the Board and to GEC in 2016

6.1. Compensation awarded to the Board in 2016 (Audited)

For 2016, the members of the Board received a total compensation of CHF 481,720 in the form of fixed basic fee of CHF 375,000, Committee fees and other expenses of CHF 73,125 and social security contributions of CHF 33,595. Out of the total compensation of CHF 481,720, CHF 132,750 are awarded in form of shares.

Table 5: Compensation of the Board in 2016

2016 (CHF)	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Horst Heidsieck	150,000	26,250	1,125	12,506	189,881	52,875
Alfred Gantner	56,250	0	1,125	4,469	61,844	16,875
Ulrich Eckhardt	56,250	15,000	1,125	5,637	78,012	21,375
Urs Leinhäuser	56,250	18,750	1,125	5,928	82,053	22,500
Karl Schlegel	56,250	7,500	1,125	5,053	69,928	19,125
Total	375,000	67,500	5,625	33,595	481,720	132,750

The total compensation of CHF 481,720 awarded for the financial year 2016 is within the maximum aggregate compensation amount of CHF 710,000 approved by the shareholders.

In the year under review, no compensation was paid to former members of the Board or to closely related parties to members or former members of the Board.

No member, former member, or closely related parties of the Board were granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

6.2. Compensation awarded to the GEC in 2016 (Audited)

In 2016, the members of the GEC received a total compensation of CHF 2.1 million. This amount comprises fixed annual base salaries of CHF 1.0 million, Variable Cash Compensation (STI) of CHF 0.8 million, other expenses of CHF 5,000 and contributions to social security and post-employment benefits of CHF 0.3 million. The variable compensation amounts to 82% of the fixed compensation for the CEO and 74% on average for the other GEC members.

Table 6: Compensation of the GEC in 2016

2016 (CHF)	ABS	Other payments	Pension & social security (Fix)	Total fix compensation	STI payout[1]	Pension & social security (STI)	Total STI compensation	Total compensation
Heinz Kundert	400,000	0	74,057	474,057	329,749	56,778	386,527	860,584
Other GEC	609,200	4,800	118,618	732,618	458,847	79,668	538,515	1,271,133
Total GEC	1,009,200	4,800	192,675	1,206,675	788,596	136,446	925,042	2,131,717

1 STI for 2016 that will be paid out until June 30, 2017

Explanatory comments to the compensation table:

The financial year 2016 has been a strong year for VAT with 23.6% net sales growth and 32.3% profitability increase (earnings before interest and tax) versus previous year. In the variable cash compensation, the achieved free cash flow of CHF 128 million is above set target resulting in a payout of 106%. Individual targets contribute to an overall performance achievement of 110% for the CEO and 102% on average for the other GEC members. The total fixed compensation of CHF 1.2 million (including pension and social security contributions) awarded for the financial year 2016 is within the maximum aggregate compensation amount of CHF 1.3 million approved by the shareholders. The Variable Cash Compensation of CHF 0.9 million (including pension and social security contributions) will be submitted to shareholders' vote at the 2017 AGM.

In the year under review, no compensation was paid to former members of the GEC or to closely related parties to members or former members of the GEC.

No member or former member of the GEC was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

6.3. Shareholdings as of December 31, 2016

At the end of 2016, members of the Board held a total of 47,336 registered shares of VAT Group AG. GEC members held a total of 271,109 registered shares of VAT Group AG.

At the end of 2016, members of the Board and the GEC did not hold any stock options.

The details on shareholdings of the members of the Board and the GEC is included in note 4.3 of the statutory financial statements of VAT Group AG on page 127 of the Annual Report.

7. Compensation changes for 2017

This section informs about compensation decisions and changes that will take effect as of financial year 2017.

7.1. Changes to the Articles of Association

The Board proposes to amend some provisions of the Articles of Association[2]. Those amendments are necessary in order to be able to grant share-based compensation to GEC members under the new LTI plan. The current provisions of the Articles of Association related to compensation, and the proposed changes are summarized in Table 7.

Table 7: Articles of Association: provisions on compensation

	Current key provisions	Proposed amendments to be submitted to vote at 2017 AGM
Compensation principles (Board) Article 25	Members of the Board shall receive a fixed basic fee and fixed fees for memberships in Committees of the Board, as well as lump sum compensation for expenses. The compensation may be awarded in cash and in shares. In exceptional cases, the Board members may be awarded a bonus.	In line with the guidelines of the Swiss Code of Best Practice for Corporate Governance of economiesuisse, the Board proposes to delete the provision of the Articles of Association that allows for exceptional bonus payments to Board members.
Compensation principles (GEC) Article 26	Compensation of members of the GEC consists of a fixed cash compensation and a performance-based cash compensation (Variable Cash Compensation) based on the achievement of financial and business performance objectives over a period of one year.	The Board proposes to add a set of provisions to grant share-based awards to GEC members and other executives, the vesting of which shall be conditional upon the achievement of performance conditions over several years. Terms and provisions of share-based awards shall be determined by the Board and documented in a plan rules document.
Compensation vote Article 12	Shareholders approve the maximum aggregate compensation amount for the Board for the upcoming term until the next ordinary AGM. Shareholders approve the maximum aggregate amount of fixed compensation for the GEC for the following financial year and the aggregate amount of variable compensation to be awarded for the preceding financial year.	The Board proposes to add a provision on the voting procedure for the share-based compensation: shareholders shall annually approve the maximum aggregate amount to be granted to GEC members in the following financial year.
Additional compensation amount Article 29	For each GEC member newly appointed after the approval of the maximum aggregate compensation amount, the company may pay an aggregate compensation of up to 50% of the last aggregate compensation amount approved by the AGM.	No change.
Credit and loans Article 28	The Company shall not grant loans, credits, pension benefits other than from occupational pension funds to the members of the Board or GEC.	No change.

2 The Articles of Association of VAT Group AG are published at www.vatvalve.com/InvestorRelations/investor-relations/articles-of-association-vat-group-ag.

7.2. Long-term incentive (LTI)

In the context of the IPO, the Board has proposed the introduction of an LTI plan for GEC members and other executives, in order to motivate executives to create value for the company and its shareholders in a sustainable manner.

Consequently, part of the STI will be converted into an LTI awarded in the form of performance share units, subject to a three-year cliff vesting period depending on the achievement of the following performance conditions:

– relative net sales growth, with a 50% weight,
– relative total shareholder return (TSR), with a 50% weight.

Relative net sales growth and relative TSR performance will be compared to peer companies and expressed as a percentile rank, which determines a payout factor between 0 and 200% as follows:

– ranking below the lower quartile of the peer group (threshold): 0% payout,
– ranking at the lower quartile of the peer group: 25% payout,
– ranking at the median of the peer group: 100% payout,
– ranking at the upper quartile of the peer group: 150% payout,
– ranking as best of the peer group (cap): 200% payout,
– linear interpolation between those points.

This LTIP is specifically designed for rewarding the performance of VAT relative to a selected peer group of companies. The peer group is confirmed by the Board prior to the annual grant of performance share units and may be adjusted if required due to corporate events such as merger, acquisition, business combination transaction, delisting or bankruptcy of peer companies. The peer group is illustrated in Table 8.

Table 8: Peer group for the 2017 grant

Advantest	Applied Materials	ASM international	ASML	Belimo
Brooks Automation	Comet	dormakaba	Geberit	Hitachi High-Technologies
Inficon	KLA-Tencor	LAM Research	LEM	MKS
Pfeiffer Vacuum	SMC	Teradyne	Tokyo Electron	Ulvac

7.3. Clawback and malus provisions

Starting in the financial year 2017, clawback and malus provisions will apply on STI and LTI awards for GEC members and other executives: if VAT (or one of its companies) is required to prepare an accounting/financial restatement, the Board will determine the amount of variable compensation that would have been due under the restated financial results. VAT will have the right to forfeit (malus provision) and/or to obtain reimbursement (claw-back provision) of any parts of the variable compensation that were paid or granted in excess of the amount so determined. This forfeiture or clawback will be limited to accounting/financial restatements of the previous three financial years and to variable compensation whose amount is determined, exclusively or in combination with other performance metrics, on the basis of the financial results and performance of VAT as reported in its financial statements.

Report of the Statutory Auditor

To the General Meeting of Shareholders of VAT Group AG, Sennwald

We have audited the remuneration report dated 29 March 2017 of VAT Group AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinace against Excessive compensation in Stock Exchange Listed Companies contained in the tabels 5 and 6 of section 6 on page 67 and 68 of the compensation report.

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

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

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

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2016 of VAT Group AG complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Toni Wattenhofer Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, 30 March 2017

Financial Statements

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

Consolidated financial statements for the financial year from January 1 to December 31, 2016

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2016	2015
Net sales	**6**	**507,901**	**410,959**
Raw materials and consumables used		–186,293	–150,929
Changes in inventories of finished goods and work in progress		–3,603	985
Personnel expenses	7	–118,784	–104,334
Other income	8	3,087	2,192
Other expenses	9	–52,755	–39,236
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**149,553**	**119,637**
Depreciation and amortization	18,19,20	–31,287	–30,227
Earnings before interest and taxes (EBIT)[1]		**118,266**	**89,410**
Finance income	10	7,291	2,575
Finance costs	10	–37,674	–71,427
Earnings before income taxes		**87,883**	**20,558**
Income tax expenses	11	–20,651	–13,497
Net income attributable to owners of the Company		**67,233**	**7,061**
Earnings per share (in CHF)			
Basic earnings per share	29	2.43	0.34
Diluted earnings per share	29	2.42	0.34

1 Interest includes other items reported in the financial results.

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2016	2015
Net income attributable to owners of the Company		67,233	7,061
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	26	–9,115	2,650
Related tax	11	1,586	–461
Subtotal		**–7,529**	**2,189**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		–4,247	0
Related tax	11	758	0
Currency translation adjustments		–4,419	4,553
Subtotal		**–7,908**	**4,553**
Other comprehensive income for the period (net of tax)		**–15,437**	**6,742**
Total comprehensive income for the period attributable to owners of the Company		**51,796**	**13,803**

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As of December 31 In CHF thousand	Note	2016	2015
Assets			
Cash and cash equivalents	12	62,642	80,601
Trade and other receivables	13	94,353	72,679
Receivables under finance lease	14	2,483	2,183
Derivative financial instruments	15	1,485	0
Prepayments and accrued income	16	651	1,119
Financial assets at fair value through profit and loss		30	27
Inventories	17	56,587	57,966
Current tax assets	11	1,148	955
Current assets		**219,379**	**215,530**
Property, plant and equipment	18	116,128	115,002
Investment properties	19	4,382	4,607
Intangible assets and goodwill	20	530,500	544,668
Long-term loans		217	283
Trade and other receivables	13	1,253	1,166
Receivables under finance lease	14	6,175	8,453
Derivative financial instruments	15	199	21
Deferred tax assets	11	5,197	3,745
Non-current assets		**664,050**	**677,945**
Total assets		**883,429**	**893,475**

As of December 31 In CHF thousand	Note	2016	2015
Liabilities			
Trade and other payables	22	50,617	28,779
Loans and borrowings	21	36,505	1,461
Provisions	25	1,248	846
Derivative financial instruments	15	6,145	7,102
Accrued expenses and deferred income	23	18,068	10,144
Liabilities from government grants	24	444	449
Current tax liabilities	11	17,540	13,595
Current liabilities		**130,566**	**62,376**
Loans and borrowings	21	160,000	707,763
Derivative financial instruments	15	995	648
Liabilities from government grants	24	1,421	1,885
Other non-current liabilities		165	0
Deferred tax liabilities	11	51,197	50,825
Defined benefit obligations	26	28,436	20,789
Non-current liabilities		**242,214**	**781,910**
Total liabilities		**372,780**	**844,286**
Equity			
Share capital	28	3,000	30
Share premium	28	493,745	87,530
Remeasurements of defined benefit obligations	28	–16,839	–9,310
Other reserves		2,455	0
Hedging reserves	28	–3,595	–106
Translation reserves	28	–43,111	–38,692
Treasury shares	28	–4,950	0
Retained earnings		79,943	9,737
Total equity attributable to owners of the Company		**510,649**	**49,189**
Total liabilities and equity		**883,429**	**893,475**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Remeasurements of DBO[2]	Other reserves	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Holding S.à r.l.									
Equity as of 01.01.2015	**30**	**87,530**	**–11,499**	**0**	**–106**	**–43,245**	**0**	**2,676**	**35,386**
Net income attributable to owners of the Company								7,061	7,061
Total comprehensive income for the period attributable to owners of the Company			2,189			4,553			6,742
Equity as of 31.12.2015	**30**	**87,530**	**–9,310**	**0**	**–106**	**–38,692**	**0**	**9,737**	**49,189**
VAT Group AG									
Equity as of 01.01.2016[1]	**30**	**87,530**	**–9,310**	**0**	**–106**	**–38,692**	**0**	**9,737**	**49,189**
Net income attributable to owners of the Company								67,233	67,233
Total comprehensive income for the period attributable to owners of the Company			–7,529		–3,489	–4,419			–15,437
Incorporation of VAT Group AG	100								100
Effect of business restructuring	2,870	411,223							414,093
Own shares acquired							–4,950		–4,950
Reclassification		–2,455		2,455					0
Transaction costs (net of tax)		–2,553							–2,553
Share-based payments (net of tax)								2,973	2,973
Equity as of 31.12.2016	**3,000**	**493,745**	**–16,839**	**2,455**	**–3,595**	**–43,111**	**–4,950**	**79,943**	**510,649**

1 See note 2
2 DBO: Defined benefit obligations

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2016	2015
Net income attributable to owners of the Company		**67,233**	**7,061**
Adjustments for:			
Depreciation and amortization	18,19,20	31,287	30,227
(Profit)/loss from disposal of property, plant and equipment	9	277	–173
Change in defined benefit liability		–1,501	1,253
Net impact from foreign exchange		–1,808	–1,210
Income tax expenses	11	20,651	13,497
Net finance costs		27,652	68,852
Transaction costs in connection with the IPO[1]		5,543	0
Other non-cash effective adjustments		–141	–348
Change in trade and other receivables		–19,018	–3,369
Change in prepayments and accrued income		501	–357
Change in inventories		1,436	–792
Change in trade and other payables		20,124	13,129
Change in accrued expenses and deferred income		7,803	2,738
Change in provisions		411	–63
Cash generated from operations		**160,450**	**130,445**
Income taxes paid		–14,094	–12,980
Cash flow from operating activities		**146,356**	**117,465**
Purchases of property, plant and equipment	18	–15,852	–9,919
Proceeds from sale of property, plant and equipment		666	954
Purchases of intangible assets	20	–3,313	–3,021
Loans granted or repaid		72	51
Interest received	10	100	89
Other finance income received		55	2
Cash flow from investing activities		**–18,272**	**–11,844**
Proceeds from the issue of ordinary shares	28	100	0
Purchase of own shares	28	–4,950	0
Transaction costs in connection with the IPO[1]		–8,332	0
Proceeds from borrowings		228,821	0
Repayments of borrowings		–350,894	–82,682
Interest paid		–10,588	–15,824
Other finance expenses paid		–363	–306
Cash flow from financing activities		**–146,206**	**–98,812**
Net increase/(decrease) in cash and cash equivalents		**–18,121**	**6,809**
Cash and cash equivalents at beginning of period		80,601	74,758
Effect of movements in exchange rates on cash held		162	–966
Cash and cash equivalents at end of period		**62,642**	**80,601**

1 Includes stamp tax and consulting fees

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

1. General information

VAT Group AG ("the Company") was incorporated in Switzerland on February 25, 2016. The registered office of the Company is Seelistrasse 1, CH-9469 Haag, Switzerland.

The consolidated financial statements as at and for the year ended December 31, 2016, comprise VAT Group AG and all companies under its control (together referred to as "VAT" or "Group").

The Group develops, manufactures and sells vacuum valves for the semiconductor, displays, photovoltaics and vacuum-coating industries as well as for the industrial and research sector.

These consolidated financial statements were authorized for issue by the Group's Board of Directors on March 30, 2017.

2. Significant changes in the current reporting period

Following reorganizations on March 29, 2016, VAT Group AG became the ultimate holding company of the Group. The course of the reorganization can be described as follows:

As of January 1, 2015, and until March 29, 2016, VAT Holding S.à r.l., a limited liability company (société à responsabilité limitée) incorporated and domiciled in Luxembourg, was the ultimate holding company. The audited financial statements as of December 31, 2015 were prepared under this structure. On March 29, 2016, following legal reorganizations, VAT Group AG became the direct parent entity to VAT Holding S.à r.l. and hereby the ultimate holding company of the Group. During this business restructuring on March 29, 2016, the shareholder loan as well as investments in VAT Holding S.à r.l. and VAT Management S.à r.l. were taken over by VAT Group AG in exchange for shares leading to an increase in share premium of CHF 411.2 million as detailed in notes 21 and 28. Subsequently, on April 14, 2016, VAT Group AG made an Initial Public Offering (IPO) in Switzerland and was listed on the SIX Swiss Exchange.

In accordance with the International Financial Reporting Standards (IFRS) the aforementioned reorganizations are not considered to be business combinations under IFRS 3 Business Combinations, but rather the continuation of the existing business activities of the Group with a new parent entity. This means that the parent company at the reporting date is considered to have been the parent company throughout the reporting periods, including those where comparative financial information is presented. Equity figures for the comparative period are based on actual circumstances, and therefore presented for the preceding ultimate holding company VAT Holding S.à r.l.. A detailed reconciliation is set out in note 28.

3. Basis of accounting

The consolidated financial statements of the Group have been prepared in accordance with IFRS.

These consolidated financial statements have been prepared on the historical cost basis, except for items that are required to be accounted for at fair value (e.g. derivative financial instruments) and the defined benefit liability which is measured at the present value of the defined benefit obligation less the fair value of plan assets.

The accounting policies adopted are consistent with those of the previous financial year (last annual consolidated financial statements of VAT Holding S.à r.l. as of December 31, 2015), except for the adoption of new and amended standards as set out in note 35.

Details to the Group's accounting policies are included in note 36.

4. Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates. Estimates and underlying assumptions are reviewed frequently. Revisions to estimates are recognized prospectively. Important estimates and assumptions with the related uncertainties were primarily made in the following areas:

a) intangible assets and goodwill, see note 20,
b) property, plant and equipment, see note 18,
c) income taxes, see note 11,
d) employee benefits, see note 26.

5. Functional and presentation currency

These consolidated financial statements are presented in Swiss Francs, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

6. Segment information

Background

As set out in the annual consolidated financial statements of VAT Holding S.à r.l. for the year ended December 31, 2015, on October 1, 2015, the Board of Directors approved a modified segment reporting structure. The corresponding segment reporting was introduced accordingly. As a result of the new organization, in the previous year no information regarding segment assets and liabilities were provided to the Board of Directors and the Group Executive Committee in the role as Chief Operating Decision Maker (CODM).

Basis of segmentation

The Group is divided into and managed on the basis of three reporting segments. The segments are identified based on the products and services provided: Valves, Global Service and Industry.

- **Valves**: The Valves segment is a global developer, manufacturer and supplier of vacuum valves for the semiconductor, displays, photovoltaics and vacuum coating industries as well as for the industrial and research sector. Valves are also integrated into customized modules to optimize vacuum performance, footprint and the supply chain of VAT's customers. The segment maintains manufacturing plants in Switzerland, Romania and Malaysia and a worldwide network of sales locations.
- **Global Service**: Global Service provides local expert support to customers and offers genuine spare parts, repairs and upgrades. Service centers across the globe ensure end users that the vacuum equipment is running at its best performance level in order to optimize total cost of ownership and increase productivity.
- **Industry:** The Industry segment combines the activities of Comvat and Sysmec. Comvat is one of the leaders in the production of edge-welded bellows and specialized in automating processes. Comvat maintains a plant in Switzerland were it produces the bellows in a clean room of class ISO 5 to 7. Sysmec is well situated in the machining ancillary industry and offers manufacturing parts and mechanical components in the medium service range. Sysmec maintains a plant in Romania.

Corporate and eliminations

Inter-company transactions, balances, income and expenses between segments are eliminated and reported in the column "Corporate and eliminations." In addition, this column contains figures relating to the cross functions Corporate Research, Corporate Quality, Corporate Finance, HR and IT.

While net sales in the segments Valves and Industry only arise from sales of goods, net sales in the segment Global Service of CHF 13.7 million came from sales of services.

The segment information provided to the CODM is measured in a manner consistent with that of the financial statements. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Therefore a profit measure based on EBITDA is reported by segment. Sales between segments are carried out at arm's length and are eliminated on consolidation. Since 2016, sales from Valves to Global Service are also included as inter-segment sales. Segment assets are measured in the same way as in the financial statements and allocated based on the operations of the segment and the physical location of the asset.

Information about reportable segments

January 1–December 31, 2016 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	394,571	81,934	31,396	507,901	–	507,901
Inter-segment sales	32,160	–	15,368	47,528	–47,528	–
Segment net sales	**426,731**	**81,934**	**46,764**	**555,429**	**–47,528**	**507,901**
Segment EBITDA	**129,320**	**40,450**	**10,348**	**180,118**	**–30,565**	**149,553**

January 1–December 31, 2015 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	309,588	69,829	31,542	410,959	–	410,959
Inter-segment sales	–	–	14,199	14,199	–14,199	–
Segment net sales	**309,588**	**69,829**	**45,741**	**425,158**	**–14,199**	**410,959**
Segment EBITDA	**97,963**	**35,839**	**9,782**	**143,584**	**–23,947**	**119,637**

As of December 31, 2016 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	595,235	124,396	71,296	790,927	4,382	795,309
Segment liabilities	31,039	5,696	3,916	40,651	209	40,860
Segment net operating assets	**564,196**	**118,700**	**67,380**	**750,276**	**4,173**	**754,449**
Of which net trade working capital	84,936	9,393	9,318	103,648	–209	103,438

As of December 31, 2015 In CHF thousand	Valves[1]	Global Service[1]	Industry	Total segments	Corporate and eliminations	Total
Segment assets	–	–	71,884	71,884	708,768	780,652
Segment liabilities	–	–	1,602	1,602	19,984	21,586
Segment net operating assets	**–**	**–**	**70,282**	**70,282**	**688,784**	**759,066**
Of which net trade working capital	–	–	9,668	9,668	85,121	94,789

1 For the financial year ending December 31, 2015, no information regarding assets and liabilities were provided to the CODM.

Net operating assets by reportable segment include trade receivables, inventories, property, plant and equipment, investment properties, intangible assets and goodwill as well as trade payables. Intangible assets and goodwill are allocated to the segments based on quotes defined as a result of the purchase price allocation.

Reconciliation of segment results to income statement and balance sheet

Income statement

January 1–December 31 In CHF thousand	2016	2015
Segment EBITDA	180,118	143,584
Corporate and eliminations	–30,565	–23,947
Depreciation and amortization	–31,287	–30,227
Finance costs net	–30,383	–68,852
Earnings before income taxes	**87,883**	**20,558**

Assets

As of December 31 In CHF thousand	2016	2015
Segment assets	790,927	71,884
Corporate and eliminations	4,382	708,768
Cash and cash equivalents	62,642	80,601
Other assets[1]	25,478	32,222
Assets	**883,429**	**893,475**

Liabilities

As of December 31 In CHF thousand	2016	2015
Segment liabilities	40,651	1,602
Corporate and eliminations	209	19,984
Loans and borrowings	196,505	709,224
Other liabilities[2] and provisions	135,415	113,476
Liabilities	**372,780**	**844,286**

1 The main positions included in other assets are other receivables, receivables under finance lease and current and deferred tax assets.
2 The main positions included in other liabilities are other payables, derivative financial instruments, accrued expenses and deferred income, deferred tax liabilities and defined benefit obligations.

Geographic information

Net sales

January 1–December 31 In CHF thousand	2016	2015
Switzerland	6,408	5,677
Europe excl. Switzerland	71,796	81,373
USA	169,100	151,553
Japan	82,116	55,069
Korea	74,149	34,577
Asia excl. Japan and Korea	94,838	65,118
Other	9,494	17,592
Total	**507,901**	**410,959**

No other individual country represented more than 10% of net sales in 2016 and 2015.

Non-current assets

As of December 31 In CHF thousand	2016	2015
Switzerland	621,512	638,083
Europe excl. Switzerland	7,321	8,433
USA	3,591	588
Asia	18,586	17,173
Total	**651,010**	**664,277**

Non-current assets by location include property, plant and equipment, investment properties, intangible assets and goodwill. No other individual country represented more than 10% of non-current assets in 2016 and 2015.

Major customers

The three largest customers accounted together for 41.4% (prior year: 42.2%) of total net sales.

7. Personnel expenses

January 1–December 31 In CHF thousand	2016	2015
Wages and salaries	101,709	87,145
Social security costs	10,240	8,725
Pension costs – defined contribution plans	701	660
Pension costs – defined benefit plans	2,952	4,864
Other personnel expenses	3,182	2,940
Total personnel expenses[1]	**118,784**	**104,334**
Number of employees (FTE)	**1,439**	**1,189**

1 Includes also severance compensation of CHF 0.0 million (prior year: CHF 1.1 million) and recruiting expenses of CHF 0.1 million (prior year: CHF 0.4 million) as a result of new organization due to acquisition in 2014

8. Other income

January 1–December 31 In CHF thousand	2016	2015
Net gains from sale of fixed assets	0	256
Net foreign exchange gains on operating and investing activities	0	31
Work performed by the entity and capitalized	1,621	1,299
Rental income from investment properties	154	181
Other income	1,312	425
Total other income	**3,087**	**2,192**

9. Other expenses

January 1–December 31 In CHF thousand	2016	2015
Marketing, advertising and distribution	7,113	5,171
Office rent	1,906	1,131
Administrative expenses[1]	14,299	11,078
Travel expenses	5,868	5,187
Repair and maintenance	10,952	8,048
Energy and supplies	4,194	4,033
Insurance, duties and other charges	1,746	1,784
Net losses from sale of fixed assets	277	0
Net foreign exchange losses on operating and investing activities	976	0
Other operating expenses	5,425	2,804
Total other expenses	**52,755**	**39,236**

1 Including expenses related to the IPO of CHF 2.8 million in 2016 (prior year: CHF 0.7 million) and other consulting fees and expenses incurred as a result of restructuring due to the change in control of CHF 3.4 million in 2016 (prior year: CHF 4.6 million)

10. Finance income and costs

January 1–December 31 In CHF thousand	2016	2015
Interest income	100	89
Finance lease income	499	593
Fair value gains from derivatives not qualifying as hedges	5,321	0
Other finance income	1,371	1,893
Finance income	**7,291**	**2,575**
Interest expenses	–20,186	–20,818
Interest expenses to related parties	–9,114	–30,009
Net foreign exchange losses on financing activities	–5,019	–9,368
Fair value losses from derivatives not qualifying as hedges	0	–10,711
Other finance expenses	–3,355	–521
Finance costs	**–37,674**	**–71,427**
Total finance result	**–30,383**	**–68,852**

11. Tax

The Group is subject to income taxes in numerous jurisdictions. As of December 31, 2016, the net current tax liabilities amounted to CHF 16.4 million (prior year: CHF 12.6 million) and the net deferred tax liabilities to CHF 46.0 million (prior year: CHF 47.1 million). Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact income taxes in the period in which such determination is made.

Income tax expenses

This note provides an analysis of the Group's income tax expenses, shows what amounts are recognized directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

January 1–December 31 In CHF thousand	2016	2015
Current tax:		
Current tax on earnings for the period	19,324	15,668
Adjustments in respect of prior periods	–36	0
Total current tax	**19,288**	**15,668**
Origination and reversal of temporary differences	1,363	–2,171
Total deferred tax	**1,363**	**–2,171**
Income tax expense	**20,651**	**13,497**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

January 1–December 31 In CHF thousand	2016	2015
Earnings before income taxes	87,883	20,558
Tax at the average group tax rate of 18.1% (previous year: 21.0%)[1]	**15,925**	**4,317**
Effect of tax rates in foreign jurisdictions[1]	–5,671	–9,149
Expenses not deductible for tax purposes	0	42
Income not subject to tax	–69	–18
Effect of current-year losses for which no deferred tax asset is recognized	10,125	17,237
Withholding taxes included in the tax expenses	210	484
Other tax effects	130	584
Total tax expenses recorded in consolidated income statement	**20,651**	**13,497**
Effective tax rate	**23.5%**	**65.7%**

1 The applicable tax is determined using the average statutory tax rate applicable to the group, calculated on a weighted average basis ignoring algebraic signs. Therefore, the effect of tax rates in foreign jurisdictions is disclosed.

The following deferred taxes were (charged)/credited to other comprehensive income during the period:

January 1–December 31, 2016 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Re-measurements of defined benefit obligations	–9,115	1,586	–7,529
Changes in the fair value of hedging reserves	–4,247	758	–3,489

January 1–December 31, 2015 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	2,650	–461	2,189

The following income taxes were (charged)/credited to equity during the period:

January 1–December 31, 2016 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Transaction costs	–2,789	237	–2,553
Share-based payments	2,421	552	2,973

No income taxes were recognized to equity in prior year.

Deferred tax balances

The deferred tax assets and liabilities at the end of the period were as follows:

As of December 31, 2016 In CHF thousand	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	92	–446	–354
Inventories	3,015	–2,004	1,011
Property, plant and equipment	15	–6,740	–6,725
Investment properties		–251	–251
Intangible assets		–43,376	–43,376
Other current liabilities	614	–168	446
Other non-current liabilities	62		62
Provisions		–1,278	–1,278
Defined benefit obligations	4,959		4,959
Non-refundable withholding taxes on future distributions		–494	–494
Total deferred tax assets/(liabilities) before set-off	**8,757**	**–54,757**	**–46,000**
Set-off of balances within the same tax jurisdiction	–3,560	3,560	0
Net deferred tax assets/(liabilities)	**5,197**	**–51,197**	**–46,000**

The deferred tax assets and liabilities at the end of the previous period were as follows:

As of December 31, 2015 In CHF thousand	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	452	–719	–267
Inventories	2,952	–196	2,756
Property, plant and equipment	–3	–6,620	–6,623
Investment properties		–282	–282
Intangible assets		–45,156	–45,156
Other current liabilities	178	–1	177
Provisions		–1,005	–1,005
Defined benefit obligations	3,726		3,726
Non-refundable withholding taxes on future distributions		–406	–406
Total deferred tax assets/(liabilities) before set-off	**7,305**	**–54,385**	**–47,080**
Set-off of balances within the same tax jurisdiction	–3,560	3,560	0
Net deferred tax assets/(liabilities)	**3,745**	**–50,825**	**–47,080**

The movement in deferred tax balances is as follows:

In CHF thousand	
Net tax liabilities as of 01.01.2015	**–48,758**
Recognized in income statement	2,171
Recognized in OCI	–461
Translation differences	–32
Net tax liabilities as of 31.12.2015	**–47,080**
Recognized in income statement	–1,363
Recognized in OCI	2,344
Translation differences	99
Net tax liabilities as of 31.12.2016	**–46,000**

For some Group companies, dividend payments are subject to a withholding tax which cannot be fully recovered in Switzerland. Deferred tax liabilities in the amount of the non-recoverable withholding tax credits are recorded in profit and loss. The balance of these deferred tax liabilities was CHF 0.5 million (prior year: CHF 0.4 million).

Tax losses

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The details of the tax losses carried forward are as follows:

As of December 31 In CHF thousand	2016	2015
Opening balance	**120,517**	**69,827**
Tax losses for which no deferred tax assets were recognized	38,935	51,335
Realization of tax losses	0	–160
Others	–56	–8
Exchange differences	2,120	–477
Closing balance	**161,516**	**120,517**

The total tax losses will expire as follows:

As of December 31 In CHF thousand	2016	2015
2020	972	983
2021	1,147	1,159
After 2021	159,397	118,375
Total	**161,516**	**120,517**

Further, there are temporary differences with respect to investments in subsidiaries of CHF 2.8 million (prior year: CHF 2.7 million), for which no deferred tax liabilities were recognized.

12. Cash and cash equivalents

Cash and cash equivalents fully consist of cash at bank and in hand. The total of cash and cash equivalents includes amounts of CHF 0.3 million (prior year: CHF 0.7 million) which has a restriction of use.

13. Trade and other receivables

As of December 31 In CHF thousand	2016	2015
Trade receivables – gross	88,430	59,836
Less provision for impairment of trade receivables	–719	–1,427
Trade receivables – net	**87,712**	**58,409**
Recoverable VAT and withholding tax	6,088	13,505
Deposits	1,325	990
Receivables from social security	148	470
Other	361	500
Less provision for impairment of other receivables	–29	–29
Total trade and other receivables	**95,606**	**73,845**
Thereof:		
Current trade and other receivables	94,353	72,679
Non-current other receivables	1,253	1,166

Deposits for office rent have no fixed due date and are considered to be non-current.

The aging of trade receivables is as follows:

As of December 31 In CHF thousand	2016	2015
Not overdue	80,287	45,485
Less than 6 months overdue	7,361	12,752
6 to 12 months overdue	63	16
Over 12 months overdue	0	156
Total trade receivables	**87,712**	**58,409**

The Group reviews its receivables periodically to determine an adequate impairment provision. Impairment provisions are recorded for accounts where collection cannot be expected. A provision is usually recorded for all balances overdue for more than 180 days.

Movements on the Group provision for impairment of trade and other receivables are as follows:

January 1–December 31 In CHF thousand	2016	2015
Opening balance	**1,456**	**883**
Provision for receivables impairment	323	996
Receivables written off during the year as uncollectible	–4	–323
Unused amounts reversed	–1,021	–65
Exchange differences	–7	–35
Closing balance	**748**	**1,456**
Thereof impairment of trade receivables	719	1,427
Thereof impairment of other receivables	29	29

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

14. Receivables under finance lease

Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of the discounted future lease receipts. These receivables primarily relate to the lease of machinery and amount to CHF 8.7 million as of December 31, 2016, (prior year: CHF 10.6 million) and will bear interest income until their maturity dates of CHF 0.8 million (prior year: CHF 1.3 million).

The payment dates of the receivables under finance lease are as follows:

In CHF thousand	Unearned interest income	Present value	Total future minimum lease receipts
No later than 1 year	390	2,483	2,872
Between 1 and 5 years	402	6,175	6,577
Total at 31.12.2016	**791**	**8,658**	**9,449**
No later than 1 year	499	2,183	2,682
Between 1 and 5 years	791	8,453	9,244
Total at 31.12.2015	**1,290**	**10,636**	**11,926**

15. Derivative financial instruments

The following table shows the carrying amounts of the derivatives, which are the only financial instruments measured at fair value material to VAT Group.

As of December 31 In CHF thousand	Measurement principle	2016	2015
Interest hedge	FVLP – Level 2[1]	3	21
Derivatives held for hedging	FVLP – Level 2[1]	1,681	0
Derivative assets		**1,684**	**21**
Thereof:			
Current derivative assets		1,485	0
Non-current derivative assets		199	21
Derivatives held for hedging	FVLP – Level 2[1]	–7,140	–6,427
Embedded derivatives – interest floor on term loan	FVLP – Level 2[1]	0	–1,323
Derivative liabilities		**–7,140**	**–7,750**
Thereof:			
Current derivative liabilities		–6,145	–7,102
Non-current derivative liabilities		–995	–648

1 The fair values of the derivatives held by VAT Group are based on market/broker quotes. Similar contracts are traded in an active market and quotes reflect the actual transactions in similar instruments. If all significant inputs required for the valuation of an instrument are observable, the instrument is included in Level 2.

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2016, were USD 145.4 million (prior year: USD 105.8 million) and JPY 3,913.2 million (prior year: JPY 4,400.7 million). The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 18 months. Gains and losses from revaluation at fair value are recorded in other comprehensive income from the financial year 2016 going forward.

Hedge accounting

VAT Group started to apply hedge accounting for certain foreign currency contracts in line with IAS 39 prospectively from the financial year 2016 going forward. This resulted in an amount of CHF 3.5 million recorded in OCI, net of tax. In line with IAS 39, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income in the hedging reserves, while any ineffective portion is recognized immediately in the income statement. The cumulated unrealized gain or loss that had been recorded in equity is subsequently reclassified into earnings in the same period during which the hedged item affects net profit or loss. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income is transferred to the income statement. VAT Group uses cash flow hedges to reduce and manage the economic impact of its main currency risks. As of December 31, 2016, the Group held currency forwards as hedging instruments. The forward contracts were denominated in the same currency as the highly probable future transactions; therefore the hedge ratio on all hedges conducted by VAT Group was 1:1 as of December 31, 2016. On December 31, 2016, the hedging reserves included net unrealized losses of CHF 3.5 million, net of tax, on derivatives designated as cash flow hedges. Net losses of CHF 0.9 million were reclassified to earnings in 2016. The maturity of derivatives classified as a cash flow hedge was between 6 to 18 months.

16. Prepayments and accrued income

As of December 31 **In CHF thousand**	**2016**	**2015**
Prepaid purchases	160	64
Other prepaid expenses	283	995
Accrued income	207	60
Total prepayments and accrued income	**651**	**1,119**

17. Inventories

As of December 31 **In CHF thousand**	**2016**	**2015**
Raw materials and consumables	19,572	17,246
Work in progress	8,453	6,260
Semi-finished goods	12,689	14,818
Finished goods	15,874	19,642
Total inventories	**56,587**	**57,966**

In the financial year 2016 inventories of CHF 2.1 million (previous year: CHF 0.4 million) were scrapped and recognized as expense.

18. Property, plant and equipment

As of 31 December 2016 the Group had CHF 116.1 million (prior year: CHF 115.0 million) in property, plant and equipment. Property, plant and equipment are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment or closure of facilities, the presence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairments.

January 1–December 31, 2016 In CHF thousand	Land	Buildings	Machinery	Furniture/ fixtures	Other equipment	Assets under construction	Total
Balance at 01.01.2016	**5,920**	**67,132**	**44,426**	**4,246**	**8,469**	**8,921**	**139,114**
Additions		161	2,000	701	3,316	9,674	15,852
Disposals			–985	–308	–48		–1,340
Transfer		1,719	7,244	390	1,262	–10,616	0
Exchange differences	–27	–124	–283		91	–38	–381
Balance at 31.12.2016	**5,894**	**68,887**	**52,401**	**5,029**	**13,091**	**7,940**	**153,243**
Accumulated depreciation and impairment							
Balance at 01.01.2016	**–57**	**–5,006**	**–13,552**	**–1,589**	**–3,908**	**0**	**–24,112**
Depreciation charge	–34	–3,410	–7,499	–770	–1,873		–13,586
Disposals			95	290	13		398
Exchange differences	3	20	140	6	15		184
Balance at 31.12.2016	**–88**	**–8,396**	**–20,816**	**–2,061**	**–5,753**	**0**	**–37,115**
Net book amount 31.12.2016	**5,806**	**60,491**	**31,585**	**2,967**	**7,338**	**7,940**	**116,128**

January 1–December 31, 2015 In CHF thousand	Land	Buildings	Machinery	Furniture/ fixtures	Other equipment	Assets under construction	Total
Balance at 01.01.2015	**6,617**	**69,517**	**43,891**	**4,043**	**6,452**	**6,620**	**137,140**
Additions		2	629	258	876	8,154	9,919
Disposals	–215	–25	–447	–10	–797	–128	–1,622
Transfer		–319	3,542	131	2,265	–5,619	0
Exchange differences	–482	–2,043	–3,189	–176	–327	–106	–6,323
Balance at 31.12.2015	**5,920**	**67,132**	**44,426**	**4,246**	**8,469**	**8,921**	**139,114**
Accumulated depreciation and impairment							
Balance at 01.01.2015	**–39**	**–3,016**	**–7,154**	**–794**	**–1,607**	**0**	**–12,610**
Depreciation charge	–35	–3,392	–7,540	–851	–1,883		–13,701
Disposals		512	278	4	130		924
Transfer		706		–15	–691		0
Exchange differences	17	184	864	67	143		1,275
Balance at 31.12.2015	**–57**	**–5,006**	**–13,552**	**–1,589**	**–3,908**	**0**	**–24,112**
Net book amount 31.12.2015	**5,863**	**62,126**	**30,874**	**2,657**	**4,561**	**8,921**	**115,002**

19. Investment properties

The carrying amounts of the investment properties measured using the cost model are reasonably approximate of their fair values.

January 1–December 31, 2016 In CHF thousand	Land	Buildings	Total
Balance at 01.01.2016	**2,927**	**2,112**	**5,039**
Additions			0
Disposals			0
Balance at 31.12.2016	**2,927**	**2,112**	**5,039**
Accumulated depreciation and impairment			
Balance at 01.01.2016	**0**	**–432**	**–432**
Depreciation charge		–226	–226
Disposals			0
Balance at 31.12.2016	**0**	**–657**	**–657**
Net book amount at 31.12.2016	**2,927**	**1,455**	**4,382**

January 1–December 31, 2015 In CHF thousand	Land	Buildings	Total
Balance at 01.01.2015	**2,927**	**2,112**	**5,039**
Additions			0
Disposals			0
Balance at 31.12.2015	**2,927**	**2,112**	**5,039**
Accumulated depreciation and impairment			
Balance at 01.01.2015	**0**	**–206**	**–206**
Depreciation charge		–226	–226
Disposals			0
Balance at 31.12.2015	**0**	**–432**	**–432**
Net book amount at 31.12.2015	**2,927**	**1,680**	**4,607**

20. Intangible assets and goodwill

Intangible assets amounting to CHF 346.8 million (prior year: CHF 361.0 million) are identifiable non-monetary assets without physical substance from which future economic benefits are expected to flow to the Group. Intangible assets are amortized on a straight-line basis over their useful lives, where this can be clearly determined. For intangible assets with indefinite useful lives such as brands and trademarks, an impairment test of the asset value is conducted annually at the balance sheet date, or earlier on the occurrence of a triggering event. Goodwill amounting to CHF 183.7 million as of December 31, 2016, and December 31, 2015, is not amortized, but instead tested annually for impairment. The recoverable amount of cash generating units is measured on the basis of fair value in use, estimated using discounted cash flows.

January 1–December 31, 2016 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2016	**183,717**	**4,407**	**263,600**	**120,900**	**342**	**2,745**	**575,711**
Additions		132				3,181	3,313
Disposals					–738		–738
Transfer		1,504			1,852	–3,357	0
Exchange differences		37			–5		32
Balance at 31.12.2016	**183,717**	**6,080**	**263,600**	**120,900**	**1,451**	**2,569**	**578,317**
Accumulated amortization and impairment							
Balance at 01.01.2016	**0**	**–1,650**	**–29,341**	**0**	**–52**	**0**	**–31,043**
Amortization charge		–1,131	–15,308		–85		–16,523
Impairment loss					–952		–952
Disposals					738		738
Exchange differences		–37					–37
Balance at 31.12.2016	**0**	**–2,817**	**–44,649**	**0**	**–351**	**0**	**–47,817**
Net book value 31.12.2016	**183,717**	**3,263**	**218,951**	**120,900**	**1,100**	**2,569**	**530,500**

January 1–December 31, 2015 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2015	**183,717**	**3,306**	**263,750**	**120,900**	**26**	**1,070**	**572,769**
Additions		4			6	3,011	3,021
Disposals		–19					–19
Transfer		1,174	–150		312	–1,336	0
Exchange differences		–58			–2		–60
Balance at 31.12.2015	**183,717**	**4,407**	**263,600**	**120,900**	**342**	**2,745**	**575,711**
Accumulated amortization and impairment							
Balance at 01.01.2015	**0**	**–764**	**–14,037**	**0**	**–5**	**0**	**–14,806**
Amortization charge		–948	–15,308		–44		–16,300
Disposals		19					19
Transfer			4		–4		0
Exchange differences		43			1		44
Balance at 31.12.2015	**0**	**–1,650**	**–29,341**	**0**	**–52**	**0**	**31,043**
Net book value 31.12.2015	**183,717**	**2,757**	**234,259**	**120,900**	**290**	**2,745**	**544,668**

Research and development costs

In 2016, research and development expenses amounting to CHF 33.1 million (previous year: CHF 28.5 million) were included in the items “Personnel expenses,” “Other operating expenses” and “Depreciation and amortization.” For 11 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 0.8 million (previous year: CHF 1.6 million) were capitalized.

Impairment testing for goodwill and intangible assets with indefinite useful lives

The intangible assets and goodwill to be tested were allocated to and measured on cash generating units (CGUs) at the segment levels as follows. The allocation remains unchanged for December 31, 2016 from December 31, 2015.

In CHF thousand	Valves	Global Service	Industry	Total
Goodwill	128,673	35,742	19,302	183,717
Brand and trademarks	94,618	26,282	0	120,900
Total carrying amount 31.12.2016	**223,291**	**62,024**	**19,302**	**304,617**

Goodwill and intangible assets with indefinite useful lives have been allocated to the CGUs by using the relative fair value approach based on the financial performance of those CGUs as well as management best estimate. The allocation corresponds with the lowest level at which those assets are monitored by management.

Recoverable amounts used in the impairment testing are based on the value in use and on the latest forecasts approved by management, discounting the future cash flows to be generated from the continuing use. In the previous years the recoverable amounts calculated for impairment testing were based on fair value less costs of disposal. The change in calculation method does not lead to different outcomes for the impairment tests conducted. The forecast period used for future cash flows covers the years 2017 to 2019. The discount rates used are based on the weighted average cost of capital (WACC) derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the capital asset pricing model (CAPM). The annual impairment tests carried out supported the carrying amounts and therefore, no need for impairment was identified.

The key assumptions used in the estimation of fair value in use were as follows:

As of December 31, 2016	Valves	Global Service	Industry
Discount rate (WACC) before tax	8.8%	8.8%	8.7%
Terminal value growth rate	1.6%	1.6%	1.6%

As of December 31, 2015	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.1%	10.1%	10.1%
Terminal value growth rate	1.8%	1.8%	1.8%

Management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be less than the carrying amount.

21. Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2016 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD-LIBOR +1.65%	2021	196,505
Total loans and borrowings				**196,505**
Thereof:				
Current				36,505
Non-current				160,000

As of December 31, 2015 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Senior secured credit facilities (TLB)	USD	USD-LIBOR +3.25%	2021	304,103
Shareholder loans	CHF	8.00%	2063	405,121
Total loans and borrowings				**709,224**
Thereof:				
Current				1,461
Non-current				707,763

Credit facilities

The term loan borrowing facility (TLB) was issued on February 11, 2014, with a principal (repayable amount) of USD 405.0 million. In September 2016, VAT Group AG signed a new syndicated five-year revolving credit facility (RCF) of USD 300.0 million. The new arrangement was used to pay off the outstanding senior secured credit facility of USD 276.0 million. In this connection, the interest floor qualified as embedded derivative as well as initially capitalized loan issue costs in the remaining amount of CHF 4.8 million were immediately amortized. The repayment in the financial year 2016 amounts to CHF 350.9 million for the TLB and RCF. The RCF is subject to the financial covenant “net senior debt/EBITDA” ratio, with which the Group complied with for the financial year 2016.

The carrying amount as of December 31, 2016, includes financing costs of CHF 2.2 million, which will be recognized in profit and loss over the remaining duration of the credit facility.

Conversion of shareholder loans

On February 11, 2014, VAT Holding S.à r.l. as issuer entered into an agreement with its shareholders as loan holders, the Subordinated Subscription Agreement. The principle amount of the shareholder loan at the date of issuance was CHF 350.2 million bearing interest of 8.0% per annum. The redemption amount as of December 31, 2015, consisted of the principal amount of CHF 350.2 million plus accumulated interests of CHF 54.9 million. With the reorganization on March 23, 2016, the shareholder loans were taken over by VAT Group AG as holder. The initial loan holders were disbursed with shares of VAT Group AG. VAT Group AG took over the long-term loan amounting to CHF 414.1 million by issuing 9,103,284 fully paid-in registered shares with a nominal value of CHF 0.9 million.

22. Trade and other payables

As of December 31 In CHF thousand	2016	2015
Trade payables	40,878	21,586
Sales tax and other non-income tax payables	2,852	2,885
Social security payables	2,555	514
Salaries and employee expenses	283	297
Prepayments received from customers	2,381	2,084
Other liabilities	1,668	1,413
Total trade and other payables	**50,617**	**28,779**

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

As of December 31 In CHF thousand	2016	2015
Swiss Franc	27,657	15,437
Euro	9,025	4,346
US Dollar	8,590	5,049
Chinese Yuan	1,596	1,162
Other currencies	3,749	2,785
Total trade and other payables	**50,617**	**28,779**

23. Accrued expenses and deferred income

As of December 31 In CHF thousand	2016	2015
Accrued expenses – personnel related	12,877	8,107
Accrued expenses – other	2,108	1,722
Deferred income	7	25
Others	3,076	290
Total accrued expenses and deferred income	**18,068**	**10,144**

24. Liabilities from government grants

As of December 31 In CHF thousand	2016	2015
Liabilities from government grants	1,865	2,334
Total	**1,865**	**2,334**
Thereof:		
Current	444	449
Non-current	1,421	1,885

In 2012, the Romanian manufacturing plant was granted EU subsidies in the amount of CHF 3.7 million to support an extension and modernization of the existing plant. Construction was completed in August 2014. The plant must be in use for the following consecutive five years. There are further performance conditions, such as number of employees, revenues and amount of export, which must be met during that entire period. A refund is not requested if the performance conditions are met. The liability from government grants is recorded in the income statement on a straight-line basis over the useful life of the asset, being eight years. During the period an amount of CHF 0.5 million (prior year: CHF 0.5 million) was recorded in other income.

25. Provisions

January 1–December 31, 2016 In CHF thousand	Warranties	Other provisions	Total Provisions
Balance at 01.01.2016	**782**	**64**	**846**
Additions	973	290	1,263
Used	–782	–76	–858
Translation differences	2	–5	–3
Balance at 31.12.2016	**975**	**272**	**1,248**
Thereof:			
Current provisions	975	272	1,248

January 1–December 31, 2015 In CHF thousand	Warranties	Other provisions	Total Provisions
Balance at 01.01.2015	**862**	**53**	**915**
Additions	720	64	784
Used	–800	–47	–847
Translation differences		–6	–6
Balance at 31.12.2015	**782**	**64**	**846**
Thereof:			
Current provisions	782	64	846

Warranties

Warranty provisions cover the risk of expenses in regard to product liability claims that are expected to occur before the warranty period expires. Warranty provisions are calculated on the basis of past experience and are used as payments are made. The warranty provisions are subject to a degree of uncertainty with regard to timing and the amount to be paid.

No other significant provisions were deemed required at the reporting date.

26. Employee benefits

The present value of the defined benefit obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the defined benefit liabilities. The assumptions used in determining the net cost for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Throughout the world, the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue. The aggregate cost of these plans in the period presented amounted to CHF 0.7 million (prior year: CHF 0.7 million).

There are two defined benefit plans in place: the members of the Board of Directors of the Japanese subsidiary are covered by a non-funded defined benefit plan, and all Swiss entities have a funded contributory defined benefit pension plan covering their employees with the following amounts recognized in balance sheet and income statement:

Balance sheet

As of December 31 In CHF thousand	2016	2015
Japan	61	336
Switzerland	28,375	20,453
Net defined benefit liability in the balance sheet	**28,436**	**20,789**

Income statement

January 1–December 31 In CHF thousand	2016	2015
Japan	274	74
Switzerland	2,678	4,790
Pension costs – defined benefit plans	**2,952**	**4,864**

Swiss plan

The Swiss pension plan is governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. The assets of the pension plan are held within a separate foundation and cannot revert to the employer. Pension plans are overseen by a regulator as well as by a state supervisory body.

The Swiss Group entities are affiliated to a semi-autonomous foundation. The Board of Trustees, which consists of employee and employer representatives in parity ratio, governs the semi-autonomous foundation. All governing and administration bodies have an obligation to act in the interests of the plan participants. They are also responsible for the investment strategy. When defining the investment strategy, they take into account the foundation's objectives, benefit obligations and risk capacity.

Plan participants, their spouse and children are insured against the financial consequences of old age, disability and death. Their benefits are defined in pension plan rules compliant with the BVG, which is specifying the minimum benefits that are to be provided. Retirement benefits are based on the accumulated retirement capital which can either be drawn as a lifelong annuity or as a lump sum payment. The annuity is calculated by multiplying the retirement capital with the currently applicable conversion rate. The accumulated retirement capital is made of the yearly contributions towards the old age risk by both employer and employee and the interest thereon until retirement. Contributions towards the old-age risk are based on the rules defined by the Board of Trustees of the semi-autonomous foundation. Minimum contributions and interest are defined by the BVG and the Swiss Parliament. In 2016, the minimum interest was 1.25% (prior year: 1.75%).

Some demographic risks are safeguarded through a life insurance company (disability and death). There is a risk that the insurance coverage is only temporary in nature (e.g. cancellation by the life insurance firm), and that the inherent risks of the plan may lead to variable insurance premiums over time.

All other actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries and the return on plan assets) and are regularly assessed by the Board of Trustees. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The employer can also make additional restructuring contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings.

The foundation decided in 2016 to reduce conversion rates starting from January 1, 2018. In addition, the foundation increased the annual old-age credits, starting from January 1, 2017. This resulted in a plan amendment, which was recognized as part of the service cost in the financial year 2016. The assumptions for mortality and disability rates decreased due to calculation with new demographic tables BVG 2015G. This effect was recognized in other comprehensive income.

The amounts recognized in the balance sheet are determined as follows:

As of December 31 In CHF thousand	2016	2015
Present value of defined benefit obligation	157,642	136,345
Fair value of plan assets	129,267	115,892
Net defined benefit liability	**28,375**	**20,453**

The movement in the defined benefit obligation over the period is as follows:

January 1–December 31 In CHF thousand	2016	2015
Opening defined benefit obligation	**136,345**	**124,867**
Service costs	4,873	4,718
Plan participants contributions	4,583	4,213
Interest expense	1,215	1,469
Re-measurement (gains)/losses	8,108	–563
Plan amendment	–2,265	0
Benefits paid through pension assets	4,783	1,641
Closing defined benefit obligation	**157,642**	**136,345**

January 1–December 31 In CHF thousand	2016	2015
Opening fair value of plan assets	**115,892**	**103,141**
Interest income	1,103	1,254
Return on plan assets (excl. amounts in net interest)	–1,007	2,087
Plan participants contributions	4,583	4,213
Employer contributions	3,983	3,613
Benefits received/(paid) through pension assets net	4,783	1,641
Administration expense	–70	–57
Closing fair value of plan assets	**129,267**	**115,892**

As of the reporting date, the present value of the defined benefit obligation was comprised of:

As of December 31 In CHF thousand	2016	2015
Defined benefit obligation for active employees	130,466	114,698
Defined benefit obligation for pensioners	27,176	21,647
Total defined benefit obligation	**157,642**	**136,345**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2016	2015
Current service cost	4,873	4,718
Interest expense on defined benefit obligation	1,215	1,469
Interest income on plan assets	–1,103	–1,254
Plan amendment	–2,265	0
Administration expense	70	57
Total defined benefit cost/(income) recognized in income statement	**2,790**	**4,990**
Thereof:		
Employee benefit expenses	2,678	4,790
Finance expenses	112	200
Actuarial (gain)/loss arising from changes in demographic assumptions	–4,628	0
Actuarial (gain)/loss arising from financial assumptions	9,127	1,469
Actuarial (gain)/loss arising from experience adjustment	3,609	–2,032
Return on plan assets (excl. amounts included in net interest)	1,007	–2,087
Total defined benefit cost/(income) recognized in OCI	**9,115**	**–2,650**

The major asset categories are as follows:

As of December 31 In CHF thousand	2016	2015
Equity instruments (quoted market prices)	30,597	29,309
Debt instruments (quoted market prices)	43,006	36,324
Real estate (quoted market prices)	22,517	18,205
Alternative investments (quoted market prices)	21,901	10,388
Cash	8,789	20,838
Others	2,457	828
Total	**129,267**	**115,892**

The significant actuarial assumptions were as follows:

As of December 31	2016	2015
Discount rate	0.60%	0.90%
Inflation	0.75%	0.75%
Salary growth rate	1.00%	1.00%
Pension growth rate	0.00%	0.00%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Switzerland. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

As of December 31	2016	2015
Retiring at the end of the reporting period:		
Male	22.26	21.49
Female	24.32	23.96
Retiring 20 years after the end of the reporting period:		
Male	24.18	23.24
Female	26.22	25.67

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Impact on defined benefit obligation 2016		Impact on defined benefit obligation 2015	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–6,475	6,959	–5,448	5,846
Salary growth rate (+/– 0.25%)	932	–912	913	–886

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized within the balance sheet.

Expected contributions to defined benefit plans for the year ending December 31, 2017, amount to CHF 5.4 million.

The weighted average duration of the defined benefit obligation is 16.6 years (prior year: 17.5 years).

Japanese plan

The movement in the defined benefit obligation over the period is as follows:

January 1–December 31 In CHF thousand	2016	2015
Opening defined benefit obligation	**336**	**470**
Service costs	75	74
Retirements	–346	–197
Exchange differences	–4	–11
Closing defined benefit obligation	**61**	**336**

Management of the Japanese Group company is covered by a company funded pension benefit scheme. The amounts allocated to the employees are calculated based on the past service period using a multiple taking the average salary for the previous three years into consideration. Amounts are calculated and recorded on an annual basis when the service period has vested.

27. Share-based payments

In April 2016, VAT Group granted a discretionary share-based IPO bonus to its employees. The vesting date of the IPO bonus falls on the first anniversary of the initial public offering. The grant is subject to service conditions and the number of shares to be granted to each employee will represent approximately one month's salary determined on the basis of the offer price of CHF 45. VAT Group expects to grant approximately 90,400 shares on April 14, 2017. The IPO bonus is accounted for as equity-settled share-based payment compensation. In December 2016, VAT Group modified the plan as such that for certain employees a cash alternative has been added. For these employees the plan is changed from equity to cash-settled resulting in a reclassification as a financial liability. The fair value of the liability recognized at the date of modification is fully reclassified from equity. As at December 31, 2016, the liability amounts to CHF 0.7 million.

Additionally, members of the Board receive 30% of the total compensation in restricted shares. This compensation is accounted for as equity-settled share-based payment compensation. The restricted shares are subject to a three-year blocking period. In 2016, VAT Group allocated in total 1,565 shares amounting to CHF 0.1 million.

For these share based payments a total amount of CHF 4.6 million was recognized as personnel expenses in the consolidated income statement for the financial year 2016.

28. Equity

The ultimate holding company VAT Group AG was incorporated on February 25, 2016, with 1,000,000 shares and a fully paid-in share capital of CHF 0.1 million. On March 29, 2016, VAT Group AG increased its initial share capital by issuing 29,000,000 registered shares with a nominal value of CHF 0.10 by CHF 2.9 million to CHF 3.0 million. As of December 31, 2016, the total authorized and issued number of ordinary shares comprises 30,000,000 shares with a nominal value of CHF 0.10 each. The split of the share capital is shown in the table below.

Common shares

As of December 31	2016
Incorporation shares	1,000,000
Nominal value per share (CHF)	0.10
Capital increase via contribution in kind	29,000,000
Nominal value per share (CHF)	0.10
Total number of shares	30,000,000
Total amount of share capital (CHF)	3,000,000

On March 29, 2016, a conditional capital increase of up to 1,500,000 shares was included in the articles of association of VAT Group AG which was not drawn as of December 31, 2016.

Share Premium

Shares were issued in exchange for investments in VAT Holding S.à r.l. and VAT Management S.à r.l. as well as a shareholder loan from VAT Holding S.à r.l. as detailed in note 21. Subsequently, VAT Group AG made an IPO in Switzerland and was listed on the SIX Swiss Exchange on April 14, 2016.

Treasury shares

VAT Group AG purchased 110,000 own shares to be held as treasury shares at the offer price of CHF 45 pursuant to the discretionary employee share-based IPO bonus as shown in note 27.

Nature and purpose of reserves

The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

The hedging reserves comprise the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the income statement as the hedged cash flows or items affect profit or loss.

Remeasurements of the net defined benefit liabilities are charged or credited to other comprehensive income in the period in which they arise.

Other reserves represent stamp duty from the issue of new shares.

29. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to owners of the Company by the weighted number of ordinary shares outstanding during the period. Treasury shares are not considered as outstanding shares. The following reflects the income and share data used in the basic and diluted EPS calculation:

In CHF thousand	2016	2015
Basic earnings per share	**2.43**	**0.34**
Net profit	67,233	7,061
Weighted average number of shares outstanding (in thousands of units)	27,708	20,897

Diluted earnings per share is calculated by dividing net income attributable to owners of the Company by the weighted average number of shares adjusted for all potentially dilutive shares. Dilutive shares arise from the share-based payments as shown in note 27.

In CHF thousand	2016	2015
Diluted earnings per share	**2.42**	**0.34**
Net profit	67,233	7,061
Weighted average number of shares outstanding (in thousands of units)	27,784	20,897

30. Financial instruments – Fair value and risk management

Categories of financial instruments

The following table discloses the carrying amounts of all financial instruments for each category:

As of December 31 In CHF thousand	2016	2015
Loans and receivables		
Cash and cash equivalents	62,642	80,601
Trade and other receivables	89,370	59,870
Receivables under finance lease	8,658	10,636
Accrued income	207	60
Long-term loans	217	283
Total financial assets recorded at amortized cost	**161,094**	**151,450**
Financial assets measured at fair value		
Shares	30	27
Interest hedge on term loan	3	21
Forward exchange contracts	1,681	0
Total financial assets measured at fair value	**1,714**	**48**
Financial liabilities recorded at amortized cost		
Trade and other payables	42,546	22,999
Accrued expenses	5,184	2,012
Other non-current liabilities	165	0
Loans and borrowings	196,505	709,224
Total financial liabilities recorded at amortized cost	**244,400**	**734,235**
Financial liabilities measured at fair value		
Forward exchange contracts	7,140	6,427
Embedded derivative – interest floor	0	1,323
Total financial liabilities measured at fair value	**7,140**	**7,750**

Fair value estimation

Financial instruments carried at fair value are analyzed by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
– Observable prices for the asset or liability, either directly or indirectly (Level 2)
– Inputs for the asset or liability are not based on observable market data (Level 3)

The carrying amounts of financial assets and liabilities not measured at fair value are a reasonable approximate of their fair values.

The Group had foreign exchange contracts (derivative financial assets/liabilities), an interest hedge on the term loan (derivative financial assets) and an embedded derivative-interest floor (derivative financial liabilities) recorded at fair value, which are Level 2 financial instruments. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. The fair values are based on market/broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

There were no transfers in either direction between Level 1 and Level 2 in 2016 and 2015. No financial instruments were measured at Level 3.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Market risk

Foreign exchange risk The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, EUR and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. The Group hedges its foreign exchange risk exposure from future cash flows in USD and JPY. To manage its foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. USD currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in USD.

The carrying amounts of the main Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

As of December 31, 2016 In CHF thousand	Assets	Liabilities	Net exposure
CHF/USD	103,046	68,966	34,080
CHF/EUR	12,525	13,279	–754
CHF/JPY	64,817	28,136	36,681

As of December 31, 2015 In CHF thousand	Assets	Liabilities	Net exposure
CHF/USD	112,652	47,206	65,446
CHF/EUR	19,015	9,864	9,151
CHF/JPY	38,705	16,965	21,740

The management's assessment for a reasonably possible change in the foreign exchange rates could be a 5% shift in the major currencies against the Swiss Franc with all the other variables held constant. In case of net financial assets, as of December 31, 2016, the cumulated impact on net financial assets would be CHF 3.4 million (CHF 1.6 million in USD/CHF, 0.0 million in EUR/CHF, 1.8 million in JPY/CHF) (prior year: CHF 4.8 million [CHF 3.3 million in USD/CHF, 0.5 million in EUR/CHF, 1.1 million in JPY/CHF]). An increase in major currency rates would have a positive impact and a decrease would have an equal negative impact on profit or loss and equity.

Interest rate risk The interest rate risk includes an interest-related cash flow risk and an interest-related risk of a change in market value. The interest-bearing financial assets and liabilities held by the Group mainly relate to cash and cash equivalents and borrowings.

Fair value sensitivity analysis for fixed-rate instruments
The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments
As in prior year a reasonably possible change of 50 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss by a material amount. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. In addition, no significant change in the USD-LIBOR is expected in the next 12 months.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of financial assets presented in the table in this note represent their maximum credit exposure.

Credit risk is managed on Group level, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of its new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated counterparties with a minimum rating of "A" are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. No collateral is required.

Further information about trade receivables and the provision for impairment of trade receivables is provided in note 13.

With respect to trade receivables the Group has three main customers representing 41.4% (prior year: 42.2%) of net sales. This concentration of credit risk is considered low due to the strong market position of these three customers. Country risk is mitigated by the broad geographic spread of the Group's customer base.

Liquidity risk

Cash flow forecasting is performed by the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Surplus cash held by the operating entities above the balance required for working capital management is transferred to Group treasury. Group treasury invests surplus cash in interest bearing current accounts or repayment of loans to the extent that sufficient headroom is available as per the above mentioned forecasts.

The table below analyses the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31.12.2016 In CHF thousand	Carrying amount	Contractual cash flows Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	42,546	–42,546	–42,546				
Accrued expenses	5,184	–5,184	–5,184				
Other non-current liabilities	165	–165					–165
Loans and borrowings	196,505	–219,650	–1,105	–3,335	–4,521	–210,688	–165
Non-derivative financial liabilities	**244,400**	**–267,545**	**–48,835**	**–3,335**	**–4,521**	**–210,688**	**–165**
Forward exchange contracts used for hedging: – Outflow	7,140	–156,748	–44,474	–88,811	–23,462		
– Inflow		149,608	42,148	84,992	22,468		
Derivative financial liabilities	**7,140**	**–7,140**	**–2,326**	**–3,819**	**–994**		

At 31.12.2015 In CHF thousand	Carrying amount	Contractual cash flows Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	22,999	–22,999	–22,999				
Accrued expenses	2,012	–2,012	–2,012				
Loans and borrowings	709,224	–15,621,816		–1,461			–15,620,355
Non-derivative financial liabilties	**734,235**	**–15,646,827**	**–25,011**	**–1,461**			**–15,620,355**
Embedded derivatives – interest foor	1,323	–1,646					–1,646
Forward exchange contracts used for hedging: – Outflow	6,427	–141,329	–45,055	–80,772	–15,502		
– Inflow		134,903	43,000	76,958	14,945		
Derivative financial liabilities	**7,750**	**–8,073**	**–2,055**	**–3,814**	**–558**		**–1,646**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Capital is measured based on the Group's consolidated financial statements and monitored closely on an ongoing basis. The target of the management for the period under review was to strengthen the capital basis to sustain and support further development of the business. This goal was achieved by the positive operating results of the Group.

The equity ratio was as follows:

As of December 31 In CHF thousand	2016	2015
Total equity	510,649	49,189
Total balance sheet	883,429	893,475
Equity ratio	**57.8%**	**5.5%**

As of December 31, 2015, the Board also considered the subordinated shareholder loans in their capital risk management monitoring for VAT Holding S.à r.l.. The equity ratio was recalculated considering the shareholder loans of CHF 405.1 million, which were exchanged against equity of the newly founded VAT Group AG in 2016. Under this consideration the ratio amounted to 50.9% as of December 31, 2015, representing a strong capital base.

31. Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities.

Pledged assets

As of December 31, 201, no assets were pledged. In prior year, all assets of VAT Lux III S.à r.l. were pledged as a guarantee for the TLB.

Capital expenditure contracted for at the end of the reporting period, but not yet incurred was as follows:

As of December 31 In CHF thousand	2016	2015
Property, plant and equipment	14,538	4,763
Intangible assets	1,013	1,504
Total	**15,551**	**6,267**

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one and ten years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to the income statement during the period amounted to CHF 1.9 million (prior year: CHF 1.1 million).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

As of December 31 In CHF thousand	2016	2015
No later than 1 year	1,515	1,120
Later than 1 year and no later than 5 years	4,559	2,269
Later than 5 years	885	69
Total	**6,959**	**3,458**

32. Related party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2016	2015
Pension costs – defined benefit plan (Swiss autonomous employee benefit plan)	2,678	4,790
Pension costs – financial expense	112	200
Interest expenses on shareholder loans (note 10)	9,114	30,009

During business restructuring, the shareholder loan was taken over by VAT Group AG (see note 2). Business transactions with related parties are based on arm's length conditions.

Key management personnel includes members of the Group Executive Committee of VAT Group AG. The compensation paid or payable to key management personnel for employee services is shown below:

January 1–December 31 In CHF thousand	2016	2015
Short-term employee benefits	1,946	2,819
Post-employment benefits	186	227
Total	**2,132**	**3,046**

Year-end balances arising from transactions with related parties include:

January 1–December 31 In CHF thousand	2016	2015
Accrued expenses and deferred income due to governing bodies	398	0
Shareholder loans (note 21)	0	405,121
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	28,375	20,453

Shares held by the Board of Directors and the Group Executive Committee are disclosed in note 4.3. of the statutory financial statements of VAT Group AG.

33. Subsequent events

The Company has evaluated subsequent events through March 30, 2017, which represents the date when the consolidated financial statements were approved.

34. List of subsidiaries

The subsidiaries of the Company as of December 31, 2016, are the following:

Country	Company	Function	Currency	Capital in thousands	Share
China	VAT Vacuum Valves Shanghai Company Ltd., Shanghai	D	CNY	1,618	100%
France	VAT SARL, Verrières le Buisson	D	EUR	50	100%
Germany	VAT Deutschland GmbH, Dresden	D	EUR	26	100%
Japan	VAT Ltd., Yokohama	D	JPY	96,470	100%
Korea	VAT Korea Ltd., Pyeongtaek City	D	KRW	300,000	100%
Luxembourg	VAT Holding S.à r.l., Luxembourg	H	CHF	30	100%
	VAT Lux II S.à r.l., Luxembourg	H	CHF	30	100%
	VAT Lux III S.à r.l., Luxembourg	H	USD	30	100%
	VAT Management S.à r.l., Luxembourg	H	CHF	30	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	1,000	100%
Romania	Sysmec S.R.L., Arad	D/P	RON	6,771	100%
Singapore	VAT Singapore Pte. Ltd., Singapore	D	SGD	500	100%
Switzerland	VAT Vakuumventile AG, Sennwald	D/P	CHF	100	100%
	Comvat AG, Sennwald	D/P	CHF	275	100%
	VAT Holding AG, Sennwald	H	CHF	300	100%
Taiwan	VAT Taiwan Co. Ltd., Hsin-Chu City	D/P	TWD	12,000	100%
United Kingdom	VAT Vacuum Products Ltd, Warwickshire	D	GBP	1	100%
USA	VAT Inc., Delaware	D	USD	1	100%
	Virtuoso US LLC, Delaware	F	USD	0	100%

D: Distribution, F: Financing, H: Holding, P: Production

35. Changes in accounting policies

A number of standards have been modified on miscellaneous points with effect from January 1, 2016. None of these amendments had a material effect on the Group's financial statements.

Disclosure Initiative

VAT Group has made changes to the way it has organized and presented its explanatory notes to the condensed financial statements to comply with the Amendments to IAS 1. According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

36. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated in these notes to the financial statements.

Basis of consolidation

Subsidiaries Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation The Group eliminates all intra-group transactions as part of the Group's consolidation process. Companies are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

Loss of control When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests (NCI) and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. 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 other comprehensive income as qualifying hedges.

For consolidation purposes the results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. Income and expenses for each income statement are translated at average exchange rates. All resulting exchange differences are recognized in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents are presented in the income statement within "Finance income or expenses." All other foreign exchange gains and losses are presented in the income statement within "Other income/(expenses)."

The following table summarizes the principal exchange rates used for translation purposes:

	Average exchange rates in CHF		Closing exchange rates in CHF	
	01.01.–31.12.2016	01.01.–31.12.2015	31.12.2016	31.12.2015
1 Euro	1.09	1.07	1.07	1.08
100 Japanese Yen	0.91	0.79	0.87	0.82
100 Korean Wong	0.09	0.09	0.08	0.08
1 Malaysian Ringgit	0.24	0.25	0.23	0.23
1 US Dollar	0.99	0.96	1.02	0.99

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services rendered, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the risks and rewards have been transferred to the customer, which is the point of shipping or billing or when services are rendered. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate.

Group as a lessor

Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets are classified as finance lease. Receivables from finance leases in which the Group as lessor transfers substantially all the risks and rewards in connection with ownership to the lessee are recognized at an amount equal to the discounted future minimum lease payments. Finance lease income – reported under "Finance income" – is subsequently recognized based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest method.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to property, plant and equipment are split into current and non-current liabilities as deferred government grants and are credited to the income statement within "Other income" on a straight-line basis over the expected lives of the related assets.

Share-based payments
The fair value of deferred shares granted to employees for nil consideration under the IPO bonus is recognized as an expense over the relevant service period. The fair value is measured at the grant date of the shares and is recognized in equity in the retained earnings. The number of shares expected to vest is estimated based on the vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognized in the income statement and the retained earnings.

Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective the date of the forfeiture. The deferred shares were acquired by VAT Group AG at market value at the grant date and are held as treasury shares until they are vested (see note 27).

Research and development costs
The majority of the expenses are incurred in relation to basic research product management and R & D support/overheads, and these are charged directly to the income statement. Expenses directly related to development costs for new products are capitalized and amortized over a period of five years if these concern major development projects. They are reviewed at the end of each reporting period in order to verify if the capitalization criteria of IAS 38.57 are fulfilled.

Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Financial assets
The Group classifies non-derivative financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables," "Receivables under finance lease" and "Cash and cash equivalents" on the balance sheet.

Recognition and measurement Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise.

Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is to be impaired. A financial asset or a group of financial assets is to be impaired, and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Offsetting Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments
Derivatives are initially recorded at fair value and subsequently adjusted for fair value changes. The recognition of derivatives in the Group's balance sheet is based on internal valuations or on the valuation of the respective financial institution. VAT applies hedge accounting in accordance with IAS 39 to hedge balance sheet items and future cash flows, thus reducing income statement volatility. Changes in the value of instruments designated as fair value hedges are recorded together with the change in fair value of the underlying item directly in the income statement, net. The effective portion of instruments designated as cash flow hedges is recognized in other comprehensive income. The ineffective portion of such instruments is recorded in financial result, net. Changes in value resulting from cash flow hedges recognized in equity through the consolidated statement of comprehensive income are recorded in the income statement in the period in which the cash flow from the hedged transaction is recognized in the income statement.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment
Property, plant and equipment are measured at historic or manufacturing costs less accumulated depreciation. If significant parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate. In case of replacements, the carrying amount of the replaced part is derecognized.

Depreciation of property, plant and equipment is calculated using the straight-line method based on the following useful lives: long-leased land (60 years), buildings (20–40 years), machinery (5–8 years), furniture/fixtures (3–8 years), other equipment (3–12 years). Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

Investment properties

The Group owns undeveloped land, commercial and residential properties that are held to earn long-term rental income and for capital appreciation. The properties are not occupied by the Group. Investment property is carried at cost less depreciation. Depreciation on commercial and residential property is calculated using the straight-line method to allocate its costs to its residual values over its estimated useful life of 20 to 40 years for commercial property and 50 years for residential property. Any gain or loss on disposal of investment property is recognized in the consolidated income statement. Rental income from investment property leased to a third party under operating lease is recognized in "Other income" in the income statement.

Goodwill and intangible assets

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the level of the segments as laid out in note 20. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Intangible assets, including technology and customer relationships that are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses. For intangible assets with indefinite useful lives, such as brands and trademarks, an impairment test is conducted annually at the balance sheet date, or on the occurrence of a triggering event. The Group considers that the acquired brands and trademark have an indefinite useful life as they are well established in the respective markets and have a history of strong performance.

Acquired computer software licenses are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred. Amortization is calculated using the straight-line method over the estimated useful lives, and is generally recognized in the consolidated income statement. The estimated useful lives are as follows: acquired technology & customer relationships (13.5–20 years), brands and trademarks (indefinite useful life), software (3–5 years), other intangible assets (3–5 years). Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The capitalization of internally generated intangible assets is subject to the following development categories: development of own software applications or product-related development activities. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognized as intangible assets when the criteria are met. Directly attributable costs capitalized as part of the developed product include employee costs, third party material and advisory expenses. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs recognized as assets are amortized over their estimated useful lives, which does not exceed five years.

Impairment of non-financial assets

Goodwill, intangible assets that have an indefinite useful life and intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Tangible and intangible assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the value in use of the asset and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statement and will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Current and deferred income tax

Income tax expense comprises current and deferred tax. It is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current income tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current income tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial purposes and the amounts used for taxation purposes. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the return on plan assets (excluding interest) are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. In the income statement, the net interest expense is recognized within "Finance costs." Other expenses related to defined benefit plans are recognized within "Employee benefit expenses."

Past-service costs are recognized immediately in the consolidated income statement.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

Equity

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12.

When shares recognized as equity are repurchased (treasury shares), the amount of the consideration paid, which includes directly attributable costs is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

Earnings per share

The number of ordinary shares for the calculation of the earnings per share is determined on the basis of the weighted average of the issued ordinary shares less the weighted average number of the treasury shares. For the calculation of diluted earnings per share, an adjusted number of shares is calculated as the sum of the total of the ordinary shares used to calculate the earnings per share and the potentially dilutive shares from share-based payment programs. The dilution from share-based payment programs is determined on the basis of the number of ordinary shares that are expected to be paid out to employees from currently held treasury shares. Earnings per share and diluted earnings per share are defined as the ratio of the attributable net income to the relevant number of ordinary shares.

37. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017, and earlier application is permitted; however, the Group has not early applied the following, for the Group relevant, new or amended standards in preparing these consolidated financial statements.

IFRS 9 Financial instruments

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. This standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group is currently assessing the potential impact of this new standard.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance with a single standard. This standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group is currently assessing the potential impact of this new standard.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and will therefore result in an increase of total assets and total liabilities. Under the new standard higher trading operating profit would be partially or entirely offset by higher interest expenses. This standard is mandatory for the accounting period beginning on January 1, 2019. The Group is currently assessing the potential impact of this new standard.

Improvements and other amendments to IFRS

A number of standards have been modified on miscellaneous points. None of these amendments are expected to have a material effect on the Group's consolidated financial statements.

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VAT Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 72 to 120) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) 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, as well as the IESBA Code of Ethics for Professional Accountants, 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.

Key Audit Matters

Revenue Recognition

Initial Public Offering (IPO)

Key audit matters are those matters that, in our professional judgment, 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.

Revenue Recognition

Key Audit Matter

Revenues are an important metric considered by external and internal stakeholders. Revenues recognized for the year ended 31 December 2016 amounted to CHF 508m and primarily related to the sale of vacuum valves, bellows and service support.

VAT Group recognises revenues related to the sale of goods when risks, rewards and control are transferred to the counterparty. In general, contractual agreements with customers define when risks and rewards are transferred, as specific terms and conditions are mentioned in the contracts. There is a risk that revenues may be recognised in the wrong accounting period.

There is an additional risk that revenues may be deliberately over- or understated as a result of management override resulting from the pressure management may feel to achieve planned results. This could for example occur by manipulating inputs in the Group's accounting system.

Our response

We performed testing of the key controls around revenue recognition, which included performing walkthroughs and testing the operating effectiveness of internal controls.

Furthermore, our procedures included detailed cut-off testing of revenue transactions to either side of the balance sheet date with reference to shipping documentation. In addition, we obtained trade debtors confirmations and performed a gross margin trend analysis to compare revenues with our expectations from past experience and management's forecasts.

In addition to the procedures described above, we considered the risk of management override by analysing delivery volumes and order intake prior to year-end in order to address the risk of an over- or understatement of revenues.

For further information on revenue recognition refer to the following: Note 36 "Summary of significant accounting policies"

Initial Public Offering (IPO)

Key Audit Matter

On 14 April 2016, the shares of VAT Group AG were listed on SIX Swiss Exchange in connection with an initial public offering in Switzerland as well as private placements (together referred to as "initial public offering" or "IPO").

As part of the preparation of the IPO a financial reorganisation took place and the new holding company of the Group was incorporated. The accounting of these transactions is a significant aspect of the consolidated financial statements for the year ended 31 December 2016.

There is a risk that the transactions are not accurately reflected in the accounting system or not adequately disclosed in the consolidated financial statements.

Furthermore and as part of the IPO, the Group granted a discretionary share-based IPO bonus to its employees and initially classified this arrangement as equity settled.

Our response

We performed testing around the accounting of the initial public offering, which included procedures related to the transaction and the incorporation of the holding company.

Among others, our procedures included the following:

- Considering the appropriateness of the accounting of the contributions in kind and the recording of the transaction costs in connection with the incorporation of VAT Group AG and the financial reorganisation for the IPO (including the conversion of shareholder loans);
- Carrying out procedures relating to the journal entries on the IPO transaction accounting and its presentation in the consolidated statement of changes in equity and statement of cash flows;
- Evaluating the appropriateness of disclosures related to the transactions.

In addition to the procedures described above, we assessed the initial accounting treatment and subsequent modification of the IPO bonus in accordance with the applicable accounting policy. We evaluated the reasonableness of the assumptions made to value the IPO bonus and the recording of its expense

For further information on the IPO refer to the following: Note 2 "Significant changes in the current reporting period"

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility 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 IFRS 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, ISAs 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.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

KPMG AG

Toni Wattenhofer Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, 30 March 2017

Statutory financial statements VAT Group AG for the financial year from February 25 to December 31, 2016

Balance sheet

As of December 31 In CHF thousand	Note	2016
Assets		
Cash and cash equivalents		429
Other receivables due from third parties		90
Other receivables from companies in which the entity holds an investment		2,236
Prepayments and accrued income		524
Current assets		**3,279**
Financial assets	3.4	1,737
Loans granted to companies in which the entity holds an investment		653,600
Investments in subsidiaries	3.2	87,556
Non-current assets		**742,893**
Total assets		**746,172**
Liabilities		
Short-term interest bearing liabilities due to third parties	3.4	36,968
Other payables		161
Short-term provisions	3.3	1,018
Accrued expenses and deferred income due to third parties		100
Accrued expenses and deferred income due to governing bodies		398
Accrued expenses and deferred income due to companies in which the entity holds an investment		55
Current liabilities		**38,700**
Long-term interest bearing liabilities due to third parties	3.4	161,737
Long-term interest bearing liabilities due to companies in which the entity holds an investment		57,561
Non-current liabilities		**219,298**
Total liabilities		**257,998**
Equity	3.5	
Share capital		3,000
Legal capital reserves:		
– Reserves from capital contributions		495,109
– Other capital reserves		3,682
Accumulated losses:		
– Loss for the period		–8,665
Treasury shares	3.6	–4,950
Total equity attributable to owners of the Company		**488,175**
Total liabilities and equity		**746,172**

Income statement

February 25–December 31 In CHF thousand	Note	2016
Interest income		2,221
Total income		**2,221**
Interest expenses		–1,389
Other financial expenses		–1,020
Personnel expenses		–444
Other operating expenses	3.7	–1,746
Extraordinary, non-recurring or prior period expenses	3.1	–6,287
Total expenses		**–10,886**
Loss for the period		**–8,665**

Notes to the financial statements VAT Group AG

1. General information

VAT Group AG ("the Company") is the parent company of the VAT Group. VAT Group AG was incorporated in Switzerland on February 25, 2016. The registered office of the Company is Seelistrasse 1, CH-9469 Haag, Switzerland. On March 29, 2016, VAT Group AG became the parent entity of VAT Holding S.à r.l. and VAT Management S.à r.l., the Company's only direct investments, which were obtained through a contribution in kind by the initial shareholders.

On April 14, 2016, VAT Group AG made an initial public offering (IPO) in Switzerland and was listed on the SIX Swiss Exchange.

2. Basis of preparation

2.1 General

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law the significant accounting and valuation principles applied are described below.

2.2 Investments in subsidiaries

Investments are valued and accounted for separately at the respective acquisition costs. If there are concrete indications that an investment is overvalued, an impairment loss is recognized.

3. Information on balance sheet and income statement items

3.1 Extraordinary, non-recurring and prior period expenses

Recorded expenses are related to the issuance costs of the IPO on April 14, 2016, and represent non-recurring costs in 2016.

3.2 Significant investments in subsidiaries

VAT Group AG directly holds the investments shown in the table below. VAT Group AG directly owns 100% of the shares of VAT Management S.à r.l. and 95% of the shares of VAT Holding S.à r.l., while the remaining 5% of the shares of VAT Holding S.à r.l. are indirectly held through VAT Management S.à r.l..

Country	Company	Currency	Capital in thousands	Share in capital and voting rights
Luxembourg	VAT Holding S.à r.l.	EUR	30	100%
Luxembourg	VAT Management S.à r.l.	EUR	30	100%

The indirect investments are shown in note 34 of the consolidated financial statements of VAT Group.

3.3 Short-term provisions

In September 2016, VAT Group AG signed a new syndicated five-year revolving credit facility (RCF). The new arrangement was used to pay off the outstanding senior secured facility, which was recorded in VAT Lux III S.à r.l..

Due to the fact that the financial asset and the financial liability arise from the same underlying transaction and are booked in the same currency, the two positions are considered to be a unity. Therefore, foreign currency gains and losses in the income statement, arising from these positions, are showed net; a natural hedge is in place.

While VAT Group AG amortized parts of the liability until the end of the year, the loan granted to VAT Lux III S.à r.l. remained unchanged. Consequently, not the whole financing was naturally hedged. Therefore, unrealized foreign exchange gains in the amount of CHF 1.0 million were recorded in short-term provisions.

3.4 Interest bearing liabilities

The terms and conditions of outstanding loans are as follows:

As of December 31, 2016 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD-LIBOR 1m + 1.65%	2021	198,705
Total loans and borrowings at 31.12.2016				**198,705**
Thereof:				
Current				36,968
Non-current				161,737

Financing expenses in connection with the revolving credit facility (RCF) amount to CHF 2.2 million. These expenses were capitalized and will be recognized in profit and loss over the remaining duration of the credit facility. As at December 31, 2016, CHF 0.5 million are recognized within “Prepayments and accrued income”. CHF 1.7 million are disclosed as “Financial assets.”

3.5 Equity

As of December 31, 2016, the share capital amounts to CHF 3.0 million and consists of 30,000,000 registered shares at par value of CHF 0.10 each.

VAT Group AG was incorporated on February 25, 2016, with 1,000,000 shares and a fully paid-in share capital of CHF 0.1 million. On March 29, 2016, VAT Group AG increased its initial share capital by issuing 29,000,000 registered shares with a nominal value of CHF 0.10 by CHF 2.9 million to CHF 3.0 million in exchange for the entire share capital of VAT Holding S.à r.l. and VAT Management S.à r.l., and shareholder loans.

The reserves from capital contributions consist of the premium from contribution in kind less issue stamp duty. These reserves are not yet confirmed by the Swiss tax authorities. From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital.

On March 29, 2016, a conditional capital increase of up to 1,500,000 shares was included in the articles of association of VAT Group AG which was not drawn as of December 31, 2016.

3.6 Treasury shares

On December 31, 2016 VAT Group AG held 110,000 treasury shares which were purchased on April 14, 2016 at the offer price of CHF 45 pursuant to the discretionary employee share-based IPO bonus. VAT Group AG did not hold any own shares prior to this transaction.

3.7 Other operating expenses

February 25–December 31 In CHF thousand	2016
Insurance, duties and other charges	117
Rental expenses	5
Travel expenses	24
Consulting and audit fees	1,541
Administration expenses	59
Total other operating expenses	**1,746**

4. Other information

4.1 Full-time equivalents

VAT Group AG does not have any employees.

4.2 Significant shareholders

The following shareholders owned more than 5% of voting rights as of December 31, 2016:

Shareholder	Voting Rights as of December 31, 2016
Partners Group	8,787,888
Capvis	2,318,188

4.3 Shares held by the Board of Directors and the Group Executive Committee

As of December 31, 2016, the members of the Board of Directors and the Group Executive Committee held the shares listed in the following table, all of which were acquired at the time of the IPO.

As of December 31 In CHF thousand	2016
Board of Directors	
Horst Heidsieck, Chairman	2,500
Alfred Gantner	0
Ulrich Eckhardt	2,500
Karl Schlegel	32,336
Urs Leinhäuser	10,000
Group Executive Committee	
Heinz Kundert, CEO	107,349
Andreas Leutenegger, CFO	102,350
Kurt Trippacher, COO	61,410

As of December 31, 2016, none of the members of the Board of Directors or the Group Executive Board held conversion rights or options and no loans or credits were outstanding between the parties and the Company.

4.4 Shares granted to the Board of Directors

In 2016, VAT Group AG allocated in total 1,565 shares amounting to CHF 0.1 million to its Board of Directors as part of compensation. Transfer will take place during financial year 2017.

4.5 Significant events after the balance sheet date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

5. Proposed appropriation of available earnings

Proposal for the appropriation of available earnings by the Board of Directors to the General Meeting:

Appropriation of available earnings as proposed by the Board of Directors

In CHF thousand	2016
Balance brought forward	0
Loss for the period	–8,665
Total accumulated losses	**–8,665**

The Board of Directors proposes to the General Meeting, to carry forward accumulated losses of CHF –8,7 million.

Appropriation of reserves from capital contributions

In CHF thousand	2016
Reserves from capital contributions as of 31.12.2016	495,109
Dividend payment out of reserves from capital contributions	–120,000
Reserves from capital contributions carried forward	**375,109**

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 120 million from the reserves from capital contributions.

The number of shares with dividend rights will change if the number of own shares held by VAT Group AG changes. The Board of Directors may therefore adapt the total amount of the proposed dividend to the number of shares with dividend rights at the General Meeting.

Statutory Auditor’s Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VAT Group AG, which comprise the balance sheet as at 31 December 2016, and the income statement for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 125 to 130) for the period ended 31 December 2016 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.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Initial Public Offering (IPO)

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

Initial Public Offering (IPO)

Key Audit Matter

On 14 April 2016, the shares of VAT Group AG were listed on SIX Swiss Exchange in connection with an initial public offering in Switzerland as well as private placements (together referred to as "initial public offering" or "IPO").

As part of the preparation of the IPO a financial reorganisation took place and VAT Group AG was incorporated as the new holding company. The accounting of these transactions is a significant aspect of the financial statements for the period ended 31 December 2016.

There is a risk that the transactions are not accurately reflected in the accounting system or not adequately disclosed in the financial statements.

Our response

We performed testing around the accounting of the initial public offering, which included procedures related to the transaction and the incorporation of VAT Group AG.

Among others, our procedures included the following:

– Considering the appropriateness of the accounting of the contributions in-kind and the recording of the transaction costs in connection with the incorporation of the company and the financial reorganisation for the IPO (including the conversion of shareholder loans);
– Carrying out procedures relating to the journal entries on the IPO transaction accounting and its presentation in the financial statements;
– Evaluating the appropriateness of disclosures related to the transactions.

For further information on the IPO refer to the following: Note 3.5 "Equity"

Responsibility 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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

KPMG AG

Toni Wattenhofer Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, 30 March 2017

Shareholder Information

Following the successful IPO in April, the company's share price has risen strongly on increased investor confidence that VAT, the global market leader in high-end vacuum valves, offers a unique combination of growth prospects and cash returns to shareholders, expressed in an attractive dividend policy linked to the generation of free cash flow to equity.

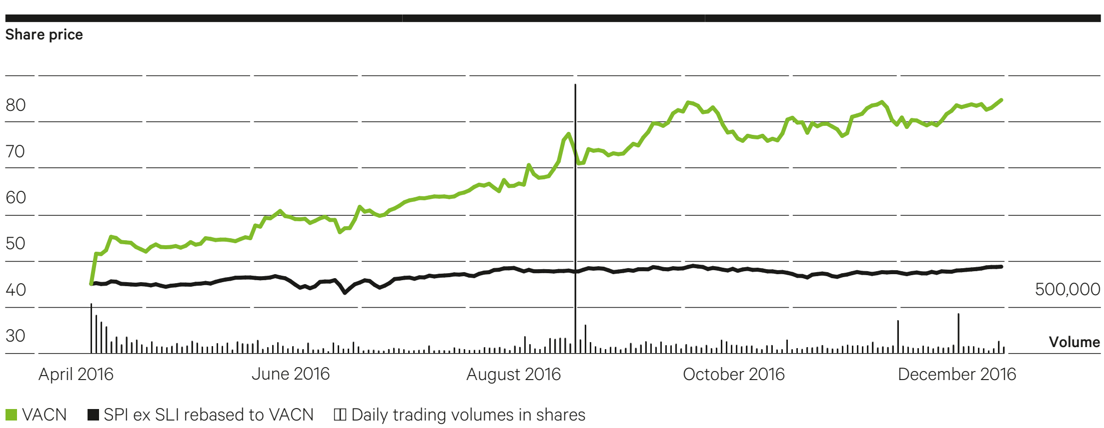
VAT Group AG is committed to open and transparent communication with shareholders, financial analysts, customers, suppliers and all other stakeholders. VAT aims to communicate material developments in its businesses in a timely manner and in compliance with the rules of the SIX Swiss Exchange.

VAT's Initial Public Offering

On March 8, 2016, VAT announced its intention to apply for the listing of its registered shares on the SIX Swiss Exchange. The Initial Public Offering (IPO) was intended to broaden VAT's shareholder base through the sale of shares held at that time by VAT's major shareholders, mainly funds managed and/or advised by Partners Group and Capvis. VAT then launched the IPO with the publication of the Offering Memorandum on March 31, 2016. On April 14, 2016, the shares were traded for the first time on the SIX Swiss Exchange.

As a result of the significant interest in the IPO from institutional and private investors, the initial amount of 13.8 million shares was oversubscribed several times. The issue price was set at CHF 45 per share corresponding to a placement value of CHF 621 million.

Share price development



From the date of the initial listing until the end of December 2016, the price of VAT shares rose from CHF 45.00 to CHF 84.85, an increase of 88.6%, compared with an increase of 8.3% for the overall Swiss stock market. This reflects the positive business outlook for VAT as well as the attractive dividend (see the section "Dividend policy" on page 136).

Stock exchange listing

Ticker symbol	VACN (SIX); VACN.S (Reuters); VACN SW (Bloomberg)	Security type	Registered share
Valor number	31 186 490	Nominal Value	CHF 0.10 per share
ISIN	CH0311864901	Free Float	63%
Market Capitalization as of December 31, 2016	CHF 2.55 bn	Number of shares outstanding	30,000,000
Exchange	SIX Swiss Exchange (International Reporting Standard)	Segment	Mid & Small Cap Swiss shares

Distribution of shareholders by domicile and breakdown of registered shareholders by numbers of shares held

Number of shares held	
Switzerland	60%
Other countries	14%
Shares in transit	26%

The vast majority of registered shares not held in Switzerland are held in the rest of Europe (mainly the UK, Austria and Belgium) and the US.

Number of shares held	
1–100 shares	2,192
101–1,000 shares	4,333
1,001–10,000 shares	591
10,001–100,000 shares	110
more than 100,000 shares	17
Total Number of shareholders	**7,243**

Market Capitalization
in CHF bn

2.5

Disclosure of shareholdings

With effect from January 1, 2016, under Art. 110 of the Federal Act on Financial Market Infrastructures (Financial Market Infrastructure Act, FinMIA), anyone who acquires or sells equity securities on their own account and thereby attains, falls below or exceeds the threshold of 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔% of the voting rights in a company (whether or not such rights may be exercised), is subject to a reporting obligation. This obligation applies to anyone who directly, indirectly or in concert with third parties acquires or disposes of shares in a company incorporated in Switzerland whose equity securities are listed in whole or in part in Switzerland. It also applies to anyone who can exercise the voting rights attached to such equity securities at their own discretion. Disclosure must be made to the company and stock exchanges on which the equity securities in question are listed.

Significant shareholders

Information on significant shareholders is disclosed on page 46 of this report.

Dividend policy

VAT Group AG is committed to an attractive dividend policy that reflects the company's strong free cash flow generation and solid balance sheet. In line with this policy, VAT Group intends to distribute to its shareholders up to 100% of free cash flow to equity (FCFE) so long as the Group's net debt does not significantly exceed 1 x EBITDA.

For the fiscal year 2016, VAT's Board of Directors is proposing to pay out a dividend of CHF 4.00 per registered share out of reserves from capital contributions.

Investor Relations

VAT's Investor Relations team manages the company's interaction with the financial community, including attendance at key investor conferences and providing institutional investors and analysts with various opportunities to learn more about VAT Group's strategy, business operations and governance. Investor Relations is based at the Group's headquarters in Haag, Switzerland.

More information is available on the VAT Group website: www.vatvalve.ch/InvestorRelations.

Dividend Payout Ratio
in % of Free Cash Flow to Equity

102.1

Key data on VAT registered shares

		2016	2015
Share capital	CHF	3,000,000	30,000
Number of shares on December 31		30,000,000	3,000,000
Nominal value per share	CHF	0.10	0.01
Shares outstanding[1]		30,000,000	30,000,000
EBITDA per share[2]	CHF	4.99	3.99
Free cash flow per share[2]	CHF	4.27	3.52
Book value per share (prior year: incl. shareholder loan)[2,3]	CHF	17.02	15.14
Dividend per share[4]	CHF	4.00	n.a.
Share price high	CHF	84.85	n.a.
Share price low	CHF	45.00	n.a.
Closing share price on December 31	CHF	84.85	n.a.
Average daily trading volume	Shares	94,349	n.a.

1 2015 adjusted to continuation of existing business
2 Prior year adjusted to the new number of shares
3 Equity divided by number of shares
4 Proposed by the Board of Directors

Financial calendar

Date	Event
2017	
Wednesday, May 17, 2017	Q1 2017 trading update & Annual General Meeting 2017
Tuesday, May 23, 2017	Dividend payment
Thursday, August 24, 2017	Half-year results 2017
Friday, November 10, 2017	Q3 2017 trading update
2018	
Friday, March 9, 2018	Full-year results 2017

Technical Glossary

Control Valve A valve that controls pressures or gas flows in different steps of semiconductor manufacturing, by modulating its opening in response to a signal from a controller.

Deposition Any process that transfers a material onto a semiconductor wafer. These include physical vapor deposition (PVD), chemical vapor deposition (CVD), and molecular beam epitaxy (MBE), among others.

Doping A wafer fabrication process in which exposed areas of silicon are bombarded with chemical impurities to alter the way the silicon conducts electricity.

Etching A process for removing material in a specified area through a chemical reaction or physical bombardment.

Fab Common name for a semiconductor fabrication plant, a factory used to manufacture integrated circuits.

Flat Panel Display (FPD) Any consumer display device with a flat (planar) surface, in contrast to the curved front of cathode ray tube displays.

Gate Valve A valve that regulates the flow of gases, fluids or materials by opening, closing or obstructing a port or passageway.

Integrated Circuit (IC) A semiconductor product of electrically connected components (such as transistors and capacitors) fabricated on the same substrate.

Isolation Valve Valve used, for example, to seal high-vacuum process chambers from neighboring processes that are at different pressure levels.

Light-Emitting Diode (LED) A semiconductor device that emits light when an electric current flows through it.

Liquid Crystal Display (LCD) A type of flat panel display that uses an array of backlit thin-film transistors to control each pixel.

Lithography The transfer of a pattern or image from one medium to another, such as from a photomask to a wafer.

Load Lock A chamber used to transfer a wafer from an environment at atmospheric pressure into and out of the vacuum environment used for processing.

Millibar (mbar) A unit of pressure, used to measure the level of vacuum (see “Vacuum”).

NAND A type of flash memory often used in memory cards, USB drives, and solid state drives.

Nanometer (nm) A unit of length; one billionth of a meter, commonly used in the semiconductor industry to describe device dimensions.

Packaging The protective container or housing for an electronic component or die, with external terminals to provide electrical access to the components inside.

Organic Light-Emitting Diode (OLED) A flat light-emitting technology made by placing a series of organic thin-films between two conductors. When electrical current is applied, a bright light is emitted. OLEDs can be used to make displays and lighting.

Process Chamber An enclosed area in which a single process is performed in the manufacture of an integrated circuit or other device.

Photovoltaic (PV) A process where light is converted to electricity. Solar PV is the generation of electricity from solar radiation.

Semiconductor A material whose electrical conductivity is between that of metals (conductors) and insulators (non-conductors) and can be modified physically or chemically to increase or decrease its conductivity.

Substrate The starting material for the semiconductor manufacturing process, typically silicon; also referred to as a wafer.

Thin-Film A layer of material ranging from fractions of a nanometer to several micrometers thick.

Thin-Film Transistor (TFT) A transistor made by depositing thin-films on an active semiconductor layer as well as the dielectric layer and metallic contacts over a supporting (but non-conductive) substrate, i.e. a silicon wafer.

TFT technology is used in liquid crystal displays (LCD) to improve image quality such as addressability and contrast.

Transfer Valve Valve used to move substrates such as wafers, glass panels and other materials into and out of manufacturing process chambers.

Vacuum A pressure below the ambient atmosphere
- Typical atmospheric pressure at sea level: 1,000 millibars (mbar)
- Pressure at typical cruising altitude for commercial aircraft: 100 mbar
- High vacuum used in coating processes: 10^{-8} mbar (1 one-hundred-millionth of a millibar)
- Ultra-high vacuum used in deposition processes: 10^{-10} mbar (1 ten-billionth of a millibar)

Wafer The thin, circular or nearly square slices of mono- or multicrystalline silicon on which semiconductors and PV cells are built.

Contact

This complete report is only available in English.

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Forward-looking Statement
Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should be considered to be forward-looking statements. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the company to be materially different from those expressed or implied by such forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the company’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the performance, security and reliability of the company’s information technology systems, political, economic and regulatory changes in the countries in which the company operates or in economic or technological trends or conditions. As a result, investors are cautioned not to place undue reliance on such forward-looking statements.

Except as otherwise required by law, VAT disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this report.

OUTLOOK 2017:

Megatrends such as Big Data, the Internet of Things, Industry 4.0, cloud computing and e-mobility are resulting in ever greater demand for advanced manufacturing technologies, including mission-critical vacuum components.

VAT expects to grow full-year net sales by at least 20% at constant FX rates. The company also expects to maintain its adjusted EBITDA margin compared with the level in 2016. Investments to support VAT’s ongoing growth are expected to temporarily slow down the rate of margin expansion towards our mid-term target of 33%.

PASSION. PRECISION. PURITY.