ANNUAL REPORT 2017:

VAT expanded its No. 1 global market position in 2017 with innovative technology and strong relationships with the world's top vacuum valve customers.

VAT is the world's leading producer of high-end vacuum valves, bellows and modules for ultra-clean manufacturing processes used to produce integrated circuits, digital displays and other high-tech products. Long-term megatrends, such as rapid global digitalization, the interconnection of smart devices and the Internet of Things continued to drive the business. In 2017, VAT successfully reacted to the challenges of this high-growth market. By rapidly expanding production and service capacity across our global footprint, VAT reached record sales while maintaining product quality, customer satisfaction and solid profitability in line with our financial goals.

PASSION. PRECISION. PURITY.

VAT is committed to deliver the highest quality vacuum solutions to its semiconductor, display, solar and other industry and research customers around the world. We will achieve this by collaborating closely with our customers to develop the most technologically advanced vacuum valves, multi-valve modules, motion components, edge-welded bellows and related services. Our success will depend on our competitive global footprint and value chain, industry-leading technology and the expertise and dedication of our people.

Our vision is to be our customers' most trusted supplier, delivering the solutions they need when they need them from a committed global organization that achieves best-in-class operational performance.

Key Figures

In CHF million	2017	2016	Change
Order intake	736.2	561.9	+31.0%
Order backlog as of December 31	165.6	122.1	+35.6%
Net sales	692.4	507.9	+36.3%
Gross profit	431.9	318.0	+35.8%
Gross profit margin	62.4%	62.6%	
EBITDA	212.2	149.6	+41.9%
Adjusted EBITDA[1]	215.1	158.1	+36.1%
Adjusted EBITDA margin	31.1%	31.1%	
EBIT	178.7	118.3	+51.1%
EBIT margin	25.8%	23.3%	
Net income	115.7	67.2	+72.1%
Net income margin	16.7%	13.2%	
Basic earnings per share (in CHF)	3.86	2.43	+58.8%
Diluted earnings per share (in CHF)	3.86	2.43	+59.5%
Cash flow from operating activities	155.6	146.4	+6.3%
Capex[2]	47.6	19.2	+147.9%
Capex margin	6.9%	3.8%	
Free cash flow[3]	108.5	128.1	–15.3%
Free cash flow margin	15.7%	25.2%	
Free cash flow conversion rate[4]	51.1%	85.6%	
Free cash flow to equity[5]	104.4	117.5	–11.2%

As of December 31 In CHF million	2017	2016	
Total assets	991.1	883.4	+12.2%
Total liabilities	433.1	372.8	+16.2%
Equity	558.0	510.6	+9.5%
Net debt	143.7	133.9	+7.3%
Net Debt/EBITDA	0.7	0.9	–24.7%
Invested capital[6]	327.0	246.1	+32.9%
NOPAT[7]	159.6	110.1	+21.0%
Return on invested capital (ROIC)	48.8%	44.7%	
Dividend per share[8]	4.00	4.00	
Payout ratio[9]	115.0%	102.1%	
Number of employees	1,946	1,439	+507

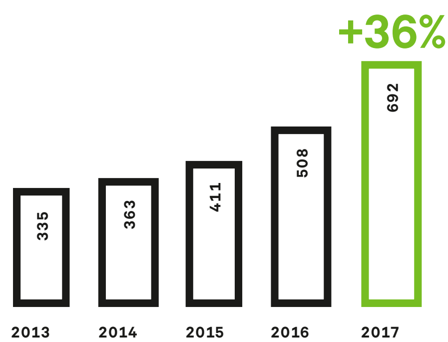
1 Adjusted EBITDA excludes one-off items, see page 28.
2 Capex comprises purchases of property, plant and equipment, and intangible assets.
3 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
4 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
5 Free cash flow to equity is calculated as cash flow from operation activities less cash flow from investing activities less interest paid and the current portion of loan and borrowings due at the end of the period.
6 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).
7 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 18.1% for 2016 and the average group tax rate of 18.0% in 2017.
8 Proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2018
9 Percentage of free cash flow to equity proposed to be paid out as dividend

Net sales
in CHF million

692.4

2016 **507.9**

Net sales development
in CHF million



Adjusted EBITDA
in CHF million

215.1

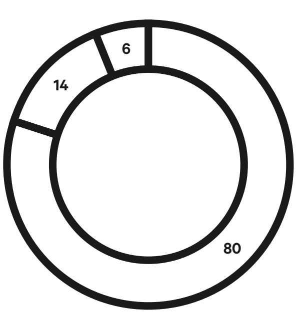
2016 **158.1**

Adjusted EBITDA margin
in %

31.1

2016 **31.1**

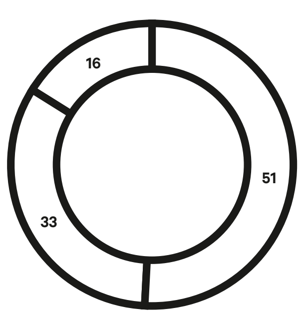
Net sales by segment
in %



80 VALVES
14 GLOBAL SERVICE
6 INDUSTRY

2016
78 VALVES
16 GLOBAL SERVICE
6 INDUSTRY

Net sales by region
in %



51 ASIA
33 AMERICAS
16 EMEA

2016
49 ASIA
34 AMERICAS
17 EMEA

Free cash flow
in CHF million

108.5

2016 **128.1**

Dividend per share*
in CHF

4.00

2016 **4.00**

* Proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2018

Dear Shareholders,

Your company enjoyed another remarkable year in 2017. Demand continued to grow strongly for VAT's high-end vacuum valves, the mission-critical components that underlie global digitalization. From wearable smart devices and autonomous cars to data centers and the Internet of Things, digitalization is driving unprecedented growth in semiconductor and display technologies, and the vacuum valves needed to manufacture them.

VAT harnessed that momentum to achieve another year of record net sales and EBITDA. Our adjusted EBITDA margin was unchanged compared to 2016, despite significant additional costs associated with growing the business. Net income also reached a new high. Our free cash flow remained below the previous year's level, mainly due to additional capital expenditures. Thanks to this strong result, and reflecting our confidence in VAT's continued success, the Board of Directors is proposing an unchanged dividend of CHF 4.00 per share.

This performance was achieved despite the challenges that all companies face in a high-growth market: the need to quickly add capacity and ensure customer satisfaction while maintaining top quality and managing costs. It is a noteworthy achievement that in such an environment, VAT managed in 2017 to again increase its leading global market share.

VAT's extraordinary people
From my perspective as the new Chairman, this accomplishment is ultimately a reflection of VAT's extraordinary people. The company prides itself on its people, and rightly so. They were pushed to the limit in 2017 as demand soared. They responded with determination, commitment and plain hard work.

First among their challenges was to quickly ramp up production capacity to help our customers keep pace with market demand. In 2017, we made significant investments in both people and production facilities in all of our locations – Switzerland, Malaysia and Romania – adding some 500 new employees and more than doubling our total production capacity.

Additionally, we continued to introduce innovative products to the market in 2017, adapting to technology inflections in areas such as solid-state memory devices and OLED displays. Technology innovation – the passion, precision and purity that is such a strong part of VAT's heritage and identity – is one of the company's greatest competitive advantages. VAT remains the industry leader for investment in research and development, collaborating closely with our customers to ensure we can meet their needs in this dynamic market.

At the same time, we continued to drive our program for operational excellence, VATmotion. Launched in 2016, this program is aimed at improving operational excellence all along the value chain. We made good progress in this area in 2017. For example, we improved collaboration with our suppliers and broadened our supplier base to reflect our more global footprint. Under the leadership of a new Chief Operating Officer, we took further steps to speed up and professionalize many internal processes, from order and production planning to product delivery and after-sales follow-up with customers.

New CEO in 2018
Moving into 2018, we are welcoming Michael Allison who will take over the CEO position from Heinz Kundert on March 13. Mike brings a wealth of experience and expertise in the semiconductor vacuum industry from his senior role at Edwards/Atlas Copco. Mike is transitioning into his new responsibilities in close collaboration with the current CEO and the Board of Directors to ensure continuity in management and strategic planning during a critically important stage in the company's history.

DR. MARTIN KOMISCHKE
CHAIRMAN OF THE BOARD OF DIRECTORS

From a strategy perspective, we will continue to focus investments on our core competence in high-end vacuum valves and modules for the semiconductor, display and solar industries. VAT's track record of success is the direct result of our pure-play approach to these highly specific and demanding markets. We have combined best-in-class technology with long-term and strong customer relationships to gain market leadership and drive extraordinary value creation. However, we cannot afford to become complacent. We must continuously win and renew our customers' trust that VAT can deliver the greatest value of any player in the market.

We also intend to broaden our service offerings. These not only generate a stable revenue stream, they are also vital to strengthen customer relationships and keeping us on the cutting edge of technology innovation. In addition, we will invest more to grow our General Vacuum business. Research institutes and companies in the pharmaceutical, biomedical, and industrial coatings industries, for example, are increasingly using vacuum-based analytical and manufacturing processes to improve product quality or move into new product areas. We aim to tap these additional growth opportunities by diversifying our product lines and customer base.

Value creation: growth plus operational excellence

In addition to this focus on growth, we will create additional value with the VATmotion program. The

"We must continuously win and renew our customers' trust that VAT can deliver the greatest value of any player in the market."

market is growing at an exceptional speed, which presents not only challenges to keep pace but also opportunities to streamline processes and tap scale effects in areas such as supply management. Our goal is not simply to improve efficiency. We want to create an environment in which our people can perform to their full potential by focusing their energies on the most important, value-creating activities. Ultimately, we want enable our people to deliver total customer satisfaction.

I'd like to take this opportunity to thank the Board of Directors for their support as I have moved into my new role. On behalf of the Board, I would also like to thank CEO Heinz Kundert for his outstanding leadership, guiding VAT through the period of private equity ownership to its listing in 2016 on the Swiss stock exchange. At the same time, we will continue to benefit from Heinz's understanding of VAT and its markets in his new role as a member of the Board of Directors.

The Board and executive management would also like to thank all of our around 2,000 employees around the world for their dedication and unremitting energy during an extremely demanding 2017. Our extraordinary people really are our most powerful competitive advantage. This gives me great confidence in our continued success in 2018 and beyond.

This confidence is also reflected in the Board's decision to once again pay an attractive dividend of CHF 4.00 per share to our shareholders, whom I would also like to thank for their continued support. Our two private equity shareholders reduced their holdings in a very responsible way in 2017, and we gained a new anchor shareholder who will provide a stable base for the long-term development of the company. The overall shareholder base diversified considerably in 2017, providing additional stability and confidence.

Longer term, the outlook for the company remains very positive. The megatrend growth drivers that have helped us deliver record results – digitalization, device interconnectivity, the ubiquity of high-resolution displays, solar energy, the miniaturization of manufacturing to the nanometer level – are expected to remain strong over the next several years. We aim to further build our market leadership with continued technology innovations, a broader and stronger global footprint and supply chain, and a faster, more nimble organization committed to delivering total customer satisfaction.

Sincerely,
Dr. Martin Komischke
Chairman of the Board of Directors

CEO Interview

It was another year of record sales in 2017. Where is the growth coming from?
Global digitalization – big data, the Internet of Things, e-mobility and more – continues to grow rapidly. This revolution is being fueled by increasingly sophisticated semiconductors and displays that can only be manufactured in an extremely clean and high-vacuum environment. VAT is the world's leading manufacturer of vacuum valves and related products needed for these processes, so we are benefitting from this very positive market development. Not only were net sales up 36% to about CHF 692 million in 2017, but we also increased our market share by 4 percentage points to 45%. That's a great achievement.

Is that growth sustainable?
VAT's customers see continued double-digit growth in 2018. VLSI Research estimates that the market for wafer fab equipment grew 33% in 2017 and is set to grow a further 26% in 2018. Other forecasts show that the number of data centers will double by 2020 to keep up with increasing data as a result of ongoing digitalization, where big data need to be processed and stored. Those new server farms will need a lot of memory integrated circuits, which in turn means more high-vacuum valves. These are secular growth trends that we expect to continue beyond 2018.

Doesn't such rapid growth stress the organization?
It's fair to say that the current market has been a challenge for everyone along the value chain. We began to adjust capacity early because we knew from our close customer relationships where the market was going. That helped us keep pace. We have also worked hard with our suppliers to help them adjust, and we have accelerated our internal efforts to increase productivity. Record results despite significant costs of rapidly increasing capacity are a strong reflection of the great work of our employees in 2017.

What were the main actions you took to manage the growth?
We expanded the capacity at our plant in Penang, Malaysia, investing around CHF 40 million in 2017 and 2018. That will triple our machining capacity and quadruple our clean-room assembly facilities in Malaysia. We also made large investments in our facilities in Switzerland. In total, we increased the number of employees by more than 35% or 500 new people last year, all of whom needed to be quickly trained and integrated into the organization. We also continued our focus on operational excellence. This included deepening relationships with our suppliers to ensure timely delivery of parts and sub-assemblies, as well as broadening our supplier base to reflect our increasingly global footprint. It also involved improving our internal processes, from order planning through to logistics and delivery. Our ambition is to make our company faster and even more flexible, and to enable our people to focus more of their time on meeting customer needs.

Will you need to keep investing in capacity expansion in 2018?
We plan to invest about the same in capital expenditures in 2018 as we did last year, roughly 7% of net sales. That includes the continued build-out of the Malaysia facility. Construction is scheduled for completion by Q3 of 2018. We will continue to ramp up employment there and expand the plant's product scope. Our aim is to have production capacity of around CHF 400 million from the Penang plant by the end of 2020.

Is there a risk that you will have too much capacity in the future?

The growth we see today is part of a long-term secular cycle linked to the digitalization megatrends I mentioned earlier. The market is much more diverse than in the past, when it was dominated by mainframe and personal computers as well as mobile phones. Today's markets serve a much broader range of businesses and consumers with applications that did not exist just a few years ago. On top of that, the semiconductor and related sectors along the supply chain continue to consolidate, meaning there are fewer but much stronger players. This brings increased stability and predictability to our customers' capital spending.

How do you see the long-term balance between growth and profitability?

We have a medium-term EBITDA target of 33%, which is ambitious but realistic. In the short term, investments to support growth will likely reduce that margin. We expect capital expenditure to return to a more normal 4% of net sales by 2019. Combined with the benefits, we aim to achieve from productivity gains, we expect to reach the EBITDA margin target by 2020.

Have you seen new technologies emerge in 2017 that are driving additional growth?

There is a constant cycle of innovation today that requires a steady stream of new technologies to keep pace. The shrinkage of line-widths to below seven nanometers and new device architectures increase chip functionality, performance and further reduce energy consumption. This requires extremely accurate manufacturing processes, such as thin-film deposition and etching, which in turn require even cleaner vacuum environments. High-vacuum valves are critical to maintain and control a process environment that enables zero particles and high yield.

How do you plan for the changing technology demands of your customers?

Early and trusted involvement in developing the next generation of production equipment by our customers is key. This process leads to so-called spec wins where VAT is selected to deliver the agreed-upon product designs. This positions VAT as a long-term supplier. Spec wins also allow us to plan production capacity in advance and gives us a heads-up on potential future technology developments. We had well over 40 spec wins in 2017 that will convert to revenues over the next few years.

Are you seeing new competitors who are attracted by the strong market growth?

In a free market there is always competition. We take it seriously and monitor them constantly. However, there are high barriers to entering this market. These include technology expertise, intellectual property protection, sufficient capacity, and the ability to ramp up quickly in case of high demand. Capital expenditures in semiconductor or display panel manufacturing are significant and require long-term planning and reliable partners. VAT's investment into research and development as well as capacity expansion is unprecedented compared with our competition.

Are there new technologies coming that threaten vacuum-based manufacturing?

Vacuum technology for high-precision manufacturing in a clean environment has become indispensable for many products in our daily life. It ranges from microelectronics, displays, solar energy to automotive, medical, aeronautics, analytics and many more applications. There is no other technology on the horizon that could substitute vacuum in the foreseeable future.

“Record results despite significant costs of rapidly increasing capacity are a strong reflection of the great work of our employees in 2017.”

HEINZ KUNDERT, CEO

You’re retiring at the end of March. What were the highlights of your time as CEO?
Transforming the company from family ownership into a scalable and publicly traded industrial company in a fast growing market environment was a big challenge. It was only possible by close collaboration among investors, management, our customers and, foremost, our employees who quickly adapted and supported all the changes that were needed to profitably grow the company and win market share. They all deserve respect and great thanks. I am pleased that we could engage Mike Allison as my successor. With his 30 years of experience in vacuum technology and being savvy about our main markets, I am very confident that VAT will continue to be successful.

How do you see the market and priorities for 2018?
The unprecedented boom in global digitalization shows no sign of easing, so continued growth will again be the theme for 2018. Our priorities are to expand and adapt a robust, global operational model, and build sufficient capacity to meet our customers’ needs, expand our technology lead, and grow market share in a consolidating industry. This company has great potential for additional value creation, and I am optimistic that we will continue to deliver for a long time to come.

A history of growth and value creation

VAT was founded in 1965 in Switzerland and originally focused on vacuum valves for scientific research. In the 1980s, VAT diversified its product portfolio and entered the thin-film market in areas such as hard coatings for tools and optics. During this time, VAT also established its COMVAT AG subsidiary to manufacture vacuum bellows used to seal vacuum chambers from the outside atmosphere. In 1988, VAT entered the semiconductor sector with its proprietary VATSEAL gate valve, laying the foundations for today's market leadership position.

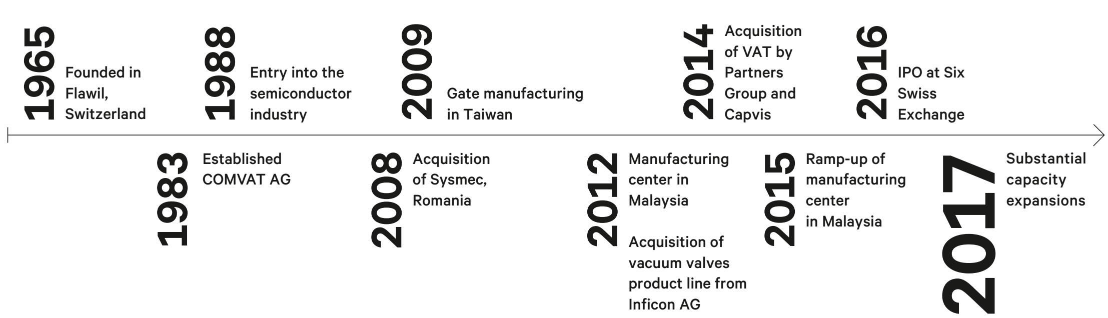
As its product scope broadened, VAT also expanded its business beyond its European markets by establishing both manufacturing and service operations in the US and Asia to better align its operations with those of its biggest customers. Supplementing this organic growth, VAT made some smaller acquisitions. These included Sysmec in Arad, Romania, in 1983 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.

In 2012, VAT launched its largest organic growth initiative with a new manufacturing center in Penang, Malaysian. The aim is to be closer to fast-growing customers in the key Asia market and to strengthen its global value chain. Expansion plans at the plant extend to 2020.

With market growth forecasts continuing to outstrip expectations, VAT undertook additional significant capacity investments in 2017 in its Swiss, Malaysian and Romanian operations. The number of employees rose 35% during the year to around 2,000 people.

VAT Group was acquired from the founding family by Capvis and Partners Group in 2014 with the aim to take the company public through an Initial Public Offering (IPO) on the SIX Swiss Exchange. This step was completed in April 2016. Since then, VAT paid its first dividend as a public company of CHF 4.00 per share to shareholders in May 2017. From the IPO until the end of February 2018, VAT's share price increased by 238% to CHF 152.

Milestones



VAT technologies are enabling the digital revolution

The use of microelectronics and displays is growing rapidly as the world is swept by a revolution in digitalization and interconnectivity. The technologies driving this revolution can only be manufactured under the purest conditions, inside vacuum chambers where contaminants the size of a molecule can bring production to a halt.

VAT is the world's leading manufacturer of high-end vacuum valves, which are mission-critical components at the heart of today's most advanced manufacturing processes. Semiconductors, flat-panel displays, photovoltaic solar panels, high-end sensors used in automotive or medical applications – all must be manufactured under conditions free of air, humidity and contaminants. It is one of the most technologically challenging and demanding markets in the world.

VAT's offering

VAT manufactures more than 10,000 standard and customized vacuum valves and related products. Valves are generally categorized into three types based on their function. 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. VAT has the leading market share in each of these applications.

Our valves' main performance characteristics are leak tightness, zero particle generation, and high surface cleanliness. They are also fast and reliable, with consistent and reproducible open and close operations able to withstand chemical, temperature and pressure extremes. Furthermore, they are easy to replace and maintain, reducing production downtime.

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.

VAT in the high-vacuum value chain

VAT is positioned near the beginning of the digital manufacturing value chain. We sell our vacuum valves to companies that make 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 global vacuum valve market and growth drivers

According to VLSI Research, VAT's total addressable market across all its businesses in 2017 was approximately USD 2.7 billion[1] of which Semiconductors make up some USD 1.4 billion, Displays & Solar approximately USD 510 million, and Industry and Research at approximately USD 560 million. The Global Services market accounts for another approximately USD 230 million.

1 Source: VLSI Research, January 2018 preliminary full-year 2017

VAT assesses market growth along the following three dimensions:

Digitalization 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. It is estimated that the number of connected devices will double to more than 50 billion by the year 2020. A single autonomous self-driving passenger is projected to generate 40 terabytes of data every day[2], roughly equivalent to 6,000 hours of high-definition video. By 2021, three-quarters of mobile phones will be smart phones, double the level of 2016.[3]

This flood of data and the processing power needed to analyze it will drive massive increases in data center capacity. In addition, the advent of artificial intelligence (AI) will require a step change in memory and data processing capabilities in local devices themselves. This will require a rapidly increasing supply of semiconductors and high-resolution displays, and the high-vacuum valves needed to manufacture them.

Continuous technology innovation As semiconductors and high-resolution displays are embedded into more and more devices, manufacturers are continuously searching for new ways to make them smaller, faster, more powerful and more energy efficient. Many of these design innovations require additional process steps under vacuum or more extreme vacuums to reduce the threat of contamination even further. This, in turn, drives demand for new valve designs.

Examples include new chip structures, like 3D chips that stack transistors in multiple layers to increase processing power. New materials are being explored, along with new processes for etching, thin-film coating, baking and packaging. OLED (organic light emitting diode) displays in portable devices, televisions and other applications require additional evaporation process steps to achieve brighter color intensity, lower power consumption and thinner panel dimensions.

Solar photovoltaic cells are manufactured in processes similar to those used for flat-panel displays. High-vacuum environments are needed for the deposition of silicon on substrates that can be several square meters in area. As new materials are developed to increase the energy efficiency of solar panels, the need for new vacuum valve technology also rises.

Precision manufacturing in other industries Manufacturing processes 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.

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.

Another growth area is the deposition of protective and friction-reducing coatings on mechanical components such as gears and bearings. Such applications, which require high-vacuum deposition processes, can significantly improve the energy efficiency and performance of industrial mechanical systems. They are also increasingly used in areas such as biomedical devices – for example artificial joints and heart valves – and improving the performance of wind turbines.

2 http://www.networkworld.com/article/3147892/internet/one-autonomous-car-will-use-4000-gb-of-dataday.html
3 http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/mobile-white-paper-c11-520862.html

Competitive advantages for healthy long-term growth

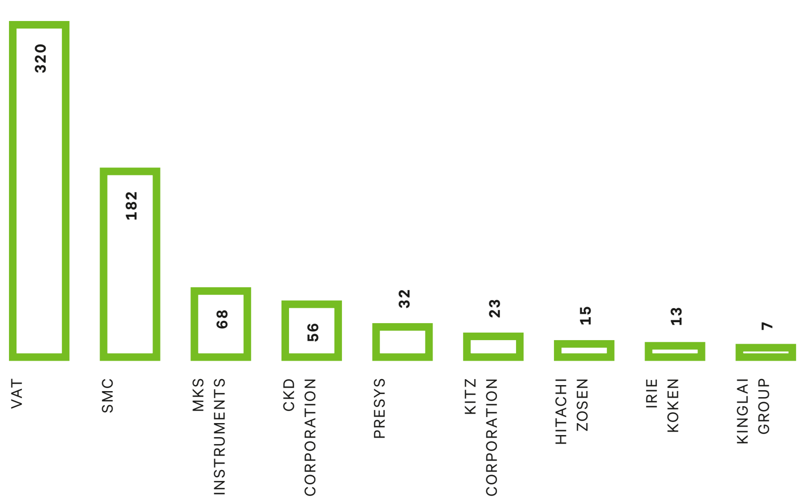
VAT has become the undisputed global leader in vacuum valve technology thanks to a number of key competitive advantages. Our ambition is to continuously build on these advantages to achieve sustainable growth and value creation for all our stakeholders.

Single focus on mission-critical vacuum valves
VAT's focus is vacuum sealing technology. That 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 we know more about these mission-critical components than anyone else in the industry. That makes us an indispensable partner for our customers who must ensure maximum uptime in their extraordinarily complex manufacturing processes.

Strong customer relationships built on technology leadership
Serving some of the world's most demanding customers requires the highest levels of innovation and product quality. It also requires long-term relationships which we cultivate and strengthen by synchronizing our R&D roadmap with their long-term technology and capacity requirements. For example, our technology and sales teams work directly with customers to develop new products especially suited to their future technology needs. In 2017, VAT deployed a team of mechanical design and product engineers from its Malaysian facility to support the rollout of the company's broad product portfolio to key customers in the fast-growing Asia market. The team's 14 members achieved their first success with a collaborative development with customers on VAT's new Series 65.3 control pendulum valve, setting the groundwork for significant product sales growth from the Penang plant. Overall, VAT successfully designed more than 40 new future products in 2017. This specification wins not only secure future revenues, they also strategically position us to supply our customers over the lifetime of their equipment.

We also monitor our ability to meet customer requirements through audits by our customers of

Patent Asset Index™ Score



Source: Swiss Federal Institute of Intellectual Property, April 2017 their satisfaction with VAT's performance. VAT succeeded in improving its performance with its three largest customers in 2017 on a combination of rapid capacity adjustments as well as the delivery of several new gate and transfer valve technologies, modules and lifters. The company was also able to more than double deliveries to five other semiconductor customers. VAT won best supplier awards from two of its largest semiconductor customers and an important solar customer.

Maintaining and building our technology lead remains a top priority. Around 10% of our employees are directly involved in research and development. Every year, we invest approximately 5% of our revenues into R&D. In 2017, that amounted to CHF 34 million.

VAT protects its intellectual property through the largest portfolio of patents in the industry. VAT ranks at the top of the 2017 Patent Asset Index™, which measures the total competitive impact of a company's patent portfolio, including not only portfolio size but also technology relevance and geographic coverage. VAT scored almost twice as many points as its nearest competitor on the index.

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 preliminary numbers from the market research firm VLSI Research, our market share in 2017 was 45%, up from 39% two years earlier. According to VLSI Research, VAT's market share is

Global footprint – flexible setup close to customers

about 8 times higher than our next-biggest competitor, with more than one million valves in operation. In specialized, ultra-high-vacuum applications used in research, we estimate our market share is approximately 60%.

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 driven by digitalization. Another is the increasing complexity of the products manufactured under vacuum, which requires many more process steps and more innovative vacuum valves. A third dimension is the ongoing consolidation in the semiconductor industry, which has led to more stable and more predictable capital investments by our customers among fewer key suppliers, like VAT. This combination of broadened growth drivers and industry consolidation has reduced the demand volatility that historically characterized the semiconductor industry. As a result, we can deliver more consistent returns over the economic cycle.

Extraordinary people
We have a globally experienced and culturally diverse management team with long experience in our core markets. Our workforce comprises around 2,000 highly skilled employees with industry-leading experience in engineering, electronics, physics, chemistry and material science. 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.

VAT aims to provide employees with an attractive and rewarding working environment. The company measures employee satisfaction and commitment through an annual Global Employee Engagement Survey. In 2017, more than 75% of employees responded, allowing management to identify a number of important improvement areas. These are currently the focus of several best-practice initiatives to address these areas and results will be monitored through the next survey in mid-2018.

Financial strength
We have a strong financial profile based on high profitability and consistent 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. At the same time, we have lifted our adjusted EBITDA[4], supported by operational and cost improvements. Many of these are linked to our VATmotion program. Launched in 2016, this program is aimed at improving operational excellence along the whole value chain, focusing on high-impact initiatives to adapt quickly to changing market requirements and to further improve key customer satisfaction criteria. Finally, our cash-generative business model allows us to quickly pay down debt without affecting the business while supporting our attractive dividend policy.

4 Earnings before interest, taxes, depreciation and amortization excluding one-off items.

Strategic priorities for 2018 and beyond

Trusted partnerships with customers and suppliers In a fast-moving market with high capital investments, customers need long-term, reliable and innovative suppliers. VAT's strength in this area is a major competitive advantage that we intend to drive even further.

Investment in innovation and time to market In a fast-growing market, delivering the right products at the right time is more important than ever. R&D will remain a top priority, and we will accelerate our VATmotion operational excellence program.

Tap Asian growth opportunities Asia will continue to lead the production and consumption of semiconductors and displays. Significant additional capital investments in semiconductor fabrication are expected in China. VAT intends to build on its strong position in Asia to tap these growth opportunities.

People development A key to our long-term success will be to provide our people with an environment in which they can work more productively and focus more on the needs of our customers.

Capacity ramp up Secular demand growth is expected to continue. We will adapt capacity at all of our locations to meet the rising demands of our customers.

Adapt global sourcing to support growth We will broaden our global supplier base to gain economies of scale and build the value chain closer to customers.

The VAT story: Looking ahead with confidence

VAT is 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.

We will continue to build 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.

MAPS:

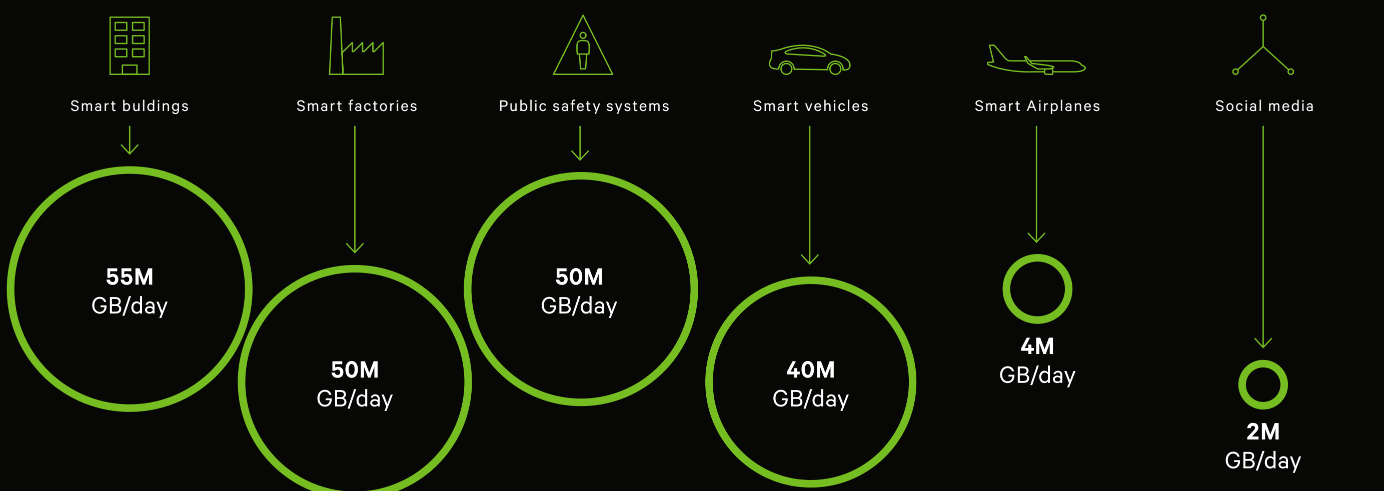
VAT is the world's leading producer of high-end vacuum valves, the mission-critical components that underlie the global digital revolution.

Semiconductors and displays are everywhere in today's digital world. Their manufacture requires such precision at such a small scale that it can only take place in an almost perfectly pure environment. VAT vacuum valves are the keys to achieving that purity. The following pages illustrate how digital megatrends are changing the world and the importance of VAT's vacuum technology to making the new digital world a reality.

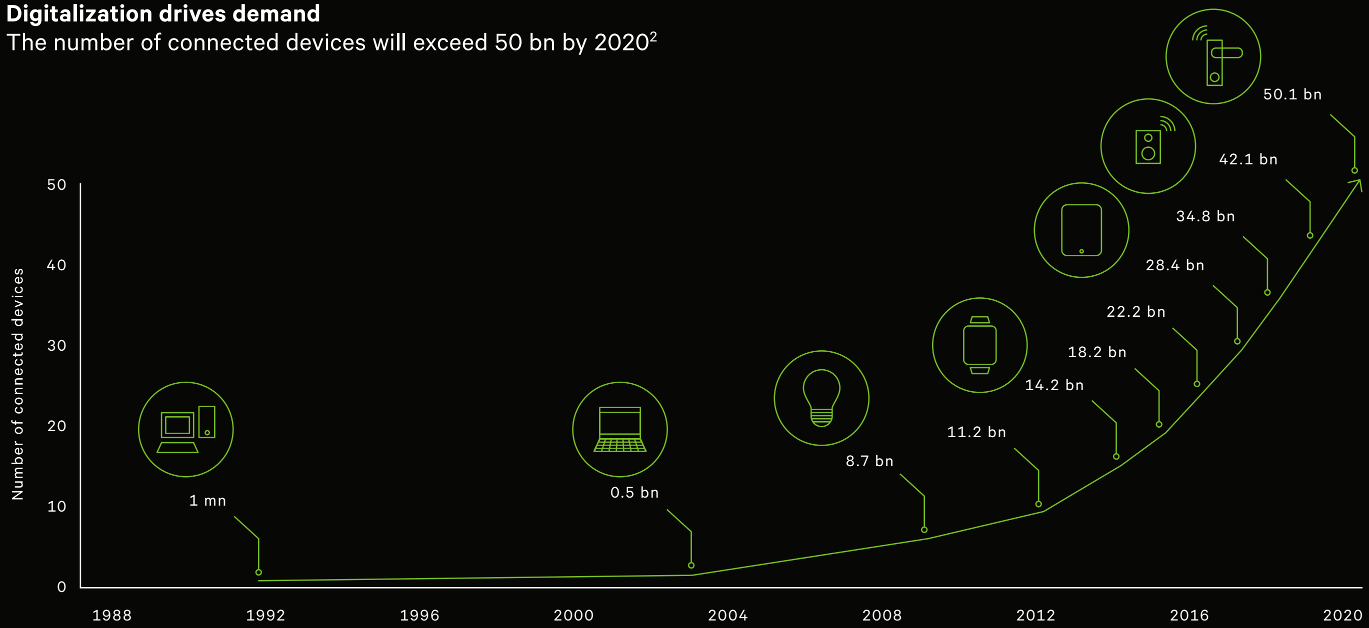
DIGITAL REVOLUTION

The digital world is creating an explosion in demand for data storage and processing. Not only is the number of data centers and smart, interconnected devices – like smartphones, tablets, home appliances and industrial sensors – growing rapidly. New ways to process and benefit from Big Data, such as autonomous vehicles, artificial intelligence and augmented reality, demand smaller, more powerful and more energy efficient semiconductors and displays. That, in turn, requires more precise manufacturing processes under high-vacuum conditions. As the global market leader, VAT is well positioned to benefit from this trend.

Explosion of data generation
A city of 1M people will generate 200M GB of data per day by 2020[1]

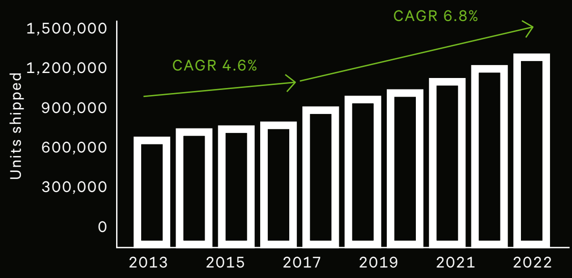


Digitalization drives demand
The number of connected devices will exceed 50 bn by 2020[2]

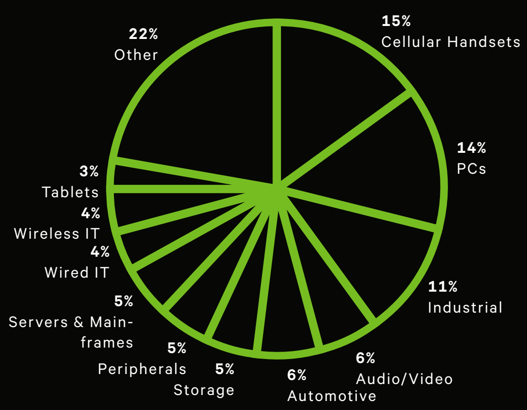


Source: 1 Applied Materials; 2 Cisco; 3 VLSI Research; 4 Excelacom

Semiconductor demand speeds up
Forecast growth[3]



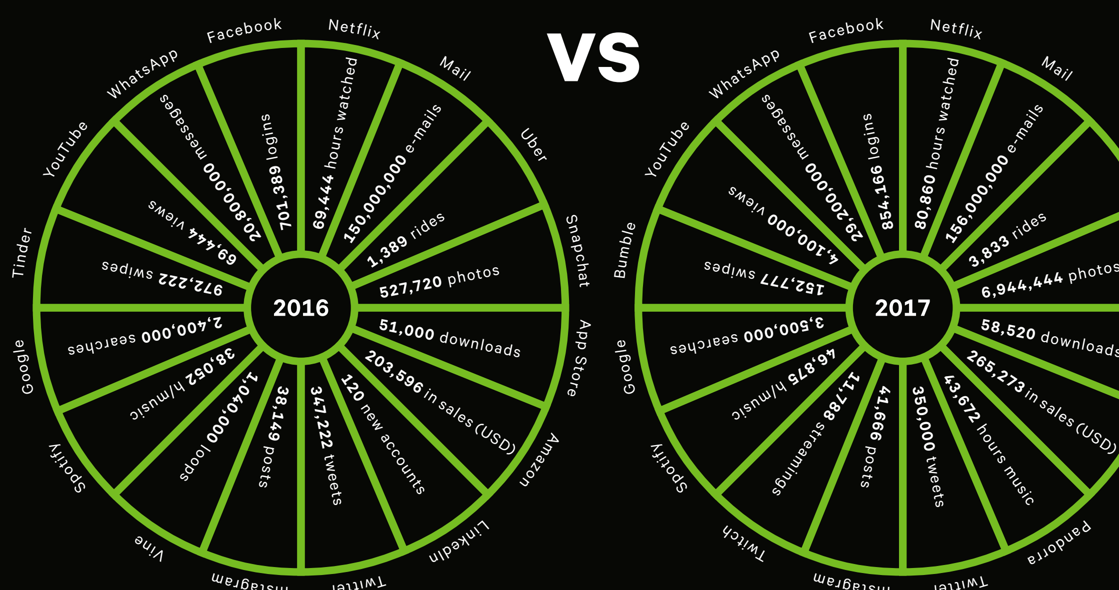
Chips used in more devices
Share of semiconductor market by application



The Internet of Things, Big Data and artificial intelligence will transform the world economy. Our innovative high-vacuum solutions will help make this a reality.

Data generation continues to accelerate

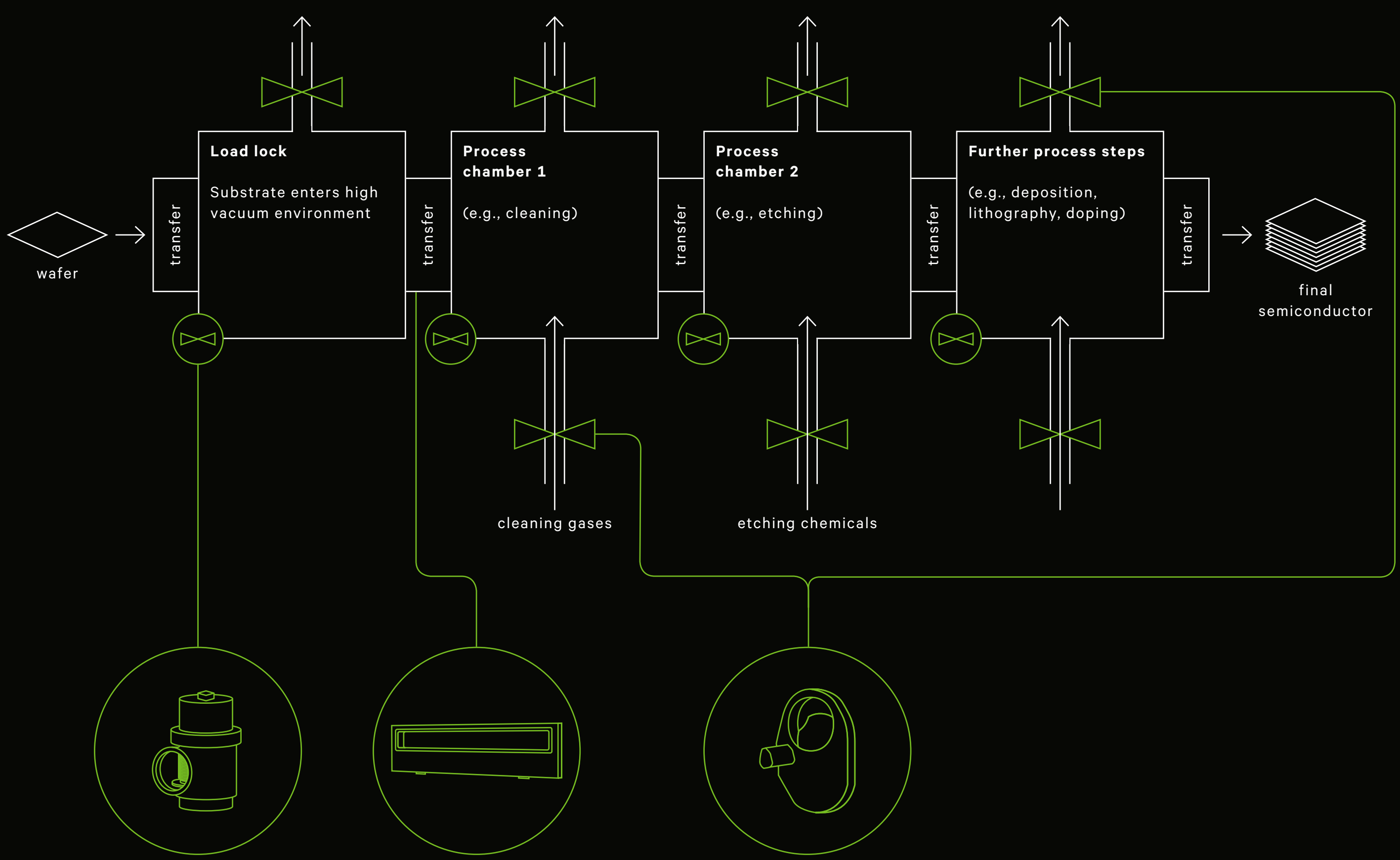
What happens in an internet minute?[4]



PROCESS PURITY

The manufacture of semiconductors takes place at the scale of molecules. Today, more than 100 million transistors can be packed into a one-square-millimeter microchip. The process requires many steps, including cleaning of the silicon substrate, the deposition of special materials onto the silicon, etching to remove material from the wafer and create circuit patterns, testing of the chips and packaging the wafers together into a complete semiconductor.
Each step must be performed with the least contamination possible. The presence of the tiniest unwanted particle – even as small as a protein molecule – can bring the entire process to a halt. To prevent this, chips are manufactured within high-vacuum chambers.

VAT valves are the key to achieving the necessary process purity. They are used to seal the production chambers, control the flow of gases and chemicals in and out of the chambers, and move the substrate between chambers.



Isolation valves seal high-vacuum chambers from neighboring process elements at different pressure levels.

Transfer valves are used to move substrates beween different process chambers.

Control valves regulate flow of sometimes aggressive gases and chemicals used in different process steps.

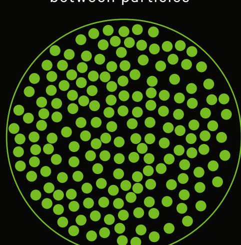
The newest manufacturing equipment for semiconductors and displays require vacuum valves with unprecedented precision and reliability. Our industry-leading technology means we can meet that challenge.

Particle-free enviroments are key to digital device manufacture

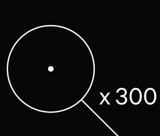
VAT Valves needed

Earth's atmosphere
at sea level

68 nm
Average distance between particles*

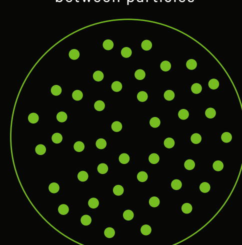


Real-world reference:
a human hair is about 75,000 nm in diameter

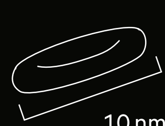


Low vacuum
(300^{-1} mbar)
Ventilation systems, chemical production, medical instruments

0.1 – 100 nm
Average distance between particles*

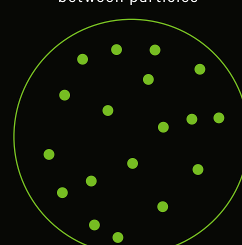


Real-world reference:
a human red blood cell is about 10 nm long



High vacuum
(10^{-3}–10^{-7} mbar)
Semiconductor, displays and solar photovoltaic manufacture

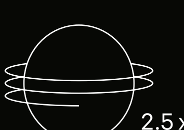
10 cm – 1 km
Average distance between particles*



Ultra-high vacuum
(10^{-7}–10^{-12} mbar)
Research and high-speed particle accelerators

1 km – 100,000 km
Average distance between particles*

Real-world reference:
100,000 km is about 2.5 x the circumference of the earth

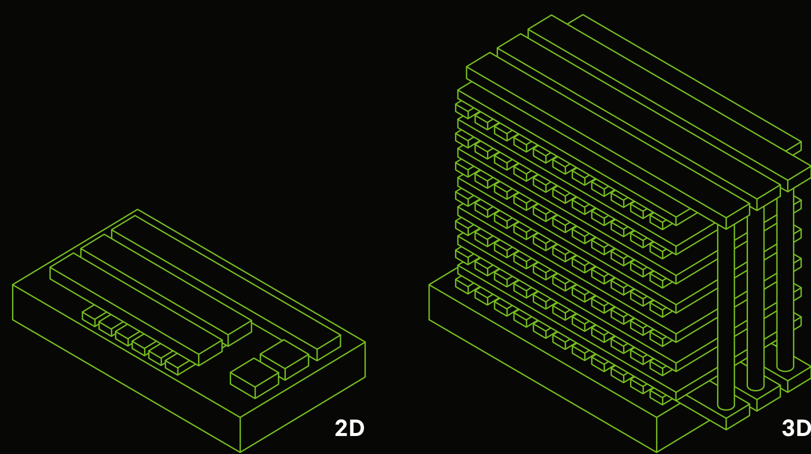


* Mean free path: the average distance travelled by a gas molecule or other particle between collisions with other particles

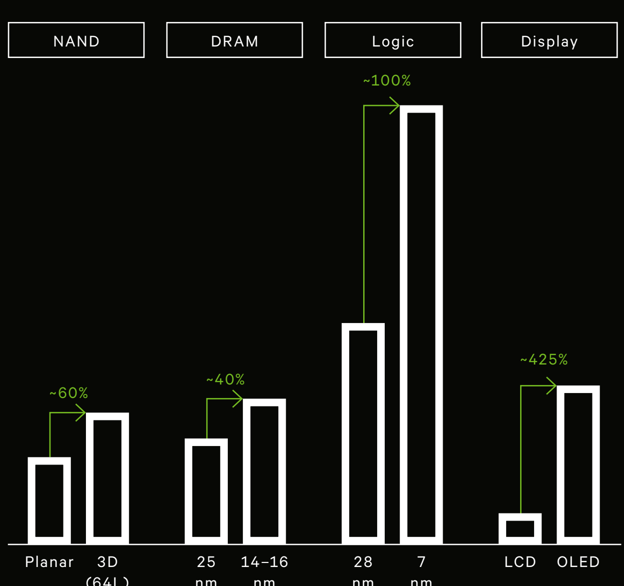
TECHNOLOGY DRIVERS

Semiconductor and display technologies are changing rapidly to provide ever-increasing performance at lower cost. This drives demand for VAT's vacuum valve solutions, allowing customers to achieve unprecedented levels of manufacturing precision and purity.

2D NAND vs 3D NAND
3D NAND is an increasingly popular type of flash (solid-state) memory that stacks memory cells on top of one another. Compared to traditional planar or 2D chips, the 3D design boosts performance and reduces power consumption. Layering the cells requires more process steps under high vacuum and is an important demand driver for VAT valves.



New technologies need new capital investment including high-vacuum systems
Capital investment in wafer fab and display equipment[1]



Memory demand exploding solid-state chips to revolutionize data centers[2]

40%
lower total cost of ownership

90%
lower maintenance costs

> 90%
smaller footprint

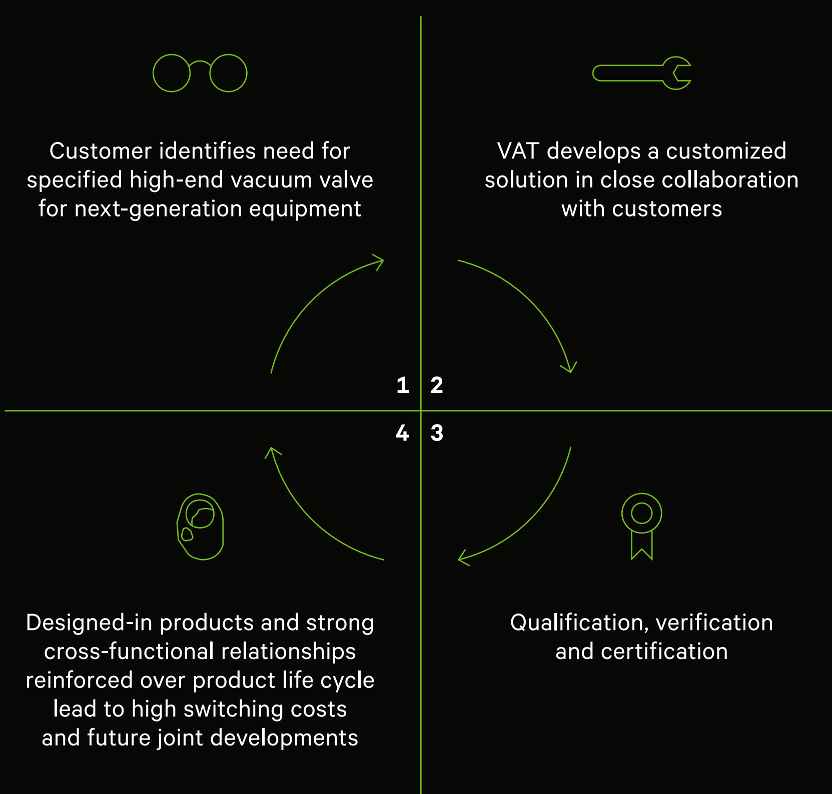
requires 90%
less power

100 x storage density to support autonomous vehicles, home automation, artificial intelligence

Source: 1 Applied Materials, "Innovation Leadership in Expanding Markets," Sept. 2017; 2 Samsung, Applied Materials; 3 semi.org

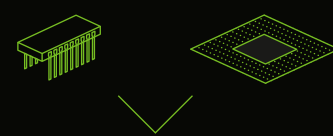
High-performance 3D NAND chips are a must for today's memory-hungry applications, but they're complex to manufacture. VAT helps customers produce them at the right quality and cost.

Long-standing technology collaboration with blue-chip customers creates virtuous circle of growth and innovation



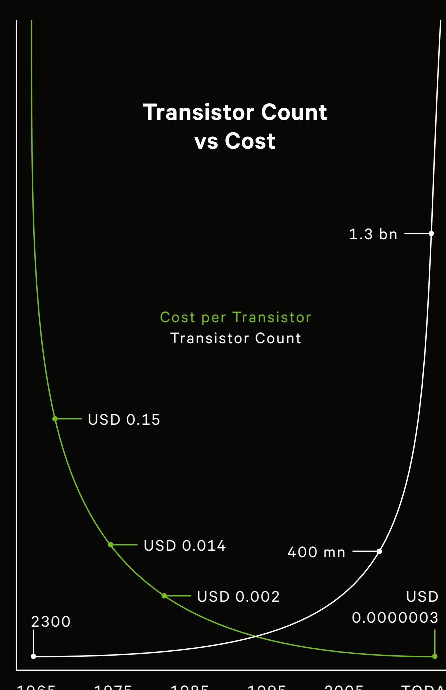
Better performance cost
More transistors per chip means more manufactouring under vacuum[3]

1971	today



approx. price per chip	
USD 350	**USD 400**
approx. price per 1,000 transistors	
USD 150	**USD 0.0003**
number of transistors	
2300	**1,300,000,000**
minimum feature size	
10,000 nm	**10 nm**

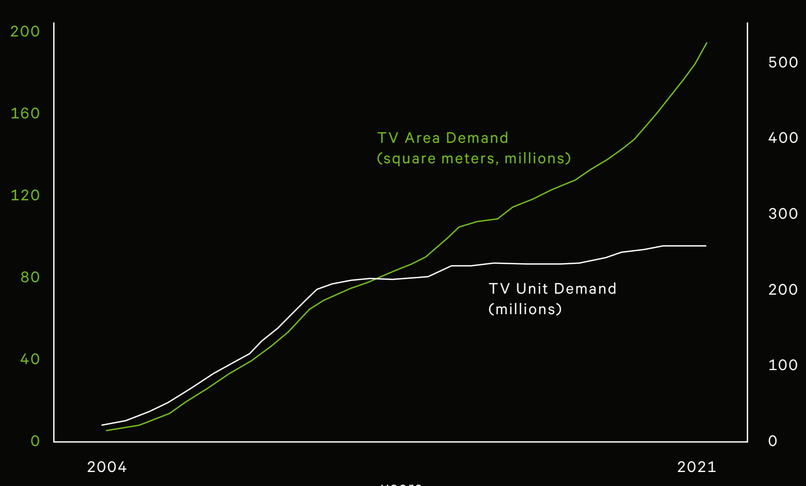
USD 195,000,000
cost of one microprozessor today had the price per transistor remained constant from 1971



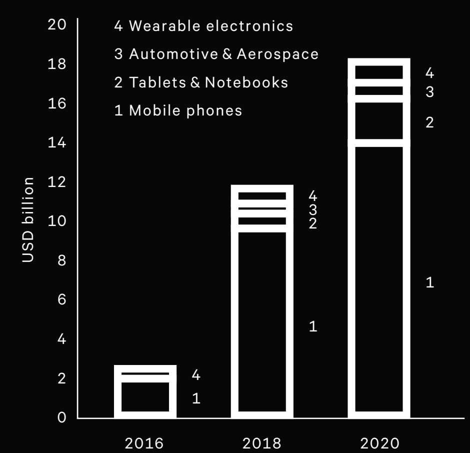
DISPLAY INNOVATIONS

The extraordinary proliferation of smart devices – whether for industrial, automotive and medical applications or home and consumer use – is driving not only demand for semiconductors but also for high-performance digital displays. Like semiconductors, displays are made by applying specialized materials to a substrate at a microscopic scale. The goal is maximum resolution and color purity combined with minimum energy consumption. These devices can only be made within extremely clean environments. VAT, as the world's leading supplier of valves for display equipment manufacturers, is a key player in the fast-growing global digital display market.

Screen size drives display demand
Large TV screens require new vacuum solutions[1]



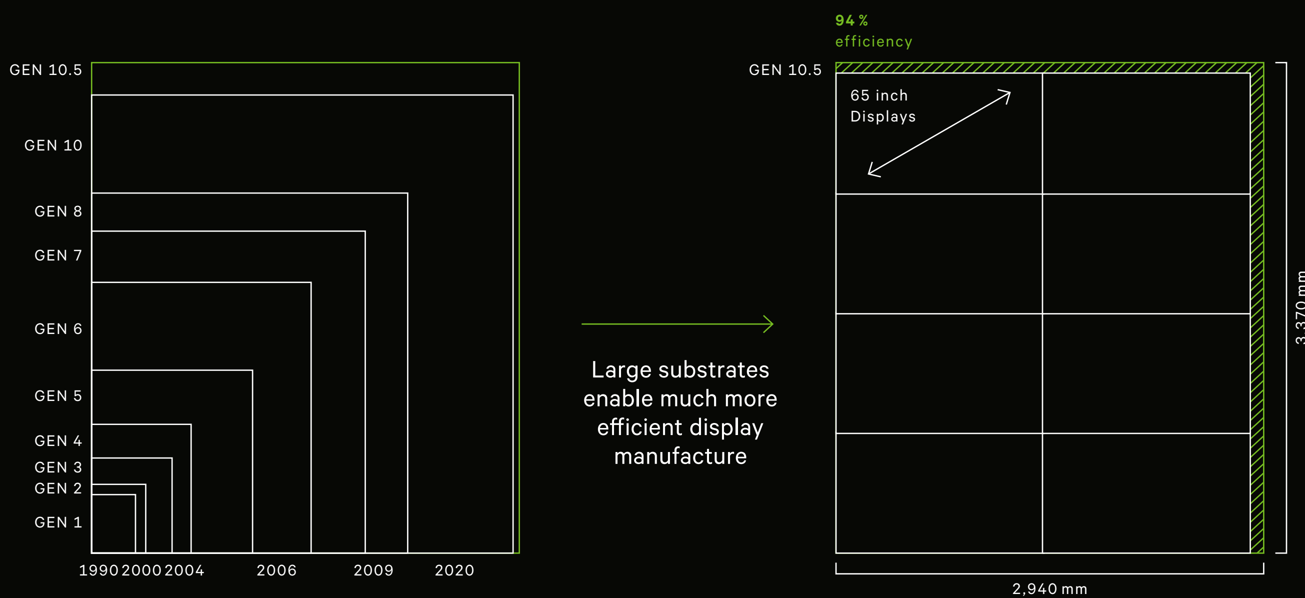
Strong growth ahead for flexible AMOLED displays
Forecast revenues for AMOLED displays by application, 2016–2020[2]



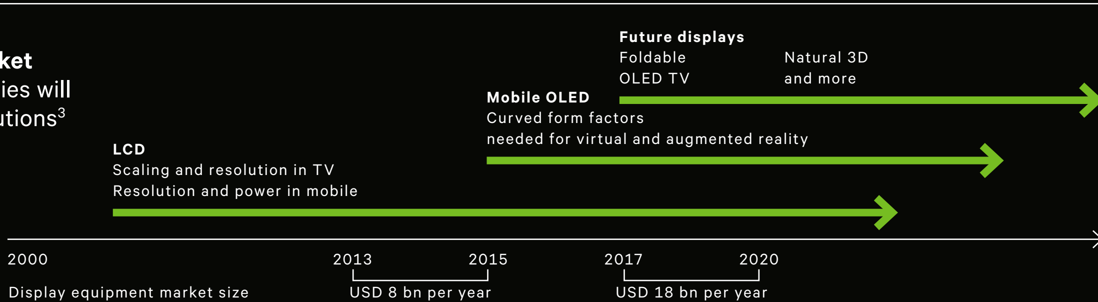
We've developed the industry's broadest range of valves for display manufacturers, which puts us in a strong position to benefit from the rapid development of new display technologies.

Source: 1 Applied Materials; 2 IDTechEx; 3 Applied Materials

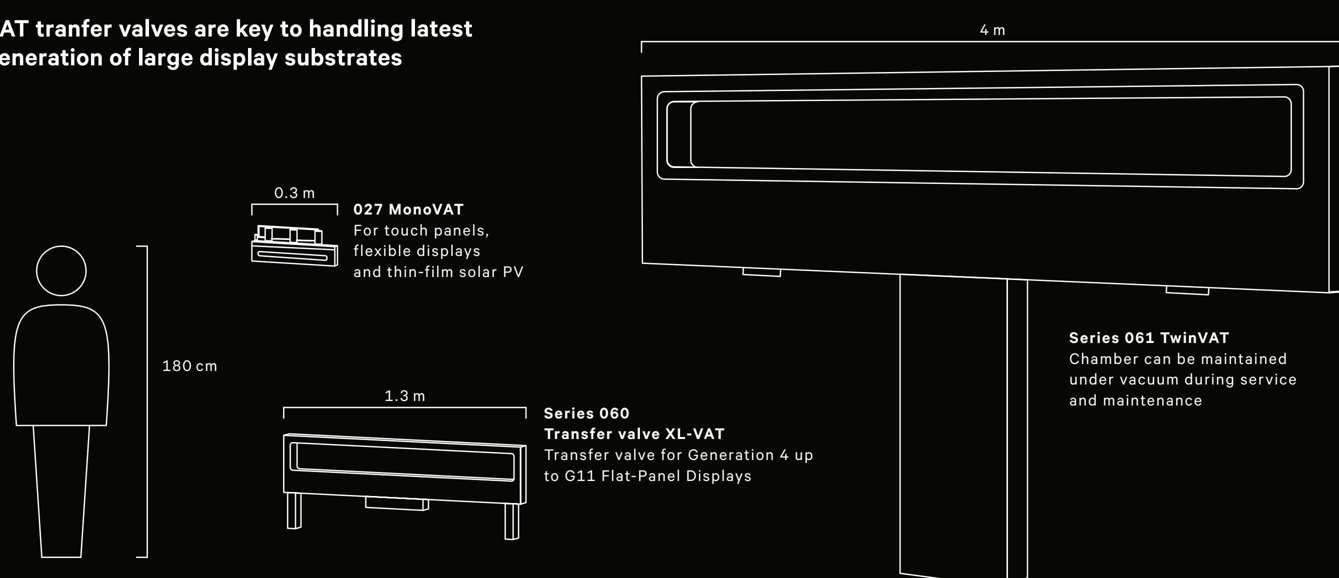
Substrate sizes steadily increasing
New vacuum solutions needed to handle large display substrates



Technology-driven market
Future screen technologies will require new vacuum solutions[3]

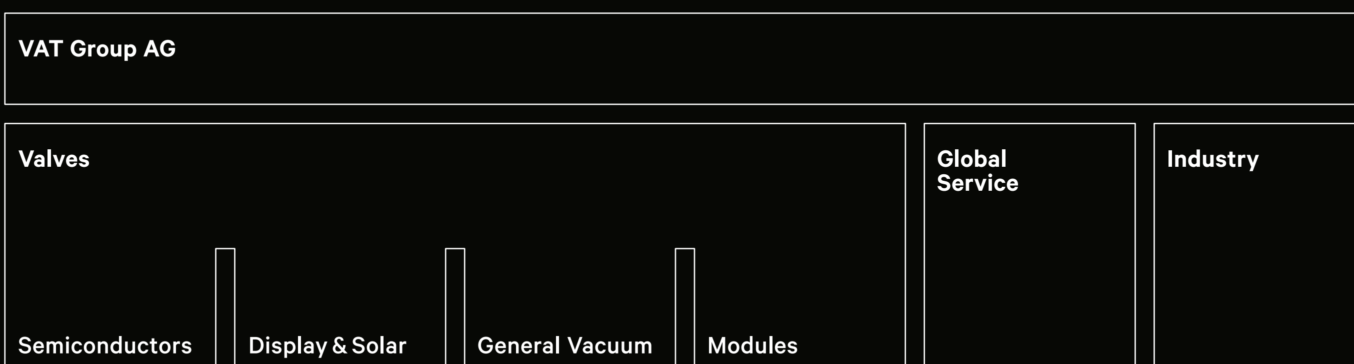


VAT tranfer valves are key to handling latest generation of large display substrates

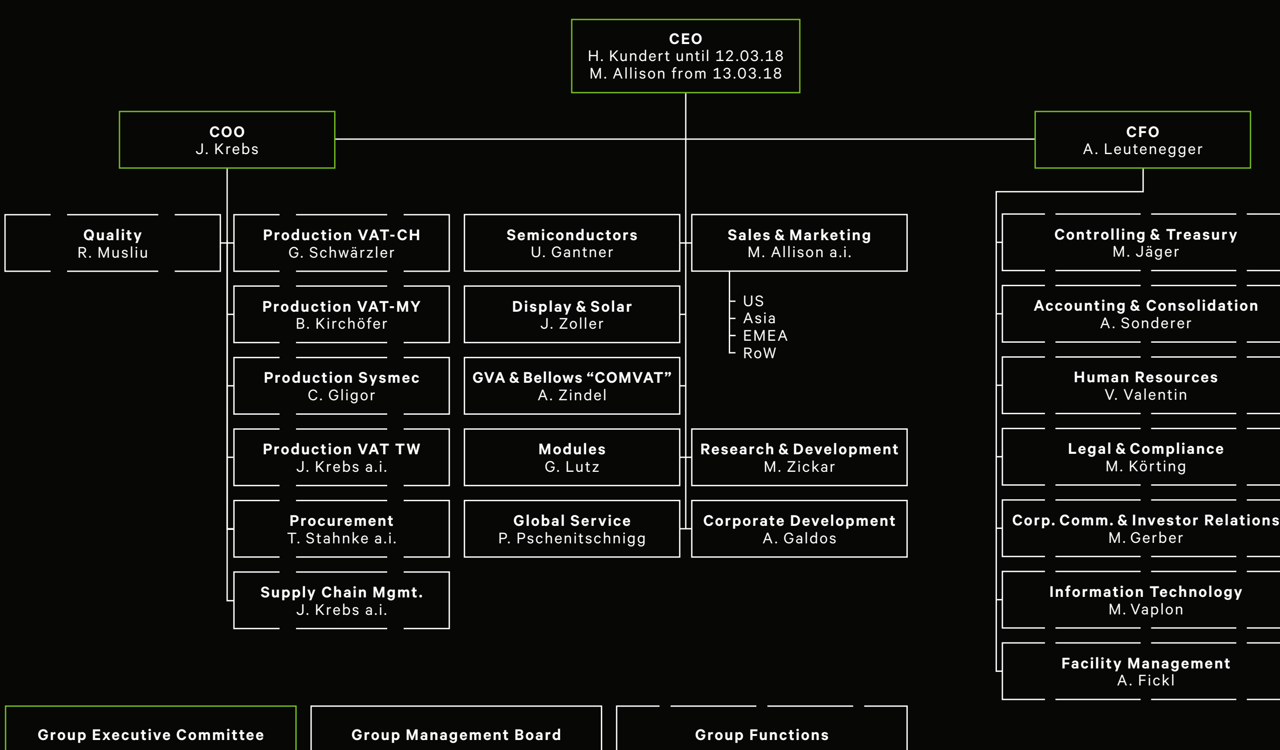


ORGANIZATION

VAT Group is organized and managed in three segments: Valves, Global Service, and Industry. The Valves segment comprises the four business units Semiconductors, Display & Solar, General Vacuum 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.



VAT delivers another year of record performance and further expands its market leadership

VAT Group AG and its subsidiaries (VAT) reported another set of record results in 2017, capturing growth opportunities presented by strong customer demand and the continued expansion of its leading market position. In anticipation of this growth, VAT already started a substantial capacity expansion program in late 2016 with the goal to increase its installed production capabilities to around CHF 1.2 billion by the end of 2020, an increase of about CHF 550 million compared to the level at the end of 2016.

Strong demand for vacuum technology on the back of unprecedented market growth

Compared to 2016, all VAT markets continued to accelerate their growth in 2017. The underlying growth drivers, such as technology advances in semiconductors and displays, stimulated new customer investments in manufacturing equipment. VAT fully leveraged its leading market position in high-end vacuum valves, taking advantage of the broadest product offering in the industry to outgrow the competition.

In the semiconductor market, ongoing technological innovations entered the stage of mass production. These require evermore complex production processes, miniaturization and additional production steps under the cleanest conditions possible. VAT valves and services are mission critical to maintaining these contamination-free environments. As a result, high levels of customer investments in state-of-the-art manufacturing equipment to produce high-performance semiconductors drove strong sales growth in VAT's Valves segment in 2017.

VAT's Display & Solar business also experienced a strong 2017 as demand for additional manufacturing capacity for OLED displays, mainly for smartphones, continued to grow. The production of these high-resolution displays, with much improved coloration and lower energy consumption, requires more demanding manufacturing processes in high-vacuum environments.

All business segments contributed to growth

Total order intake in 2017 amounted to CHF 736.2 million, up 31.0% from the previous year. The order backlog at year-end stood at CHF 165.6 million, up 35.6% compared to the end of 2016. The backlog at year-end represented approximately three months of 2017 sales, about the same level as at the end of 2016. With an increase of 36.3% over the previous year, net sales for the Group reached CHF 692.4 million. Currency movements had virtually no impact on the change in net sales in 2017.

All three business segments contributed to the increase in the Group's net sales. Net sales in the Valves segment improved on a year-on-year comparison by 40.5% to CHF 554.2 million and now represent 80% of VAT's net sales. The major growth driver in this business segment was the business unit Modules with an increase of 63% compared to 2016, followed by Semiconductor, General Vacuum and Display & Solar with a growth of 50%, 23% and 18%, respectively.

The Global Service segment reported a 20.5% year-on-year increase in net sales to CHF 98.7 million. This was driven by the larger installed base and several new contracts that were signed in late 2016 and over the course of 2017. Spare parts led the increase, followed by service and retrofits.

The Industry segment recovered from its flat development in 2016. Growth continued in edge-welded bellows, mainly related to high demand from the semiconductor market. Segment growth was further fueled by higher revenues in mechanical components and assemblies manufacturing. Overall, Industry posted an increase in net sales to CHF 39.5 million, 25.7% higher than in 2016.

Profitability remains on a high level despite significant investments in future growth

The strong growth in VAT's net sales also led to a significantly higher gross profit of CHF 431.9 million, up 35.8% compared with 2016. At 62.4%, VAT maintained its gross margin at around the same level as in 2016, despite higher costs associated with growth and a negative impact of about 1.4 percentage points resulting from increased outsourcing, where personnel, operating and depreciation costs are included in materials cost.

Adjusted EBITDA for the year improved by 36.1% to CHF 215.1 million while the adjusted EBITDA margin remained unchanged at 31.1% compared to 2016. Excluding IPO bonus related adjustments of CHF 2.9 million, reported EBITDA of CHF 212.2 million grew 41.9% compared to 2016, when IPO-related adjustments amounted to CHF 8.5 million. Significant costs associated with investments in expected future growth negatively impacted the positive margin development. However, VAT's EBIT grew by 51.1% to CHF 178.7 million, representing an EBIT margin of 25.8%, a full 2.5 percentage points higher than in 2016.

Below the EBIT line, VAT continued to benefit from an improved financial position, reflecting a markedly stronger balance sheet structure following the IPO in 2016, and lower interest costs from the USD-300-million syndicated five-year revolving credit facility established in September of 2016. Adjusted for the non-cash costs of unwinding the financing structure set up by the former private equity owners[1], VAT's finance net declined from minus CHF 33.4 million in 2016 to minus CHF 6.2 million in 2017.

The effective tax rate in 2017 was 14.1% below the Group's tax target range of between 18% to 20%. This low rate resulted from a combination of several positive factors, such as the US tax reform and the accessibility of loss carry-forwards in Malaysia and Romania. While some of these factors are estimated

1 See Note 2 to the Consolidated Financial Statements on page 76.

Summary of reconciliation

In CHF million	2017	2016	Change
Net income attributable to owners of the Company	**115.7**	**67.2**	**+72.2%**
Income tax expenses	19.0	20.7	–13.8%
Finance costs	44.5	37.7	+18.0%
Finance income	–0.5	–7.3	–93.4%
Amortization	17.1	16.5	+2.1%
Depreciation	16.4	14.8	+12.4%
EBITDA	**212.2**	**149.6**	**+41.9%**
Adjustments			
Personnel expenses[1]	2.9	2.2	+31.9%
Other expenses[2]	0.0	6.3	–100.0%
Adjusted EBITDA[3]	**215.1**	**158.1**	**+36.1%**

1 IPO bonus costs (2016: CHF 4.4 mn and pension gains of CHF 2.3 mn).
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.

to have positive impacts in the future, VAT expects higher tax rates going forward.

As a result of the positive development of operating results, stable finance net and lower effective tax rate, VAT realized net income attributable to shareholders in 2017 of CHF 115.7 million.

On December 31, 2017, VAT's net debt amounted to CHF 143.7 million, representing a leverage ratio expressed as Net Debt to EBITDA of 0.7 times. The equity ratio at year-end amounted to 56.3%.

Free cash flow impacted by higher investments and trade working capital build-up
One of VAT's key performance indicators is free cash flow, which in 2017 amounted to CHF 108.5 million, down 15.3% compared to the previous year. This was partly the result of the growth-related build-up of net trade working capital of CHF 35.7 million to CHF 139.2 million, an increase of 34.5%. However, net trade working capital as a percentage of net sales was 20.1%, virtually unchanged compared to 2016. Cash flow from operating activities was higher than in 2016 despite the higher trade working capital.

Another use of cash in 2017 was a CHF 28.4 million increase in capital expenditures to CHF 47.6 million. This is primarily the result of our capacity expansion in Switzerland and Malaysia. Capital expenditures in 2017 represented 6.9% of Group net sales.

As a result, the free cash flow margin as a percentage of net sales was 15.7% and the free cash flow conversion rate was 51.1% of EBITDA.

At the end of 2017, VAT had 1,946 employees worldwide, an increase of 507, or 35.2%, compared with the end of 2016, reflecting the strong business growth.

At its Annual General Meeting on May 17, 2018, VAT's Board of Directors is proposing a dividend for the business year ending December 31, 2017, of CHF 4.00 per share to be paid out of reserves from capital contributions. That amounts to a total dividend amount of CHF 120 million, or 115% of VAT's free cash flow to equity. This is above the stated dividend policy of paying up to 100% of free cash flow to equity to shareholders and reflects the company's confidence in its cash generation capabilities based on expectations of future business development and an improvement in the free cash flow conversion rate once the current capital expenditure peak is over.

Order intake
in CHF mn

736.2

2016 **561.9**

Long-term megatrends, productivity gains and technology innovation drive value creation in 2018

VAT expects the megatrends that drove growth in 2017 – ever-increasing digitalization, device interconnectivity and the Internet of Things – will continue in 2018. The era of Big Data, augmented by rapid advances in artificial intelligence (AI), is gaining momentum, leading the company into a new phase of sustainable growth. This new phase will be enabled by the ongoing technological progress in data processing (logic) semiconductors, continuous investments in memory semiconductors to meet exploding storage needs, and the proliferation of advanced displays, such as OLED screens with curved form factors needed for virtual reality and augmented reality applications. To address this growing market demand, the leading digital device and display manufacturers will continue to invest in fabrication expansion and technology upgrades, which in turn drive ever-greater demand for advanced manufacturing technologies, including mission-critical vacuum components. As the world market and technology leader for advanced high-vacuum valves, VAT expects to continue to benefit from these developments.

For 2018, VAT expects to grow full-year net sales by 15% to 20% at constant foreign exchange rates. The mid-term EBITDA margin target of 33% by 2020 remains in place, and the company expects to show progress toward this goal in 2018 as the result of improved productivity.

As a result of the expected sales growth in 2018, the higher EBITDA margin, lower finance costs and a slightly higher effective tax rate, net income and earnings per share (EPS) are also expected to grow substantially.

Accelerated capacity expansions, mainly in Malaysia and Romania, require capital expenditures to remain at around 7% of net sales in 2018 before returning to the level of about 4% of net sales in the following years.

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: Semiconductors, 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.

Valves achieved strong growth in 2017 on increasing demand from OEMs that manufacture equipment needed to make the newest generation of semiconductor and display products. Investment in such equipment by end customers reached unprecedented levels in 2017, driven by both short-term operational needs as well as longer-term structural trends. In the short term, customers are investing significant amounts to improve throughput, uptime and overall productivity of their existing high-vacuum systems and equipment assets. Longer-term structural growth trends include the rapidly growing use and complexity of semiconductors and displays. The emergence of new applications and devices that can handle more data faster and with less power consumption has pushed the market into the zettabyte era, where memory is measured in billions of terabytes. This is expected to fuel growth for several years.

Semiconductors: Growth driven by memory
2017 was a year of strong growth for the chip making industry and all associated equipment and component suppliers. The high level of investment was enabled by the equipment industry's ability to quickly deliver innovative manufacturing tools that made the production of new devices such as 3D NAND memory chips economically viable.

Demand was strong for all product families, including control, transfer and isolation valves. The business again outperformed the market, gaining additional market share. VAT's market strength in semiconductors is built on its strategic approach of early collaboration with key customers to develop leading-edge technologies that can be delivered in line with customers' longer-term capital investment plans, so-called specification wins. These also build the foundation for sustainable future growth. In 2017, VAT's Semiconductors business achieved more than 20 specification wins.

Net sales in 2017 reached an all-time high. The main driver was growing demand for etching and deposition wafer fabrication equipment, reflecting the increasing number of process steps in a controlled high-vacuum environment needed to manufacture the latest generation of semiconductors. Sales growth also reflected the increasing volumes of both memory and logic microchips needed by device manufacturers.

Display & Solar: Product innovation secures market leadership
Sales in the Display & Solar business unit increased at a double-digit pace in 2017 as both markets and technologies continued to develop rapidly, driving demand for high-end vacuum valves. In Displays, organic light emitting diode (OLED) displays have become the mainstream technology for mobile devices. For TV applications, liquid crystal displays (LCDs) are still the dominant technology, with the trend towards large G10.5 substrates. The solar market continues to be driven by the need to increase the conversion rate of solar energy to electricity in photovoltaic cells. This is being achieved with new cell designs, such as passivated emitter rear cells (PERCs), whose manufacture requires more process steps under vacuum than conventional solar panels.

In 2017, VAT continued to introduce new products that help customers keep pace with their changing technology requirements. The company completed a joint development with a key customer of specialized horizontal transfer valves needed to move large G10.5 display substrates through the high-vacuum manufacturing process. VAT also developed a vertical version of the valve with a new type of actuator that eliminates contamination of the process environment by grease and particles.

The company also continued to modify and improve existing products, such as its TwinVAT transfer valve, adapting its design to a modular platform concept that enables flexible configuration of product features at highly competitive cost-benefit ratio.

The Display & Solar business also benefitted from VAT's expansion of global manufacturing and service capacity in 2017, allowing it to better service its market-leading OEM customers and secure its strong market share.

General Vacuum: Record sales in ultra-high vacuum applications

In light of a generally positive environment in the research sector and various industrial markets, such as automotive and medical equipment, net sales in General Vacuum rose substantially compared with 2016. The business unit not only grew its existing business, but also qualified new products for applications in several market segments, such as machinery manufacturing or medical applications.

The General Vacuum business continues to profit from the breadth of its product portfolio and the ability to customize valves to meet specific customer needs. Sales of metal seal valves for ultra-high vacuum applications reached a record high, as VAT supplied key equipment to several large particle accelerator projects in France, Korea and Brazil. VAT also delivered a large volume of valves to the aerospace industry. The company's new line of automatic leak valves, for example, provide automatic pressure and flow control with unprecedented precision and have become the preferred solution for applications such as the manufacture of aircraft gyroscopes.

Key Figures Valves

In CHF million	2017	2016	Change
Order intake	590.6	443.3	+33.2%
Net sales	554.2	394.6	+40.5%
Inter-segment sales	41.1	32.2	+27.6%
Segment net sales	595.3	426.7	+39.5%
Segment EBITDA	188.6	129.3	+45.9
Segment EBITDA margin[1]	31.7%	30.3%	
Segment net operating assets	606.8	564.2	+7.5%
of which net trade working capital	108.6	84.9	+27.9%

1 Segment EBITDA as a percentage of Segment net sales

Modules: Creating the purest manufacturing environment

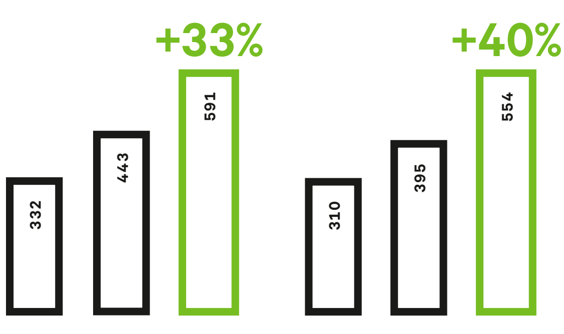
Growth in the Modules business unit was mainly driven by the company's ability to design multi-valve solutions specifically tailored to highly specialized manufacturing processes, often involving the lowest levels of process contamination. By combining valves and actuating devices to move and manipulate components under high-vacuum conditions, VAT modules lower particle contamination, reduce manufacturing footprint and simplify service and maintenance. In 2017, the business unit substantially increased its sales of load lock modules and developed new mechatronic lifting devices for substrates and other components in vacuum chambers, such as doors and shutters. The business unit recorded more than ten specification wins for future product deliveries.

Performance review 2016 and outlook

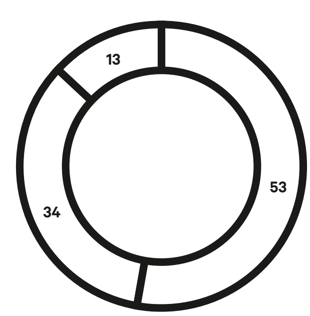
Net sales in the Valves segment grew to CHF 554.2 million in 2017, an increase of 40.5% compared to the previous year. All business units posted higher net sales. Growth was strongest in the Modules business, followed by Semiconductors, General Vacuum and the Display & Solar business unit. Segment EBITDA rose by 45.9% to CHF 188.6 million and the EBITDA margin climbed to 31.7%. Costs associated with substantial investments to expand capacity were more than offset by the strong growth of higher-margin products.

The market for high-vacuum valves is expected to grow further in 2018, driven by ongoing investments into wafer fabrication equipment. This reflects the need for larger numbers of microchips and integrated circuits in both industrial and consumer applications as well as further miniaturization in semiconductor and other manufacturing processes that requires investments in new manufacturing technologies. Rapid developments in artificial intelligence (AI) and autonomous vehicles is expected to drive large additional investments in semiconductor technologies to expand data handling capacity in both data centers and locally in individual devices. Global demand for OLED displays, especially for mobile devices such as smartphones, is also expected to grow, while increasing LCD display sizes require investments in specialized large-scale vacuum valves. Modules and General Vacuum are also expected to continue their upward trend.

Order intake & net sales
in CHF mn



Net sales
by region %



53 ASIA
34 AMERICAS
13 EMEA

Global Service

VAT's Global Service operations supply both OEM and end user customers in all key markets with original spare parts, valve maintenance and service, technical support and training. In addition, Global Service helps customers to improve equipment performance with customized product upgrades and equipment retrofits.

The Global Service segment achieved double-digit sales growth and a new sales record in 2017, reflecting to a large extent the increasing installed base of VAT valves as customers continued to expand capacity. VAT's increasing focus on equipment retrofit programs to boost the performance of its customers' existing assets also drove growth. Additional initiatives to collaborate more closely with selected distribution partners also resulted in the sales of additional spare parts and services in several key markets.

A key growth driver for the Global Service segment is the trend among device manufacturers to continuously improve the performance of integrated circuits and displays to keep up with the demands of rapid digitalization. The speed of technological innovation in the areas of miniaturization of integrated circuits, chip processing power and energy efficiency requires constant upgrades to complex manufacturing processes. This drives a growing need for both spare parts and specialty consumables, such as spare gates, that play a major role in achieving high-purity vacuum environments as well as improving life-time equipment performance.

In 2017, VAT established a business collaboration with an industry partner to quickly assess customers' fast-changing manufacturing challenges and rapidly deploy tailored valve retrofit kits to achieve operational improvements. This collaboration yielded substantial volume orders for complete system upgrades and laid the groundwork for future orders.

Being close to customers is a key success factor in the service business. VAT continued to develop its global sales and service network in 2017, particularly in Asia, where service operations were successfully relocated in Korea and expanded in China. Global Service continued to implement strategic af-

Key Figures Global Service

In CHF million	2017	2016	Change
Order intake	103.6	85.0	+21.9%
Net sales	98.7	81.9	+20.5%
Inter-segment sales	–	–	–
Segment net sales	98.7	81.9	+20.5%
Segment EBITDA	47.6	40.5	+17.7%
Segment EBITDA margin[1]	48.2%	49.4%	
Segment net operating assets	122.5	118.7	+3.2%
of which net trade working capital	15.8	9.4	+68.1%

1 Segment EBITDA as a percentage of Segment net sales

ter-market collaborations with both distribution partners and large OEM customers in order to best support end user customers with teams close to their manufacturing sites. This minimizes operational interruptions and downtime by guaranteeing fast response time and quick spares replenishment.

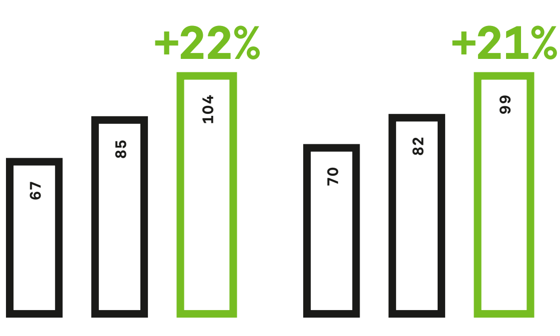
VAT plans to further expand its service footprint in 2018, with a new service facility in Malaysia and with additional service hubs in China. Advanced business models, such as building up service infrastructure at the premises of key customers and installing logistic hubs to speed up parts availability will remain key programs for the segment to further increase its competitive advantage.

Performance review 2017 and outlook

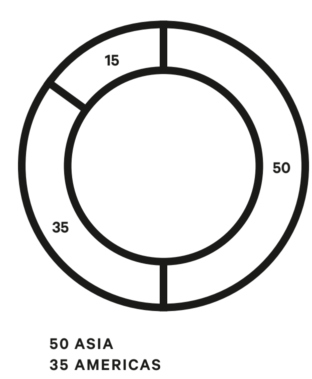
Net sales increased 20.5% in 2017 to reach CHF 98.7 million. Growth was strongest for spare parts, while service and retrofit sales also increased. Segment EBITDA rose 17.7% to CHF 47.6 million. The EBITDA margin amounted to 48.2%, a decrease of 0.8 percentage points compared to 2016. Costs related to investments in the expansion of the Global Service offerings more than offset the positive impact from the change in the business mix as the spare parts business grew faster than the retrofit or service center activities.

VAT expects the market for its Global Service business to remain strong in 2018 as the company continues to build its installed base of vacuum valves. Ongoing technology advances by device manufacturers will drive further demand for valve upgrades and retrofits. Expansions to VAT's global service footprint will support additional growth.

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. They are the fundamental components wherever movement needs to be introduced into a high-vacuum environment, for example, through the use of a substrate lifter or robot, and are 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. The segment manufactures related mechanical components and assemblies through its Romanian subsidiary Sysmec.

Demand for edge-welded bellows increased significantly in 2017, largely a reflection of the overall market growth for vacuum valves in the semiconductor and displays sectors. Rapid technology advances in device manufacturing that required improved contamination control also fueled demand, which VAT met with a new line of bellows using more corrosion-resistant materials for use in aggressive environments, such as dry etching processes.

As with vacuum valves used in the semiconductor and displays markets, VAT bellows need to be qualified by the customer before serial production can be initiated. These specification wins are crucial to secure future business, and VAT won several bellows specification wins in 2017, not only in specific vacuum applications but also in other areas, such as the automotive industry.

The Industry segment also manufactures fuel injection dampers used in advanced automotive fuel injection systems to improve fuel efficiency. This business continued to grow moderately in 2017, and the company substantially increased production capacity in 2017, as demand for dampers is expected to continue to grow.

Key Figures Industry

In CHF million	2017	2016	Change
Order intake	42.0	33.6	+25.0%
Net sales	39.5	31.4	+25.7%
Inter-segment sales	22.6	15.4	+46.8%
Segment net sales	62.1	46.8	+32.8%
Segment EBITDA	13.4	10.3	+29.2%
Segment EBITDA margin[1]	21.5%	22.1%	
Segment net operating assets	74.9	67.4	+11.1%
of which net trade working capital	14.8	9.3	+59.1%

1 Segment EBITDA as a percentage of Segment net sales

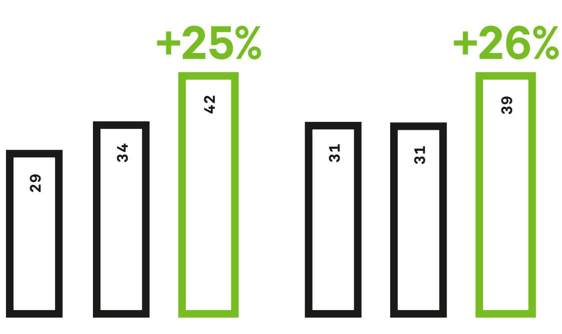
Performance review 2017 and outlook

Net sales in the Industry segment were CHF 39.5 million in 2017, an increase of 25.7% compared with the year before. Internal sales (not included in the net sales number) to the Valves segment grew even faster, up 46.8% to CHF 22.6 million, reflecting large customer investments in semiconductor manufacturing equipment. Sales to the automotive sector increased as well but at a slower pace, while sales to other markets were growing at a good pace.

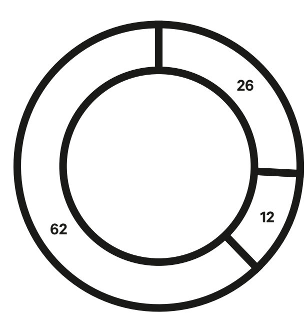
Segment EBITDA rose by 29.2% to CHF 13.4 million. The segment EBITDA margin amounted to 21.5%, slightly lower than in 2016 as a result of the strong growth in inter-segment sales.

VAT expects further growth in the market for edge-welded bellows in 2018, in line with the continued growth expected in the semiconductor market. Positive, 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 %



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12 AMERICAS
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Group Executive Committee

Heinz Kundert
was appointed CEO of VAT Group in 2015. Previously, Mr. Kundert served in various management positions in Asia for Balzers AG, a global supplier of thin-film equipment for semiconductor manufacturing. Mr. Kundert also served as CEO of Unaxis Holding AG. He was Vice President and European president of SEMI International, a global semiconductor industry association. Mr. Kundert is currently on the Board of Directors of Camox GP Ltd and the Fraunhofer Institute 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, and a degree in Business Management from the University of St. Gallen.

Mr. Kundert has a successful track record of more than 20 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.

Andreas Leutenegger
joined VAT Group as CFO in 2015. Mr. Leutenegger started his career in the audit department of KPMG in Zurich, Switzerland. He later served in corporate controlling and reporting at Holcim Group before becoming CFO at Siam City Cement Public Company Limited in Thailand. Prior to joining VAT Group, Mr. Leutenegger was Head of Group Controlling at Holcim Group. He holds an MBA 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
joined VAT Group as COO in July, 2017. Previously, Dr. Krebs was Executive Vice President, Operations, and a member of the Group Executive Board at Hauni Maschinenbau AG, Hamburg, Germany. Before that, Dr. Krebs held various management positions at Heidelberg Druckmaschinen AG and Heidelberg Web Systems Inc. He 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 in operations and supply chain management, service and sales, lean manufacturing and quality.

Michael Allison
was appointed CEO of VAT Group in October 2017, with his appointment effective March 13, 2018. He joined VAT from Edwards/Atlas Copco, one of the leading companies in the high-vacuum equipment sector, where from 2014 he was President of the Semiconductor Division, serving the company's semiconductor, display and solar customers. Prior to that, Mr. Allison was Managing Director and Executive Vice President of Edwards global sales and service operations. Mr. Allison also worked for KLA-Tencor Corp. for almost 20 years in a variety of senior management roles, including Head of Global Services, VP of business strategy and various regional and technical leadership positions. He is also a member of the Board of Directors of SEMI International, an industry association. He holds a degree in Electrical and Electronic Engineering from the University of Glasgow, Scotland.

Mr. Allison brings more than 30 years of experience in the global semiconductor capital equipment sector. His track record includes driving strong organic revenue growth together with market share gains, successful business turnarounds, and strong M&A experience.

Heinz Kundert, CEO[1]

Andreas Leutenegger, CFO

Jürgen Krebs, COO[2]

Michael Allison, CEO[3]

1 Until March 12, 2018
2 Effective June 1, 2017
3 Effective March 13, 2018

Board of Directors

Martin Komischke
was elected chairman of the Board of Directors of VAT at the company's Annual General Meeting in May 2017. From 2004 to 2016, Mr. Komischke served as CEO of Hoerbiger Holding AG, a leading supplier of compression technology, drives and hydraulic systems. Prior to that, he was Head of Hoerbiger's Drive Technology business and member of the Executive Board from 1996 to 2003. Mr. Komischke currently serves as Chairman of the Board of Hoerbiger Holding AG. He is also a member of the Board of Directors of Stäubli Holding AG, a member of the Supervisory Board of Aixtron SE and Vice President of the Board of Trustees of the Hoerbiger Foundation. Mr. Komischke holds a PhD in engineering from RWTH Aachen University in Germany.

Mr. Komischke has more than 20 years of senior management experience in a number of global high-tech industries. He has particular expertise in companies with leading positions in specialized markets where innovative technology is a key competitive advantage.

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 CEO 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 26 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).

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 and the Advisory Board of the Wer liefert was? GmbH. Mr. Eckhardt holds a Master's degree in Economics from the University of Zurich and a MSc 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.

Hermann Gerlinger
was elected as a member of the VAT Group Board of Directors in May 2017. From 2001 to 2016, Mr. Gerlinger was CEO of Carl Zeiss Semiconductor Manufacturing Technology (SMT Group) GmbH, responsible for the strategic business units Lithography Optics, Semiconductor Metrology Systems and Laser Optics. From 2006 to 2016, he was also a member of the Executive Board of Carl Zeiss AG. Before that, he held various management positions at Zeiss AG. Mr. Gerlinger currently serves as advisor to the Executive Board of Carl Zeiss AG, member of the Supervisory Board of Siltronic AG and member of the Advisory Board of the German National Metrology Institute. Mr. Gerlinger obtained a PhD in Physics and Astronomy from the University of Würzburg, Germany.

With more than 30 years of industrial experience in the semiconductor and related technology fields, Mr. Gerlinger also brings to the VAT Board extensive international business and operational expertise in the areas of sales, production, sales and innovation and supply management.

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, Burckhardt Compression Holding AG, Liechtensteinische Landesbank AG and is Chairman at Avesco 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. Since 2014, he is self-employed and since 2016 the owner and since 2017 the managing 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.

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 BSc 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 has implemented a Code of Conduct, setting out VAT Group's key principles.

To avoid duplication, some sections contain cross-references, in particular to the Annual Report 2017 published at http://ir.vatvalve.com/ar2017/home.html, the Compensation Report 2017 published at http://ir.vatvalve.com/ar2017/compensation-report.html and the Articles of Association of VAT Group AG, published at http://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 2017 of VAT Group AG published at http://ir.vatvalve.com/ar2017/financial-statements.html.

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, LEI: 529900MVFK7NVALR7Y83) 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 two 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 2017 of VAT Group AG on page 109.

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 77 to 80.

1.2 Significant shareholders

As of December 31, 2017, 11,951 shareholders were registered in VAT Group AG's share register. 24,564,768 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 2017 with VAT Group AG and the SIX Swiss Exchange are available from the online publication platform of the SIX Swiss Exchange: http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

VAT Group AG was informed that during 2017, the two main shareholders, Partners Group[1] and Capvis[2], significantly reduced their shareholdings through several accelerated book-building offerings and a private placement. Their total shareholding was reduced from 37.0% to 3.5%. Capvis no longer held any VAT shares as of December 31, 2017. In addition, BlackRock, Inc., New York, USA, also reduced their position below the threshold of 3%.

In September 2017, VAT Group AG was informed that Partners Group sold 3,000,000 VAT shares (representing 10.00% of the VAT share capital) to Mr. Rudolf Maag.

As of December 31, 2017, VAT Group AG was notified of the following shareholders, representing 3% or more of the share capital of VAT Group AG:

Name of shareholder

	In % of total share capital
Rudolf Maag, Switzerland	10.3%
Norges Bank (the Central Bank of Norway), Norway	4.3%
Partners Group, Switzerland	3.5%

In addition to the information as per December 31, 2017, VAT was informed by Partners Group on January 19, 2018, that they had sold all their shares in VAT. On January 23, 2018, VAT was informed by the Massachusetts Mutual Life Insurance Company that they hold 3.5% of the VAT shares; on February 10, 2018, this position was increased to 5.1%. VAT was further informed on February 28, 2018, by Norges Bank that they reduced their position to below 3%; on March 2, 2018, Norges Bank again increased their position to 3.2%.

VAT Group AG is not aware of any other person or institution holding, at the date of this report, 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 Lockup agreements

The Management Shareholders[3] agreed to a three-year staggered lockup, with the last portion of shares being released on April 15, 2019. After expiry of the first lockup period on April 14, 2017, relating to one third of the holding under the three-year staggered lockup for the Management Shareholders and following the end of the trading restriction period on May 18, 2017, six members of the Management Shareholders, including the CEO and the CFO of VAT Group AG, placed 164,968 (equaling approx. 0.5% of the total number of outstanding) registered shares of VAT Group AG through an accelerated book-building offering.

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. Partners Group and Capvis constituted a group of shareholders acting in concert within the meaning of the FINMA ordinance mentioned above; since Capvis is no longer a shareholder of VAT Group AG as of December 31, 2017, the shareholder agreement became obsolete and was terminated on August 25, 2017 mutually by both parties. Nonetheless, Partners Group held 1,037,486 shares and 3.5% of the voting rights as of December 31, 2017.

1 Comprising 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 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.
3 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, 2017 was CHF 4.3 billion with a free float as defined by SIX Swiss Exchange of approximately 90%. During 2017, the free float increased from 63% to approximately 90% due to three book-building offerings by the main shareholders Partners Group and Capvis in May, August and October 2017.

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[4], VAT Group AG's share capital of CHF 3,000,000 may be increased by a conditional capital of up to CHF 150,000, i.e. up to 5% of the share capital, 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 preemptive 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

There have been no changes in the share capital since March 2016.

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

As of December 31, 2017, 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.

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

2.5 Own shares

As of December 31, 2017, VAT Group AG held 17,547 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 2017.

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[5] 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 six 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, 2017.

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, 2017.

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

Board of Directors

Name	Age	Position	Year of Appointment
Martin Komischke	60	Chairman[1]	2017
Alfred Gantner	49	Vice-Chairman	2016[3]
Ulrich Eckhardt	46	Member[2]	2016[3]
Hermann Gerlinger	64	Member	2017
Urs Leinhäuser	58	Member	2016
Karl Schlegel	64	Member	2016[3]

1 Since May 2017; before, from March 2016 until the AGM in May 2017, Horst Heidsieck served as Chairman and from 2014 until 2016 as Chairman of the Board of Directors of VAT Holding AG.
2 Served as Chairman in February/March 2016.
3 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, 2017, the members of the Board of Directors were:

Dr. Martin Komischke, Chairman, was born in 1957 and is a German citizen. Martin Komischke was elected as Chairman of the Board of Directors of VAT at the AGM in May 2017.

From 2004 to 2016, Martin Komischke served as CEO of HOERBIGER Holding AG, following his function as Head of the Strategic Business Unit “Drive Technology” and member of the Executive Board from 1996 to 2003. Before that, he held various functions at Kolbenschmidt AG and Mannesmann-Sachs AG. Martin Komischke currently serves as Chairman of the Board of HOERBIGER Holding AG (since 2016). He is also a member of the Board of Directors of Stäubli Holding AG (since 2016), a member of the Supervisory Board of Aixtron SE (since 2013) and the Vice President of the Board of Trustees of HOERBIGER Foundation (since 2016).

Martin Komischke holds a degree and a doctorate in electrotechnics and mechanical engineering from the University of Aachen.

Alfred Gantner, Vice-Chairman, was born in 1968 and is a Swiss citizen. Alfred 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.

Alfred Gantner co-founded Partners Group in 1996. He is a member of the Global Investment Committee, the Investment Oversight Committee and Partners Group Holding AG’s Board of Directors, based in Zug. Previously, he served as Chief Executive Officer of Partners Group Holding AG from 1996 to 2005, when he became its Executive Chairman. In 2014, Alfred 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 26 years of industry experience. He is a member of the Board of Directors of Partners Group’s 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.

Alfred 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. Ulrich 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.
Ulrich 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, Ulrich Eckhardt serves also on the Board of Directors of Beauvoir Investments AG (a financial holding company, since 2014) and on the Advisory Board of Wer liefert was? GmbH.

Ulrich 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.

Dr. Hermann Gerlinger was born in 1953 and is a German citizen. Hermann Gerlinger was elected as member of the Board of Directors of VAT at the AGM in May 2017.
Between 2001 and 2016, Hermann Gerlinger was CEO of Carl Zeiss SMT GmbH and from 2006 to 2016 also member of the Executive Board of Carl Zeiss AG. Before that he held various functions for ZEISS AG. Hermann Gerlinger currently serves as advisor to the Executive Board of Carl Zeiss AG (since 2017), as member of the Supervisory Board of Siltronic AG (since 2011) and as member of the Advisory Board of the German National Metrology Institute (PTB) (since 2015).

Hermann Gerlinger holds a degree and a doctorate in physics and astronomy from the University of Würzburg.

Urs Leinhäuser was born in 1959 and is a Swiss citizen. Urs Leinhäuser has been a member of the Board of Directors of VAT Group AG since March 2016.
From 1995 to 1999, Urs Leinhäuser was Head of Corporate Controlling at Georg Fischer AG and later CFO 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, Urs Leinhäuser was CFO and Deputy CEO of Autoneum Holding AG until 2014. Since 2014, Urs Leinhäuser is self-employed and since 2016 he is partner (respectively from 2017 managing partner) at Adulco GmbH. He currently serves on the Board of Directors of Ammann Group Holding AG (since 2013), Burckhardt Compression Holding AG (since 2007) and Liechtensteinische Landesbank AG (since 2014). Since 2017, he is Chairman of the Board of Directors of Avesco AG.

Urs 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. Karl 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.
Karl Schlegel served as CEO of Hamilton Medical AG between 1997 and 2003. Between 2004 and 2013, he was the CEO of VAT Group. Karl Schlegel is also a member of the Foundation Board of Stiftung Arwole (a charity for individuals with disabilities, since 2014).

Karl 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[6], 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.

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 overindebtedness,
- 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.

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

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 quarterly, 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[8] 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.

Members of the Group Executive 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 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. In addition, the VATmotion Committee and the Technology Committee were introduced in 2017.

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 as of December 31, 2017.

Board of Directors

	Audit Committee (AC)	Nomination and Compensation Committee (NCC)	VATmotion Committee	Technology Committee
Martin Komischke	–	Chairman	Chairman	–
Alfred Gantner	–	–	–	–
Ulrich Eckhardt	Member	Member	–	–
Hermann Gerlinger	–	–	Member	Chairman
Urs Leinhäuser	Chairman	–	Member	–
Karl Schlegel	–	Member	Member	Member

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

3.8 Audit Committee (AC)

According to the AC charter[10], the AC shall consist of three members of the Board of Directors[11]. 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.

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,
- 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.

10 The AC charter of VAT Group AG is published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/audit-committee-charter-of-vat-group-ag.
11 Currently, only two members of the Board of Directors are appointed. It is envisaged that the third member will be appointed after the AGM 2018.

3.9 Nomination and Compensation Committee (NCC)

In accordance with the NCC charter[12], 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 Martin Komischke 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[13],
- 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[14] such as the NCC charter[12] or law.

Further information about the NCC and its duties is provided in the Compensation Report on pages 59 to 60.

3.10 VATmotion Committee and Technology Committee

In accordance with the Organizational Regulations[14], the Board of Directors can appoint committees to prepare and execute its resolutions and to supervise the Company. In 2017, the Board of Directors established the VATmotion Committee and the Technology Committee.

The VATmotion Committee supports the full Board of Directors with regard to operational excellence measures. The VATmotion Committee is chaired by Martin Komischke who is supported by Hermann Gerlinger, Urs Leinhäuser and Karl Schlegel.

The Technology Committee provides advice to the full Board of Directors in technological terms. It supports the Management team in the development of the technology strategy and the evaluation of the Company's research, development and product portfolio. The Technology Committee is currently chaired by Hermann Gerlinger who is supported by Karl Schlegel.

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

3.11 Meetings of the Committees of the Board of Directors

According to the Organizational Regulations[15], 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. 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.

3.12 Overview of meetings in 2017

During 2017, the Board of Directors and the Committees conducted regular formal meetings and conference calls.

Formal Meetings and Conference Calls

	BoD	AC	NCC	VATmotion Committee	Technology Committee
Total number of meetings/calls in 2017	6/9	5/2	5/0	6/0	2/0
Usual average duration, approx. (in hours)	6/1	2/1	2	2	2
Martin Komischke (from May 2017)	4/4	–	2	3	–
Horst Heidsieck (until May 2017)	2/2	3/0	3	–	–
Alfred Gantner	3/7	–	–	–	–
Ulrich Eckhardt	6/9	5/2	5	–	–
Hermann Gerlinger (from May 2017)	4/5	–	–	5	2
Urs Leinhäuser	6/9	5/2	–	4	–
Karl Schlegel	6/9	–	5	6	2
Internal Audit, PwC	–	3/0	–	–	–
External Audit, KPMG	–	4/0	–	–	–
External Advisors	–	–	3	–	–

The CEO, the COO (from June 1, 2017) and the CFO attended all meetings and calls of the Board of Directors. The CEO and the CFO attended all meetings of the AC and NCC (the COO partly from June 1, 2017). The Head Legal and Compliance joined all meetings (from March 1, 2017) to act as secretary. External advisors attended three meetings of the NCC. VAT employees were invited to the respective meetings and calls occasionally when required.

In addition, the Board of Directors and the Committees held several informal meetings and calls (with and without VAT management and/or guests to discuss current subjects between formal meetings and calls).

15 The Organizational Regulations of VAT Group AG are published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-vat-group-ag..

3.13 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[16] or the Organizational Regulations.[17] 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[16]. 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.

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

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

Meetings of the Board of Directors are attended by the CEO, COO and the CFO. 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 reporting, 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[17] 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 (more details can be found in Section 8.1 herein).

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[16] and the Organizational Regulations[17], 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 AG.

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

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.

As of December 31, 2017, the members of the Group Executive Committee were:

Heinz Kundert, CEO, was born in 1952 and is a Swiss citizen. Heinz Kundert was elected as a member of the Board of Directors of VAT Holding AG in 2014. In June 2015, Heinz Kundert was appointed CEO of the VAT Group.

Heinz 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 Oerlikon-Bührle 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, Heinz 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, Heinz Kundert worked as a strategy consultant until 2015. Between 2002 and 2015, Heinz 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. Heinz 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).

Heinz 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.

On October 3, 2017, VAT Group AG announced that the Board of Directors will propose the election of Heinz Kundert to the Board at the next AGM to be held on May 17, 2018. Heinz Kundert will step down as CEO of VAT Group AG and will hand over his duties to Mike Allison who joined the Company on January 1, 2018. Mike Allison succeeded Heinz Kundert as CEO after an orderly transition period on March 12, 2018.

On October 3, 2017, VAT Group AG announced that the Board of Directors has appointed Michael (Mike) Allison, born in 1962, British citizen, to become the new Chief Executive Officer. Mike Allison joined VAT on January 1, 2018 and succeeded Heinz Kundert as CEO on March 13, 2018.

Mike Allison joined Edwards in 2008 as Vice President of Global Sales & Services and, after the acquisition by Atlas Copco in 2014, became President of the Semiconductor division at Edwards/Atlas Copco. In this role and always having sustainable value creation in mind, Mike Allison achieved substantial business success and helped transform Edwards into one of the leading companies in the Semiconductor Vacuum sector. In addition to his roles at Edwards/Atlas Copco, Mike Allison also spent 20 years with KLA-Tencor where he had many significant roles including Executive Vice President and General Manager of Global Services, based in San Jose, USA. Other roles included significant positions in business strategy, sales, marketing and technical positions in Germany, UK and the USA. Mike Allison is a member of the International Board of SEMI, the global industry association for the semiconductor equipment and material suppliers.

He holds a B.Sc. Honors in Electrical & Electronic Engineering from Glasgow University.

Andreas Leutenegger, CFO, was born in 1968 and is a Swiss citizen. Andreas Leutenegger joined the VAT Group AG as CFO in May 2015.
Andreas 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 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.

Andreas 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.

Dr. Jürgen Krebs[18], COO, was born in 1967 and is German citizen. Jürgen Krebs was appointed Chief Operating Officer of VAT Group AG as of June 1, 2017, succeeding Kurt Trippacher who left VAT Group AG by April 30, 2017.
Previously, Jürgen 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, Jürgen Krebs held various management positions at Heidelberg Druckmaschinen AG and Heidelberg Web Systems Inc.

Jürgen 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.

4.2 Mandates and other permitted activities

According to art. 23 of the Articles of Association[19], 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: http://www.six-exchange-regulation.com/en/home/publications/management-transactions.html.

18 Registered under his 2nd forename as "Ernst Krebs" in the commercial register.
19 The Articles of Association of VAT Group AG are published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag.

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 58. 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[20]. The rules regarding the approval of the remuneration by the shareholders' meeting are set in art. 12 of the Articles of Association[20].

According to the Articles of Association[20], 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 Executive Committee; advance payments of fees for lawyers, court fees and similar costs relating to the defense 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 59, 60, 61 and 65.

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[20], 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.

Under the Articles of Association[20] 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 ordinary shareholders' meeting held on May 17, 2017, 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.

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

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[21] 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.

6.5 Entry in the share register

The Articles of Association[21] 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[21] 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.

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

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. Audits

8.1 Internal Audit

The Board of Directors of VAT Group AG decided to implement an internal audit function in 2016. Internal Audit is an independent function acting on behalf of the Board of Directors under the guidance and oversight of the AC. VAT Group AG chose to co-source with PricewaterhouseCoopers (PwC) in order to execute the individual audits and PwC has the responsibility to plan, execute and report the audits. The internal audit function issued a risk report to the Board of Directors for the first time in 2017. The internal audit plan as approved by the AC included two audits in 2017.

8.2 External Audit

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 (and re-elected in 2017), auditing the consolidated financial statements and the individual financial statements of VAT Group AG. Mr. Toni Wattenhofer was named lead auditor since 2016. The holder of this office changes every seven years, in accordance with Swiss law.

In 2017, aggregate audit fees for KPMG's audit of VAT Group AG and the VAT Group amounted to CHF 227,866.

KPMG rendered in 2017 additional services, in respect to compliance, tax returns and tax advice amounting to aggregate fees of CHF 119,371.

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 discusses the audit report results and evaluates their quality and comprehensiveness. The lead auditor in charge who represents the external auditor attended four meeting of the AC in the year under review. An overview of meetings and attendance can be found in section 3.12 herein.

Once per year the Board of Directors verifies the selection of potential auditors, in order to propose the preferred audit firm for election at the annual shareholders' meeting. Evaluating the effectiveness of the auditors, the AC considers in particular the following criteria: independence of both the audit firm and the lead auditor, qualification, including technical and operational competence, focus on significant risk areas, effectiveness and practicability of recommendations, efficiency of collaboration and transparency of communication.

The AC also examines the proportion between the external audit fees for the annual financial statements and the fees for additional non-audit services performed by the auditors quarterly.

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 http://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 http://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 http://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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Financial Reports: http://www.vatvalve.com/InvestorRelations/investor-relations/financial-reports
Newsletter subscription: http://www.vatvalve.com/InvestorRelations/investor-relations/newsletter

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 2017 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 compensation report.

VAT looks back on a successful financial year 2017 with good operational results confirming expectations placed in our company. Increasing demand for manufacturing equipment in the semiconductor industry and technology advances in displays continue to drive growth, with an order intake up 31% and a net sales increase of 36% compared to the previous year. Profitability was at expected levels despite significant investments in the future growth of VAT.

The Board is convinced that the 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 2017, following the announced retirement of CEO Heinz Kundert for 2018, the NCC focused on the search for a new CEO and on strengthening the succession pipeline for top management positions. Further, the NCC implemented a long-term incentive plan for GEC members as approved at the last Annual General Meeting (AGM). 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 2018 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 the term of office from the 2018 until the 2019 AGM, on the variable compensation amount paid out to GEC members for the financial year 2017, on the maximum aggregate amount of fixed compensation of the GEC for the financial year 2019, and on the maximum grant values for the GEC under the long-term incentive plan for the financial year 2019.

We will continue to review our compensation programs to ensure they support the achievement of our business goals, are aligned to the interests of shareholders and fully comply with the various regulations applying to a Swiss listed company. We trust that you will find this report interesting and informative.

NCC of VAT Group
Haag, March 9, 2018

2. Compensation governance

2.1. Articles of Association

The Articles of Association of VAT can be found on the corporate website http://www.vatvalve.com/Investor-Relations/investor-relations/corporate-governance/articles-of-association-vat-group-ag and are summarized below in Table 1. 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, the additional compensation amount for GEC members appointed after the approval of the maximum aggregate compensation amount by the shareholders and provisions on credit and loans.

Table 1: Articles of Association

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.
Compensation principles (GEC) – Article 26	Compensation of the GEC members consists of a fixed compensation and of variable compensation components, which comprise short-term and long-term compensation elements. The short-term variable compensation is paid in cash and depends on the level of achievement of specific pre-defined targets for a one-year performance period. The long-term variable compensation is awarded in shares or rights to receive shares. The Board determines the terms and conditions of the long-term variable compensation.
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 short-term variable compensation of the GEC for the preceding business year, the maximum fixed compensation of the GEC to be paid in the subsequent business year and the maximum long-term variable compensation of GEC to be granted in the subsequent business year.
Additional compensation amount – Article 29	For each GEC member newly appointed after the approval by shareholders 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.
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.

2.2. Nomination and Compensation Committee

In accordance with the NCC charter[1], the NCC consists of at least three members of the Board who are elected annually by the shareholders for a term of one year until the next annual general meeting. Currently, Martin Komischke (Chairman), Ulrich Eckhardt and 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 Board and the GEC,
- annually review and propose to the Board the total compensation of the CEO and other members of the GEC, subject to shareholders' approval,
- 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 49.

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 2.

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

Table 2: 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 2017, the NCC held five formal meetings. Details on meeting attendance of the individual NCC members are provided in section 3.12 of the Corporate Governance Report on page 50.

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 2017, Agnès Blust Consulting was mandated to provide services related to executive compensation matters. This company has no other mandates with VAT.

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,
– market competitiveness,
– simplicity and transparency.

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 3. Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of the VAT Group.

Table 3: 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
Technology Committee	15,000	10,000
VATmotion Committee	25,000	15,000

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 preceding the payment and rounded up to the next whole number of shares.

5. Compensation structure: GEC

In the context of the IPO process in 2016, 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 results of this benchmark analysis served as basis to determine the compensation level of the GEC for 2017. No benchmark analysis was conducted in 2017.

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 a long-term share-based compensation (LTI) as illustrated in Table 4.

Table 4: 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 shareholders' 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. For the GEC members, all performance objectives relate to the performance of the company (Table 5) and 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 50% for the CEO and between 44% and 56% 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 5: STI performance objectives for the CEO and other GEC members in 2017

Focus in 2017	Performance objectives
Growth	Expansion plan Malaysia (25%)
Profitability	adjusted EBITDA margin (50%)
Customer satisfaction	Lead time from order to delivery, customer complaints and response time (25%)

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

5.3. Long-term share-based compensation (LTI)

As per the shareholder approval of the changes to the Articles of Association at the 2017 AGM, an LTI plan for GEC members and other executives was implemented in 2017 to motivate executives to create value for the company and its shareholders in a sustainable manner.

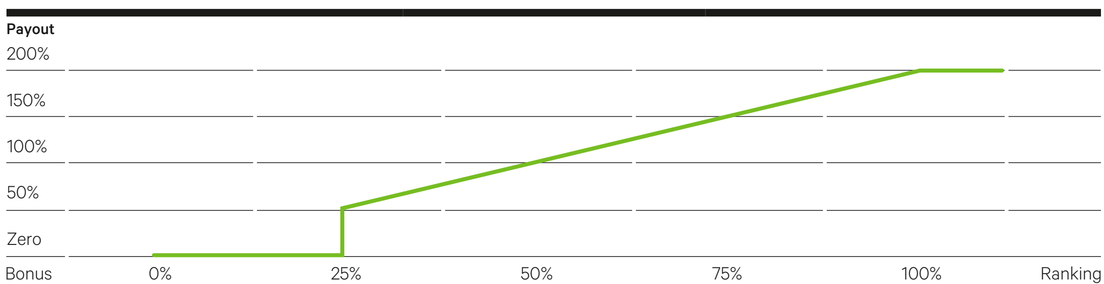
Consequently, for GEC members, one-third of the STI was converted into an LTI awarded in the form of performance share units, subject to a three-year cliff vesting period depending on the achievement of the following performance conditions:
– relative net sales growth, with a 50% weight,
– relative total shareholder return (TSR), with a 50% weight.

In 2017, the LTI grant value amounts to 50% of ABS for the CEO and to between 44% and 56% of ABS for the other GEC members.

At vesting, 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.

Table 6: vesting schedule of the LTI



This LTIP is specifically designed for rewarding the performance of VAT relative to a selected peer group of companies. The intention is to reward the relative performance of the company rather than its absolute performance because absolute performance may be strongly impacted by market factors that are outside the control of senior management. The relative performance is measured based on an evaluation provided by an independent consulting firm, Obermatt.

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 7.

Table 7: 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

In case of termination of employment, the performance share units forfeit without any compensation, except in the situation of retirement or disability, in which case the performance share units are subject to a pro rata vesting at regular vesting date or in the situation of death or of change of control with termination of employment or cessation of the LTIP, in which case the performance share units are subject to an immediate pro rata vesting.

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 health care 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, change-of-control provisions (except the accelerated vesting under the LTI plan) or non-competition compensation.

5.6. Clawback and malus provisions

Starting in the financial year 2017, clawback and malus provisions 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 (clawback provision) of any parts of the variable compensation that were paid or granted in excess of the amount so determined. This forfeiture or clawback is 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.

6. Compensation awarded to the Board and to GEC in 2017

6.1. Compensation awarded to the Board in 2017

For 2017, the members of the Board received a total compensation of CHF 637,795 (2016: CHF 481,720) in the form of fixed basic fees of CHF 460,417 (2016: CHF 375,000), Committee fees and other expenses of CHF 131,708 (2016: CHF 73,125) and social security contributions of CHF 45,670 (2016: CHF 33,595). Out of the total compensation of CHF 637,795 (2016: CHF 481,720), CHF 175,490 (2016: CHF 132,750) are awarded in form of shares. The increase of 32% compared to previous year is solely due to the fact that there is one additional member in the Board and that two new committees were created after the AGM 2017. The compensation system has remained unchanged.

Table 8: Compensation of the Board in 2017

(CHF, gross)	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Horst Heidsieck	50,000	8,750	375	4,169	63,294	17,623
Martin Komischke	116,667	29,167	875	11,420	158,128	43,750
Alfred Gantner[1]	62,500	0	1,250	4,965	68,715	18,743
Ulrich Eckhardt[2]	62,500	16,667	1,250	6,262	86,679	23,748
Urs Leinhäuser	62,500	29,583	1,250	7,267	100,600	27,633
Karl Schlegel	62,500	22,917	1,250	6,749	93,415	25,620
Herman Gerlinger	43,750	17,500	875	4,838	66,963	18,375
Total	**460,417**	**124,583**	**7,125**	**45,670**	**637,795**	**175,490**

1 Compensation (cash and shares) was transferred to Partners Group
2 Compensation (cash and shares) was transferred to Capvis Equity Partners

At the AGM on May 17, 2017, shareholders approved a maximum aggregate compensation amount of CHF 170,000 for the Board for the compensation period from January 1, 2017 until the AGM 2017. The remuneration paid to the Board for this term was CHF 160,573 and is therefore within the approved limits.

At the AGM of May 17, 2017, shareholders approved a maximum aggregate compensation amount of CHF 900,000 for the Board for the term from the AGM 2017 until the AGM 2018. The remuneration paid to the Board for this term is anticipated to be approximately CHF 820,000. The final amount will be disclosed in the 2018 compensation report.

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.

Table 9: Compensation of the Board in 2016

(CHF, gross)	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[1]	56,250	0	1,125	4,469	61,844	16,875
Ulrich Eckhardt[2]	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**

1 Compensation (cash and shares) was transferred to Partners Group
2 Compensation (cash and shares) was transferred to Capvis Equity Partners

6.2. Compensation awarded to the GEC in 2017

In 2017, the members of the GEC received a total compensation of CHF 2.2 million (2016: CHF 2.1 million). This amount comprises annual base salaries of CHF 1.0 million (for 2016: CHF 1.0 million), Variable Cash Compensation (STI) of CHF 0.4 million (2016: CHF 0.8 million), other expenses of CHF 27,200 (2016: CHF 4,800), contributions to social security and post-employment benefits of CHF 0.3 million (2016: CHF 0.3 million) and an LTI grant value of CHF 0.4 million (2016: 0). The variable compensation amounts to 67% (2016: 82%) of the fixed compensation for the CEO and 58% (2016: 74%) on average for the other GEC members.

Table 10: Compensation of the GEC in 2017

(CHF, gross)	ABS	Other payments	Pension & social security (fixed)	Total fixed compensation	STI payout[2]	LTI grant[3]	Total compensation
Heinz Kundert	400,000	0	138,404	538,404	200,000	158,214	896,618
Other GEC	591,667	27,200	194,114	812,981	230,555	237,322	1,280,858
Total GEC[1]	**991,667**	**27,200**	**332,518**	**1,351,385**	**430,555**	**395,536**	**2,177,476**

1 All compensation amounts are disclosed gross
2 STI for 2017 that will be paid out until June 30, 2018
3 Grant value of the LTI granted in the reporting year

Explanatory comments to the compensation table:

The target compensation (annual base salary, target STI value and grant value of LTI) of the CEO and other GEC members has been reviewed in light of the implementation of the LTIP in 2017. While the annual base salary remained unchanged, the STI target value was reduced by one-third. The LTI grant value was set to be equivalent to the new STI target value.

The total annual base salary decreased by 2%. This is due to the fact that a new COO was hired effective June 1, 2017, while the former COO was employeed until April 30, 2017. Annual base salaries of other GEC members remained unchanged. The STI payout decreased by 53%. This is driven by two factors: First, the STI target value was reduced by one-third in light of the implementation of the LTIP. Second, the overall performance achievement under the STI was lower than in the previous year with an overall payout factor of 100% (compared to 105% in the previous year). The “other” payments increased by CHF 22,400, driven by the reimbursement of relocation costs for the new COO. The LTI grant value amounted to CHF 0.4 million (compared to 0 in the previous year). The social security and pension contributions remained comparable to the previous year.

The total fixed compensation of CHF 1.4 million (including pension and social security contributions) awarded for the financial year 2017 is within the maximum aggregate compensation amount of CHF 1.6 million approved by the shareholders. The aggregate grant value of CHF 0.4 million awarded under the LTIP is within the maximum amount of CHF 0.9 million approved by the shareholders. The variable cash compensation of CHF 0.4 million will be submitted to shareholders’ vote at the 2018 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.

Table 11: Compensation of the GEC in 2016

CHF	ABS	Other payments	Pension & social security (fixed)	Total fixed 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 was paid out by June 30, 2017

7. Shareholdings as of December 31, 2017

At the end of 2017, members of the Board held a total of 38,772 (2016: 47,336) registered shares of VAT Group AG. GEC members held a total of 139,690 (2016: 271,109) registered shares of VAT Group AG and a total of 3,900 (2016: 0) performance share units.

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 129 of the Annual Report.

At the end of 2017, members of the Board and the GEC did not hold any stock options.

Report of the Statutory Auditor

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

We have audited the remuneration report dated 9 March 2018 of VAT Group AG for the year ended 31 December 2017. 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 tables 8 and 10 of section 6 on page 65 and 66 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 2017 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, 9 March 2018

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, 2017

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2017	2016
Net sales	**6**	**692,415**	**507,901**
Raw materials and consumables used		–310,081	–186,293
Changes in inventories of finished goods and work in progress		49,537	–3,603
Personnel expenses	7	–156,917	–118,784
Other income	8	5,244	3,087
Other expenses	9	–67,987	–52,755
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**212,211**	**149,553**
Depreciation and amortization	17,18,19	–33,466	–31,287
Earnings before interest and taxes (EBIT)[1]		**178,745**	**118,266**
Finance income	10	481	7,291
Finance costs	2,10	–44,548	–37,674
Earnings before income taxes		**134,678**	**87,883**
Income tax expenses	11	–19,001	–20,651
Net income attributable to owners of the Company		**115,677**	**67,233**
Earnings per share (in CHF)			
Basic earnings per share	28	3.86	2.43
Diluted earnings per share	28	3.86	2.42

1 Interest includes other items reported in the financial results.

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2017	2016
Net income attributable to owners of the Company		115,677	67,233
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	25	1,917	–9,115
Related tax	11	–721	1,586
Subtotal		**1,196**	**–7,529**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		3,377	–4,247
Related tax	11	–608	758
Currency translation adjustments	2	46,036	–4,419
Subtotal		**48,805**	**–7,908**
Other comprehensive income for the period (net of tax)		**50,001**	**–15,437**
Total comprehensive income for the period attributable to owners of the Company		**165,677**	**51,796**

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	2017	2016
Assets			
Cash and cash equivalents	12	72,021	62,642
Trade and other receivables	13	122,590	96,836
Derivative financial instruments	14	1,150	1,485
Prepayments and accrued income	15	2,717	651
Financial assets at fair value through profit and loss		36	30
Inventories	16	110,744	56,587
Current tax assets	11	491	1,148
Current assets		**309,749**	**219,379**
Property, plant and equipment	17	147,751	116,128
Investment properties	18	1,923	4,382
Intangible assets and goodwill	19	517,213	530,500
Long-term loans		0	217
Trade and other receivables	13	6,086	7,428
Derivative financial instruments	14	0	199
Deferred tax assets	11	8,411	5,197
Non-current assets		**681,384**	**664,050**
Total assets		**991,133**	**883,429**

As of December 31 In CHF thousand	Note	2017	2016
Liabilities			
Trade and other payables	21	92,820	50,617
Loans and borrowings	20	55,764	36,505
Provisions	24	1,802	1,248
Derivative financial instruments	14	1,836	6,145
Accrued expenses and deferred income	22	21,366	18,068
Liabilities from government grants	23	471	444
Current tax liabilities	11	24,371	17,540
Current liabilities		**198,430**	**130,566**
Loans and borrowings	20	160,000	160,000
Derivative financial instruments	14	291	995
Liabilities from government grants	23	1,034	1,421
Other non-current liabilities		201	165
Deferred tax liabilities	11	45,845	51,197
Defined benefit obligations	25	27,325	28,436
Non-current liabilities		**234,696**	**242,214**
Total liabilities		**433,126**	**372,780**
Equity			
Share capital	27	3,000	3,000
Share premium	27	373,823	493,745
Reserves	27	–11,090	–61,090
Treasury shares	27	–790	–4,950
Retained earnings		193,064	79,943
Total equity attributable to owners of the Company		**558,007**	**510,649**
Total liabilities and equity		**991,133**	**883,429**

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[1]	Other reserves	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2016	**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**
VAT Group AG Equity as of 01.01.2017	**3,000**	**493,745**	**–16,839**	**2,455**	**–3,595**	**–43,111**	**–4,950**	**79,943**	**510,649**
Net income attributable to owners of the Company								115,677	115,677
Total comprehensive income for the period attributable to owners of the Company			1,196		2,769	46,036			50,001
Dividend payment		–119,923							–119,923
Share-based payments (net of tax)							4,160	–2,556	1,604
Equity as of 31.12.2017	**3,000**	**373,823**	**–15,643**	**2,455**	**–826**	**2,925**	**–790**	**193,064**	**558,007**

1 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	2017	2016
Net income attributable to owners of the Company		**115,677**	**67,233**
Adjustments for:			
Depreciation and amortization	17,18,19	33,466	31,287
(Profit)/loss from disposal of property, plant and equipment	9	168	277
Change in defined benefit liability		807	–1,501
Net impact from foreign exchange		–3,143	–1,808
Income tax expenses	11	19,001	20,651
Net finance costs	2,10	44,067	27,652
Transaction costs in connection with the IPO[1]		0	5,543
Other non-cash-effective adjustments		1,138	–141
Change in trade and other receivables		–24,033	–19,018
Change in prepayments and accrued income		–1,992	501
Change in inventories		–53,200	1,436
Change in trade and other payables		41,096	20,124
Change in accrued expenses and deferred income		3,337	7,803
Change in provisions		546	411
Cash generated from operations		**176,934**	**160,450**
Income taxes paid		–21,342	–14,094
Cash flow from operating activities		**155,593**	**146,356**
Purchases of property, plant and equipment	17	–43,774	–15,852
Proceeds from sale of property, plant and equipment		144	666
Purchases of intangible assets	19	–3,804	–3,313
Loans granted or repaid		214	72
Interest received	10	78	100
Other finance income received		4	55
Cash flow from investing activities		**–47,137**	**–18,272**
Proceeds from the issue of ordinary shares		0	100
Purchase of own shares		0	–4,950
Transaction costs in connection with the IPO[1]		0	–8,332
Proceeds from borrowings	20	115,000	228,821
Repayments of borrowings	20	–89,847	–350,894
Dividend paid		–119,923	0
Interest paid		–4,083	–10,588
Other finance expenses paid		–694	–363
Cash flow from financing activities		**–99,547**	**–146,206**
Net increase/(decrease) in cash and cash equivalents		**8,909**	**–18,121**
Cash and cash equivalents at beginning of period		62,642	80,601
Effect of movements in exchange rates on cash held		469	162
Cash and cash equivalents at end of period		**72,021**	**62,642**

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, 2017, 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 9, 2018.

2. Changes in the scope of consolidation

As part of the simplification of legal structure, the subsidiaries VAT Holding S.à r.l. and VAT LUX II S.à r.l. were merged into VAT Management S.à r.l., effective June 1, 2017. The merger of those subsidiaries did not have a financial impact.

Furthermore, VAT unwound the financing structure that was set up by the former private equity owners, by merging its no longer needed subsidiary VAT LUX III S.à r.l. into VAT Management S.à r.l., effective November 30, 2017. As VAT LUX III S.à r.l. had its functional currency in US Dollars, a recycling of translation reserves in the amount of CHF 38.3 million was required. This onetime non-cash transaction is reflected in finance costs and therefore impacts the Group's net income and earnings per share. Total comprehensive income for the period, total equity and free cash flow are not affected.

Virtuoso US LLC, Delaware, a company used for financing purposes, was also dissolved in the course of the financial year 2017.

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, 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.

The Group has enhanced the presentation of its balance sheet. Receivables under finance lease has been aggregated with trade and other receivables and other reserves, remeasurements of defined benefit obligations, hedging reserves and translation reserves are now included in reserves. 2016 comparatives have been restated.

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 19,
b) property, plant and equipment, see note 17,
c) income taxes, see note 11,
d) employee benefits, see note 25,
e) provisions, see note 24.

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 Group AG for the year ended December 31, 2016, the segment reporting is performed in accordance with the segment structure approved by the Board of Directors on October 1, 2015. The segment information is presented as provided to the Board of Directors and the Group Executive Committee in their 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.
- **Global Service:** Global Service provides local expert support to customers and offers genuine spare parts, repairs and upgrades.
- **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. Sysmec is well situated in the machining ancillary industry and offers manufacturing parts and mechanical components in the medium service range.

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 16.2 million (prior year: 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. 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, 2017 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	554,236	98,724	39,454	692,415	–	692,415
Inter-segment sales	41,085	–	22,643	63,728	–63,728	–
Segment net sales	**595,322**	**98,724**	**62,097**	**756,143**	**–63,728**	**692,415**
Segment EBITDA	**188,637**	**47,626**	**13,366**	**249,628**	**–37,417**	**212,211**

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**

As of December 31, 2017 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	674,019	128,765	81,604	884,388	1,923	886,311
Segment liabilities	67,174	6,264	6,726	80,164	106	80,270
Segment net operating assets	**606,845**	**122,501**	**74,878**	**804,224**	**1,817**	**806,041**
Of which net trade working capital	108,604	15,834	14,822	139,260	–106	139,154

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

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	2017	2016
Segment EBITDA	249,628	180,118
Corporate and eliminations	–37,417	–30,565
Depreciation and amortization	–33,466	–31,287
Finance costs net	–44,067	–30,383
Earnings before income taxes	**134,678**	**87,883**

Assets

As of December 31 In CHF thousand	2017	2016
Segment assets	884,388	790,927
Corporate and eliminations	1,923	4,382
Cash and cash equivalents	72,021	62,642
Other assets[1]	32,800	25,478
Assets	**991,133**	**883,429**

Liabilities

As of December 31 In CHF thousand	2017	2016
Segment liabilities	80,164	40,651
Corporate and eliminations	106	209
Loans and borrowings	215,764	196,505
Other liabilities[2] and provisions	137,092	135,415
Liabilities	**433,126**	**372,780**

1 The main positions included in other assets are other receivables and deferred tax assets.
2 Only trade payables are allocated to segments.

Geographic information

Net sales

January 1–December 31 In CHF thousand	2017	2016
Switzerland	7,487	6,408
Europe excl. Switzerland	88,686	71,796
USA	228,750	169,100
Japan	103,706	82,116
Korea	96,583	74,149
Singapore	76,876	44,150
Asia excl. Japan, Korea and Singapore	74,771	50,688
Other	15,555	9,494
Total	**692,415**	**507,901**

No other individual country represented more than 10% of net sales in 2017 and 2016.

Non-current assets

As of December 31 In CHF thousand	2017	2016
Switzerland	621,575	621,512
Europe excl. Switzerland	10,285	7,321
USA	3,564	3,591
Asia	31,463	18,586
Total	**666,887**	**651,010**

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 2017 and 2016.

Major customers

Revenues from two customers of the Group's Valves, Global Service and Industry segments represented approximately 20% and 18% (prior year: two customers each approximately 17%) of the Group's total revenues.

7. Personnel expenses

January 1–December 31 In CHF thousand	2017	2016
Wages and salaries	130,953	101,709
Social security costs	13,240	10,240
Pension costs – defined contribution plans	952	701
Pension costs – defined benefit plans	6,025	2,952
Other personnel expenses	5,747	3,182
Total personnel expenses	**156,917**	**118,784**
Number of employees (FTE)	**1,946**	**1,439**

8. Other income

January 1–December 31 In CHF thousand	2017	2016
Net foreign exchange gains on operating and investing activities	2,301	0
Work performed by the entity and capitalized	1,568	1,621
Rental income from investment properties	91	154
Other income	1,285	1,312
Total other income	**5,244**	**3,087**

9. Other expenses

January 1–December 31 In CHF thousand	2017	2016
Marketing and advertising	1,413	1,736
Distribution	7,434	5,377
Office rent	2,524	1,906
Administrative expenses[1]	13,265	14,299
Travel expenses	6,030	5,868
Repair and maintenance	18,095	10,952
Energy and supplies	7,548	4,194
Insurance, duties and other charges	2,106	1,746
Net losses from sale of fixed assets	168	277
Net foreign exchange losses on operating and investing activities	0	976
Research and development expenses[2]	3,772	3,636
Other operating expenses	5,632	1,789
Total other expenses	**67,987**	**52,755**

1 Including expenses related to the IPO of CHF 0.0 million in 2017 (prior year: CHF 2.8 million) and other consulting fees and expenses incurred as a result of restructuring due to the change in control of CHF 0.0 million in 2017 (prior year: CHF 3.4 million)
2 Includes only third-party expenses.

10. Finance income and costs

January 1–December 31 In CHF thousand	2017	2016
Interest income	78	100
Finance lease income	390	499
Fair value gains from derivatives not qualifying as hedges	0	5,321
Other finance income	12	1,371
Finance income	**481**	**7,291**
Interest expenses	–5,129	–20,186
Interest expenses to related parties	0	–9,114
Net foreign exchange losses on financing activities[1]	–37,141	–5,019
Fair value losses from derivatives not qualifying as hedges	–962	0
Other finance expenses	–1,316	–3,355
Finance costs	**–44,548**	**–37,674**
Total finance result	**–44,067**	**–30,383**

1 For more information, see also note 2.

11. Tax

The Group is subject to income taxes in numerous jurisdictions. As of December 31, 2017, the net current tax liabilities amounted to CHF 23.9 million (prior year: CHF 16.4 million) and the net deferred tax liabilities to CHF 37.4 million (prior year: CHF 46.0 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**	**2017**	**2016**
Current tax:		
Current tax on earnings for the period	29,118	19,324
Adjustments in respect of prior periods	–256	–36
Total current tax	**28,862**	**19,288**
Origination and reversal of temporary differences	–9,860	1,363
Total deferred tax	**–9,860**	**1,363**
Income tax expense	**19,001**	**20,651**

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**	**2017**	**2016**
Earnings before income taxes	134,678	87,883
Tax at the average group tax rate of 18.0% (previous year: 18.1%)[1]	**24,296**	**15,925**
Effect of tax rates in foreign jurisdictions[1]	–1,973	–5,671
Effect in change of tax rate	–7,351	–85
Expenses not deductible for tax purposes[2]	7,706	0
Income not subject to tax	–3,034	–69
Effect of current-year losses for which no deferred tax asset is recognized	794	10,125
Effect of recognition of loss carry-forwards	–1,900	0
Withholding taxes included in the tax expenses	501	210
Other tax effects	–37	215
Total tax expenses recorded in consolidated income statement	**19,001**	**20,651**
Effective tax rate	**14.1%**	**23.5%**

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.
2 Includes CHF 6.9 million tax effect from the recycling of translation reserves (see also note 2).

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

January 1–December 31, 2017 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	1,917	–721	1,196
Changes in the fair value of hedging reserves	3,377	–608	2,769

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

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

January 1–December 31, 2017 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	–2,508	–48	–2,556

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

Deferred tax balances

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

As of December 31, 2017 In CHF thousand	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	48	–467	–419
Inventories	6,192	–2,968	3,224
Property, plant and equipment	22	–5,767	–5,745
Investment properties		–52	–52
Intangible assets		–38,404	–38,404
Other current liabilities	405	–35	370
Other non-current liabilities	50		50
Provisions		–1,769	–1,769
Defined benefit obligations	4,202		4,202
Tax losses carried forward	1,900		1,900
Non-refundable withholding taxes on future distributions		–792	–792
Total deferred tax assets/(liabilities) before set-off	**12,819**	**–50,254**	**–37,434**
Set-off of balances within the same tax jurisdiction	–4,408	4,408	0
Net deferred tax assets/(liabilities)	**8,411**	**–45,845**	**–37,434**

The deferred tax assets and liabilities at the end of the previous 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 movement in deferred tax balances is as follows:

In CHF thousand	2017	2016
Net tax liabilities as of 01.01.2016	**–46,000**	**–47,080**
Recognized in income statement	9,860	–1,363
Recognized in OCI	–1,329	2,344
Translation differences	35	99
Net tax liabilities as of 31.12.2016	**–37,434**	**–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 0.8 million (prior year: CHF 0.5 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. According to the most recent midterm plans, management revised its estimates of future taxable profits in the Romanian, French and Malaysian subsidiaries and as a result recognized the tax effect of CHF 9.1 million of previously unrecognized tax losses (tax impact: CHF 1.9 million) because management considered it probable that future taxable profits would be available against which such losses can be used. The details of the tax losses carried forwards for which no deferred tax assets were recognized are as follows:

As of December 31 In CHF thousand	2017	2016
Opening balance	**161,516**	**120,517**
Tax losses for which no deferred tax assets were recognized	0	38,935
Recognition of tax loss carry-forward	–9,139	0
Expired due to reorganization[1]	–82,972	0
Others	0	–56
Exchange differences	–2,388	2,120
Closing balance	**67,017**	**161,516**

1 See note 2.

The total tax losses for which no deferred tax assets were recognized will expire as follows:

As of December 31 In CHF thousand	2017	2016
2020	0	972
2021	0	1,147
After 2021	67,017	159,397
Total	**67,017**	**161,516**

Further, there are temporary differences with respect to investments in subsidiaries of CHF 2.8 million (prior year: CHF 2.8 million), for which no deferred tax liabilities were recognized. The Group is able to control the timing of the reversal and it is not intended to reverse the temporary difference in the foreseeable future.

12. Cash and cash equivalents

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

13. Trade and other receivables

As of December 31 In CHF thousand	2017	2016
Trade receivables – gross	109,151	88,430
Less provision for impairment of trade receivables	–471	–719
Trade receivables – net	**108,680**	**87,712**
Recoverable VAT and withholding tax	9,877	6,088
Deposits	801	1,325
Receivables from social security	1,271	148
Receivables under finance lease	6,321	8,658
Other	1,727	361
Less provision for impairment of other receivables	0	–29
Total trade and other receivables	**128,676**	**104,263**
Thereof:		
Current trade and other receivables	122,590	96,836
Non-current other receivables	6,086	7,428

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	2017	2016
Not overdue	91,433	80,287
Less than 6 months overdue	17,153	7,361
6 to 12 months overdue	95	63
Total trade receivables	**108,680**	**87,712**

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	2017	2016
Opening balance	**748**	**1,456**
Provision for receivables impairment	89	323
Receivables written off during the year as uncollectible	–137	–4
Unused amounts reversed	–236	–1,021
Exchange differences	7	–7
Closing balance	**471**	**748**
Thereof impairment of trade receivables	471	719
Thereof impairment of other receivables	0	29

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

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 6.3 million as of December 31, 2017, (prior year: CHF 8.7 million) and will bear interest income until their maturity dates of CHF 0.4 million (prior year: CHF 0.8 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	266	2,591	2,856
Between 1 and 5 years	136	3,730	3,866
Total at 31.12.2017	**402**	**6,321**	**6,722**
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**

14. 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	2017	2016
Interest hedge	FVLP – Level 2[1]	0	3
Derivatives held for hedging	FVLP – Level 2[1]	1,150	1,681
Derivative assets		**1,150**	**1,684**
Thereof:			
Current derivative assets		1,150	1,485
Non-current derivative assets		0	199
Derivatives held for hedging	FVLP – Level 2[1]	–2,127	–7,140
Derivative liabilities		**–2,127**	**–7,140**
Thereof:			
Current derivative liabilities		–1,836	–6,145
Non-current derivative liabilities		–291	–995

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, 2017, were USD 197.0 million (prior year: USD 145.4 million) and JPY 3,000.0 million (prior year: JPY 3,913.2 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.

Hedge accounting
VAT Group apply hedge accounting for certain foreign currency contracts 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, 2017 and 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, 2017. The hedging reserves included net unrealized losses of CHF 0.8 million, net of tax, on derivatives designated as cash flow hedges (prior year: CHF 3.5 million). Net losses of CHF 0.8 million (prior year: CHF 0.9 million) were reclassified to earnings in 2017. The maturity of derivatives classified as a cash flow hedge was between 6 to 18 months.

15. Prepayments and accrued income

As of December 31 In CHF thousand	2017	2016
Prepaid purchases	492	160
Other prepaid expenses	1,156	283
Accrued income	1,068	207
Total prepayments and accrued income	**2,717**	**651**

16. Inventories

As of December 31 In CHF thousand	2017	2016
Raw materials and consumables	35,403	19,572
Work in progress	16,731	8,453
Semi-finished goods	19,047	12,689
Finished goods	39,564	15,874
Total inventories	**110,744**	**56,587**

In the financial year 2017, inventories of CHF 0.7 million (previous year: CHF 2.1 million) were scrapped and recognized as expense.

17. Property, plant and equipment

As of December 31, 2017, the Group had CHF 147.8 million (prior year: CHF 116.1 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, 2017 In CHF thousand	Land	Buildings	Machinery	Furniture/ fixtures	Other equipment	Assets under construction	Total
Balance at 01.01.2017	**5,894**	**68,887**	**52,401**	**5,029**	**13,091**	**7,940**	**153,243**
Additions		344	4,197	319	951	37,962	43,774
Additions non-cash					75		75
Disposals			–447	–192	–820		–1,459
Transfer	2,058	3,434	12,892	689	2,088	–18,240	2,921
Exchange differences	114	537	1,558	90	38	564	2,902
Balance at 31.12.2017	**8,065**	**73,202**	**70,602**	**5,935**	**15,423**	**28,227**	**201,456**
Accumulated depreciation and impairment							
Balance at 01.01.2017	**–88**	**–8,396**	**–20,816**	**–2,061**	**–5,753**	**0**	**–37,115**
Depreciation charge	–32	–3,572	–7,969	–816	–2,343		–14,732
Impairment loss			–1,519				–1,519
Disposals			437	43	689		1,169
Transfer		–614					–614
Exchange differences	–9	–70	–669	–52	–93		–893
Balance at 31.12.2017	**–129**	**–12,652**	**–30,537**	**–2,885**	**–7,500**	**0**	**–53,704**
Net book amount 31.12.2017	**7,936**	**60,550**	**40,065**	**3,050**	**7,923**	**28,227**	**147,751**

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**

18. 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, 2017 In CHF thousand	Land	Buildings	Total
Balance at 01.01.2017	**2,927**	**2,112**	**5,039**
Additions			0
Disposals			0
Transfer	–2,058	–863	–2,921
Balance at 31.12.2017	**869**	**1,249**	**2,118**
Accumulated depreciation and impairment			
Balance at 01.01.2017	**0**	**–657**	**–657**
Depreciation charge		–152	–152
Disposals			0
Transfer		614	614
Balance at 31.12.2017	**0**	**–195**	**–195**
Net book amount at 31.12.2017	**869**	**1,053**	**1,923**

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**

19. Intangible assets and goodwill

Intangible assets amounting to CHF 333.5 million (prior year: CHF 346.8 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, 2017, and December 31, 2016, 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, 2017 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2017	**183,717**	**6,080**	**263,600**	**120,900**	**1,451**	**2,569**	**578,317**
Additions		17				3,786	3,804
Disposals		–36			–302		–338
Transfer		2,088			189	–2,277	0
Exchange differences		29				1	30
Balance at 31.12.2017	**183,717**	**8,178**	**263,600**	**120,900**	**1,338**	**4,079**	**581,812**
Accumulated amortization and impairment							
Balance at 01.01.2017	**0**	**–2,817**	**–44,649**	**0**	**–351**	**0**	**–47,817**
Amortization charge		–1,309	–15,308		–253		–16,870
Impairment loss					–193		–193
Disposals		13			302		315
Exchange differences		–35					–35
Balance at 31.12.2017	**0**	**–4,148**	**–59,957**	**0**	**–494**	**0**	**–64,599**
Net book value 31.12.2017	**183,717**	**4,030**	**203,643**	**120,900**	**843**	**4,079**	**517,213**

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**

Research and development costs

In 2017, research and development expenses amounting to CHF 34.0 million (previous year: CHF 33.1 million) were included in the items “Personnel expenses,” “Other operating expenses” and “Depreciation and amortization.” For 8 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 1.1 million (previous year: CHF 0.8 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, 2017, from December 31, 2016.

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 31.12.2017	**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. The forecast period used for future cash flows covers the years 2018 to 2020. 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, 2017	Valves	Global Service	Industry
Discount rate (WACC) before tax	9.4%	9.3%	9.3%
Terminal value growth rate	1.6%	1.6%	1.6%

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%

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.

20. Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2017 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD-LIBOR +1.55%	2021	100,764
Revolving credit facility (RCF)	CHF	CHF-LIBOR +1.45%	2021	115,000
Total loans and borrowings				**215,764**
Thereof:				
Current				55,764
Non-current				160,000

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

In 2016, VAT Group AG signed a syndicated five-year revolving credit facility (RCF) of USD 300.0 million. The movement of the outstanding loan in financial year 2017 was mainly driven by a repayment of CHF 89.8 million, raising of CHF 115.0 million as well as foreign exchange effects in the amount of CHF 6.4 million.

The RCF is subject to the financial covenant "net senior debt/EBITDA" ratio, with which the Group complied with for the financial year 2017.

The carrying amount as of December 31, 2017, includes financing costs of CHF 1.7 million (prior year CHF 2.2 million), which will be recognized in profit and loss over the remaining duration of the credit facility.

Reconciliation of movements of liabilities to cash flows from financing activities

As of December 31 In CHF thousand	2017	Cash-effective adjustment		Non-cash-effective adjustment		2016
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	215,764	115,000	–89,847	463	–6,357	196,505
Total liabilities from financing activities	**215,764**	**115,000**	**–89,847**	**463**	**–6,357**	**196,505**

21. Trade and other payables

As of December 31 In CHF thousand	2017	2016
Trade payables	80,270	40,878
Sales tax and other non-income tax payables	6,158	2,852
Social security payables	1,863	2,555
Salaries and employee expenses	426	283
Prepayments received from customers	3,184	2,381
Other liabilities	919	1,668
Total trade and other payables	**92,820**	**50,617**

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

As of December 31 In CHF thousand	2017	2016
Swiss Franc	41,906	27,657
Euro	20,684	9,025
US Dollar	21,415	8,590
Malaysian Ringgit	3,899	1,661
Romanian Leu	2,173	888
Chinese Yuan	1,040	1,596
Other currencies	1,701	1,199
Total trade and other payables	**92,820**	**50,617**

22. Accrued expenses and deferred income

As of December 31 In CHF thousand	2017	2016
Accrued expenses – personnel related	14,552	12,877
Accrued expenses – other	6,808	5,184
Deferred income	6	7
Total accrued expenses and deferred income	**21,366**	**18,068**

23. Liabilities from government grants

As of December 31 In CHF thousand	2017	2016
Liabilities from government grants	1,505	1,865
Total	**1,505**	**1,865**
Thereof:		
Current	471	444
Non-current	1,034	1,421

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 0.4 million (prior year: CHF 0.5 million) was recorded in other income.

24. Provisions

January 1–December 31, 2017 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at 01.01.2017	**975**	**272**	**1,248**
Additions	1,782	361	2,143
Used	–1,103	–493	–1,596
Translation differences	–2	10	8
Balance at 31.12.2017	**1,652**	**150**	**1,802**
Thereof:			
Current provisions	1,652	150	1,802

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

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 effective warranty cases and 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.

25. 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 1.0 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	2017	2016
Japan	88	61
Switzerland	27,237	28,375
Net defined benefit liability in the balance sheet	**27,325**	**28,436**

Income statement

January 1–December 31 In CHF thousand	2017	2016
Japan	61	274
Switzerland	5,964	2,678
Pension costs – defined benefit plans	**6,025**	**2,952**

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 2017, the minimum interest was 1.00% (prior year: 1.25%).

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 in the financial year 2016 due to calculation with new demographic tables BVG 2015 G. This effect was recognized in other comprehensive income. In financial year 2017, no adjusment was necessary.

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

As of December 31 **In CHF thousand**	2017	**2016**
Present value of defined benefit obligation	180,831	157,642
Fair value of plan assets	153,594	129,267
Net defined benefit liability	**27,237**	**28,375**

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

January 1–December 31 **In CHF thousand**	2017	**2016**
Opening defined benefit obligation	**157,642**	**136,345**
Service costs	5,889	4,873
Plan participants contributions	5,951	4,583
Interest expense	964	1,215
Remeasurement (gains)/losses	4,390	8,108
Plan amendment	0	–2,265
Benefits paid through pension assets	5,995	4,783
Closing defined benefit obligation	**180,831**	**157,642**

January 1–December 31 **In CHF thousand**	2017	**2016**
Opening fair value of plan assets	**129,267**	**115,892**
Interest income	805	1,103
Return on plan assets (excl. amounts in net interest)	6,307	–1,007
Plan participants contributions	5,951	4,583
Employer contributions	5,344	3,983
Benefits received/(paid) through pension assets net	5,995	4,783
Administration expense	–75	–70
Closing fair value of plan assets	**153,594**	**129,267**

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

As of December 31 In CHF thousand	2017	2016
Defined benefit obligation for active employees	143,966	130,466
Defined benefit obligation for pensioners	36,865	27,176
Total defined benefit obligation	**180,831**	**157,642**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2017	2016
Current service cost	5,889	4,873
Interest expense on defined benefit obligation	964	1,215
Interest income on plan assets	–805	–1,103
Plan amendment	0	–2,265
Administration expense	75	70
Total defined benefit cost/(income) recognized in income statement	**6,123**	**2,790**
Thereof:		
Employee benefit expenses	5,964	2,678
Finance expenses	159	112
Actuarial (gain)/loss arising from changes in demographic assumptions	0	–4,628
Actuarial (gain)/loss arising from financial assumptions	–1,534	9,127
Actuarial (gain)/loss arising from experience adjustment	5,924	3,609
Return on plan assets (excl. amounts included in net interest)	–6,307	1,007
Total defined benefit cost/(income) recognized in OCI	**–1,917**	**9,115**

The major asset categories are as follows:

As of December 31 In CHF thousand	2017	2016
Equity instruments (quoted market prices)	45,781	30,597
Debt instruments (quoted market prices)	46,543	43,006
Real estate (quoted market prices)	24,622	22,517
Alternative investments (quoted market prices)	23,497	21,901
Cash	10,001	8,789
Others	3,150	2,457
Total	**153,594**	**129,267**

Equity instruments contain shares from VAT Group AG with a fair value in the amount of CHF 2.9 million (prior year: CHF 1.7 million).

The significant actuarial assumptions were as follows:

As of December 31	2017	2016
Discount rate	0.65%	0.60%
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	2017	2016
Retiring at the end of the reporting period:		
Male	22.38	22.26
Female	24.43	24.32
Retiring 20 years after the end of the reporting period:		
Male	24.26	24.18
Female	26.29	26.22

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 2017		Impact on defined benefit obligation 2016	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–7,357	7,895	–6,475	6,959
Salary growth rate (+/– 0.25%)	1,042	–1,018	932	–912

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, 2018 amount to CHF 6.3 million.

The weighted average duration of the defined benefit obligation is 16.5 years (prior year: 16.6 years).

Japanese plan

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

January 1–December 31 In CHF thousand	2017	2016
Opening defined benefit obligation	**61**	**336**
Service costs	61	75
Retirements	–34	–346
Exchange differences	0	–4
Closing defined benefit obligation	**88**	**61**

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.

26. Share-based payments

At December 31, 2017, the Group had the following share-based payment arrangements.

IPO bonus (equity-settled share-based payment with cash alternative)

VAT Group granted a discretionary share-based IPO bonus to its employees in April 2016. The vesting date of the IPO bonus fell on the first anniversary of the initial public offering. The grant was subject to service conditions and the number of shares to be granted to each employee represented approximately one month's salary determined on the basis of the offer price. VAT Group granted 91,063 shares and additionally paid out CHF 2.4 million in cash in 2017.

Board member share compensation (equity-settled share-based payment)

Members of the Board receive 30% of the total compensation 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. VAT Group granted 1,390 shares with a fair value of CHF 127.6 per share for the period 2016/17. For the period 2017/18, the Group allocated 1,247 shares.

Long-term incentive plan – LTIP (equity-settled share-based payment)

Starting in June 2017, a new long-term incentive plan (LTIP) was established for the Group's senior management. So-called performance share units (PSUs) were allocated to the senior management. One PSU represents a conditional right to receive a certain number of underlying shares free of charge pursuant to the vesting period of three years and perfomance conditions. The number of shares allocated to each PSU ranges between zero and two shares. The allocation is dependent upon achievement of the performance targets of VAT compared to a predefined peer group on the two equal weighted metrics relative sales growth and relative total shareholder return (TSR). This LTIP is specifically designed for rewarding the performance of VAT relative to a selected peer group of companies. The inputs used in the measurement of the fair values at grant date were as follows:

	Share price at grant date	TSR fair value at grant date (50%)	Sales growth fair value at grant date (50%)	Volatility	Risk-free rate	Dividend yield
Long-term incentive plan 2017	CHF 128.28	CHF 104.94	CHF 105.15	25.3%	0.5%	3.30%

4,877 PSUs were granted to the senior management in the financial year 2017. CHF 0.2 million was recognized as personnel expense in 2017.

Expenses recognized in profit or loss

For all these share-based payments, a total amount of CHF 2.9 million (prior year: CHF 4.6 million) was recognized as personnel expenses in the consolidated income statement for the financial year 2017.

27. Equity

Share capital

As of December 31, 2017, the total authorized and issued number of ordinary shares comprises 30,000,000 shares with a nominal value of CHF 0.10 each. A conditional capital increase of up to 1,500,000 shares, which is included in the articles of association of VAT Group AG, was not drawn as of December 31, 2017.

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. in the financial year 2016.

Treasury shares

VAT Group AG initially purchased own shares to be held as treasury shares at the offer price of CHF 45 pursuant to the share-based payment plans as shown in note 26.

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 in the financial year 2016.

Dividends

VAT declared and paid following dividend from the reserves from capital contributions:

In CHF thousand	2017	2016
Dividends paid	**119,923**	**0**

The Board of Directors proposed a dividend in the amount of CHF 4.00 per share for the financial year 2016. The dividend was approved and paid out in May 2017.

28. 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	2017	2016
Basic earnings per share (in CHF)	**3.86**	**2.43**
Net profit	115,677	67,233
Weighted average number of shares outstanding (in thousands of units)	29,956	27,708

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 26.

In CHF thousand	2017	2016
Diluted earnings per share (in CHF)	**3.86**	**2.42**
Net profit	115,677	67,233
Weighted average number of shares outstanding (in thousands of units)	29,959	27,784

29. Financial instruments

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	2017	2016
Loans and receivables		
Cash and cash equivalents	72,021	62,642
Trade and other receivables	116,215	98,028
Accrued income	1,068	207
Long-term loans	0	217
Total financial assets recorded at amortized cost	**189,304**	**161,094**
Financial assets measured at fair value		
Shares	36	30
Interest hedge on term loan	0	3
Forward exchange contracts	1,150	1,681
Total financial assets measured at fair value	**1,187**	**1,714**
Financial liabilities recorded at amortized cost		
Trade and other payables	81,189	42,546
Accrued expenses	6,808	5,184
Other non-current liabilities	201	165
Loans and borrowings	215,764	196,505
Total financial liabilities recorded at amortized cost	**303,962**	**244,400**
Financial liabilities measured at fair value		
Forward exchange contracts	2,127	7,140
Total financial liabilities measured at fair value	**2,127**	**7,140**

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) and an interest hedge on the term loan (derivative financial assets) 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 2017 and 2016. No financial instruments were measured at Level 3.

30. 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.

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, 2017 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	210,792	250,625	–39,834
EUR/CHF	46,813	42,849	3,964
JPY/CHF	71,758	38,009	33,749

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

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/liabilities, as of December 31, 2017, the cumulated impact on net financial assets/liabilities would be CHF –0.1 million (CHF –2.0 million in USD/CHF, 0.2 million in EUR/CHF, 1.7 million in JPY/CHF) (prior year: CHF 3.4 million [CHF 1.6 million in USD/CHF, 0.0 million in EUR/CHF, 1.8 million in JPY/CHF]). An increase in major currency rates would have a negative (prior year: positive) impact and a decrease would have an equal positive (prior year: 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. We expect the USD-LIBOR to increase 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 the previous 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 two main customers representing 38% (prior year: 34%) of the Group's total revenues. This concentration of credit risk is considered low due to the strong market position of these two 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 utilizes surplus cash for repayment of loans 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 31.12.2017 In CHF thousand		Contractual cash flows					
	Carrying amount	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	81,189	–81,189	–79,240	–1,949			
Accrued expenses	6,808	–6,808	–6,308	–500			
Other non-current liabilities	201	–201					–201
Loans and borrowings	215,764	–239,853	–1,147	–59,227	–4,699	–174,779	
Non-derivative financial liabilities	**303,962**	**–328,051**	**–86,695**	**–61,676**	**–4,699**	**–174,779**	**–201**
Forward exchange contracts used for hedging:							
– Outflow	2,127	–152,541	–35,334	–95,731	–21,476		
– Inflow		150,414	34,709	94,520	21,186		
Derivative financial liabilities	**2,127**	**–2,127**	**–624**	**–1,211**	**–291**		

At 31.12.2016 In CHF thousand		Contractual cash flows					
	Carrying amount	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	
Non-derivative financial liabilties	**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**		

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	2017	2016
Total equity	558,007	510,649
Total balance sheet	991,133	883,429
Equity ratio	**56.3%**	**57.8%**

31. Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities. As of December 31, 2017 and 2016, no assets were pledged.

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	2017	2016
Property, plant and equipment	13,858	14,538
Intangible assets	1,261	1,013
Total	**15,119**	**15,551**

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 2.5 million (prior year: CHF 1.9 million).

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

As of December 31 In CHF thousand	2017	2016
No later than 1 year	1,865	1,515
Later than 1 year and no later than 5 years	4,234	4,559
Later than 5 years	385	885
Total	**6,483**	**6,959**

32. Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2017	2016
Pension costs – defined benefit plan (Swiss autonomous employee benefit plan)	5,964	2,678
Pension costs – financial expense	159	112
Interest expenses on shareholder loans (note 10)	0	9,114

During business restructuring in financial year 2016, the shareholder loan was taken over by VAT Group AG. 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	2017	2016
Short-term employee benefits	1,399	1,946
Post-employment benefits	169	186
Share-based payments	125	0
Total	**1,693**	**2,132**

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

January 1–December 31 In CHF thousand	2017	2016
Accrued expenses and deferred income due to governing bodies	269	398
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	27,237	28,375

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 9, 2018, which represents the date when the consolidated financial statements were approved.

34. List of subsidiaries

The subsidiaries of the Company as of December 31, 2017, 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 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%

D: Distribution, H: Holding, P: Production

35. Changes in accounting policies

A number of standards have been modified on miscellaneous points with effect from January 1, 2017. None of these amendments had a material effect on the Group's financial statements.

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. Any unrealized gains and losses arising from intra-group transactions are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. 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 yearly average exchange rates which are reasonable approximation of the spot 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/(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.–31.12.2017	01.01.–31.12.2016	31.12.2017	31.12.2016
1 Euro	1.11	1.09	1.17	1.07
100 Japanese Yen	0.88	0.91	0.87	0.87
100 Korean Won	0.09	0.09	0.09	0.08
1 Malaysian Ringgit	0.23	0.24	0.24	0.23
1 US Dollar	0.98	0.99	0.98	1.02

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

The grant date fair value of the equity-settled share-based payment arrangement granted to senior management (LTIP) is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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 on 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" 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 reclassified 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 19. 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 or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 effective warranty cases 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, 2018, 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.

The Group does not expect that the new classification requirements will have a material impact on its accounting. In addition the Group believes that impairment losses will not significantly change in the scope of the IFRS 9 impairment model. VAT will apply the simplified approach and will use a provision matrix. The matrix will be based on historical, observed default rates and adjusted by a forwardlooking estimate that includes country risks.

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. Based on its assessement, the Group does not expect the application of IFRS 15 to result in a significant impact on its consolidated financial statements. The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

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 plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information. As at December 31, 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to CHF 7.0 million. The actual impact will depend on future economic conditions, including the Group's borrowing rate at January 1, 2019, the composition of the Group's portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

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 2017 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 70 to 118) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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

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 2017 amounted to CHF 692m 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"

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, 9 March 2018

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2017

Balance sheet

As of December 31 In CHF thousand	Note	2017	2016
Assets			
Cash and cash equivalents		212	429
Other receivables	3.3	4,443	2,326
Prepayments and accrued income		541	524
Current assets		**5,196**	**3,279**
Financial assets	3.4	1,274	1,737
Loans granted to companies in which the entity holds an investment		97,604	653,600
Investments in subsidiaries	3.2	502,850	87,556
Non-current assets		**601,728**	**742,893**
Total assets		**606,924**	**746,172**
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	55,764	36,968
Other payables	3.5	54	161
Short-term provisions	3.6	0	1,018
Accrued expenses and deferred income	3.7	1,970	553
Current liabilities		**57,788**	**38,700**
Long-term interest-bearing liabilities	3.4	175,408	219,298
Non-current liabilities		**175,408**	**219,298**
Total liabilities		**233,196**	**257,998**
Equity	3.8		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		375,186	495,109
– Other capital reserves		3,682	3,682
Accumulated losses:			
– Loss brought forward		–8,665	0
– Gain/loss for the period		1,314	–8,665
Treasury shares	3.9	–790	–4,950
Total equity attributable to owners of the Company		**373,727**	**488,175**
Total liabilities and equity		**606,924**	**746,172**

Income statement

In CHF thousand	Note	01.01.–31.12.2017	25.02.–31.12.2016
Interest income		4,897	2,221
Other financial income	3.10	6,957	0
Total income		**11,854**	**2,221**
Interest expenses		–5,163	–1,389
Other financial expenses		–2,519	–1,020
Personnel expenses		–780	–444
Other operating expenses	3.11	–2,077	–1,746
Extraordinary, non-recurring or prior period expenses	3.1	0	–6,287
Total expenses		**–10,540**	**–10,886**
Gain/loss for the period		**1,314**	**–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.

As part of the simplification of legal structure, the subsidiary VAT Holding S.à r.l. was merged into VAT Management S.à r.l., effective June 1, 2017.

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 in 2016 were related to the issuance costs of the IPO on April 14, 2016, and represented non-recurring costs.

3.2 Significant investments in subsidiaries

VAT Group AG holds the following investment(s) as of December 31:

Country	Company	Currency	Capital in thousands		Share in capital and voting rights	
			2017	2016	2017	2016
Luxembourg	VAT Holding S.à r.l.	CHF	–	30	–	100%
Luxembourg	VAT Management S.à r.l.	CHF	30	30	100%	100%

The indirect investments are shown in note 34 of the consolidated financial statements of VAT Group.

3.3 Other receivables

As of December 31 In CHF thousand	2017	2016
Other receivables due from third parties	17	90
Other receivables from companies in which the entity holds an investment	4,426	2,236
Total other receivables	**4,443**	**2,326**

3.4 Interest-bearing liabilities

As of December 31 In CHF thousand	2017	2016
Short-term interest-bearing liabilities due to third parties	55,764	36,968
Total short-term interest-bearing liabilities	**55,764**	**36,968**
Long-term interest-bearing liabilities due to third parties	161,737	161,737
Long-term interest-bearing liabilities due to companies in which the entity holds an investment	13,671	57,561
Total long-term interest-bearing liabilities	**175,408**	**219,298**

The terms and conditions of outstanding loans due to third parties are as follows:

As of December 31, 2017 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR 1m + 1.55%	2021	102,501
Recolving credit facility (RCF)	CHF	CHF LIBOR 1m + 1.45%	2021	115,000
Total loans and borrowings at 31.12.2017				**217,501**
Thereof:				
Current				55,764
Non-current				161,737

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) amounted to CHF 2.2 million in 2016. These expenses were capitalized and will be recognized in profit and loss over the remaining duration of the credit facility. As at December 31, 2017, CHF 0.5 million (prior year: CHF 0.5 million) are recognized within “Prepayments and accrued income.” CHF 1.3 million (prior year: CHF 1.7 million) are disclosed as “Financial assets.”

3.5 Other payables

As of December 31 In CHF thousand	2017	2016
Other payables due to third parties	27	161
Other payables due to companies in which the entity holds an investment	27	0
Total other payables	**54**	**161**

3.6 Short-term provisions

In 2016, unrealized FX gains in the amount of CHF 1.0 million were recorded in short-term provisions. In 2017, no such foreign exchange gains were recorded.

3.7 Accrued expenses and deferred income

As of December 31 In CHF thousand	2017	2016
Accrued expenses and deferred income due to third parties	1,521	100
Accrued expenses and deferred income due to governing bodies	449	398
Accrued expenses and deferred income due to companies in which the entity holds an investment	0	55
Total accrued expenses	**1,970**	**553**

3.8 Equity

As of December 31, 2017, 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.

The reserves from capital contributions consist of the premium from contribution in kind less issue stamp duty. 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, 2017.

3.9 Treasury shares

		01.01.–31.12.2017		25.2.–31.12.2016
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**110,000**	**CHF 45.00**	**0**	**CHF 0.00**
Purchases	0		110,000	CHF 45.00
Sales	–91,063	CHF 120.14	0	
Share-based payments	–1,390	CHF 127.57	0	
Treasury shares as at December 31	**17,547**	**CHF 45.00**	**110,000**	**CHF 45.00**

On December 31, 2017, VAT Group held 17,547 treasury shares with an acquisition price of CHF 0.8 million.

3.10 Other financial income

Other financial income for the year 2017 consists of gains from the disposal of treasury shares and amounts to CHF 7.0 million (prior year: CHF 0 million). Thereof, CHF 6.9 million result from the sale of shares to subsidiaries. These shares where used to grant the IPO bonus. The remaining CHF 0.1 million result from the compensation to the Board of Directors as explained in note 4.4.

3.11 Other operating expenses

February 25–December 31 **In CHF thousand**	01.01.–31.12.2017	**25.02.–31.12.2016**
Insurance, duties and other charges	95	117
Rental expenses	5	5
Travel expenses	92	24
Consulting and audit fees	756	1,541
Administration expenses	1,129	59
Total other operating expenses	**2,077**	**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:

Shareholder	**Voting rights as of December 31, 2017**	**Voting rights as of December 31, 2016**
Partners Group	1,037,486	8,787,888
Capvis	below 5%	2,318,188
Rudolf Maag	3,100,570	below 5%

4.3 Shares held by the Board of Directors and the Group Executive Committee

As of December 31, the members of the Board of Directors and the Group Executive Committee held the shares listed in the following table:

As of December 31	2017	2016
Board of Directors		
Horst Heidsieck, Chairman (until May 2017)	n/a	2,500
Martin Komischke, Chairman (since May 2017)	0	n/a
Alfred Gantner	0	0
Ulrich Eckhardt	2,500	2,500
Hermann Gerlinger (since May 2017)	0	n/a
Urs Leinhäuser	3,736	10,000
Karl Schlegel	32,536	32,336
Group Executive Committee		
Heinz Kundert, CEO	71,456	107,349
Andreas Leutenegger, CFO	68,234	102,350
Kurt Trippacher, COO (until April 2017)	n/a	61,410
Jürgen Krebs, COO (since June 2017)	0	n/a

As of December 31, 2017 and 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

Members of the Board of Directors receive 30% of the total compensation in restricted shares. 1,390 shares amounting to CHF 0.2 million were paid out in financial year 2017 for the period 2016/17. As of December 31, 2017, VAT Group AG allocated 1,247 shares (prior year: 1,565 shares) amounting to CHF 0.2 million (prior year: CHF 0.1 million) to its Board of Directors, which will be transferred in financial year 2018.

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.

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	2017
Balance brought forward	**–8,665**
Gain for the period	1,314
Total accumulated losses	**–7,351**

The Board of Directors proposes to the General Meeting to carry forward accumulated losses of CHF –7.4 million.

Appropriation of reserves from capital contributions

In CHF thousand	2017
Reserves from capital contributions as of 31.12.2017	**375,186**
Dividend payment out of reserves from capital contributions	–120,000
Reserves from capital contributions carried forward	**255,186**

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 2017, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 123 to 130) for the year ended 31 December 2017 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

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

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, 9 March 2018

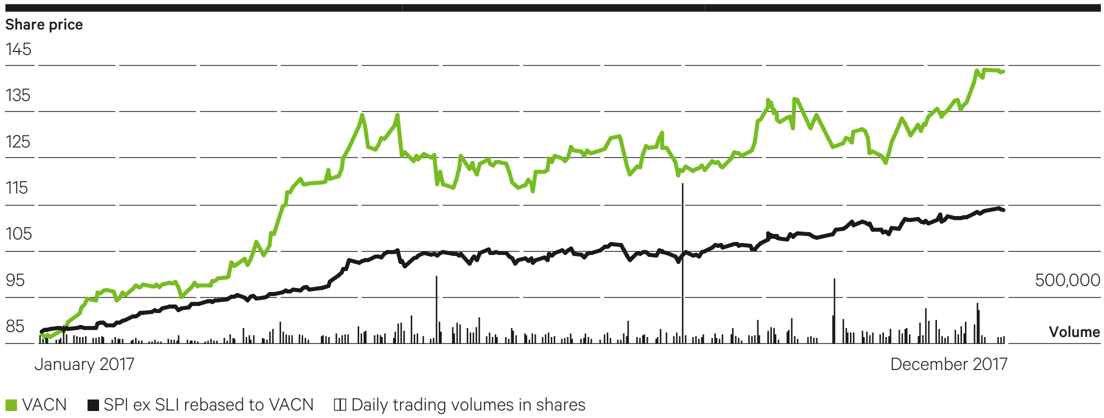
Shareholder Information

In 2017, VAT's share price increased significantly as a result of the Group's improved operational performance and the generally positive sentiment in the stock market. VAT, the global market leader in high-end vacuum valves, captured the growth opportunities and expanded its market share further while investing substantially in additional production capacities to manage future growth. VAT shares offer its shareholders a combination of growth prospects and cash returns, expressed in an attractive dividend policy linked to the generation of free cash flow to equity.

Broadening of the shareholder base

Over the course of 2017, several placements of shares were undertaken by the two private equity shareholders, Partners Group and Capvis. This resulted in an increase of the free float of VAT shares, as defined by the SIX Swiss Exchange, from approximately 63% at the end of 2016 to approximately 90% at the end of 2017. In one of these placements, Rudolf Maag, a Swiss entrepreneur and financier, acquired approximately 10% of VAT's outstanding shares and today is the largest single shareholder. With the increase of the free float, the number of registered shareholders also went up from about 7,400 at the end of 2016 to almost 12,000 at the end of 2017.

Share price development



In 2017, the price of VAT shares rose from CHF 84.85 to CHF 144.40, an increase of 65%. This increase is more than twice the performance of the Swiss stock market as measured by the SPI ex SLI® TR Index. In addition, shareholders on May 23, 2017, received a dividend of CHF 4.00.

Stock exchange listing

Ticker symbol	VACN (SIX); VACN.S (Reuters); VACN SW (Bloomberg)	**Legal Entity Identifier (LEI)**	529900MVFK7NVALR7Y83
Valor number	31 186 490	**Nominal value**	CHF 0.10 per share
ISIN	CH0311864901	**Free Float**	apploximately 90%
Market capitalization as of December 31, 2017	CHF 4.33 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	40%
Other countries	22%
Shares in transit	38%

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	4,559
101–1,000 shares	6,445
1,001–10,000 shares	797
10,001–100,000 shares	132
more than 100,000 shares	18
Total number of shareholders	**11,951**

Market Capitalization
in CHF bn

4.3

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 41 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 2017, 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.

Disclosure policy

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.

Dividend Payout Ratio
in % of Free Cash Flow to Equity

115.0

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: http://www.vatvalve.com/InvestorRelations/investor-relations.

Key data on VAT registered shares

		2017	2016
Share capital	CHF	3,000,000	3,000,000
Number of shares on December 31		30,000,000	30,000,000
Nominal value per share	CHF	0.10	0.10
Shares outstanding		30,000,000	30,000,000
EBITDA per share	CHF	7.07	4.99
Free cash flow per share	CHF	3.62	4.27
Book value per share	CHF	18.60	17.02
Dividend per share[1]	CHF	4.00	4.00
Share price high	CHF	144.90	84.85
Share price low	CHF	86.65	45.00
Closing share price on December 31	CHF	144.40	84.85
Average daily trading volume	Shares	115,543	94,349

1 Proposed by the Board of Directors

Financial calendar

Date	Event
2018	
Tuesday, April 17, 2018	Q1 2018 trading update
Thursday, May 17, 2018	Annual General Meeting
Thursday, May 24, 2018	Dividend payment
Friday, August 24, 2018	Half-year results 2018
Thursday, October 25, 2018	Q3 2018 trading update
2019	
Friday, March 8, 2019	Full-year 2018 results

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 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 2018:

The era of Big Data, augmented by rapid advances in artificial intelligence (AI), is gaining momentum, leading the company into a new phase of sustainable growth.

VAT expects to grow full-year net sales by 15% to 20% at constant foreign exchange rates. The mid-term EBITDA margin target of 33% by 2020 remains in place, and the company expects to show progress toward this goal in 2018 as the result of improved productivity.

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