ANNUAL REPORT 2020:

VAT achieved record EBITDA, EBITDA margin and free cash flow in 2020 and is well positioned for further profitable growth based on technology leadership and operational excellence.

VAT is the leading supplier of high-vacuum valves and related equipment used to manufacture semiconductors, displays, solar cells and many other digital devices. The company reported strong results in 2020 despite the uncertainties of the global coronavirus pandemic. This achievement reflects the continued recovery in the semiconductor market, a commitment to technology innovation, improved operational performance, and the engagement of VAT's employees in a challenging business environment. The company expects continued profitable growth, driven by long-term trends such as artificial intelligence, the Internet of Things, Big Data and the global rollout of 5G telecommunications networks.

VAT

PASSION. PRECISION. PURITY.

We aim to create sustainable value for all of our stakeholders by increasing market share in our core valves business, growing our global service business, expanding into profitable adjacent businesses – including connected smart valves – and improving our global operational footprint. We also strive to build a sustainability culture that links competitive success with social responsibility and environmental stewardship.

Key figures

In CHF million	2020	2019	Change
Order intake	724.5	585.0	23.8%
Order backlog as of December 31	145.3	114.5	26.9%
Net sales	692.4	570.4	21.4%
Gross profit	430.1	345.4	24.5%
Gross profit margin	62.1%	60.6%	–
EBITDA	217.2	154.0	41.0%
EBITDA margin	31.4%	27.0%	–
EBIT	176.3	107.7	63.6%
EBIT margin	25.5%	18.9%	–
Net income	133.5	74.8	78.4%
Net income margin	19.3%	13.1%	–
Basic earnings per share (in CHF)	4.45	2.50	78.3%
Diluted earnings per share (in CHF)	4.45	2.49	78.3%
Cash flow from operating activities	172.8	157.7	9.6%
Capex[1]	25.9	18.0	44.1%
Capex margin	3.7%	3.2%	–
Free cash flow[2]	147.0	139.9	5.1%
Free cash flow margin	21.2%	24.5%	–
Free cash flow conversion rate[3]	67.7%	90.8%	–
Free cash flow to equity[4]	143.0	135.4	5.6%

As of December 31 In CHF million	2020	2019	
Total assets	1,001.6	972.7	3.0%
Total liabilities	446.3	449.2	–0.7%
Equity	555.4	523.4	6.1%
Net debt	128.5	144.3	–11.0%
Net debt/EBITDA	0.6	0.9	–36.8%
Invested capital[5]	423.8	356.1	19.0%
NOPAT[6]	161.0	103.4	35.7%
Return on invested capital (ROIC)	41.3%	28.6%	–
Dividend per share[7] (in CHF)	4.50	4.00	–
Payout ratio[8]	94.4%	88.6%	–
Number of employees[9]	2,041	1,810	12.8%

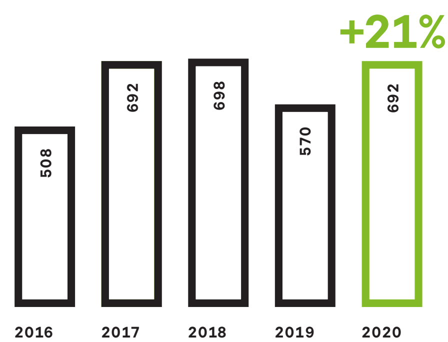
1 Capex comprises purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
2 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
3 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
4 Free cash flow to equity is calculated as cash flow from operating 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.
5 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks and deferred income taxes) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities).
6 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 (excluding foreign exchange gains/losses from financing activity) less taxes at the average Group rate of 16% (previous year: 16%).
7 2020 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 18, 2021
8 Percentage of free cash flow to equity proposed to be paid out as dividend
9 Number of employees expressed as full time equivalents (FTE)

Net sales
in CHF million

692.4

2019 **570.4**

Net sales development
in CHF million



EBITDA
in CHF million

217.2

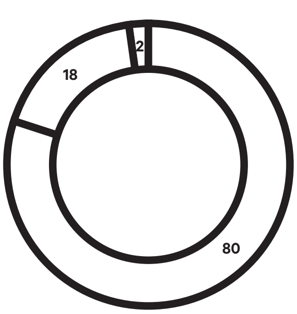
2019 **154.0**

EBITDA margin
in %

31.4

2019 **27.0**

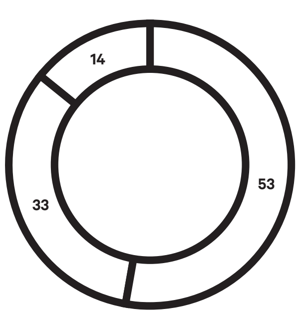
Net sales by segment
in %



80 VALVES
18 GLOBAL SERVICE
2 INDUSTRY

2019
77 VALVES
20 GLOBAL SERVICE
3 INDUSTRY

Net sales by region
in %



53 ASIA
33 AMERICAS
14 EMEA

2019
49 ASIA
34 AMERICAS
17 EMEA

Free cash flow
in CHF million

147.0

2019 **139.9**

Dividend per share*
in CHF

4.50

2019 **4.00**

* Proposal of the VAT Board of Directors to its shareholders at the AGM on May 18, 2021

Dear Shareholders,

We started 2020 gearing up for a return to growth after the cyclical downturn we saw in the previous two years. But by the end of the first quarter, all our efforts were aimed at coming to grips with the global coronavirus pandemic.

The pandemic has profoundly affected every aspect of our lives. Restrictions on movement and other measures to dampen the spread of the virus have created huge uncertainties and demanded significant sacrifices from individuals, families and communities. The economic impacts have been profound. Many businesses, large and small, have suffered.

VAT has the advantage of being in a system-critical industry. Our vacuum valves are needed to make the semiconductors on which the world economy depends, whether for computers, smart phones, medical equipment or the data centers that enable us to better manage this increasingly complex world.

Our people give us another advantage. Despite the unprecedented challenges presented by COVID-19, they have shown an unflagging commitment to serving our customers. This includes the discipline needed to keep each other, our suppliers and our customers connected yet safe as we rapidly implemented measures in all of our locations to contain the pandemic.

These advantages underlie our record EBITDA, EBITDA margin and free cash flow in 2020. We continued to build our leading market share, launch new products, expand our global service business and increase the flexibility, speed and efficiency of our global footprint. It was a remarkable achievement, and I am proud of our employees' engagement and solidarity through this difficult period. On behalf of the Board of Directors, I would like to thank them all for their outstanding performance in 2020.

Last year, we also held our first capital markets day, when Mike Allison, our CEO, along with other senior management, explained how we intend to generate profitable growth in the years to come. We see four key drivers: gaining market share in our core valves business; growing our global service business; expanding into value-adding adjacencies; and continuing to improve our operational performance and optimizing our global footprint.

Market share in this highly demanding industry is built on cutting-edge technology and the ability to innovate quickly. We have consistently invested more than our competitors in research and development and have cultivated a deep knowledge of what technologies our customers need. As the industry moves to the high-precision semiconductors of the future, we intend to use our market and technology leadership to build our No. 1 market share even further.

Service is another area where we can build market share through innovation. VAT currently has more than one million valves installed around the world. The largest service network in the industry means we can support our customers quickly, wherever they are. And we're developing new service products to make repair and replacement faster so that our customers face less down time.

The third pillar in our strategy is to expand into profitable adjacent applications, such as motion components and device interconnectability. We'll make VAT valves smarter, with precise analytic and control algorithms that will create significant value for our customers.

Finally, we will continue to drive operational excellence, delivering more value to our customers, faster and more efficiently, and more value to our shareholders through profitable growth.

“Despite the unprecedented challenges presented by COVID-19, our people have shown an unflagging commitment to serving our customers.”

DR. MARTIN KOMISCHKE
CHAIRMAN OF THE BOARD OF DIRECTORS

Value creation also needs to be sustainable over the long term, not just for our customers and shareholders, but also for our people and the communities where they work and live. We address this in various ways, such as offering our people opportunities to develop their skills, transferring know-how across borders, and expanding our value chain into new communities. We're also reducing our impact on the environment in areas such as packaging and energy supply. We remain committed to creating a sustainability culture of which our employees can be proud, and that helps grow the business profitably so that we can continue to deliver superior value long into the future.

I'd also like to thank you, our shareholders, for supporting us as we continue to grow this exciting business. Buoyed by a strong year in 2020 and a positive long-term outlook driven by the steady growth of global digitalization, we will recommend a 12.5% higher dividend of CHF 4.50 per share at our Annual General Meeting in May.

We look optimistically into 2021. The remarkably fast development of vaccines against the coronavirus shows the enormous power of human ingenuity. We at VAT strive to emulate this in our own way to create value and build a better future. I look forward to continuing this endeavor together with you in the coming years.

Sincerely,

Martin Komischke

CEO Interview

The coronavirus pandemic made 2020 an extraordinary year. What were the main challenges for VAT?

We benefitted from the decision to designate semiconductors as system-critical, so demand remained healthy. Nevertheless, keeping our employees, suppliers and customers as safe as possible was our top priority. I'm really proud of our people and how they quickly implemented all of the required safety measures. They showed remarkable commitment and flexibility to keep serving our customers at the high levels they expect.

What were the most important results for VAT in 2020?

Our record EBITDA and EBITDA margin are strong achievements made possible by near-record net sales, continued new product launches, and our efforts to make VAT more flexible and efficient. It's even more impressive when you consider the margin headwind of about 1 percentage point from the relatively weak US dollar, in which most of our revenues are priced while most costs are in Swiss francs. We also delivered record free cash flow. And we did all this through a historic global pandemic.

What is driving the current upcycle in your business?

Most digitalization megatrends are still in full swing, like artificial intelligence, the Internet of Things and cloud computing. The coronavirus pandemic, by encouraging the shift to home-office and on-line commerce, even accelerated some of these trends. We're also seeing more demand from the roll-out of 5G networks, which require a lot more data handling capabilities. Our valves are absolutely central to making the chips and displays that make digitalization possible.

More specifically, demand is being driven by the steady reduction in semiconductor node sizes to get more processing power into a smaller space. The last couple of years has seen a rapid reduction in node size and we're starting to see commercial production of five-nanometer nodes. That's good for VAT because these chips require even higher vacuum purity and more manufacturing process steps under vacuum. We're the clear leader in this field and the barriers to entry are high, so this will definitely drive growth and market share gains. We see that confirmed in the record number of new specification wins in 2020, where we develop new products together with our customers for the coming generation of applications.

How do you think about the future opportunities for both organic and inorganic growth?

The semiconductor market, where we sell most of our valves, is in a cyclical upswing. Our technology and market leadership positions us to capture those growth opportunities and gain market share. The expansion of our plant in Malaysia will help us better serve the fast-growing Asia market. We expect five times more sales from the plant by 2025. We'll also continue to expand services and move into profitable adjacent businesses.

As for inorganic growth, we have the financial strength do some smaller technology bolt-ons to support our adjacent product offering if required. But our strategy is first to grow our business organically as this creates the most value.

Can you describe the adjacencies you mentioned as growth opportunities?

These are businesses where we already have a technology advantage, like motion components used to move wafers through the fabrication process. Upstream valves is another opportunity, where we broaden our offering from valves used mainly in the process chamber to valves used in upstream applications such as plasma cleaning of wafers before they enter the chamber.

MICHAEL ALLISON, CEO

“Technology innovation will drive growth and market share gains for us as the industry gears up for the next generation of semiconductors.”

What are your goals for developing “smart” valves?

This is another adjacency where our technology strength will support growth. We want to add smart features to our valves, such as self-monitoring for predictive maintenance, or improved algorithms for additional valve functionality. That will give customers greater process control so they can further increase yield and reduce downtime.

How are you driving improved operational performance?

We focus on three areas. The first is to make our cost structure more flexible and competitive by developing our supply chain and manufacturing capacity in best-cost countries. The second is to roll out seamless end-to-end business processes that increase speed and flexibility. Third, we aim to develop a high-performance operations organization that is lean, resilient and driven by an engaged and highly skilled workforce.

How are you addressing sustainability in your business?

Our ambition is to drive sustainable economic, social and environmental value creation. We’re doing this by expanding our global footprint, investing in the communities where we operate, spreading technology capabilities across borders, reducing waste and shifting to renewable energy sources, such as our project to generate solar power from the roof of our plant in Malaysia. These initiatives generate value for all of our stakeholders. We have a lot of opportunities to do more in this area. In the long term, sustainability is linked with competitiveness and we want to be leaders here as well.

What’s your outlook for 2021?

We’re optimistic that 2021 will be another year of growth. The coronavirus pandemic will remain a source of uncertainty but so far it has had a limited impact on our business. Technology innovation will drive growth and market share gains for us as the industry gears up for the next generation of semiconductors. And we’ll continue to drive operational improvements so that our growth comes with an attractive level of profitability.

Our journey to market leadership

VAT was founded in 1965 in Flawil, Switzerland, and originally manufactured vacuum valves for scientific research. Some 20 years later, VAT entered the thin-film market for industrial coatings and optics. In 1988, VAT entered the semiconductor sector in 1988, laying the groundwork for its current position as the world's leading supplier of high-vacuum valves.

As the semiconductor industry continued to grow, VAT broadened its product range and began to serve adjacent markets with similar high-vacuum production processes, such as flat-panel displays and solar panels. VAT expanded beyond Europe with manufacturing and service operations in the US and Asia and made some small acquisitions, including Sysmec in Romania in 2008 and the vacuum valves product line from Inficon AG in 2012.

That year VAT also launched its largest organic growth initiative with a new manufacturing facility in Penang, Malaysia. By building its presence in the important Asia market, VAT was able to improve collaboration with many of its largest customers in the region. At the same time, the move to Asia helped make the organization faster and more flexible by diversifying the production footprint and optimizing its global value chain. The Penang plant currently occupies 24,000 square meters, including assembly, engineering and testing capabilities.

In April 2016, VAT Group was taken public through an Initial Public Offering (IPO) on the SIX Swiss Exchange. The company paid its first dividend as a public company of CHF 4.00 per share to shareholders in May 2017 and has paid the same dividend every year since. The Board of Directors has proposed a 12.5% increase in the dividend for 2020, amounting to CHF 4.50 per share. Since the IPO, VAT has delivered a total shareholder return of more than 400%.

Today, VAT has more than one million valves in operation around the world and continues to build its Number One market share by focusing on deep customer relationships, a passion for technology innovation and a commitment to sustainable value creation for all of its stakeholders.

Milestones

1965 Founded in Flawil, Switzerland

1988 Entry into the semiconductor industry

2008 Acquisition of Sysmec, Romania

2012 Established manufacturing center in Malaysia

2016 IPO at Six Swiss Exchange

2018 Malaysia expansion completed

2019 Market share above 50%

2020 Record EBITDA, EBITDA margin and free cash flow despite pandemic

Outgrowing the market through technology

The generation, collection, analysis and display of digital information has become the lifeblood of global society. Every aspect of our lives revolves around this ceaseless flow of unimaginable amounts of data, and there is no end in sight to its growth. One small example: according to the International Telecommunication Union, there are now more mobile phone subscriptions globally than there are people on the planet, and the number of 5G mobile network subscriptions is expected to grow more than 10 times from 2020 to 2025. Artificial intelligence, self-driving cars, smart homes, wearable digital devices, the countless applications of connected smart devices in almost every industrial sector: all of these developments depend on the availability of increasingly powerful semiconductors.

VAT plays a key role in this indispensable technology. Semiconductors contain huge numbers of transistors for storing and processing data. The newest semiconductors contain billions of transistors, or nodes, on a single chip. Nodes can be as small as a few nanometers (nm) – billionths of a meter – comparable in size to a protein molecule or a virus. Manufacturing such tiny components can only be accomplished in the purest of vacuums, as empty as possible of any particles that could interfere with the fabrication of the microchip. Our valve technology enables the creation and maintenance of such pure vacuums, and the efficient and clean transfer of wafers between vacuum chambers as they go through different fabrication processes, such as lithography, etching, deposition and cleaning. And as nodes continue to decrease in size – to get more processing power into a smaller space – the need for more fabrication steps under vacuum and ever purer vacuums grows as well.

The market and growth drivers
VAT's largest end market is the global semiconductor segment, which generates approximately 80% of the company's revenues. We serve this industry mainly through original equipment manufacturers (OEMs) who design and build the equipment used in semiconductors plants, known as wafer fabs. Our offering comprises 140 valve series, 2,500 standard products and 8,000 customized solutions designed for specific wafer manufacturing processes, as well as a growing number of service products. Similar vacuum-based manufacturing methods are also used to make digital displays, such as screens used in smart phones, tablets and televisions, as well as solar photovoltaic cells. We also deliver high-end valves used in advanced scientific research, such as particle accelerators and experimental nuclear fusion projects.

There are several growth drivers in this market. One is simply the raw demand for ever-increasing numbers of semiconductor chips which have become integral parts in almost every industrial and consumer product. We expect this market to grow at a compound annual growth rate (CAGR) of 8% over the next 5 years to more than USD 640 billion, reaching USD 1 trillion by the end of the decade. This is being driven by long-term technology developments, such as artificial intelligence, the Internet of Things and cloud computing. A more recent driver is the global roll-out of 5G networks. Semiconductor sales to the 5G market alone are expected to grow at a CAGR of more than 60% over the next five years.

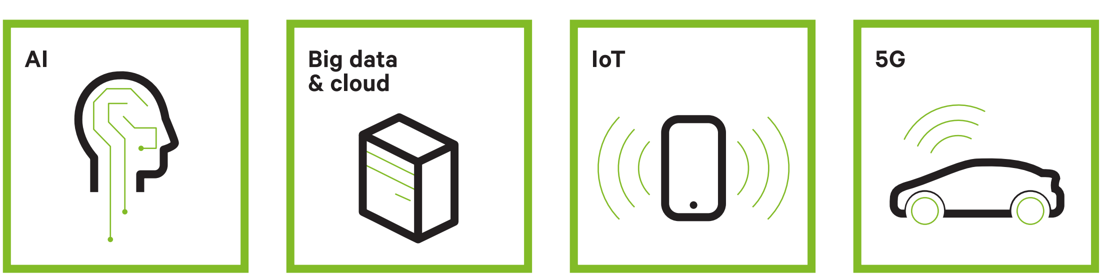
These trends, in turn, will require strong growth in capital expenditures for wafer fabrication equipment (WFE). WFE investments are expected to grow at a CAGR of at least 6% from now to 2025. This drives not only the volume of valves but also the services needed to keep them running at peak performance, which accounts for some 18% of VAT's revenues.

Another growth driver is the steady reduction of node sizes, which have declined in recent years from 10 nm to 7 nm and more recently down to 5 nm, with the industry heading to 3 nm nodes. This plays directly to VAT's technology strengths. The smaller the nodes on a wafer, the purer the vacuum needs to be in the process chamber, and the more processing steps are needed under vacuum, including new processes such as extreme ultraviolet lithography (EUV) and atomic layer deposition (ALD). Similar trends are taking place in the display and solar segments. Organic light-emitting diode (OLED) technology in displays and high-efficiency heterojunction solar cells both require more processing steps under vacuum and both are expected to become more dominant technologies in the medium term.

VAT's market share across all industry segments is about 55%, or 10 times larger than its closest competitor. In the high-end segment, primarily the semiconductor equipment market, the company's market share is around 70%. VAT is the market leader in all process technologies, including deposition, etching, lithography and metrology, and in equipment for both memory and logic chips.

Gaining and maintaining that strong position requires deep customer relationships, a fast and responsive global footprint, a commitment to quality and reliability, and most importantly, a profound understanding of vacuum technology and the ability to innovate quickly. VAT invests the equivalent of about 6% of net sales into research and development, roughly equal to the total valves sales of its nearest competitor. Much of this is focused on developing products with the precision and purity required for the coming era of nodes of 5nm and smaller. The fabrication of such wafers can involve more than 1,500 process steps – some involving extreme temperatures and pressures – and take up to three months. Given the capital investment needed for advanced wafer fabs, profitability can only be secured through the highest yield and lowest downtime.

VAT's growth driven by long-term megatrends

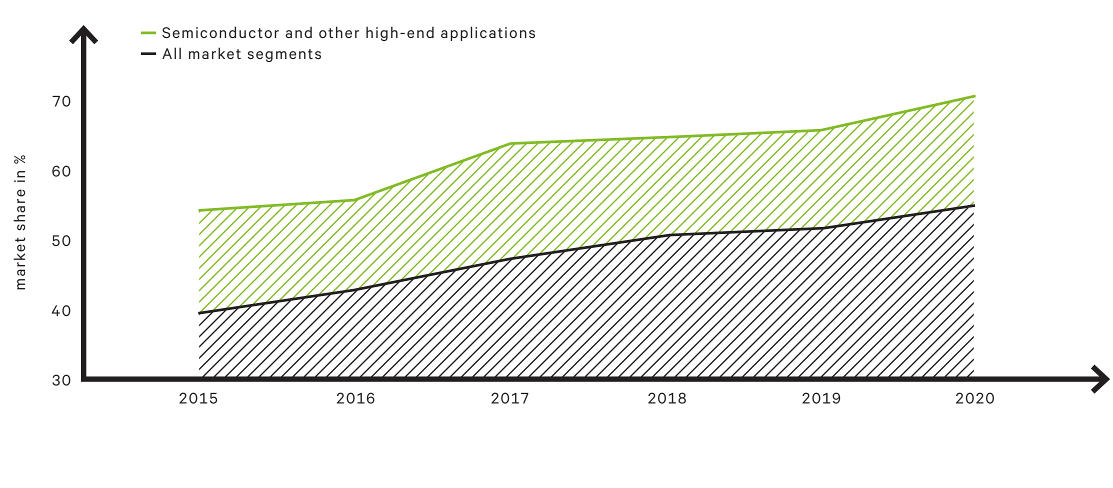


VAT's contribution to its customers' success is based on its ability to produce vacuum products that can meet this challenge. Valve vibration, vacuum sealing, speed and precision of operation, control algorithms and serviceability are all key to reliable equipment operation. Customers also value innovations that help them reduce their equipment footprint and extend their operational lifetime. Vacuum purity is of ultimate importance and VAT is the only company in its sector with a dedicated particle lab capable of measuring valve performance in the more demanding process chamber conditions needed for the next generation of ultra-small nodes. At the same time, customers need new products faster. This drives VAT's R&D efforts to improve its own manufacturing processes. In 2020, R&D investments amounted to CHF 41 million, or 6% of sales.

The company measures the value of its R&D investments in part through the number of specification wins. These are agreements between VAT and its customers on new product designs developed in close cooperation and aimed at addressing specific customer technology requirements for upcoming generations of new equipment. Spec wins translate into revenues as the customer rolls out its new equipment for the semiconductor, display and solar markets. VAT achieved more than 100 spec wins in 2020, more than twice as many as just two years ago. In recent years, the company has won some 80% of the specification projects it has tendered to the top ten wafer fab equipment OEMs.

Intellectual property protection is a high priority in this innovation-based business and VAT currently owns more than 400 active patents worldwide, and more vacuum valve-related patents than all of its competitors combined.

VAT Market Share



Tapping the growing service opportunity

With the industry's largest and fastest-growing installed base – there are currently close to 1.2 million VAT valves installed worldwide, and growing by more than 100,000 a year – there are increasing opportunities to grow our global service business.

The business is attractive because it allows VAT to strengthen its customer relationships, acts as an important channel to market for new or upgraded equipment, and provides the company with a steady revenue stream even during market downturns. For example, we estimate that a serviceable valve could generate up to five times its original sales price in service revenues over a typical 20-year lifetime. Our ambition is to increase our market share in this business from about 35% today to more than 50% by 2025.

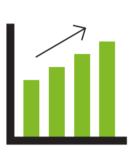
Spare parts is the largest service business, accounting for just over half of service sales. A typical spare part is the valve gate, which is valve component that actually performs the sealing function when the valve is closed. As the gate is exposed to processes within the chamber, such as etching or deposition, it has to be regularly replaced.

Repairs is the smallest part of the business and includes valve refurbishment. Regular service of this type is recommended on about 35–40% of all valves sold, primarily transfer and control valves. A serviceable valve typically needs servicing every 5 to 7 years, depending on the valve type and process conditions.

Upgrades and retrofits are the most technologically demanding service activities as they often involve working with the customer to develop a customized solution that allows them to increase the yield and throughput of their existing capital-intensive fab assets. This includes adapting an existing fab to produce wafers with smaller nodes, repurposing the fab and machines for new applications or relocating machines to a different fab.

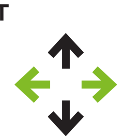
Four levers to gain sustainable profitable growth

Gain market share in valves



Grow our service business

Move to adjacencies & Connected VAT



Improve operational footprint

VAT delivers its services offering through the industry's largest service and repair network, operating from eight service centers located close to our major customers. Not only does it allow us to respond quickly, but we can guarantee a standard level of service and product quality in all of their facilities worldwide and copy-exactly factory-produced OEM parts, a critically important feature in an industry with extremely low tolerances for even the smallest variation in component size and performance.

Adjacencies & Connectivity

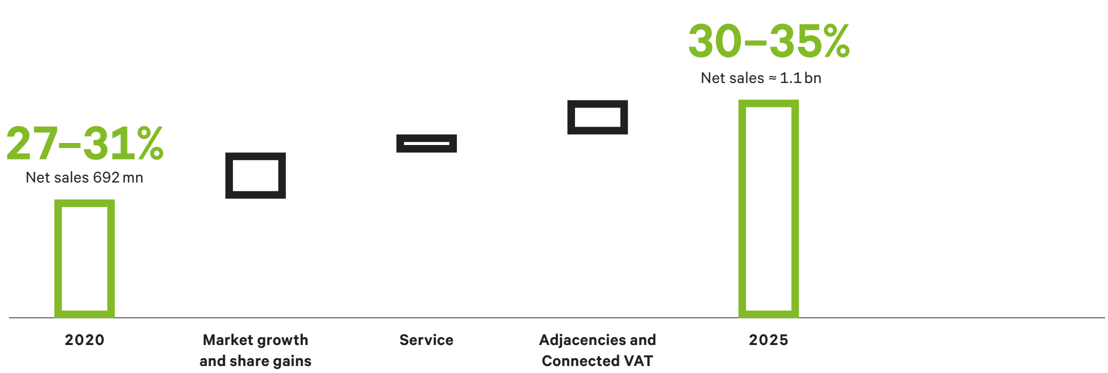
Our deep, long-term customer relationships, strengthened by our fast local service capabilities, allows us to understand exactly what our customers need and where the technology trends are leading. This domain expertise provides additional growth opportunities by allowing us to identify additional ways to deliver more customer value. Our approach is to find innovative valve solutions that build on our existing technology strengths in areas such as mechatronics, actuation, sealing, material science and control technology. That gives us confidence that we can win business and generate attractive financial returns.

So far, we have identified three promising adjacencies: motion components, such as customized mechatronic pin lifters that optimize the wafer path through various process chambers; advanced modules that reduce the footprint and add functionality to our existing multi-valve modules, such as heating and cooling, increased pump speed and plug-and-play solutions; and upstream valves that use technology similar to that in our downstream process valves for upstream applications such as wafer cleaning using charged chemical plasma.

The next step in the adjacency story is to create a new digital platform for VAT products and solutions in order to meet growing customer demand for production data to control and optimize yield. We call this Connected VAT and it will give our products the capability to monitor their own performance, in some cases to automatically fine-tune their performance in line with changing conditions within the vacuum chamber, and to communicate with other products and with our customers' process automation systems to provide even greater control for increasing yields and reducing downtime.

Our growth plan to 2025

EBITDA margin band over the cycle



In concrete terms, this will involve in a first stage adding sensors and analytics to all our VAT valve products so they can diagnose potential problems before they occur, allowing us to provide much faster predictive maintenance and develop new service products. In a second phase, we will add intelligence to the valves, such as algorithms that will allow valves to perform additional functions within an application. In the final phase, valves will be fully interconnected within a dynamic process control system. This will allow equipment makers to deliver even higher levels of yield improvement and will open up new component markets and value propositions for VAT. Based on our current product development pipeline, we estimate that over 50% of our new products will have digital features by 2025.

Fast and flexible operations

Delivering this added value to our customers while generating stronger and more resilient financial returns through the cycle requires a high-performance operational footprint.

An important lever to get more value from our global footprint is to optimize our supply chain and factory footprint. This means developing both our supplier base and manufacturing capabilities in best-cost countries – primarily in Asia and Eastern Europe – where we can secure a competitive cost base while still delivering the highest quality. This also allows us to adjust cost and capacity more quickly through the ups and downs of the business cycle by shifting supply and manufacturing across the value chain.

VAT's footprint consists of three factories in Switzerland, Malaysia and Romania. Our Swiss factory in Haag has historically been the company's technology hub, set up to produce a wide variety of products using a high degree of automation. Our plant in Penang, Malaysia, has so far focused on producing higher volumes. We have begun to build up additional capabilities there with testing and engineering facilities, for example, and expect the plant eventually to be able to produce VAT's complete product line. Our Romanian factory acts as an internal and flexible component supplier and serves as a regional hub for engineering and purchasing activities. We also have an applications center in California, including a nano-particle lab, and we are planning to add a new applications lab in Japan in 2021.

In line with this approach, our investments in Switzerland are aimed primarily at increasing the level of factory automation and building out the Group's technology center. In Malaysia we plan to invest in additional machining and clean room capacity to broaden our product portfolio that can be manufactured locally. We also intend to establish a research lab for application engineering so that we can speed up product development together with our customers in the region. We are also investing in additional capacity from our facility in Romania to support our best-cost supply approach.

Our ambition over the next five years is to significantly increase purchase volumes from best-cost countries for our plant in Switzerland, from less than 5% to some 30%, and for our Malaysia plant from 60% to 80%. At the same time, we plan to grow factory output from our best-cost country operations from less than 20% of total net sales today to more than 50% by 2025, while output from our Swiss factory remains stable. In addition, our goal is to be able to ramp up or reduce factory output by 20% during any given quarter without significantly impacting customer service or profitability.

Achieving these goals also involves further improvements to the way we do business within the company. We are currently in the process of revamping our internal enterprise resource planning system, a project we expect to have fully rolled out by 2022. This will give us a seamless end-to-end process for speeding up orders and deliveries, product development and time-to-market, and for improving product quality, for example. It will also enable the company's transition to a more digitalized and "smart" manufacturer. Ultimately, it will free up our people to focus more of their time on meeting the rapidly-changing needs of our customers.

Included in this approach is an understanding that sustainable value creation requires a long-term view of our social and environmental responsibilities. VAT is continuing to build a sustainability culture within the company, in part by showing how reducing material waste, switching to more renewable energy sources and investing in the communities where we operate contributes to improved environmental and social performance as well as business success. We see significant opportunities to do more in this area and our management team is committed to improving our sustainability performance even further.

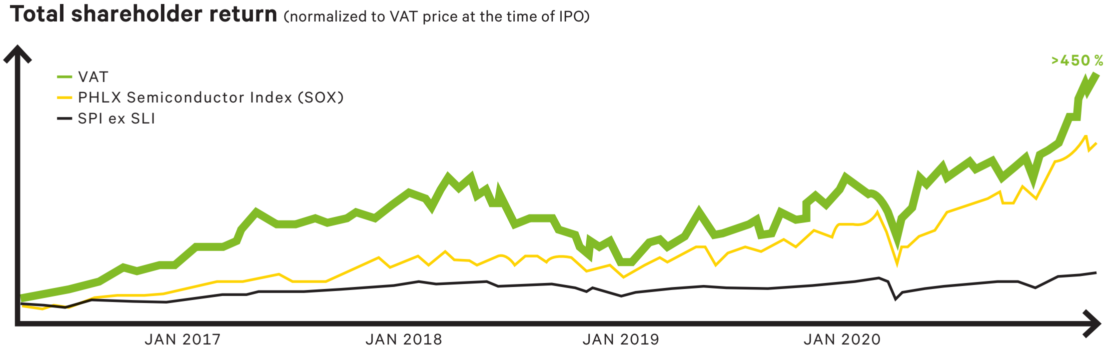
Long-term value creation

We're optimistic about what the future holds. VAT is in a strong, long-term growth market with a leading market share and a strong competitive advantage in technology, one of the market's key growth drivers. We have a long-term track record of success with all of the leading OEM customers in the industry. Our global value chain is becoming stronger, faster and more flexible year by year. And our people have repeatedly shown their ability to adjust quickly to change and a commitment to serve our customers at the highest level.

VAT also has clear financial targets and a straightforward strategy to achieve them by gaining market share in our core valve business, expanding global services, moving into profitable adjacent businesses and driving further operational improvements. With this combination, we believe we can continue to create value for all of our stakeholders well into the future.

VAT has created significant shareholder return since the IPO in 2016

Total shareholder return (normalized to VAT price at the time of IPO)



Note: SPI = Swiss Performance Index, SLI = Swiss Leader Index, VAT includes dividends 2017–2020, values as of February 8, 2021.

The road to sustainability

VAT believes long-term economic success cannot be achieved without considering social and environmental success as well. Companies are a part of the local and global communities in which they operate and can only thrive in the long term by contributing to the overall well-being of those communities.

VAT announced in 2018 its ambition to build a sustainability culture and sought guidance and support through membership in the Responsible Business Alliance (RBA) and the adoption of the RBA Code of Conduct. This established standards on social, environmental and ethical issues especially aimed at the electronics industry supply chain. These include the Universal Declaration of Human Rights, ILO International Labor Standards, OECD Guidelines for Multinational Enterprises, ISO and SA standards, and many more. We also obtained certificates in quality management with ISO 9001 and environmental management through ISO 14001.

These are the basic tools needed to assess our performance, measure it against our peers and set goals for improvement. The next step is to build principles of sustainability into the company's business strategy by identifying ways in which economic, social and environmental values overlap and reinforce one another. This, in turn, leads to a business model for sustainable value creation for all of the company's stakeholders.

The role of economic value
Business success is the foundation that enables a company to deliver on its social and environmental commitments. This can be measured in many ways, including in terms of financial returns, the value of a product on society, or the well-being of the communities and people where a company operates.

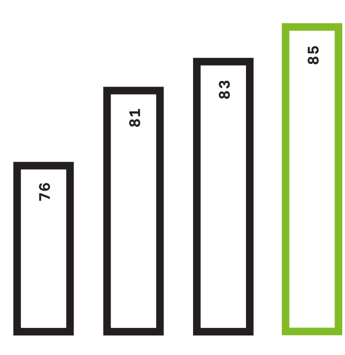
At VAT, one of the financial measures of success is an attractive return on invested capital (ROIC) and long-term capital appreciation. Between 2015 and 2020, our ROIC ranged between 29–48%. Net sales increased at a compound annual growth rate (CAGR) of approximately 11% a year, while the EBITDA margin* over the period amounted to between 27–31%

* Earnings before interest, taxes, depreciation and amortization as a percentage of net sales

Employee Engagement Survey Participation
in %

85

2017 (FIRST SURVEY) **76%**



despite the cyclical downturn in 2019. Total shareholder return (share price increase plus dividends) over the period amounted to more than 400%.

In addition, VAT's products generate both social and environmental benefits along with economic value. VAT valves are key components in the high-vacuum processes used to make high-performance semiconductors and digital displays. It would be no exaggeration to say that achieving global economic, social and environmental sustainability would not be possible without the technology behind digitalization.

Renewable energy is another area where VAT valves make a difference. Increasing the conversion of sunlight to electricity in photovoltaic solar panels requires high-precision manufacturing within the purest possible vacuum chambers. VAT valves are also used in the ITER project to develop clean energy through nuclear fusion.

Social responsibility and the COVID-19 pandemic

VAT's contribution to social sustainability starts with its presence and activities in the communities where it operates. As an employer to more than 2,000 people around the world, VAT contributes to the prosperity of communities in Switzerland, Romania, Malaysia, the United States and other countries.

In 2020, a major focus was addressing the global COVID-19 pandemic. VAT acted quickly to implement measures to keep its workplaces healthy and safe, and to ensure compliance with orders and restrictions set out by government authorities. Our top priority during the pandemic remains the health and safety of our employees and their families, customers and communities. We provide the flexibility of home office where feasible and are following enhanced health and safety protocols, such as the use of personal protective equipment and social distancing, to reduce the risk of transmission at work.

Building a global value chain

Since VAT went public through an initial public offering (IPO) on the SIX Swiss Exchange in 2016, VAT has expanded and strengthened its global value chain. The economic aim has been to bring the business closer to its customers and to tap into global supply chains in order to reduce costs and increase operational flexibility. But these steps also bring significant benefits to the people and economies where we operate.

CO_2 reduction from using solar PV at VAT Malaysia
in tons per year

1,300

In the past four years, VAT has invested more than CHF 50 million to expand its production facility in Penang, Malaysia, which employs close to 400 people. This includes a solar photovoltaic energy installation that will generate more than 1,700 megawatt-hours of electricity per year. By feeding some of the energy into the local power grid, the solar panels are expected to contribute to a CO_2 reduction of more than 1,300 tons a year.

VAT's operations in Malaysia also drive the growth of regional suppliers for both components and services. This supports the adoption of global environmental and social standards along the entire value chain and shortens delivery transportation distances, thus reducing the associated emissions.

Engaging our employees

VAT also strives to become a far-sighted employer that not only provides jobs, but also career and personal development opportunities. The company promotes open communication among employees at all levels and regularly seeks employee input through surveys carried out by an external advisor. These cover issues such as employee engagement as well as our employees' views on, for example, the company's handling of the COVID-19 pandemic. The results of these surveys are used to steer employee engagement policies and improve communication. In 2020, the response rate to our annual employee engagement survey was 85%, an increase of around 10 percentage points over the first survey in 2017.

VAT also endeavors to conserve and protect resources, minimize emissions, and improve energy efficiency along the entire value chain, from product design and procurement to production, logistics and delivery. These measures include increasing recycling rates for waste materials, currently more than 1,500 tons a year. We are also reducing energy and water consumption, for example, with a project to cut electricity consumption and expanding the use of solar power at our manufacturing facilities.

We see significant opportunities to do more in all these areas. We are committed to creating a sustainability culture in VAT, knowing that success in social and environmental sustainability will also enhance our business success, making us a preferred partner for our employees, customers, suppliers, local communities and shareholders.

MAPS:

VAT's technology and market lead creates new growth opportunities in the Digital Revolution.

Megatrends like artificial intelligence, the Internet of Things and cloud computing continue to gain momentum, driving demand for semiconductors, digital displays and other devices. VAT's advanced vacuum valves are mission-critical in the manufacture of these products. The following pages show some of these technologies and how VAT is creating value today and what it plans for the future.

TECHNOLOGY DRIVES GROWTH

Modern semiconductors contain billions of transistors, or nodes, and the number is growing as chip manufacturers put more processing power into smaller spaces. VAT's vacuum valves are essential for manufacturing at this tiny scale.

Vacuum purity
Keeping particles out of the process chamber is essential in chip fabrication. The distance between particles* is shown here:

Earth's atmosphere
at sea level

68 nm

High vacuum
Semiconductor, displays and solar photovoltaic manufacture

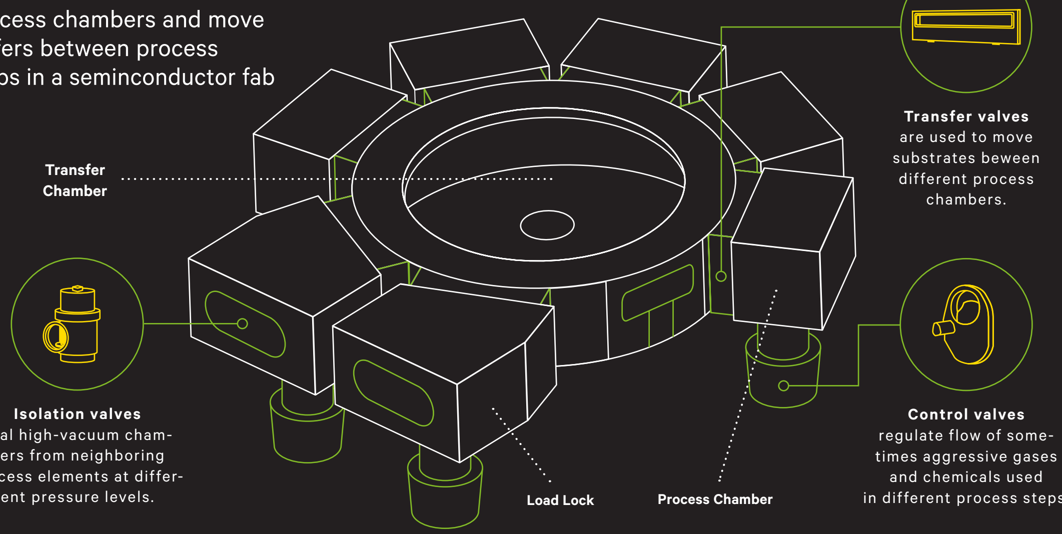
1 cm – 1 km

Ultra-high vacuum
Research and high-speed particle accelerators

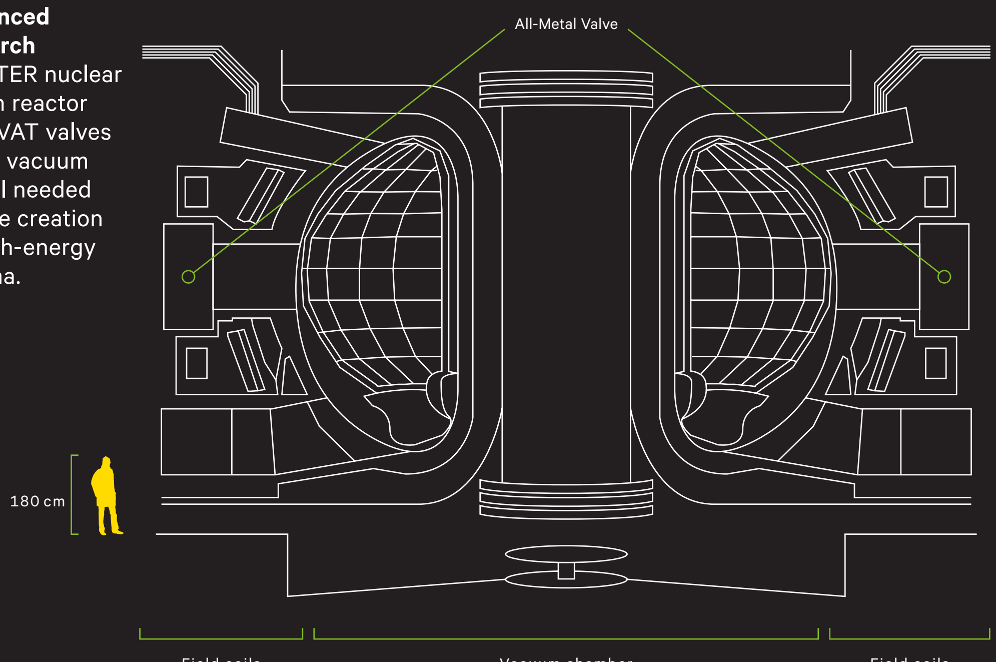
1 km – 100,000 km

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

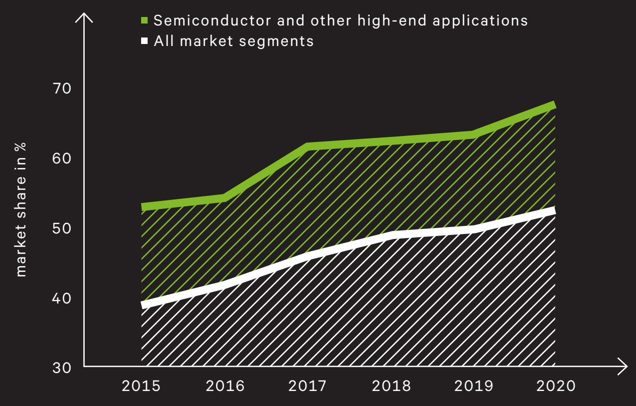
Nanometer-scale manufacturing
VAT valves are used to seal process chambers and move wafers between process steps in a seminconductor fab



Advanced research
The ITER nuclear fusion reactor uses VAT valves in the vacuum vessel needed for the creation of high-energy plasma.



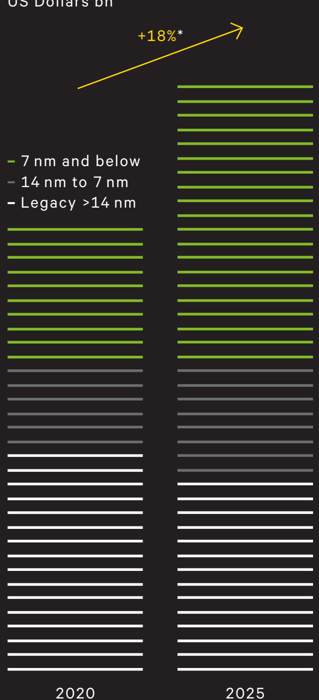
High-end market share
VAT has steadily grown market share across all of the markets it serves. But VAT is strongest in semiconductors, the most technologically demanding segment.



As semiconductors become smaller and more powerful, VAT's technology advantage grows.

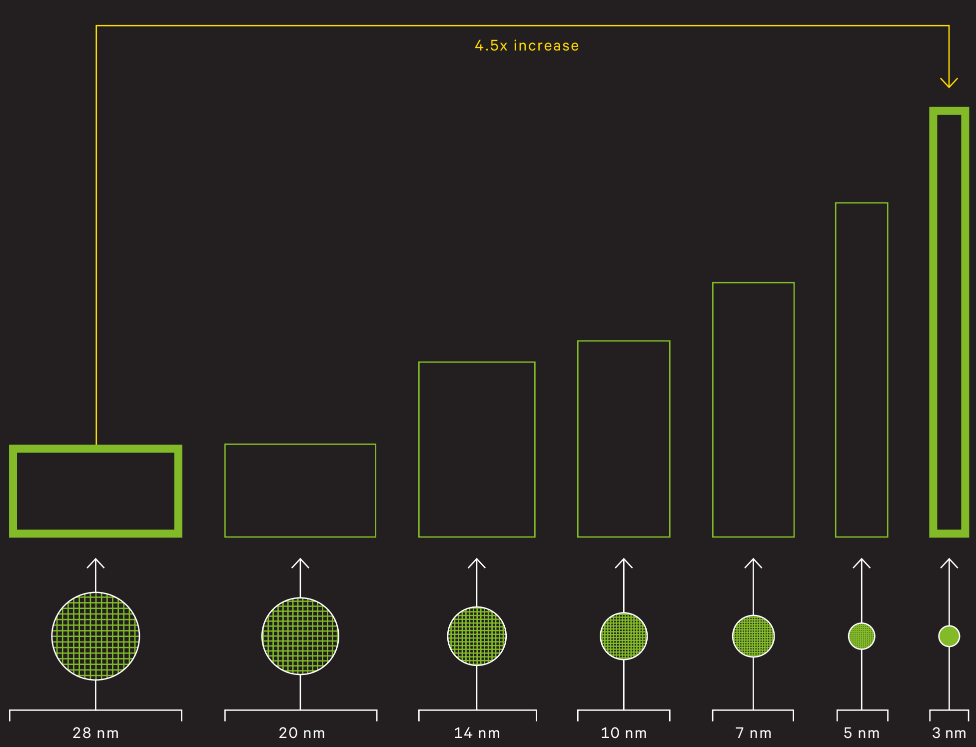
High-end market growing faster
Spending on wafers with nodes of 7 nanometers (nm) and smaller is expected to grow 3x faster than the overall market. And as node size decreases, the number of process steps increases, further driving demand for high-end vacuum solutions.

Wafer fab spend
2020–2025
by node size
US Dollars bn



* Compound annual growth rate

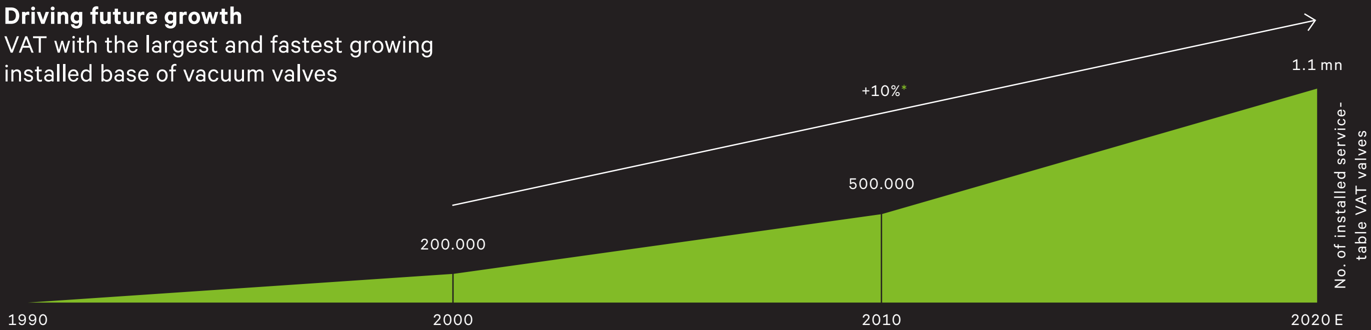
Number of process steps under vacuum, by node size



EXPANDING GLOBAL SERVICE

Servicing VAT's more-than one million vacuum valves installed worldwide provides a steady revenue stream through the cycle.

Driving future growth
VAT with the largest and fastest growing installed base of vacuum valves



* Compound annual growth rate

Global service and after-sales support

China
Japan
Malaysia
Singapore
South Korea
Switzerland
Taiwan
USA

VAT Global Service goals to 2025

Net sales growth (CAGR)	>9 %
market share	50 %
EBITDA margin	>40 %

2020 Service highlights

~90 %	Win-rate in retrofits vs. incumbent competitors
10 %	2020 net sales growth
~37 %	Market share

VAT service businesses
Share of total service revenues

20-year revenue potential
As multiple of original valve sales price

51%	Spare parts & Gates	Optimize valve performance	x2.0
15%	Repair	Minimize customer downtime	x1.2
33%	Upgrades & Retrofits	Extend tool lifetime	x1.5

Total potential over 20 years → **x5**

Gaining market share through service
Retrofits allow us to replace competitor equipment and increase market share.

New transfer valves
Launched in 2020 for all primary OEM platforms

Transfer valves used in semiconductor and display fabrication to increase yield and lower maintenance costs.

New pendulum control valves
For launch in 2021–2022

VAT pendulum valves to control pressure with an algorithm that continuously adjusts valve operation to current gas type and flow conditions.

CHF **>500** mn
market potential in upgrades & retrofit

>20
More than 20 new upgrade & retrofit products launched in past two years

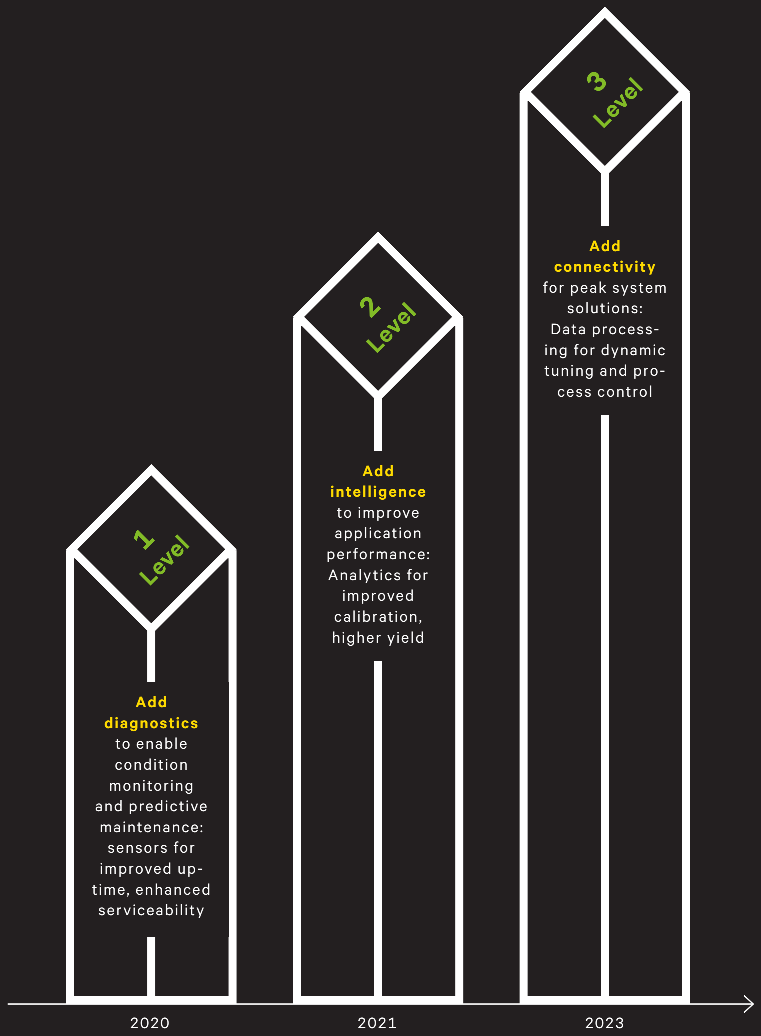
Optimized cost of ownership
Upgrades and retrofits allow customers to:

- adapt existing tools to new technologies
- reduce manufacturing footprint
- lift output from existing assets
- lower service time and cost
- minimize equipment downtime

CONNECTED VAT FOR A DIGITAL FUTURE

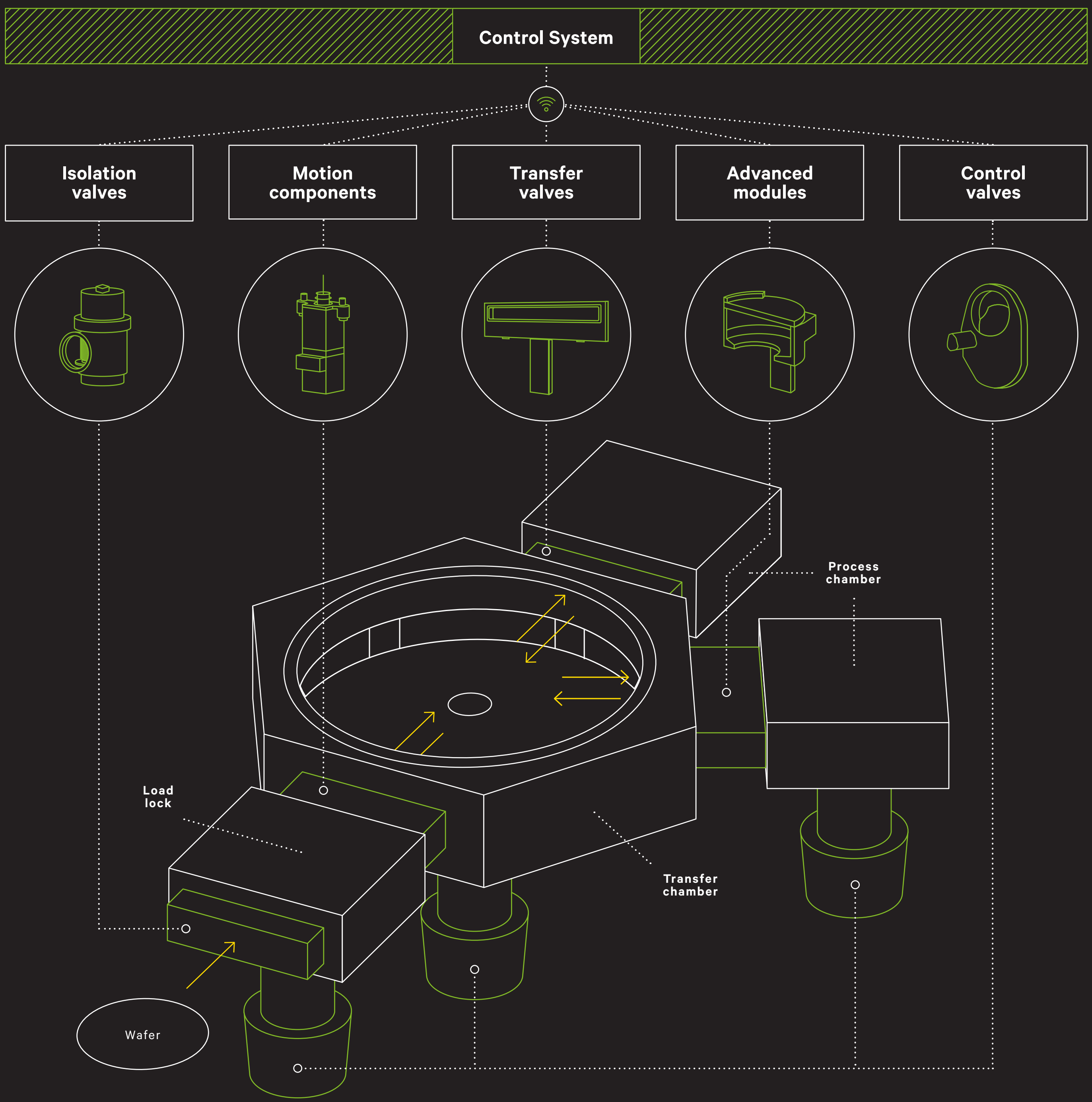
Moving from single vacuum valves to digitally-connected systems, providing customers with more precise process control for higher output, lower downtime and greater competitiveness.

Adding sensors & analytics to unlock growth opportunities



> "Smart features, such as self-monitoring for predictive maintenance, or improved algorithms will help customers increase yield and reduce downtime."

Mike Allison, CEO



50% of our new products will have digital features by **2025**

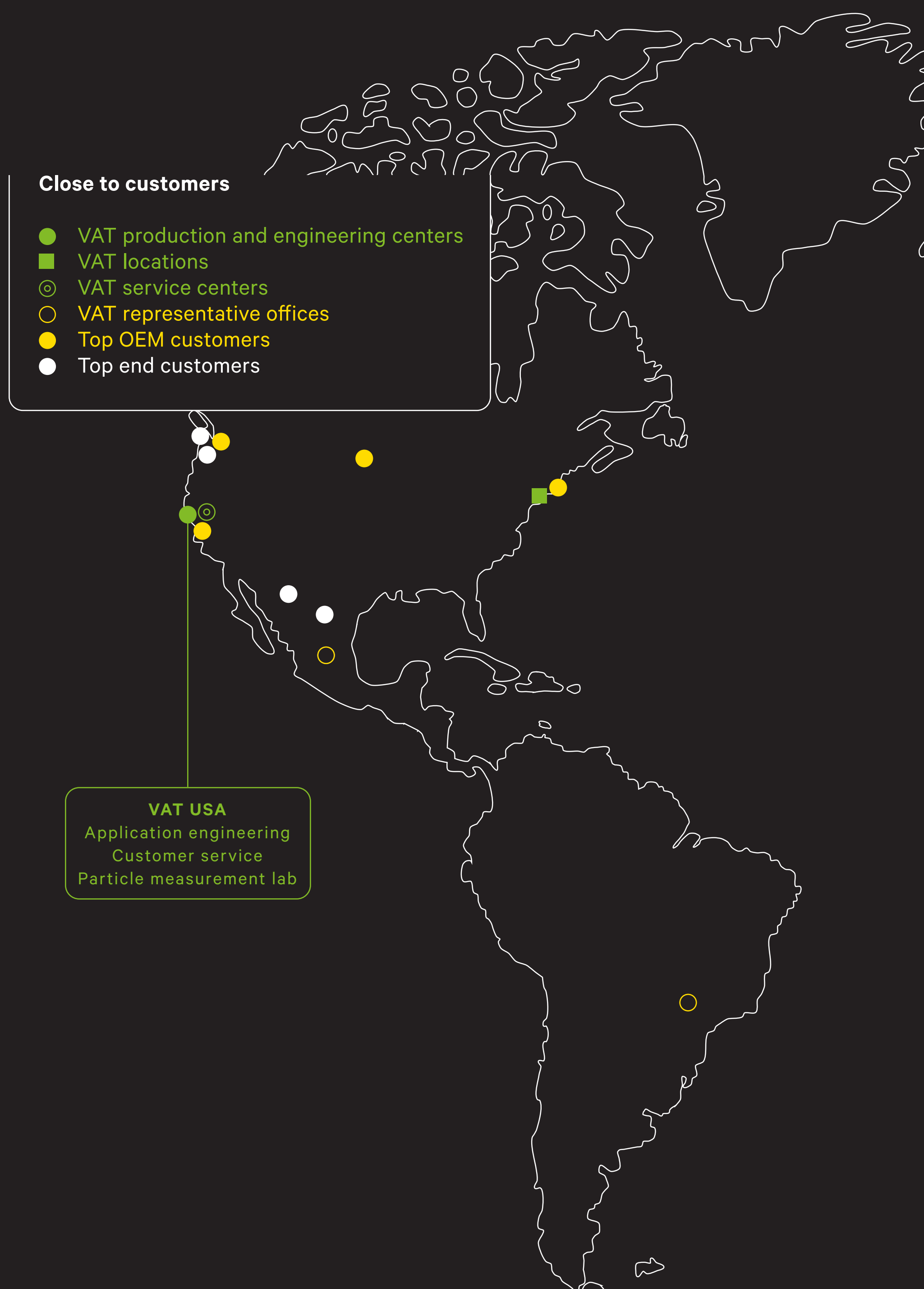
GLOBAL VALUE CREATION

Our strong global footprint provides a competitive cost structure, speeds time to market, and helps us stay close to our customers, so we can maintain our lead in service, quality and reliability.

Global value chain
We continue to invest nearly half of our capital expenditures in our global supply, manufacturing and service footprint – a competitive advantage in cost, flexibility and customer responsiveness.

Integrated footprint
We seamlessly integrate and automate our business systems globally, so we can deliver exactly what our customers need, when they need it.

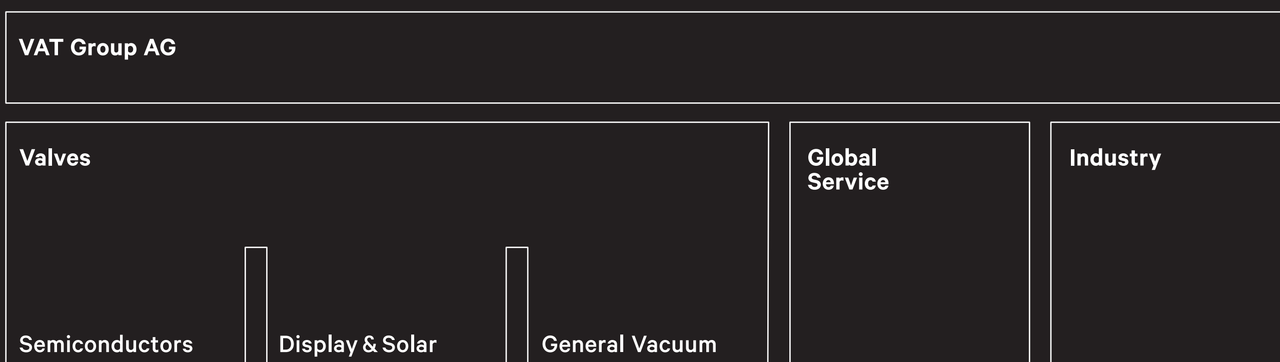
Future VAT
Our goal remains to build a high-performance global organization offering faster innovation, a more resilient cost base, more efficient manufacturing, and people who feel empowered to create and deliver value to all our stakeholders.



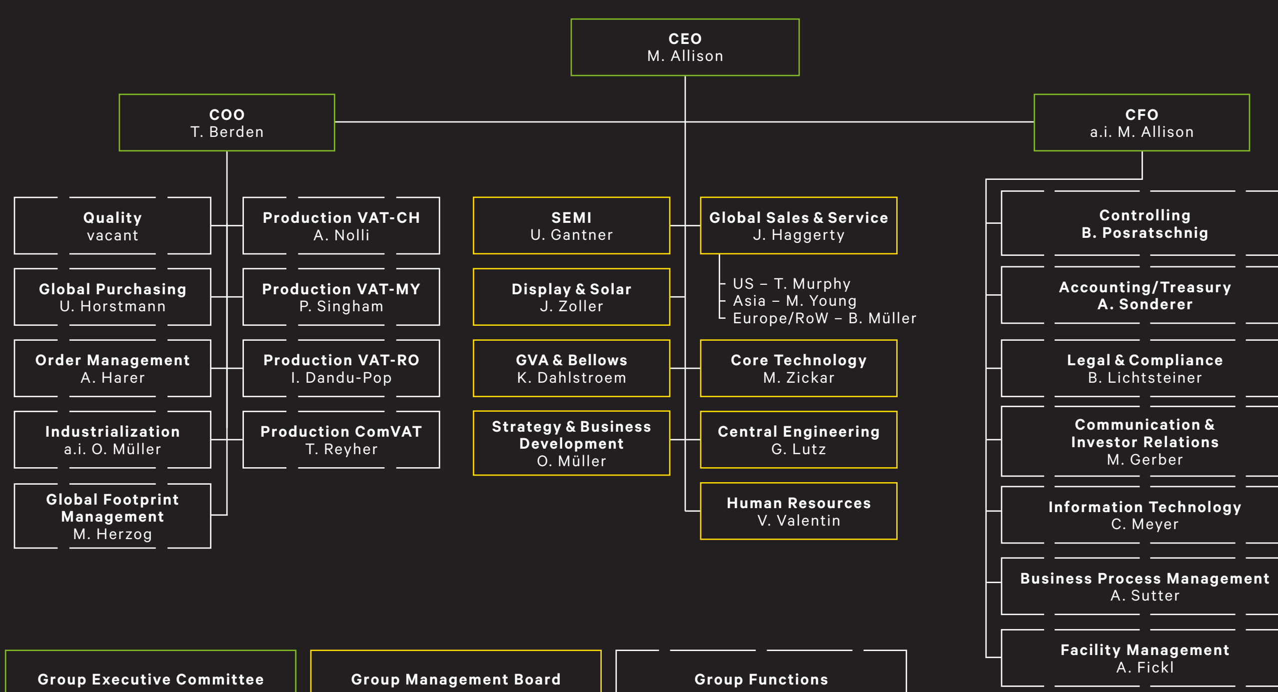
Our differentiated footprint makes us more competitive and supports sustainable growth.

ORGANIZATION

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



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.



Organization Chart per January 14, 2021

VAT achieves record EBITDA, EBITDA margin and free cash flow while further expanding its leading market position

VAT Group reported substantially higher net sales, profitability and cash flow in 2020 and further expanded its leading market share despite the global COVID-19 pandemic. The recovery in the semiconductor industry – VAT's largest end market – continued during the year, buoyed by its designation as system-relevant during the pandemic. The shift to home office and the sharp increase in online commerce that resulted from pandemic-related lockdown restrictions accelerated some of the longer-term megatrends that drive this business, such as the Internet of Things, cloud computing and artificial intelligence. Demand was further supported by technology advances in logic and memory chips that require new production platforms: as node sizes shrink and chip architectures change, the need for purer vacuums and the number of process steps under vacuum also increase. As the leading supplier to the original equipment manufacturers (OEMs), VAT achieved a record number of specification wins on these new platforms, forming a basis for future revenue growth. In 2020, R&D investments amounted to CHF 41 million, or 6% of net sales. At the same time, VAT continued its focus on internal measures by improving operational efficiency and reducing costs, resulting in a record EBITDA margin of 31.4%.

Recovery in semiconductors continued in 2020
Semiconductor manufacturers continued to develop technologically more advanced chips to meet the demands of digitalization in 2020. In addition, greater volumes of semiconductors are being built into a growing number of products. As a result, demand for the high-vacuum equipment needed to manufacture semiconductors also grew strongly. Overall, global wafer fab equipment (WFE) spending in 2020 reached a record level of close to USD 63 billion, some 18% more than in 2019.

VAT tapped these growth opportunities to increase its valve market share across all industries from 49% in 2019 to about 55% in 2020, more than 10 times the size of its nearest competitor. In the more technologically demanding semiconductor segment, VAT's market share grew even higher, reaching 70% in 2020.

Business conditions in the displays segment remained challenging, mainly reflecting the pace of transition from liquid crystal display (LCD) to organic light-emitting diode (OLED) technology in large screen applications. Demand was also softer in the general vacuum and industry markets as the result of the economic impacts from the COVID-19 pandemic. The service business benefitted from its heavy exposure to the semiconductor market and continued to launch new service products for VAT's large installed base of valves.

Strong revenue growth despite foreign exchange headwinds
Total order intake in 2020 amounted to CHF 725 million, up 24% from the previous year. The order backlog at year-end stood at CHF 145 million or 27% higher than at the end of 2019. Net sales in 2020 rose to CHF 692 million, an increase of 21% despite a negative foreign exchange impact of approximately 5 percentage points resulting mainly from the weakness during 2020 of the US dollar, in which VAT reports a significant share of sales, versus the Swiss franc, the currency of a large portion of VAT's costs.

Net sales grew 25% in the Valves segment to CHF 550 million. Global Service sales rose 14% to CHF 127 million, while sales declined 17% in the Industry segment to CHF 15 million, mainly the result of discontinuing some activities in the company's Romania factory that were not related to VAT's core valves business.

Higher sales and operational improvements more than offset forex impact on EBITDA
Gross profit* increased 25% compared with 2019 to CHF 430 million. The gross profit margin improved slightly to 62% compared with 61% a year earlier.

Higher personnel costs in absolute terms reflect an increase in the number of employees (measured as full-time equivalents, FTEs) required to support volume growth in 2020. Personnel costs as a percentage of sales also increased versus 2019, as VAT continued to add technical expertise in R&D, product management and sales to support future growth. At the end of 2020, VAT employed 2,041 employees worldwide, an increase of 231, or 13%, compared with the end of 2019.

EBITDA for the year increased by 41% to CHF 217 million, reflecting both sales growth and operational improvements. As a result, the full-year EBITDA margin improved from 27% in 2019 to a record 31.4%, despite a negative effect of about 1.1 percentage points due to the foreign exchange headwind caused by the weak US dollar against the Swiss franc.

VAT's EBIT amounted to CHF 176 million, an increase of CHF 69 million, or 64%, compared with the year before. This included the positive impact of lower depreciation charges. Compared with 2019, the EBIT margin increased by almost 7 percentage points to 26%.

Below the EBIT line, VAT incurred substantially higher financing costs of CHF 16 million, up nearly 80% compared to CHF 9 million a year earlier. This is mainly the consequence of higher non-realized net foreign exchange losses on financing activities.

* Gross profit = net sales minus cost of materials plus/minus changes in inventories of finished goods and work in progress

Net sales
in CHF million

692.4

2019 **570.4**

Earnings before taxes (EBT) increased to CHF 161 million from CHF 99 million. The effective tax rate for 2020 was 17%, down from the 24% recorded in 2019 when the timing of new tax regulations in Switzerland temporarily distorted the tax charge. VAT expects the effective tax rate to remain in the 18–20% range going forward.

As a result of these factors, and as indicated by company management during the year, realized net income attributable to shareholders increased in 2020, amounting to CHF 133 million, an improvement of 78% compared with 2019.

On December 31, 2020, VAT's net debt amounted to CHF 128 million, representing a leverage ratio expressed as net debt to EBITDA of 0.6 times. The average leverage over the course of 2020 was around 1.0 times net debt to EBITDA. The equity ratio at year-end amounted to 55%.

Record free cash flow and positive outlook support increased dividend proposal

One of VAT's key performance indicators and the basis for any dividend consideration is free cash flow, which in 2020 again increased compared with the previous year to a record CHF 147 million from CHF 140 million. This was achieved despite higher inventory levels and capital expenditures (capex) compared with a year earlier. Capex in 2020 amounted to CHF 26 million, up 44% over 2019, equivalent to 4% of net sales and in line with the company's guidance of 4–5% of sales over the cycle.

At year-end 2020, net trade working capital was approximately 34% higher than the same time in 2019, representing approximately 24% of net sales. While this was above VAT's long-term target of 20%, it reflects the company's growth expectations for 2021.

As a result, free cash flow as a percentage of net sales was 21% and the free cash flow conversion rate was 68% of EBITDA.

At its Annual General Meeting on May 18, 2021, VAT's Board of Directors will propose a dividend for the fiscal year ending December 31, 2020, of CHF 4.50 per share, an increase of CHF 0.50 or 12.5%. Half of this amount will be paid out of the reserves from capital contributions and the other 50% from accumulated gains. The proposal amounts to a total dividend amount of CHF 135 million, or 94% of VAT's free cash flow to equity.

Record number of spec wins

>100

2019 **>90**

Favorable demand and market share gains expected in 2021

Despite the persisting uncertainties surrounding the COVID-19 pandemic, the medium-term growth drivers for VAT – mainly in the semiconductor industry, VAT's largest end market – remain firmly in place. Megatrends such as the Internet of Things, cloud computing and artificial intelligence have been boosted by pandemic-related developments, such as the shift to home office and the increase in online commerce.

Technology advances in logic and memory chips will drive further growth. As node sizes shrink and chip architectures change, the need for purer vacuums and the number of process steps under vacuum also increase. Vacuum-based production processes are also critical in the displays and solar photovoltaic (PV) markets and continue to gain importance in other industries.

For 2021, VAT expects growth to continue, driven mainly by the semiconductor- and service-related businesses. Market analysts estimate that investments in wafer fab equipment in 2021 could increase 10–15% compared with the record level of 2020. This plays to VAT's technology advantages and is expected to drive further market share gains.

In displays, investments in OLED screens are expected to remain muted. Declining investments in LCD displays are forecast to continue, leading to a generally softer market in 2021. In solar PV, the move to higher-efficiency cell designs is expected to lead to higher vacuum equipment investments. Forecasts for general vacuum growth in industrial markets are more positive in anticipation of economic recovery following the COVID-19 pandemic.

On this basis, VAT expects net sales at constant foreign exchange rates in 2021 to be higher compared with 2020. VAT will also continue to build its flexible global footprint and strengthen its natural hedge against foreign exchange impacts by further ramping up its production facility in Malaysia, increasing sourcing from best-cost countries, gaining greater economies of scale in global supply chains and driving further operational excellence measures. At the same time, VAT remains dedicated to technology innovation. Investments in research and development and productivity improvements will therefore remain at the heart of VAT's strategy in 2021.

Furthermore, the company expects its EBITDA and EBITDA margin to increase, driven by higher volumes and better cost absorption as well as the ongoing focus on costs. This higher EBITDA expectation includes the headwind from adverse foreign exchange developments, especially the weakness of the US dollar versus the Swiss franc. Because of expected higher sales, EBITDA, and EBITDA margin, VAT also expects 2021 net income to increase compared with 2020.

The stronger operational performance is also expected to drive higher free cash flow in 2021, despite a planned increase in capital expenditure to approximately CHF 40 million.

Valves

The Valves segment offers the industry's broadest range of high-precision vacuum valves, both standard and customized products and modules. The segment serves mainly original equipment manufacturers (OEMs) and in 2020 comprised three business units: Semiconductors, serving the semiconductor sector; Display & Solar, serving high-end flat-panel display and solar photovoltaic OEMs; and General Vacuum for customers in research and OEMs in various industries. The Valves segment draws from VAT's manufacturing facilities in Switzerland and Malaysia, plus sales, service, and engineering operations in all major markets.

Demand in 2020 was stronger than the previous year, mainly reflecting the continuation of the cyclical recovery in the semiconductor sector. This is being driven by increasing demand for logic and memory chips as well as further advances in the technological complexity of semiconductors that requires new production capacity. As a result, semiconductor-related orders and net sales continued their positive trend throughout the year, leading to near record sales for the segment.

The demand impact of the global COVID-19 pandemic on the Valves segment was mixed: while the sharp slowdown in many economies created significant uncertainty and softer demand in the display, photovoltaic and industrial end markets, the pandemic also acted to accelerate some trends that are positive for semiconductor demand, such as the shift to home office and remote working as well as increased online commerce.

The longer-term growth drivers for vacuum equipment remain unchanged, driven by digitalization megatrends. The increasing cost competitiveness of solar photovoltaic energy, based to a large extent on new manufacturing processes that make solar cells more energy efficient, is also expected to support demand in this market over the long term.

Semiconductor market remains positive

The Semiconductor business unit, VAT's largest, reported new records in orders and net sales in 2020. Net sales increased by over 45% year on year, driven mainly by the foundry and logic segments, but also supported by sound growth in memory. The expansion of chip manufacturing capacity in South Korea as well as new capital investments in China to build local semiconductor manufacturing capabilities also drove higher sales.

In addition, increasing chip complexity requires purer vacuum environments and more process steps under vacuum. This is reflected in another strong year for specification wins in 2020 on new products needed to make the next generation of semiconductors. This allowed VAT to increase its global semiconductor valve market share to 70%. The high level of specification wins is also expected to support sales growth over the coming two to five years.

VAT continued to launch new customized products and modules, which comprise multiple valves and other components, such as lifters, shutters, heating and cooling components, and diffusors. In particular, VAT introduced new control and transfer valves that increase the speed and precision of pressure control applications and particle-free wafer handling. These are key to increasing yield and productivity in chip manufacturing.

The company also continued to qualify its latest valves for production at its plant in Penang, Malaysia, which now manufactures approximately 30% of VAT's product portfolio. The company also invested in additional manufacturing technologies and engineering and product management resources at the facility, which will continue to play a key role in VAT's ability to further build its strong customer base in the region and to improve the overall flexibility and efficiency of its global manufacturing and supply footprint.

The Semiconductor business unit also increased research and development collaboration with leading chip suppliers in 2020 to secure its technology lead, and dedicated more engineering resources to the development of connected solutions that integrate control, computing and communication capabilities, allowing them to be used in new generations of process automation and smart factories.

Cyclical low in Display business, Solar impacted by pandemic

Demand in the Display & Solar business unit in 2020 was softer than the year before, resulting in lower net sales. An important growth driver in the display business is the long-term shift from liquid crystal displays (LCDs) to organic light-emitting diode (OLED) displays, since the manufacture of OLED screens – especially the new generation of flexible touch-screen products – is more complex and requires more process steps under vacuum. Equipment demand in this business is currently at a cyclical low, reflecting medium-term capital investment trends. VAT could partly offset this development with higher sales of transfer valves used to manufacture large LCD TV screens.

The Solar business was significantly impacted by the COVID-19 pandemic, especially at the beginning of the year when China – where much of the business is focused – implemented strict measures to control the pandemic. Demand has since recovered but not enough to offset the downturn seen in the first half of the year. Growth in the Solar business is expected to resume in 2021 as long-term drivers regain traction, primarily the increasing cost and efficiency competitiveness of solar energy generation compared with fossil fuels. Major solar companies have announced large capacity expansion plans that rely heavily on new technologies, such as heterojunction (HJT) manufacturing, that improve the efficiency and energy yield of solar cells at lower costs and that require new vacuum valve solutions.

General Vacuum: stronger research orders

Demand in the General Vacuum business was driven by advanced, high-end vacuum applications especially in the US and Asia. General Vacuum won several major orders with national research labs in Japan, South Korea and the US. The business also successfully entered new markets in China with its strong portfolio of isolation and control valve technologies. Overall, orders grew about 11% as demand

Key figures Valves

In CHF million	2020	2019	Change
Order intake	577.8	463.0	24.8%
Net sales	550.4	440.9	24.8%
Inter-segment sales	59.9	51.6	16.0%
Segment net sales	610.2	492.5	23.9%
Segment EBITDA	196.9	136.3	44.4%
Segment EBITDA margin	32.3%	27.7%	
Segment net operating assets	654.3	638.9	2.4%
of wich net trade working capital	126.3	103.0	22.6%

in Asia and the US more than offset a decline in Europe resulting from the temporary shutdown of some customer facilities due to the COVID-19 pandemic.

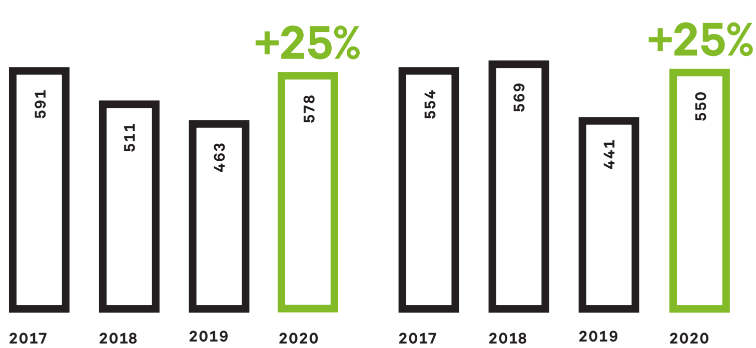
Performance review 2020

Net sales in the Valves segment in 2020 amounted to CHF 550 million, 25% higher than the year before. Sales were higher in the Semiconductor business, reflecting the cyclical market recovery and market share gains, while sales declined in Display & Solar and General Vacuum. Segment EBITDA increased by 44% to CHF 197 million. The EBITDA margin was 32%, nearly 5 percentage points higher than in 2019, reflecting both higher volumes in the Semiconductor business as well as continued operational improvements and increasing demand for more technologically advanced products.

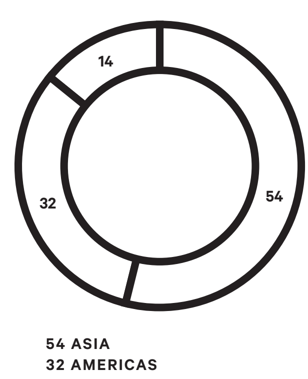
Market outlook 2021

For 2021, VAT expects its semiconductor-related markets to continue to grow across all segments – logic, foundry and memory. The market for VAT's Display & Solar business is forecast to soften, with the ongoing cyclical slowdown in displays expected to more than offset growth in solar. VAT also expects higher sales in its General Vacuum business in 2021, assuming an improvement in the pandemic situation in Europe during the latter part of the year.

Order intake & net sales
in CHF mn



Net sales
by region %



Global Service

VAT's Global Service segment supplies 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 business is driven by the needs of customers to improve the performance of their existing installed base of equipment, whether increased uptime, lower energy consumption, higher process purity or faster and simpler maintenance and repair.

With more than one million serviceable VAT valves installed worldwide, the company's service business provides a key lever for strengthening customer relationships and is an important sales channel for VAT products. Furthermore, service is a business with stable profitability and cash flow through the cycle. In addition to normal servicing of valves that may need repair or refurbishment, VAT provides upgrades and retrofits for all the major vacuum equipment platforms in the industry, both deposition and etch systems.

VAT also operates the industry's largest global network of service and repair centers, located in eight countries, including six in Asia. VAT's Global Service segment also develops service products for specialized valve applications, such as its expanding portfolio of products for subfab systems used in pumping and abatement systems operating in harsh conditions below the fabrication floor. This includes a recently launched quick shut-off valve (QSV) which helps to prevent damage and yield loss in a chamber due to unexpected pump failures or sudden loss of power.

Key figures Global Service

In CHF million	2020	2019	Change
Order intake	132.2	106.4	24.2%
Net sales	127.3	111.8	13.9%
Inter-segment sales	–	–	–
Segment net sales	127.3	111.8	13.9%
Segment EBITDA	53.2	46.3	14.9%
Segment EBITDA margin	41.8%	41.5%	
Segment net operating assets	119.4	114.2	4.6%
of wich net trade working capital	23.7	13.8	71.4%

Performance review 2020

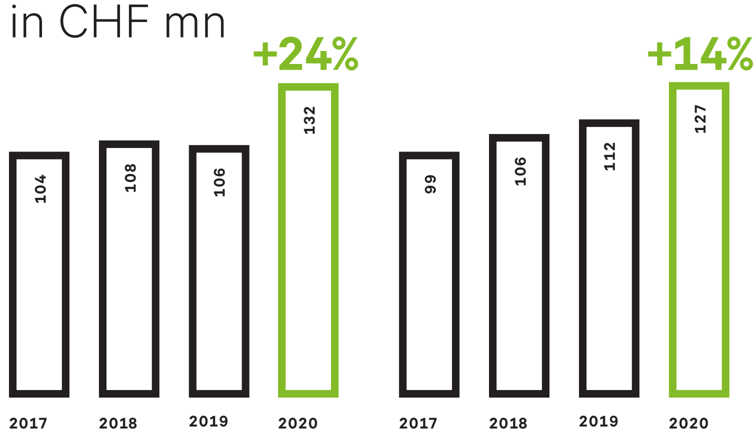
Net sales amounted to CHF 127 million in 2020, an increase of 14% compared with the year before. Growth was strongest in upgrades and retrofits, where the full deployment of new products launched in 2019 drove up sales in this business by more than 15% in 2020. This included sales of new transfer valve products used to achieve an immediate increase in yield in existing semiconductor fabs. Higher demand for subfab solutions in new semiconductor plants in China also supported growth. Sales growth in the service and repair business was driven in large part by the further rollout of the company's Fixed Price Repair/Refurbishment program, which provides global customers with simple and consistent servicing of their valves with factory-original parts across all of their fab locations.

The EBITDA margin remained at a healthy 42%. Investments in new products offset gains from higher volumes.

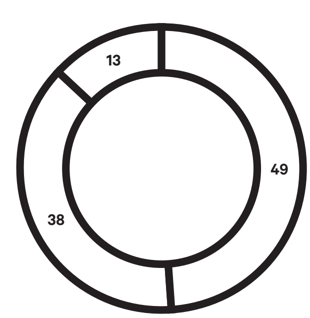
Market outlook 2021

VAT expects the market for its Global Service business to continue to grow in 2021. This reflects both the expected continued strength of the semiconductor sector as well as higher sales from new service products launched in 2020 and the expansion of the upgrade and retrofit portfolio into control valve applications. Capital investments into new chip manufacturing plants is expected to remain high in 2021, which is also expected to drive demand for subfab valve solutions.

Order intake & net sales
in CHF mn



Net sales
by region %



49 ASIA
38 AMERICAS
17 EMEA

Industry

The Industry segment primarily serves the automotive sector with thin-metal membranes used in the manufacture of dampers for high-pressure fuel injection pumps. They act to maintain a steady fuel supply, even during dramatic changes in fuel demand, and thus are essential to achieving the high levels of fuel efficiency needed in today's internal combustion engines.

After the transfer of the bellows business into the Valves segment in 2019, VAT continued to reposition its Industry segment by phasing out certain activities at its factory in Romania that were not related to its core vacuum valve business.

Performance review 2020

Orders and net sales in the Industry segment declined by 7% and 17% respectively, amounting to about CHF 15 million each. This decline mainly reflects the exit from non-valve-related activities in VAT's operations in Romania. Demand in the automotive sector in 2020 was severely impacted by production cutbacks caused by the COVID-19 pandemic, especially in Europe. VAT's exposure to the Asian market, however, along with its success in maintaining production and product deliveries through the pandemic allowed it to mitigate most of this impact.

Segment EBITDA increased by 42% as a result of further automation of production, including benefits realized from the fully automatic laser-welding robots installed in 2019.

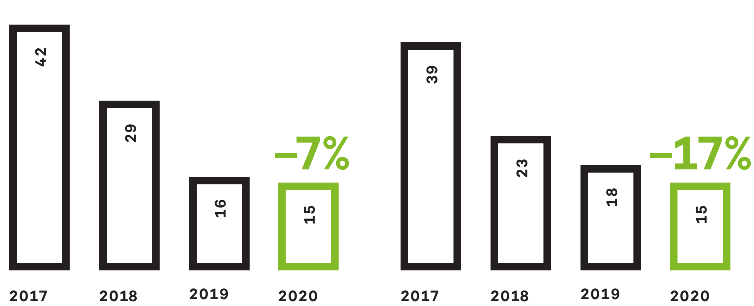
Key figures Industry

In CHF million	2020	2019	Change
Order intake	14.5	15.5	–6.5%
Net sales	14.8	17.8	–16.8%
Inter-segment sales	10.0	8.9	11.3%
Segment net sales	24.7	26.7	–7.4%
Segment EBITDA	4.0	2.8	42.4%
Segment EBITDA margin	16.4%	10.6%	
Segment net operating assets	33.9	29.5	14.9%
of wich net trade working capital	12.6	5.1	145.8%

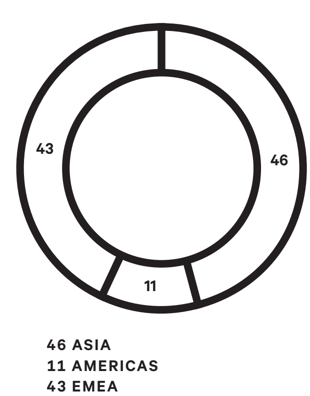
Market outlook 2021
For 2021, VAT expects demand from the automotive market to remain steady, while ongoing operational and productivity improvements are expected to support profitability.

Starting Q1 2021, VAT will integrate the activities of the Industry segment into the General Vacuum business unit and report it within the Valves segment.

Order intake & net sales
in CHF mn



Net sales
by region %



Michael Allison, CEO
has served as CEO of VAT Group since March 2018.

Stephan Bergamin, CFO
has served as VAT Group's Chief Financial Officer since January 2019.

Thomas Berden, COO
has served as VAT Group's Chief Operating Officer since October 2020.

Martin Komischke, Chairman of the Board of Directors
was elected chairman of VAT's Board of Directors in May 2017.

Heinz Kundert, Vice-chairman of the Board of Directors
was elected to the Board in March 2018 following three years as CEO of VAT Group.

Libo Zhang, Member of the Board of Directors
was elected to the Board of VAT Group in March 2018.

Urs Leinhäuser, Member of the Board of Directors
was elected to the Board in March 2016.

Hermann Gerlinger, Member of the Board of Directors
was elected to the Board in May 2017.

Karl Schlegel, Member of the Board of Directors
was elected to the Board in March 2016.

Daniel Lippuner, Member of the Board of Directors
was elected to the Board in May 2020.

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 Articles of Association of VAT Group AG, published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/articles-of-association-vat-group-ag, Committee Charters published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/audit-committee-charter-of-vat-group-ag (please see the left-hand menu for a list of all committee charters) and the Organizational Regulations of VAT Group AG published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/organizational-regulations-of-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 2020 of VAT Group AG within this document. 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: four production companies that can also hold a distribution function in Switzerland, Romania, and Malaysia; ten distribution companies in Europe, North America and Asia; and three 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 2020 of VAT Group AG on page 115.

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 81 to 84.

1.2 Significant shareholders

As of December 31, 2020, 10,427 shareholders were registered in VAT Group AG's share register, holding 18,725,537 shares (as defined below under 2.1).

Disclosure notifications of significant shareholdings in VAT Group AG that were filed in 2020 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.

As of December 31, 2020 (or as per the date indicated), 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	10.00%
BlackRock, Inc.[1]	6.17%
Capital Group Companies, Inc.[2]	5.13%
Ameriprise Financial, Inc.	4.00%
Allianz SE[3], Germany	3.64%

1 Position for BlackRock, Inc. as per filing dated January 15, 2021
2 Position for Capital Group Companies, Inc. as per filing dated April 20, 2020
3 Position for Allianz SE as per filing dated February 3, 2020

During 2020, VAT was informed by Invesco Ltd. on May 5, 2020 that it had reduced its position in VAT shares to below the threshold of 5% and on November 12, 2020, Invesco Ltd. reported a further reduction to below the threshold of 3%. Further details 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 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 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, 2020 was CHF 6.6 billion with a free float as defined by SIX Swiss Exchange of approximately 90%. During 2020, the free float remained unchanged compared to a year ago.

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[1], 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 during the reporting year.

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

As of December 31, 2020, 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.

2.5 Own shares

As of December 31, 2020, VAT Group AG held 8,327 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 (FMIA). 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 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

1 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.

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 2020.

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[2] 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 seven non-executive members (including the Chairman).

Only Heinz Kundert (Vice Chairman of the Board of Directors) has held executive functions in VAT Group AG and of its Group companies during the last three business years prior to December 31, 2020. Namely, Heinz Kundert was CEO of VAT Group AG from June 2015 to March 2018 and registered in affiliated VAT Group companies during this period.

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, 2020.

Board of Directors

Name	Age	Position	Year of 1st election
Martin Komischke	63	Chairman	2017
Heinz Kundert	68	Vice-Chairman	2018
Hermann Gerlinger	67	Member	2017
Urs Leinhäuser	61	Member	2016
Karl Schlegel	67	Member	2016
Libo Zhang	50	Member	2018
Daniel Lippuner	51	Member	2020

2 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.

3.2 Background, other activities and functions

As of December 31, 2020, the members of the Board of Directors were:

Dr. Martin Komischke, Chairman, was born in 1957 and is a German citizen. Martin Komischke became the Chairman of the Board of Directors of VAT Group AG in May 2017 and was re-elected as Chairman of the Board of Directors at the Annual General Meeting (AGM) in May 2018 and since then annually.

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.

In 2020, Martin Komischke served as Chairman of the Board of HOERBIGER Holding AG (since 2016). He was also a member of the Board of Directors of Stäubli Holding AG (since 2016), Aixtron SE (2013 until May 2019) 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.

Heinz Kundert, Vice-Chairman, was born in 1952 and is a Swiss citizen. Heinz Kundert became the Vice-Chairman of the Board of Directors of VAT Group AG in May 2018 and was re-elected as Vice-Chairman of the Board of Directors at the AGM in May 2019 and May 2020. From June 2015 to March 13, 2018, he was CEO of VAT Group AG.

Heinz Kundert has extensive experience in the semiconductor industry. Starting 1981, Mr. Kundert served in various management positions for Balzers AG, Balzers & Leybold, Oerlikon-Bührle AG and Unaxis Holding AG. From 1999 to 2004, Heinz Kundert served as COO and then CEO of Unaxis Holding AG (later renamed OC Oerlikon AG). Thereafter, Heinz Kundert worked as a strategy consultant until 2015. Heinz Kundert was CEO of VAT Group AG from June 2015 to March 2018.

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 nano-electronics 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.

Currently, Heinz Kundert is the Chairman of the Board of Directors (since June 2019) and CEO (since April 2019) of Comet Group AG. He is also a Board member of Variosystems AG (since January 2019) and on the Advisory Board of the Fraunhofer Society in Germany (since 2010).

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

Dr. Hermann Gerlinger was born in 1953 and is a German citizen. Hermann Gerlinger became a member of the Board of Directors of VAT in May 2017 and was re-elected annually.

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.

In 2020, Hermann Gerlinger served as member of the Advisory Board of the German National Metrology Institute (PTB) (2015 until May 2020) and has been a member of the Supervisory Board of Siltronic AG since 2011.

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 became a member of the Board of Directors of VAT Group AG in March 2016 and was since then re-elected annually.
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 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 managing partner at ADULCO GmbH.

Currently, Urs Leinhäuser 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 and since 2019 he is also member of the Board of Directors of PENSADOR Partner 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. He became a member of the Board of Directors of VAT Group AG in March 2016 and was since then re-elected annually.
Karl Schlegel served as CEO of Hamilton Medical AG between 1997 and 2003. Between 2004 and 2013, he was the CEO of VAT Group. From 2014 to 2016, he was a member of the Board of Directors of VAT Holding AG.

Karl Schlegel was a member of the foundation Board of Stiftung Arwole (a charity for individuals with disabilities from 2014 to 2018).

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.

Dr. Libo Zhang was born in 1970 and is a German citizen. She became a member of the Board of Directors of VAT Group AG in May 2018 and was since then re-elected annually.
Libo Zhang is an independent senior consultant of finance, controlling and corporate structuring. She has been the CFO of FFG Europa & Americas, MAG IAS GmbH, a German machine manufacturer, and Borgward Group AG, a German auto manufacturer. From 2010 to 2015, she held various senior financial management positions in Germany and Asia at SGL Group, a leading global manufacturer of carbon-based products, including regional CFO and senior manager of corporate development, mergers and acquisitions. Prior to that, for more than ten years, she held senior positions in finance and commercial operations in the German engineering and aerospace sector.

Currently, Libo Zhang serves on the Scientific Advisory Board of CIC Controlling GmbH in Dortmund, Germany, and as a M&A consultant for Coindu SA in Joane, Portugal.

Libo Zhang holds a degree and a doctorate in economics and a MBA from Georg-August University in Göttingen, Germany.

Daniel Lippuner was born in 1969 and is a Swiss citizen. He became a member of the Board of Directors of VAT Group AG in May 2020.
From 2017 to 2019, Mr. Lippuner was the Chief Operating Officer at Meyer Burger Group, a global technology leader in the solar photovoltaic industry. Prior to that, he was CEO of Saurer AG, and over the course of more than 25 years has held senior management positions at a number of other international companies, including OC Oerlikon, Hilti Group and Rieter Automotive.

Daniel Lippuner is currently a member of the Boards of Directors for the Remnex Foundation, 3S Solar Plus AG and Juice Services AG.

Daniel Lippuner holds a degree in economics and business administration from the University of Applied Sciences, St. Gallen, Switzerland.

3.3 Mandates and other permitted activities

According to art. 23 of the Articles of Association[3], 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[3] 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,

3 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.

– 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.

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[4], 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[5] 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.

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

3.7 Committees of the Board of Directors

In compliance with the Articles of Association[5], the Board of Directors issued Organizational Regulations[4] 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 (TC) were introduced in 2017.

4 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.
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.

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, 2020.

Board of Directors

	Audit Committee (AC)	Nomination and Compensation Committee (NCC)	VATmotion Committee	Technology Committee
Martin Komischke	–	Chairman	Chairman	–
Heinz Kundert	–	Member	–	–
Libo Zhang	Member	–	–	–
Hermann Gerlinger	–	–	Member	Chairman
Urs Leinhäuser	Chairman	–	Member	–
Karl Schlegel	–	Member	Member	Member
Daniel Lippuner	–	–	–	–

3.8 Audit Committee (AC)

In accordance with the AC charter[6], the AC consists of at least two members of the Board of Directors. The members of the AC and the AC Chairman 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 Libo Zhang.

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

- ensuring and monitoring that the Group is properly funded and financed,
- evaluating the external auditors and submitting a proposal to the Board of Directors for the election of the auditors at the Annual General Meeting,
- approving the audit plan as well as the respective budgets and fees of the external and internal auditors; approving any non-audit services provided by the external auditor if the fee on an individual basis is equivalent to more than 10% of the total annual audit fees, or if all non-audit service fees taken together amount to more than 40% of the total annual audit fees; assessing the performance and effectiveness of the external and internal auditors during the year,
- assessing the Enterprise Risk Management System and Report (ERM),
- assessing the Internal Control System (ICS),
- assessing compliance with statutory and regulatory provisions, organizational rules and corporate governance within the Group (compliance),
- assessing the statutory and consolidated annual and interim financial statements,
- discussing the results of the audits proactively with the external auditor and the CFO and issuing proposals or recommendations to the Board of Directors,
- proposing to the Board of Directors changes or amendments of accounting principles (e.g., the implementation of new accounting standards) at the request of the CFO,
- assessing the annual business expenses incurred by the members of the Group Executive Committee,
- overseeing the Group's whistleblower process,
- reviewing talent development in the finance and corporate organizations,
- periodically checking the performance and effectiveness of the AC and submitting proposals to the Board of Directors regarding any changes that may be needed.

6 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.

3.9 Nomination and Compensation Committee (NCC)

In accordance with the NCC charter[7], 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 Heinz Kundert 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 of the executive management,
- the compensation scheme of the VAT Group pursuant to the principles of art. 25 and 26 of the Articles of Association[8],
- 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[9] such as the NCC charter[7] or law.

Further information about the NCC and its duties is provided in the Compensation Report on pages 61 to 62.

3.10 VATmotion Committee and Technology Committee

In accordance with the Organizational Regulations[9], 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 (TC).

In accordance with the VATmotion Committee Charter, the VATmotion Committee consist of at least two members of the Board of Directors and supports the full Board of Directors with regard to the global orientation and strategic developments of VAT to optimize the value chain in terms of capacity, delivery reliability and costs. The VATmotion Committee is chaired by Martin Komischke who is supported by Hermann Gerlinger, Urs Leinhäuser and Karl Schlegel.

7 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.
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.

In accordance with the TC Charter[10], the TC consists of at least two members of the Board of Directors. It 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 TC is currently chaired by Hermann Gerlinger who is supported by Karl Schlegel.

3.11 Meetings of the Committees of the Board of Directors

According to the Organizational Regulations[11], 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 but in general 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 about the essential parts of discussion, decisions and proposals at the following regular meeting of the Board of Directors, in case of urgency also immediately.

3.12 Overview of meetings in 2020

During 2020, the Board of Directors and the Committees conducted regular formal meetings and conference calls.

Formal meetings and conference calls

	BoD	AC	NCC	VATmotion	Technology Committee
Total number of meetings/calls in 2020	5/8	5/2	4/0	3/0	5/0
Usual average duration, approx. (in hours)	4/1	2/1	2	2	2
Martin Komischke	5/8	–	4	3	–
Heinz Kundert	5/8	–	4	–	–
Libo Zhang	5/8	5/2	–	–	–
Hermann Gerlinger	5/8	–	–	2	5
Urs Leinhäuser	5/8	5/2	–	3	–
Karl Schlegel	5/8	–	4	2	5
Daniel Lippuner	4/5	–	–	–	–
Internal Audit, PwC	–	3/0	–	–	–
External Audit, KPMG	–	4/1	–	–	–
External Advisors	–	4	–	–	–

10 The TC Charter of VAT Group AG is published at http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/tc-charter.
11 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.

The members of the Group Executive Committee attended all meetings and calls of the Board of Directors and the meetings of the Committees if necessary. The CFO joined all meetings of the AC. The Head Legal and Compliance joined all BoD, AC and NCC meetings to act as secretary. VAT employees were invited to the respective meetings and calls occasionally as 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).

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[12] or the Organizational Regulations[13]. 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[12]. 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 or e-mail. 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/her 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[13] 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).

12 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.
13 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. 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[14] and the Organizational Regulations[15], 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.

4.1 Members of the Group Executive Committee

In 2020, the Group Executive Committee (GEC) consisted of three members, the CEO, CFO and COO, headed by the CEO. Thomas Berden (COO) was appointed on October 1, 2020, with the CEO acting as interim COO up until Thomas Berden's appointment.

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, 2020, the members of the Group Executive Committee were:

Michael (Mike) Allison, CEO, born in 1962, British citizen, 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 BSc Honors in Electrical & Electronic Engineering from Glasgow University.

14 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.
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.

Dr. Stephan Bergamin, born in 1966, Swiss citizen, was appointed as CFO of VAT Group AG in January 2019.
Stephan Bergamin joined VAT Group AG from Gearbulk Group, a specialized global cargo shipping company, where he was CFO from 2015 to 2018. Prior management positions include CFO roles at Goldbach, Cofely, the Steiner Group and companies within Swissair Group. He also worked in the corporate finance department at Credit Suisse as a finance consultant and project leader.

Stephan Bergamin holds a PhD in economics from the University of St. Gallen, specializing in corporate finance, and completed the Advanced Management Program (AMP 177) at Harvard Business School in 2009.

Dr. Thomas Berden, born in 1971, German citizen, was appointed Chief Operating Officer of VAT Group AG in October 2020.
Thomas Berden joined VAT Group AG from the Swedish bearing and seal manufacturer AB SKF, where he headed the international spherical roller bearings business. Previously, Thomas Berden was Head of Global Manufacturing for the building and construction products company Hilti in Kaufering, Germany. He has also held management positions at BSH Bosch Siemens Hausgeräte and Siemens AG, Germany.

Thomas Berden holds a PhD in mechanical engineering from the Rheinisch-Westfälische Technische Hochschule (RWTH) in Aachen, Germany, and a degree in business economics from the University of Hagen, Germany.

4.2 Mandates and other permitted activities

According to art. 23 of the Articles of Association[16], 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.

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.

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 60. 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 shareholders' meeting, as well as regarding loans, credits and pension benefits are set in art. 25 to 29 of the Articles of Association[17]. The rules regarding the approval of the remuneration by the shareholders' meeting are set in art. 12 of the Articles of Association[17].

According to the Articles of Association[17], 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 61, 62, 63 and 71.

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[17], 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[17] 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 14, 2020, 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.

17 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[18] 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[18] 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).

18 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.

Art. 33 of VAT Group AG's Articles of Association[19] provides for a selective "opting-out" for the stated entities of Partners Group[20] and Capvis[21], which are, when acting alone or in concert, exempted from the duties pursuant to the FMIA. This opting-out provision expired December 31, 2020, meaning that if following such date any of the exempted persons (alone or acting in concert) newly exceeds the threshold of 33⅓% of the voting rights (whether exercisable or not), art. 135 FMIA will apply to that person as well.

7.2 Change of control

There are no change of control clauses for the members of the Board of Directors, except for the restricted shares, for which the three-year blocking period will be released in case of a successful takeover bid or the delisting of VAT Group AG. Information on the restricted shares is provided in the Compensation Report, page 68.

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

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. According to the audit plan approved by the AC, the internal audit function conducts three audits a year and yearly issues a risk report to the Board of Directors. Due to the COVID pandemic and the related restrictions, only one internal audit was conducted in 2020.

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, 2018, 2019 and 2020), auditing the consolidated financial statements and the individual financial statements of VAT Group AG. Mr. Toni Wattenhofer was named lead auditor in 2020. The holder of this office changes every seven years, in accordance with Swiss law.

In 2020, aggregate audit fees for KPMG's audit of VAT Group AG and the VAT Group amounted to CHF 315,800.

KPMG rendered in 2020 additional services, in respect to compliance, tax returns and tax advice amounting to aggregate fees of CHF 253,420.

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 five meetings (in person or by telephone) of the AC in the year under review. An overview of meetings and attendance can be found in section 3.12 herein.

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.
20 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.
21 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.

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 investor 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 134 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 (Board) and the members of the Group Executive Committee (GEC) of VAT Group AG (VAT Group). The report also provides details on the compensation awarded to members of the Board and GEC in the 2020 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 (NCC)

Dear Shareholders,

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

In 2020, VAT Group reported substantially higher business results and further expanded its leading market share. The global COVID-pandemic posed significant challenges throughout the whole semiconductor industry, but swift and decisive measures to guarantee its employees, suppliers and customers a safe working environment allowed VAT to keep production in all its facilities up except for a very short period in early 2020. Net sales in 2020 increased 21% to a near record CHF 692 million and the EBITDA-margin reached the all-time record level of 31.4%.

The Board is convinced that VAT Group'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 2019, the NCC conducted a review of the compensation system for the GEC. The NCC concluded that the GEC compensation system is in line with prevalent market practice. Based on this no material change was made in 2020. An adjustment in the weighting of the company performance indicators of the annual cash incentive for the GEC (Variable Cash Compensation, STI) towards a higher focus on Group indicators was implemented. Further, an additional target at the 30% payout level was defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

Furthermore, the decision taken in 2019 to harmonize the committee chair and committee fees was implemented in 2020. Finally, the NCC performed its regular annual activities throughout the year, such as setting the performance goals and assessing the performance of GEC members, determining the level of compensation of the Board and the GEC, as well as preparing the Compensation Report 2020 and the say-on-pay vote for the 2021 Annual General Meeting (AGM). You will find further information on the NCC activities and on VAT Group'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 2021 until the 2022 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2020, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2022, and on the maximum grant values for the GEC under the long-term incentive plan for financial year 2022.

In the future, we will continue to review our compensation programs to ensure that they support the achievement of our business goals, are aligned with 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 3, 2021

2. Compensation governance

2.1 Articles of Association

The Articles of Association of VAT Group can be found on the corporate website http://www.vatvalve.com/InvestorRelations/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	The 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 predefined 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 the 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. At the AGM 2020, Martin Komischke (Chair), Heinz Kundert and Karl Schlegel have been re-elected as 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 51.

1 The NCC charter of VAT Group AG is published at http://www.vatvalve.com/docs/default-source/investor-relations/corporate-governance/ncc_charter_of_vat_group_ag.pdf

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.

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 other 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 2020, the NCC held four formal meetings. Details on meeting attendance of the individual NCC members are provided in section 3.12 of the Corporate Governance Report on page 52.

The Chair 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 Chair 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 2020, Agnès Blust Consulting was mandated to provide consulting services related to executive compensation matters. The company has no other mandate with VAT Group..

3. Compensation for the Board of Directors

3.1 Compensation principles

In order to ensure their independence in exercising their supervisory duties, members of the Board receive a fixed compensation only. The compensation is delivered partially in cash and partially in shares, blocked for a period of three years, to strengthen the alignment to shareholders' interests.

3.2 Compensation structure

The compensation for the members of the Board is fixed and does not contain any performance-related component. The annual compensation for each member of the Board depends on the functions and tasks carried out in the year under review. It consists of an annual fixed basic fee for the chair of the Board, a fixed basic fee for the members of the Board, plus additional fees for assignments to the committees of the Board, either as chair or member.

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 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 VAT Group.

Table 3: Structure and levels of Board compensation AGM 2020 until AGM 2021

In CHF per year (gross)	Chair of the Board	Member of the Board
Fixed basic fee	200,000	75,000

	Chair 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	25,000	10,000
VATmotion Committee	25,000	10,000

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

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.

The compensation of the Board is periodically benchmarked against the compensation of non-executive Board members of publicly traded companies in Switzerland that are comparable to VAT Group in terms of size and complexity. In 2018, a thorough review has been conducted by Agnès Blust Consulting in order to determine the competitiveness of the Board compensation in terms of structure and overall level. For this purpose, a peer group of Swiss multinational industrial companies listed on the Swiss Stock Exchange (SIX) was selected and includes Bachem, Bobst, Burckhardt Compression, Conzzeta, Dätwyler, Georg Fischer, Inficon, Interroll, Landis+Gyr, LEM, OC Oerlikon, SFS, Siegfried, Sulzer, Tecan and U-Blox. This peer group is well balanced in terms of market capitalization, revenue size and headcount. The analysis concluded that while the compensation structure is in line with market practice, the compensation level is generally below market. In 2020, the NCC implemented the revised Technology Committee chair fee (increase from CHF 15,000 to CHF 25,000) and the VATmotion Committee membership fees (decrease from CHF 15,000 to CHF 10,000) to harmonize the committee fees for the Board term from the AGM 2020 to the AGM 2021 and to simplify the compensation structure overall.

Further in 2020, the Board reviewed the Board compensation levels for the term from 2021 to 2022, based on the benchmark analysis conducted in 2018 (see above). Given that the Board compensation levels were mostly below median and the company's market capitalization has increased significantly over the past two years, a first adjustment of the overall Board compensation since the IPO of around 9% is deemed appropriate. The maximum aggregate compensation amount of the Board for the period from 2021 to 2022 will be proposed to the AGM 2021 for approval.

4. Compensation for the GEC

4.1 Compensation principles

VAT Group's compensation principles for the GEC 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.

4.2 Compensation structure

The compensation structure of GEC members consists of several elements: a fixed remuneration comprising an ABS and benefits, a variable component consisting of an 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			

To ensure competitiveness with market, the compensation of the GEC is regularly benchmarked. In 2018, a benchmarking of the GEC compensation has been conducted by Willis Towers Watson on the basis of the same peer group of Swiss multinational industrial companies as for the benchmarking of the compensation of the Board: Bachem, Bobst, Burckhardt Compression, Conzzeta, Dätwyler, Georg Fischer, Inficon, Interroll, Landis+Gyr, LEM, OC Oerlikon, SFS, Siegfried, Sulzer, Tecan and U-Blox. The results of this benchmark analysis served as basis to determine the compensation level of the GEC for 2020 and 2021.

4.3 Annual base salary (ABS)

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.

4.4 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.

The target STI value expressed as a percentage of ABS amounts to 60% for the CEO and from 47% to 49% for the other GEC members for 2020 on a full year basis, assuming 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.

For all GEC members, company performance accounts for 70% of the total STI, while individual performance accounts for 30%.

The company performance conditions are proposed annually by the NCC and approved by the Board. They are directly derived from the business strategy of profitable growth and are illustrated in Table 5. In 2020, the weighting of the company performance indicators were revised slightly with a higher focus on Group indicators to further align the GEC to the overall group achievements. Further, an additional target for 30% payout level was defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

After year-end, the NCC assesses the achievement of those performance measures and calculates the corresponding payout factor, which is subject to Board approval. For the individual performance component, the NCC conducts an assessment of the individual contributions of each GEC member at the end of the year based on a predetermined grid of criteria related to operational performance and to environment, social and governance aspects (as illustrated in Table 6) and proposes the corresponding payout percentage to the Board for approval.

Table 5: STI key performance indicators for the CEO and other GEC members in 2020

Focus in 2020	Performance objectives	Weighting
Profitability	EBITDA margin Free cash flow	16% 16%
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	22%
	Non-SEMI growth	16%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see Table 6	30%
Total		**100%**

Table 6: STI evaluation grid for individual performance of the CEO and other GEC members in 2019

Operational results	Environment, Social and Governance (ESG)
Growth: entry in new markets, opening of new subsidiaries, development of new products, M&A transactions, key strategic projects to support growth	**Environment:** GHG emission, energy efficiency, mobility programs (business travel), waste reduction, water consumption, etc.
Profitability: process efficiencies, cost-saving initiatives, pricing, supply chain management, projects to support profitability	**Social:** – **Employees:** health & safety, accident rate, diversity & non-discrimination, working conditions, training & development, employee satisfaction & engagement, turnover, labor rights – **Customers:** customer satisfaction, data privacy, product safety, product quality – **Society:** human rights, philanthropy, impact on local communities – **Supply chain monitoring**
	Governance: Bribery & corruption, risk management, conflicts of interest

The STI is paid out in cash, at the latest by June 30 of the following year, subject to shareholder approval.

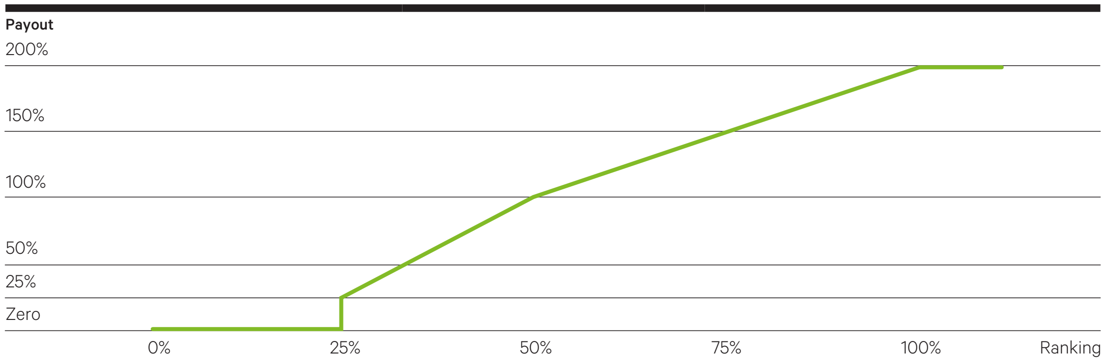
4.5 Long-term share-based compensation (LTI)

GEC members are also eligible to participate in a LTI plan, designed to motivate executives to create value for the company and its shareholders in a sustainable manner. The LTI is awarded in the form of performance share units (PSUs), 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 2020, the LTI nominal value amounts to 80% of ABS for the CEO and to between 47% and 49% of ABS for the other GEC members on a full year basis. To determine the number of PSU granted, the LTI nominal value is divided by the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date.

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 7: Vesting schedule of the LTI



The weighted average of the two payout factors (relative sales growth and relative TSR) provides for the overall vesting level of the LTI award.

This LTI plan is specifically designed for rewarding the performance of VAT Group 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 Swiss consulting firm, Obermatt AG.

The peer group is confirmed by the Board prior to the annual grant of PSU and may be adjusted if required due to corporate events such as merger, acquisition, business combination transaction, delisting or bankruptcy of peer companies. The peer group is illustrated in Table 8.

Table 8: Peer group for the 2020 grant

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

Given that the LTI plan is part of total compensation and designed to create sustainable value, a sound and fair vesting formula was determined at the time of introduction. The LTI plan is based on relative performance measures, i.e., performance compared to peer companies that are subject to similar market cycles as VAT Group. The intention is to neutralize market effects and to assess the "raw" performance of the company. The vesting formula under the plan limits both the upside potential as well as the downside risk in order to create the right culture and a balanced pay-for-performance alignment. There is no vesting below the threshold performance (25th percentile) and the vesting level is capped at 200% for the best performance in the peer universe.

In case of termination of employment, the PSUs forfeit without any compensation, except in the situation of retirement or disability, in which case the PSUs 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 LTI plan, in which case the PSUs are subject to an immediate pro rata vesting.

In 2020, based on the NCC proposal, the Board approved relative Return on Invested Capital (ROIC) as an additional third performance condition for the LTI grant in 2021. The ROIC target was chosen as an additional performance indicator to express how well the company is generating profit relative to the capital it has invested in its business. All three performance conditions will be equally weighted with one third each. Relative ROIC is a robust and meaningful measure for the company and balances well with the two existing indicators relative net sales growth and relative TSR.

Additionally in 2020, the Board approved a revised peer group for future LTI grants to intensify the performance benchmarking with sector peers. The revised peer group for the 2021 LTI grant will be disclosed in the 2021 Compensation Report.

4.6 Benefits

GEC members participate in the benefit 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 Group's pension plan offered to all employees in Switzerland, in which a base salary and the STI are insured up to the maximum amount permitted by law. VAT Group'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.

4.7 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 sign-on payments, termination payments, change-of-control provisions (except the accelerated vesting under the LTI plan) or non-competition compensation.

4.8 Clawback and malus provisions

Clawback and malus provisions apply on STI and LTI awards for GEC members and other executives: if VAT Group (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 Group 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 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 Group as reported in its financial statements.

5. Compensation awarded to the Board and to GEC in 2020

5.1 Compensation awarded to the Board in 2020

For 2020, the members of the Board received a total compensation of CHF 0.9 million (2019: CHF 0.8 million) in the form of fixed basic fees of CHF 0.6 million (2019: CHF 0.6 million), committee fees and other expenses of CHF 0.2 million (2019: CHF 0.2 million) and social security contributions of CHF 0.1 million (2019: CHF 0.1 million). Out of the total compensation of CHF 0.9 million (2019: CHF 0.8 million), CHF 0.2 million (2019: CHF 0.2 million) are awarded in form of restricted shares. The increase of 6% compared to previous-year results from compensation to an additional Board member since the AGM 2020 and increased social security rates. This is partially offset by the harmonization of committee fees as described in section 3.2.

Table 9: Compensation of the Board in 2020 and 2019

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2020	200,000	50,000	1,500	20,645	272,145	75,009
	2019	200,000	50,000	1,500	19,261	270,761	75,022
Heinz Kundert, Vice-Chair	2020	75,000	10,000	1,500	5,126	91,626	25,515
	2019	75,000	10,000	1,500	4,743	91,243	25,519
Herman Gerlinger	2020	75,000	32,917	1,500	6,812	116,229	32,401
	2019	75,000	30,000	1,500	6,104	112,604	31,502
Urs Leinhäuser	2020	75,000	37,083	1,500	9,603	123,186	33,657
	2019	75,000	40,000	1,500	9,210	125,710	34,519
Daniel Lippuner[1]	2020	43,750	–	875	3,773	48,398	13,125
	2019	–	–	–	–	–	–
Karl Schlegel	2020	75,000	32,083	1,500	6,751	115,334	32,187
	2019	75,000	35,000	1,500	6,444	117,944	33,036
Libo Zhang	2020	75,000	10,000	1,500	7,314	93,814	25,515
	2019	75,000	10,000	1,500	6,838	93,338	25,518
Total	2020	**618,750**	**172,083**	**9,875**	**60,024**	**860,732**	**237,409**
	2019	575,000	175,000	9,000	52,600	811,600	225,116

1 Since AGM of 14 May 2020.

At the AGM on May 16, 2019, shareholders approved a maximum aggregate compensation amount of CHF 920,000 for the Board for the compensation period from the AGM 2019 until the AGM 2020. The remuneration paid to the Board for this term was CHF 809,665 and is therefore within the approved limits.

At the AGM of May 14, 2020, shareholders approved a maximum aggregate compensation amount of CHF 1,006,000 for the Board for the term from the AGM 2020 until the AGM 2021. The remuneration paid to the Board for this term is anticipated to be approximately CHF 895,000. The final amount will be disclosed in the 2021 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.

5.2 Compensation awarded to the GEC in 2020

In 2020, the members of the GEC received a total compensation of CHF 2.63 million (2019: CHF 2.44 million). This amount comprises annual base salaries of CHF 0.95 million (2019: CHF 1.22 million), STI of CHF 0.65 million (2019: CHF 0.44 million), other expenses of CHF 0.16 million (2019: CHF 0.00 million), contributions to social security and post-employment benefits of CHF 0.36 million (2019: CHF 0.35 million) and an LTI grant value of CHF 0.52 million (2019: CHF 0.43 million). The variable compensation amounts to 100% (2019: 65%) of the fixed compensation for the CEO and 62% (2019: 48%) on average for the other GEC members.

Table 10: Compensation of the GEC in 2020 and 2019

(CHF, gross)	Year	ABS	Other payments[2]	Pension & social security (fixed)	Total fixed compensation	STI payout[3]	LTI grant[4]	Total compensation[5]
Michael Allison	2020	500,000	0	191,461	691,461	389,625	301,969	1,383,055
	2019	500,000	2,962	152,297	655,259	198,648	228,451	1,082,358
Other GEC	2020	445,000	156,962	167'530	769,492	260,515	215,096	1,245,103
	2019	715,669	0	198,921	914,590	240,330	199,894	1,354,814
Total GEC[1]	**2020**	**945,000**	**156,962**	**358,991**	**1,460,953**	**650,140**	**517,065**	**2,628,158**
	2019	1,215,669	2,962	351,218	1,569,849	438,978	428,345	2,437,172

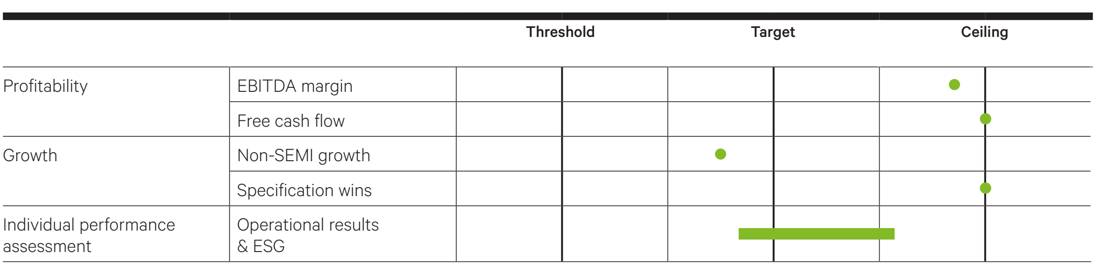
1 Three GEC members were in office on 31 December 2020, including three months in office for the new COO. For the new COO, this includes relocation costs as well as replacement awards in cash (STI) and in PSUs (LTI) and forfeited pension contributions at the previous employer as a result of joining VAT Group. Two GEC members were in office on 31 December 2019; this includes compensation under the employment contract during the notice period to one GEC member who stepped down on 31 July 2019.
2 Includes the value of benefits in kind for 2019.
3 STI for 2020 to be paid out until June 30, 2021; STI for 2019 was paid out until June 30, 2020.
4 Grant value of the LTI awarded in the reporting year based on the Monte Carlo evaluation of the PSU. It includes the entire 2020 and 2019 LTI grant value for the CFO who stepped down in January 2021. It includes also the entire 2019 LTI grant value for the COO who stepped down during 2019, despite the fact, that all outstanding PSUs granted are forfeited due to his leaving.
5 All compensation amounts are disclosed gross.

Explanatory comments to the compensation table

The total aggregate annual base salaries of the GEC decreased by 22% overall (2019: +6%). This is due to the fact that in 2020 the COO role was vacant, covered ad interim by the CEO for 9 months without additional compensation.

The STI payout increased by 48% compared to previous year. The overall performance achievement under the STI was higher than in the previous year. However, the STI value for 2020 was lower due to the change in GEC composition in 2020 (COO vacancy for 9 months). The overall financial and individual performance achievement of the GEC of 123% (2019: 75%) was marked by outperformance of Group financials. Net sales for the year increased by 21.4% to CHF 692 million. Reflecting the strong business performance, VAT posted an all – time record EBITDA margin of 31.4%. While the EBITDA, free cash flow and specification wins targets outperformed, the individual performance ranged from 86% to 126% of target for the GEC members. There was no discretion applied by the Board when determining the final performance achievements for 2020.

Table 11: summary of 2020 performance for the STI



The LTI grant value amounted to CHF 0.5 million (compared to CHF 0.4 million in previous year). The increase is only due to the fact that in 2020 the grant value of the LTI grant significantly increased based on the Monte Carlo method of evaluation (LTI grant value per PSU 2020: CHF 115.83, 2019: CHF 53.88).

The "other payments" increased significantly due to cash payments made in relation to the new COO joining, e.g. cost for replacement awards and forfeited pension contributions as a result of leaving his previous employer and joining VAT Group.

In line with the overall increase of the total compensation in 2020 for the GEC, the social security and pension contributions increased compared to the previous year.

The total fixed compensation of CHF 1.46 million (including pension and social security contributions) awarded for the financial year 2020 is within the maximum aggregate compensation amount of CHF 1.95 million approved by the shareholders.

The aggregate grant value of CHF 0.52 million awarded under the LTIP is within the maximum amount of CHF 1.70 million approved by the shareholders.

The STI of CHF 0.65 million will be submitted to shareholders' vote at the 2021 AGM.

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

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

6. Shareholdings and vesting of outstanding LTI award

6.1 Shareholdings as of December 31, 2020

At the end of 2020, members of the Board held a total of 76,618 (2019: 78,034) registered shares of VAT Group[2]. GEC members held a total of 751 (2019: 508) registered shares of VAT Group and a total of 13,865 (2019: 13,573) 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 on page 126 of the Annual Report.

At the end of 2020, members of the Board and the GEC did not hold any stock options.

6.2 Vesting of outstanding LTI award

The vesting level for the 2017 LTI award which was due to vest by end of 2019 (LTI performance period 2017–2019), considering the performance of the relative sales growth and the relative TSR against the peer group, was 76%.

The PSU grant under the LTI plan in 2018 is scheduled to vest at the end of 2020. The final vesting level will be available in May 2021, after the annual results of the peers for 2020 have been published and will be reported in the 2021 Compensation Report.

Table 12: Vesting level of PSUs

Grant year	Vesting year	Overall vesting %[1]
2017	2019	76%
2018	2020	vested, performance evalution pending
2019	2021	pending[2]
2020	2022	pending[2]

1 Vesting level of the Performance Share Awards. Current GEC members have joined after 2017 grant and are no beneficiaries of 2017 grant.
2 Performance periods are still ongoing. Numbers will be available after the end of the respective performance period.

2 In addition, Heinz Kundert owns 120 performance share units from the LTI plan that were awarded to him in his previous function as CEO.

KPMG

Report of the Statutory Auditor

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

We have audited the accompanying remuneration report of VAT Group AG for the year ended 31 December 2020.

The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in table 9 “Compensation of the Board in 2020 and 2019” on page 68 and table 10 “Compensation of the GEC in 2020 and 2019” on page 69 of section 5 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 2020 of VAT Group AG complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Toni Wattenhofer
Licensed Audit Expert
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St. Gallen, 3 March 2021

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, 2020

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2020	2019
Net sales	**2.1,2.2**	**692,427**	**570,376**
Raw materials and consumables used		–282,486	–211,890
Changes in inventories of finished goods and work in progress		20,195	–13,050
Personnel expenses	4.1	–175,732	–141,989
Other income	2.3	17,348	9,252
Other expenses	2.4	–54,586	–58,691
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**217,167**	**154,008**
Depreciation and amortization		–40,897	–46,272
Earnings before interest and taxes (EBIT)[1]		**176,270**	**107,736**
Finance income	5.1	124	108
Finance costs	5.1	–15,708	–8,840
Earnings before income taxes		**160,686**	**99,004**
Income tax expenses	6.1	–27,225	–24,179
Net income attributable to owners of the Company		**133,461**	**74,825**
Earnings per share (in CHF)			
Basic earnings per share	5.4	4.45	2.50
Diluted earnings per share	5.4	4.45	2.49

1 Interest includes other items as reported in the financial results.

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2020	2019
Net income attributable to owners of the Company		**133,461**	**74,825**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	4.3	19,814	86
Related tax	6.1	–2,873	–12
Subtotal		**16,941**	**74**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		1,715	4,356
Related tax	6.1	–264	–626
Currency translation adjustments		–731	–136
Subtotal		**720**	**3,594**
Other comprehensive income for the period (net of tax)		**17,661**	**3,668**
Total comprehensive income for the period attributable to owners of the Company		**151,122**	**78,493**

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 80 ff.

Consolidated balance sheet

As of December 31 In CHF thousand	Note	2020	2019
Assets			
Cash and cash equivalents		137,871	109,822
Trade and other receivables	3.1	94,679	97,409
Other investments, including derivatives		6,871	3,184
Prepayments and accrued income		1,773	4,417
Inventories	3.2	104,749	84,231
Current tax assets		233	747
Current assets		**346,176**	**299,809**
Property, plant and equipment	3.3	146,468	162,125
Investment properties		1,773	1,823
Intangible assets and goodwill	3.4	498,600	498,564
Trade and other receivables	3.1	1,825	2,631
Other investments		846	831
Deferred tax assets	6.1	5,930	6,893
Non-current assets		**655,442**	**672,866**
Total assets		**1,001,619**	**972,675**

As of December 31 **In CHF thousand**	**Note**	**2020**	**2019**
Liabilities			
Trade and other payables	3.5	48,981	66,387
Loans and borrowings	5.3	61,522	50,221
Provisions	3.7	2,615	2,242
Derivative financial instruments		26	53
Accrued expenses and deferred income	3.6	32,105	20,158
Current tax liabilities		22,793	17,747
Current liabilities		**168,042**	**156,809**
Loans and borrowings	5.3	204,817	203,867
Other non-current liabilities		265	377
Deferred tax liabilities	6.1	47,591	45,934
Defined benefit obligations	4.3	25,552	42,252
Non-current liabilities		**278,225**	**292,430**
Total liabilities		**446,266**	**449,239**
Equity			
Share capital	5.4	3,000	3,000
Share premium	5.4	73,969	133,950
Reserves		6,598	5,878
Treasury shares	5.4	–414	–571
Retained earnings[1]		472,199	381,179
Total equity attributable to owners of the Company		**555,352**	**523,436**
Total liabilities and equity		**1,001,619**	**972,675**

1 Includes remeasurements of DBO and other reserves

The above consolidated balance sheet should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 80 ff.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2019	**3,000**	**253,891**	**–1,067**	**3,351**	**–687**	**305,683**	**564,170**
Net income attributable to owners of the Company						74,825	74,825
Total comprehensive income for the period attributable to owners of the Company			3,730	–136		74	3,668
Dividend payment		–119,941					–119,941
Share-based payments (net of tax)					116	598	714
Equity as of 31.12.2019	**3,000**	**133,950**	**2,663**	**3,215**	**–571**	**381,179**	**523,436**

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2020	**3,000**	**133,950**	**2,663**	**3,215**	**–571**	**381,179**	**523,436**
Net income attributable to owners of the Company						133,461	133,461
Total comprehensive income for the period attributable to owners of the Company			1,451	–731		16,941	17,661
Treasury shares acquired					–55		–55
Dividend payment		–59,981				–59,981	–119,961
Share-based payments (net of tax)					211	599	810
Equity as of 31.12.2020	**3,000**	**73,969**	**4,114**	**2,485**	**–414**	**472,199**	**555,352**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 80 ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2020	2019
Net income attributable to owners of the Company		**133,461**	**74,825**
Adjustments for:			
Depreciation and amortization		40,897	46,272
(Profit)/loss from disposal of property, plant and equipment		12	–17
Change in defined benefit liability		3,091	2,552
Net impact from foreign exchange		–350	763
Income tax expenses	6.1	27,225	24,179
Net finance costs	5.1	15,584	8,732
Other non-cash-effective adjustments		111	328
Change in trade and other receivables		–596	–8,403
Change in prepayments and accrued income		2,475	–1,330
Change in inventories		–23,540	18,260
Change in trade and other payables		–16,339	21,752
Change in accrued expenses and deferred income		12,293	–880
Change in provisions		377	–243
Cash generated from operations		194,701	186,791
Income taxes paid		–21,892	–29,052
Cash flow from operating activities		**172,809**	**157,739**
Purchases of property, plant and equipment	3.3	–7,811	–6,645
Proceeds from sale of property, plant and equipment		68	186
Purchases of intangible assets	3.4	–18,132	–11,497
Interest received		108	101
Cash flow from investing activities		**–25,767**	**–17,857**
Proceeds from borrowings	5.3	120,000	110,000
Repayments of borrowings	5.3	–109,094	–90,000
Repayments of lease liabilities	5.3	–2,636	–2,692
Purchase of own shares		–55	0
Dividend paid	5.4	–119,961	–119,941
Interest paid		–3,998	–4,502
Other finance expenses paid		–1,182	–951
Cash flow from financing activities		**–116,925**	**–108,086**
Net increase/(decrease) in cash and cash equivalents		**30,117**	**31,796**
Cash and cash equivalents at beginning of period		109,822	79,063
Effect of movements in exchange rates on cash held		–2,068	–1,036
Cash and cash equivalents at end of period		**137,871**	**109,822**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 80 ff.

Notes to the consolidated financial statements

1. General information and accounting policies

General information

VAT Group AG ("the Company") is a limited liability company incorporated in accordance with Swiss law. 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, 2020, comprise VAT Group AG and all companies under its control (together referred to as "VAT" or "Group").

These consolidated financial statements were authorized for issue by the Group's Board of Directors on March 3, 2021.

Basis of accounting

The consolidated financial statements of the Group have been prepared in accordance with IFRS. The presentation currency is Swiss Francs, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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.

Details to the Group's material accounting policies that are relevant for the understanding of these consolidated financial statements are included in the corresponding notes.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. A number of standards have been modified on miscellaneous points with effect from January 1, 2020. None of these amendments had a material effect on the Group's financial statements.

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 3.4,
b) property, plant and equipment, see note 3.3,
c) income taxes, see note 6.1,
d) employee benefits, see note 4.3,
e) provisions, see note 3.7.

2. Operating Performance

2.1 Segment Information

Background

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 VAT Romania and non bellow related businesses of Comvat. VAT Romania is well situated in the machining ancillary industry and offers manufacturing parts and mechanical components in the medium service range. Comvat is one of the leaders in the production of edge-welded bellows and specialized in automating processes.

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 19.8 million (prior year: CHF 19.0 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 intersegment 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, 2020 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	550,355	127,302	14,771	692,427	–	692,427
Inter-segment sales	59,891	–	9,955	69,846	–69,846	–
Segment net sales	**610,246**	**127,302**	**24,726**	**762,273**	**–69,846**	**692,427**
Segment EBITDA	**196,892**	**53,204**	**4,050**	**254,146**	**–36,979**	**217,167**

January 1–December 31, 2019 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	440,855	111,759	17,762	570,376	–	570,376
Inter-segment sales	51,621	–	8,941	60,562	–60,562	–
Segment net sales	**492,476**	**111,759**	**26,703**	**630,938**	**–60,562**	**570,376**
Segment EBITDA	**136,335**	**46,325**	**2,844**	**185,503**	**–31,495**	**154,008**

As of December 31, 2020 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	680,897	122,581	36,311	839,789	1,773	841,562
Segment liabilities	26,732	3,166	2,430	32,328	97	32,425
Segment net operating assets	**654,165**	**119,415**	**33,881**	**807,461**	**1,676**	**809,137**
Of which net trade working capital	126,160	23,658	12,575	162,393	–97	162,296

As of December 31, 2019 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	676,966	120,331	34,670	831,967	1,823	833,790
Segment liabilities	38,062	6,175	5,139	49,377	545	49,922
Segment net operating assets	**638,904**	**114,156**	**29,531**	**782,591**	**1,278**	**783,868**
Of which net trade working capital	102,985	13,801	5,115	121,902	–545	121,356

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	2020	2019
Segment EBITDA	254,146	185,503
Corporate and eliminations	–36,979	–31,495
Depreciation and amortization	–40,897	–46,272
Finance costs net	–15,584	–8,732
Earnings before income taxes	**160,686**	**99,004**

Assets

As of December 31 In CHF thousand	2020	2019
Segment assets	839,789	831,967
Corporate and eliminations	1,773	1,823
Cash and cash equivalents	137,871	109,822
Other assets[1]	22,186	29,063
Assets	**1,001,619**	**972,675**

Liabilities

As of December 31 In CHF thousand	2020	2019
Segment liabilities	32,328	49,377
Corporate and eliminations	97	545
Loans and borrowings	266,339	254,088
Other liabilities[2] and provisions	147,502	145,229
Liabilities	**446,266**	**449,239**

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	2020	2019
Switzerland	5,996	5,075
Europe excl. Switzerland	87,625	88,222
USA	224,321	190,262
Japan	103,912	91,560
Korea	79,824	59,410
Singapore	74,016	48,444
China	73,159	49,637
Asia excl. Japan, Korea, Singapore and China	36,419	28,610
Other	7,156	9,155
Total	**692,427**	**570,376**

No other individual country represented more than 10% of net sales in 2020 and 2019.

Non-current assets

As of December 31 In CHF thousand	2020	2019
Switzerland	590,221	596,244
Europe excl. Switzerland	5,816	7,613
USA	3,351	4,645
Asia	47,453	54,010
Total	**646,842**	**662,512**

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 2020 and 2019.

Major customers

Revenues from two customers of the Group's Valves, Global Service and Industry segments represented approximately 19% and 18% (prior year: two customers represented approximately 18% and 17%) of the Group's total revenues.

2.2 Revenue

In the following table, revenue from contracts with customers is disaggregated by net sales by region and reportable segments. The table also includes a disaggregation of order intake by segments.

Disaggregation of order intake and net sales

January 1 – December 31, 2020 In CHF thousand	Valves	Global Service	Industry	Total
Order intake	577,829	132,157	14,524	724,511
Net sales by region				
Asia	297,603	62,657	6,751	367,011
Americas	177,908	48,393	1,643	227,944
EMEA	74,845	16,252	6,376	97,473
Net sales	**550,355**	**127,302**	**14,771**	**692,427**

January 1 – December 31, 2019 In CHF thousand	Valves	Global Service	Industry	Total
Order intake	463,039	106,446	15,530	585,015
Net sales by region				
Asia	220,321	51,759	5,582	277,662
Americas	143,402	46,245	1,824	191,471
EMEA	77,132	13,755	10,356	101,244
Net sales	**440,855**	**111,759**	**17,762**	**570,376**

Accounting policies
Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer. Customers obtain control of the goods dependent on standard trade terms (Incoterms) or when services are rendered. The Group uses different Incoterms, generally EXW, FCA and DDP. Contracts include only standard warranty clauses and do not provide for separate purchase of warranty. Payment conditions are short term and therefore do not contain significant financing components.

2.3 Other income

January 1–December 31 In CHF thousand	2020	2019
Net foreign exchange gains on operating and investing activities	2,085	0
Work performed by the entity and capitalized	13,848	8,272
Rental income from investment properties	77	74
Change in provision for impairment on trade receivables	182	0
Gains from sale of fixed assets	10	56
Other income	1,146	851
Total other income	**17,348**	**9,252**

2.4 Other expenses

January 1–December 31 In CHF thousand	2020	2019
Marketing and advertising	653	990
Distribution	7,943	5,807
Office rent	534	307
Administrative expenses	10,944	13,287
Travel expenses	1,707	3,836
Repair and maintenance	15,575	13,065
Energy and supplies	9,847	6,992
Insurance, duties and other charges	2,462	2,317
Losses from sale of fixed assets	22	39
Net foreign exchange losses on operating and investing activities	0	7,248
Research and development expenses[1]	1,932	1,559
Other operating expenses	2,966	3,246
Total other expenses	**54,586**	**58,691**

1 Includes only third-party expenses.

3. Operating assets and liabilities

3.1 Trade and other receivables

As of December 31 In CHF thousand	2020	2019
Trade receivables – gross	90,706	87,975
Less provision for impairment of trade receivables	–735	–928
Trade receivables – net	**89,971**	**87,048**
Recoverable VAT and withholding tax	2,587	6,301
Deposits	1,779	2,235
Receivables from social security	1,533	3,608
Other	633	848
Total trade and other receivables	**96,503**	**100,039**
Thereof:		
Current trade and other receivables	94,679	97,409
Non-current other receivables	1,825	2,631

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

Accounting policies
Trade and other receivables used in the ordinary course of business are disclosed as current items in the balance sheet. A trade receivable without a significant financing component is initially measured at the transaction price. Trade and other receivables are subsequently measured at amortized cost less impairment losses. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

3.2 Inventories

As of December 31 In CHF thousand	2020	2019
Raw materials and consumables	29,847	35,969
Work in progress	13,195	12,176
Semi-finished goods	34,115	17,616
Finished goods	27,591	18,471
Total inventories	**104,749**	**84,231**

In the financial year 2020, inventories of CHF 1.7 million (previous year: CHF 4.7 million) were scrapped and recognized as expense.

Accounting policies
Inventories are measured 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.

3.3 Property, plant and equipment

January 1–December 31, 2020 In CHF thousand	Land	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under construction	Total
Balance at 01.01.2020	**8,027**	**96,926**	**8,802**	**105,354**	**9,217**	**19,870**	**1,043**	**9,145**	**258,383**
Additions		9		435	452	1,460		5,455	7,811
Movement non-cash			3,412				−23		3,389
Disposals				−141	−18	−254			−414
Transfer		928		2,866	1,042	1,675		−6,511	0
Exchange differences	−149	−2,132	−392	−2,546	−287	−600	−6	−130	−6,241
Balance at 31.12.2020	**7,879**	**95,731**	**11,821**	**105,968**	**10,406**	**22,150**	**1,014**	**7,958**	**262,928**
Accumulated depreciation and impairment									
Balance at 01.01.2020	**−193**	**−20,756**	**−2,380**	**−54,463**	**−4,859**	**−13,254**	**−352**	**0**	**−96,259**
Depreciation charge	−32	−4,184	−2,349	−10,632	−1,677	−3,536	−341		−22,751
Impairment loss									0
Movement non-cash			328				25		353
Disposals				111	13	210			334
Exchange differences	18	164	127	1,095	119	339	1		1,863
Balance at 31.12.2020	**−207**	**−24,776**	**−4,273**	**−63,889**	**−6,404**	**−16,242**	**−668**	**0**	**−116,460**
Net book amount 31.12.2020	**7,671**	**70,955**	**7,548**	**42,079**	**4,002**	**5,908**	**346**	**7,958**	**146,468**

January 1–December 31, 2019 In CHF thousand	Land	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under construction	Total
Balance at 01.01.2019	**8,042**	**77,265**	**8,909**	**98,257**	**8,731**	**18,228**	**976**	**30,373**	**250,781**
Additions		44		60	226	407		5,908	6,645
Additions non-cash			65	3,798			72		3,935
Disposals		−18		−213	−136	−519			−885
Transfer		20,034		4,825	461	1,922		−27,242	0
Exchange differences	−15	−400	−173	−1,373	−65	−169	−6	105	−2,095
Balance at 31.12.2019	**8,027**	**96,926**	**8,802**	**105,354**	**9,217**	**19,870**	**1,043**	**9,145**	**258,383**
Accumulated depreciation and impairment									
Balance at 01.01.2019	**−161**	**−16,537**	**0**	**−39,875**	**−3,838**	**−9,963**	**0**	**0**	**−70,374**
Depreciation charge	−34	−4,270	−2,428	−16,071	−1,186	−3,334	−354		−27,677
Impairment loss									0
Disposals		11		131	98	476			716
Transfer				512	26	−538			0
Exchange differences	2	39	48	839	41	105	2		1,076
Balance at 31.12.2019	**−193**	**−20,756**	**−2,380**	**−54,463**	**−4,859**	**−13,254**	**−352**	**0**	**−96,259**
Net book amount 31.12.2019	**7,834**	**76,169**	**6,422**	**50,891**	**4,359**	**6,615**	**691**	**9,145**	**162,125**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in property, plant and equipment as of December 31, 2020, aggregated CHF 12.3 million (prior year: CHF 9.0 million).

Accounting policies

Property, plant and equipment are measured at historic or manufacturing costs less accumulated depreciation and any accumulated impairment losses. 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:

Category	Useful life (in years)
Long-leased land	60
Buildings	20–40
Machinery	5–8
Furniture/fixtures	3–8
Other equipment	3–12

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.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

Leases – as a lessee

The Group leases warehouses, factory facilities and offices. Lease payments are determined in corresponding contracts. Most of these leases were entered into many years ago as combined leases of land and buildings. In addition the Group leases vehicles and IT equipment.

The Group recognizes a right-of-use asset at the lease commencement date. Some property leases contain extension options exercisable by the Group. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Goup assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

During the period ended December 31, 2020, the Group recognized CHF 2.7 million (prior year: 2.8 million) of depreciation charges and CHF 0.1 million (prior year: 0.2 million) of interest costs from these leases.

In 2020, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.5 million (prior year: 0.3 million). Total cash outflows for leases amount to CHF 2.8 million (prior year: 2.9 million).

Accounting policies

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3.4 Intangible assets and goodwill

January 1–December 31, 2020 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2020	**183,717**	**11,992**	**263,600**	**120,900**	**3,334**	**15,407**	**598,950**
Additions						18,132	18,132
Disposals		–5			–364		–369
Transfer		83			2,579	–2,662	0
Exchange differences		–30				1	–28
Balance at 31.12.2020	**183,717**	**12,040**	**263,600**	**120,900**	**5,550**	**30,878**	**616,685**
Accumulated amortization and impairment							
Balance at 01.01.2020	**0**	**–8,324**	**–90,573**	**0**	**–1,489**	**0**	**–100,386**
Amortization charge		–1,656	–15,308		–841		–17,805
Impairment loss					–291		–291
Disposals		5			364		369
Transfer		181			–181		0
Exchange differences		30			–1		29
Balance at 31.12.2020	**0**	**–9,765**	**–105,881**	**0**	**–2,439**	**0**	**–118,085**
Net book value 31.12.2020	**183,717**	**2,275**	**157,719**	**120,900**	**3,111**	**30,878**	**498,600**

January 1–December 31, 2019 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2019	**183,717**	**11,947**	**263,600**	**120,900**	**3,131**	**4,553**	**587,848**
Additions		9				11,488	11,497
Disposals		–99			–270		–369
Transfer		160			473	–633	0
Exchange differences		–25				–1	–26
Balance at 31.12.2019	**183,717**	**11,992**	**263,600**	**120,900**	**3,334**	**15,407**	**598,950**
Accumulated amortization and impairment							
Balance at 01.01.2019	**0**	**–6,113**	**–75,265**	**0**	**–856**	**0**	**–82,234**
Amortization charge		–2,269	–15,308		–633		–18,210
Impairment loss		–65			–270		–335
Disposals		99			270		369
Exchange differences		24					24
Balance at 31.12.2019	**0**	**–8,324**	**–90,573**	**0**	**–1,489**	**0**	**–100,386**
Net book value 31.12.2019	**183,717**	**3,668**	**173,027**	**120,900**	**1,845**	**15,407**	**498,564**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in intangible assets as of December 31, 2020, aggregated CHF 0.7 million (prior year: CHF 1.0 million).

Research and development costs

In 2020, research and development expenses amounting to CHF 41.5 million (previous year: CHF 33.4 million) were included in the items "Personnel expenses," "Other operating expenses" and "Depreciation and amortization." For 87 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 9.7 million (previous year: CHF 5.5 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.

As of December 31 In CHF thousand				2020				2019
	Valves	Global Service	Industry	Total	Valves	Global Service	Industry	Total
Goodwill	139,886	35,742	8,089	183,717	139,886	35,742	8,089	183,717
Brand and trademarks	94,618	26,282	0	120,900	94,618	26,282	0	120,900
Total carrying amount	**234,504**	**62,024**	**8,089**	**304,617**	**234,504**	**62,024**	**8,089**	**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 2021 to 2023. 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, 2020	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.8%	10.8%	10.9%
Terminal value growth rate	1.7%	1.7%	1.7%

As of December 31, 2019	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.4%	10.4%	10.5%
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.

Accounting policies

Goodwill and intangible assets
Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized.

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. Intangible assets with indefinite useful lives, such as brands and trademarks are measured at cost less accumulated impairment losses. 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:

Category	Useful life (in years)
Acquired technology and customer relationships	13.5–20
Brand and trademarks	indefinite
Software	3–5
Other intangible assets	3–5

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.

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.

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.

3.5 Trade and other payables

As of December 31 In CHF thousand	2020	2019
Trade payables	32,425	49,922
Sales tax and other non-income tax payables	4,847	3,856
Employee benefit liabilities	6,005	8,041
Prepayments received from customers	5,253	3,487
Other liabilities	452	1,081
Total trade and other payables	**48,981**	**66,387**

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

As of December 31 In CHF thousand	2020	2019
Swiss Franc	20,395	29,333
Euro	8,376	12,423
US Dollar	12,435	14,899
Malaysian Ringgit	3,160	3,215
Romanian Leu	1,289	2,379
Chinese Yuan	978	2,580
Other currencies	2,348	1,558
Total trade and other payables	**48,981**	**66,387**

Accounting policies
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are subsequently measured at amortized cost using the effective interest method.

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2020	2019
Accrued expenses – personnel related	20,923	10,122
Accrued expenses – other	10,546	10,037
Deferred income	636	0
Total accrued expenses and deferred income	**32,105**	**20,158**

3.7 Provisions

January 1–December 31, 2020 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at 01.01.2020	**2,127**	**201**	**2,329**
Additions	1,563	311	1,874
Used	–1,282	–215	–1,497
Exchange differences	–1	–4	–6
Balance at 31.12.2020	**2,407**	**293**	**2,700**
Thereof:			
Current provisions	2,407	208	2,615
Non-current provisions[1]	0	85	85

1 Non-current provisions are included in other non-current liabilities.

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.

Accounting policies
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.

4. Employees

4.1 Employee FTE and personnel expenses

January 1–December 31 In CHF thousand	2020	2019
Wages and salaries	144,657	114,766
Share based payment	569	783
Social security costs	14,116	11,524
Pension costs – defined contribution plans	871	838
Pension costs – defined benefit plans	10,203	8,814
Other personnel expenses	5,315	5,264
Total personnel expenses	**175,732**	**141,989**
Number of employees (FTE)	2,041	1,810

4.2 Share-based payments

At December 31, 2020, the Group had the following share-based payment arrangements.

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 1,421 shares (prior period 1,852 shares) with a fair value of CHF 173.20 per share for the period 2019/20. For the period 2020/21, the Group allocated 911 shares (prior period 1,125 shares).

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

Long-term incentive plans (LTIP) are in place 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 performance 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 2018	CHF 139.18	CHF 101.19	CHF 109.16	26.7%	0.5%	3.8%
Long-term incentive plan 2019	CHF 86.30	CHF 53.55	CHF 58.08	32.1%	0.5%	7.1%
Long-term incentive plan 2020	CHF 163.55	CHF 116.57	CHF 125.62	32.2%	0.5%	2.8%

As of December 31, 2020, the number of outstanding Performance Share Units (PSUs) under the plan are 27,976 (prior year: 26,578).

Accounting policies

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.

4.3 Post-employment 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 obligations.

Throughout the world, the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue.

There are three defined benefit plans in place: the members of the Board of Directors of the Japanese subsidiary as well as all French employees 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	2020	2019
Japan	18	177
France	74	63
Switzerland	25,461	42,012
Net defined benefit liability in the balance sheet	**25,552**	**42,252**

Income statement

January 1–December 31 In CHF thousand	2020	2019
Japan	47	32
France	10	–17
Switzerland	10,146	8,800
Pension costs – defined benefit plans	**10,203**	**8,814**

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 2020, the minimum interest was 1.00% (prior year: 1.00%).

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 BVG prescribes how employees and employer have to jointly fund potential restructurings. Since 2020, a sharing of the funding gap between employer and employee (risk sharing) is taken into account. The net liability recognized in the balance sheet was reduced by CHF 5.8 million due to the first-time application of risk sharing. The restructuring contributions for the employer must, at a minimum, be equal to the sum of employee contributions. Under the formal regulatory framework of the pension plan, the employer has no legal obligation to pay additional contributions to eliminate more than 60% of a funding deficit or of a structural funding shortfall. In the case of the actuarial valuation, the legal obligation is regarded as the upper limit of the employer's share of the costs of future benefits within the meaning of IAS 19.87(c).

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

As of December 31 In CHF thousand	2020	2019
Present value of defined benefit obligation	214,375	210,188
Fair value of plan assets	188,914	168,176
Net defined benefit liability	**25,461**	**42,012**

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

January 1–December 31 In CHF thousand	2020	2019
Opening defined benefit obligation	**210,188**	**191,097**
Service costs	10,040	8,673
Plan participants contributions	6,975	6,456
Interest expense	524	1,307
Remeasurement (gains)/losses	–11,826	11,535
Benefits paid through pension assets	–1,526	–8,880
Closing defined benefit obligation	**214,375**	**210,188**

January 1–December 31 In CHF thousand	2020	2019
Opening fair value of plan assets	**168,176**	**151,563**
Interest income	436	1,075
Return on plan assets (excl. amounts in net interest)	7,988	11,621
Plan participants contributions	6,975	6,456
Employer contributions	6,975	6,456
Benefits received/(paid) through pension assets net	–1,526	–8,880
Administration expense	–110	–115
Closing fair value of plan assets	**188,914**	**168,176**

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

As of December 31 In CHF thousand	2020	2019
Defined benefit obligation for active employees	169,652	165,196
Defined benefit obligation for pensioners	44,723	44,992
Total defined benefit obligation	**214,375**	**210,188**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2020	2019
Current service costs	10,040	8,673
Interest expense on defined benefit obligation	524	1,307
Interest income on plan assets	–436	–1,075
Administration expense	110	115
Total defined benefit cost/(income) recognized in income statement	**10,238**	**9,020**
Thereof:		
Employee benefit expenses	10,150	8,788
Finance expenses	88	232
Actuarial (gain)/loss arising from financial assumptions	–10,908	10,734
Actuarial (gain)/loss arising from demographic assumptions	–203	0
Actuarial (gain)/loss arising from experience adjustment	–715	801
Return on plan assets (excl. amounts included in net interest)	–7,988	–11,621
Total defined benefit cost/(income) recognized in OCI	**–19,814**	**–86**

The major asset categories are as follows:

As of December 31 In CHF thousand	2020	2019
Equity instruments (quoted market prices)	50,039	52,889
Debt instruments (quoted market prices)	55,871	44,200
Real estate (quoted market prices)	34,285	32,462
Alternative investments (quoted market prices)	21,671	30,330
Cash	24,268	7,840
Others	2,780	455
Total	**188,914**	**168,176**

Equity instruments contain shares from VAT Group AG with a fair value in the amount of CHF 0.0 million (prior year: CHF 3.3 million). The significant actuarial assumptions were as follows:

As of December 31	2020	2019
Discount rate	0.19%	0.25%
Inflation	0.40%	0.40%
Salary growth rate	1.25%	1.25%
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	2020	2019
Retiring at the end of the reporting period:		
Male	22.72	22.61
Female	24.76	24.65
Retiring 20 years after the end of the reporting period:		
Male	24.48	24.40
Female	26.51	26.44

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 2020		Impact on defined benefit obligation 2019	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–5,798	6,034	–8,970	9,648
Salary growth rate (+/– 0.25%)	1,003	–983	1,273	–1,251

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, 2021, amount to CHF 7.3 million.

The weighted average duration of the defined benefit obligation is 15.9 years (prior year: 17.3 years).

Accounting policies

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. Concerning the Swiss pension plans, the formal regulations include the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein referring to funding and measures to be taken to eliminate pension-fund deficits. In fiscal year 2020, risk-sharing features were considered in the formal rules when determining financial assumptions, which will limit the employer's share of the cost of future benefits and also include employees in the obligations to pay possible additional contributions in case of an underfunding.

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.

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.

4.4 Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2020	2019
Contribution to Swiss pension plan	6,975	6,456

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	2020	2019
Short-term employee benefits	1,962	1,502
Post-employment benefits	104	182
Share-based payments	153	351
Total	**2,219**	**2,035**

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

January 1–December 31 In CHF thousand	2020	2019
Other payables due to Swiss autonomous employee benefit plan	177	2,179
Accrued expenses and deferred income due to governing bodies	182	168
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	25,461	42,012

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.

5. Capital and financial risk management

5.1 Finance income and costs

January 1–December 31 In CHF thousand	2020	2019
Interest income	123	101
Other finance income	1	7
Finance income	**124**	**108**
Interest expenses	–4,083	–4,707
Net foreign exchange losses on financing activities	–9,652	–2,317
Other finance expenses	–1,973	–1,817
Finance costs	**–15,708**	**–8,840**
Total finance result	**–15,584**	**–8,732**

Accounting policies
Interest income or expense is recognized using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
– the gross carrying amount of the financial asset; or
– the amortized cost of the financial liability.

5.2 Derivative financial instruments

The following table shows the carrying amounts of the derivatives.

As of December 31 In CHF thousand	Measurement principle	Contract Value		Fair Value	
		2020	2019	2020	2019
Derivatives held for hedging (USD)	Level 2[1]	160,452	109,485	5,830	2,240
Derivatives held for hedging (JPY)	Level 2[1]	47,051	33,590	1,010	910
Derivative assets		**207,503**	**143,075**	**6,840**	**3,150**
Thereof:					
Current derivative assets		207,503	143,075	6,840	3,150
Derivatives held for hedging (USD)	Level 2[1]	2,275	8,631	–2	–45
Derivatives held for hedging (JPY)	Level 2[1]	9,004	3,194	–24	–8
Derivative liabilities		**11,280**	**11,825**	**–26**	**–53**
Thereof:					
Current derivative liabilities		11,280	11,825	–26	–53

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.

The Group recorded foreign exchange contracts (derivative financial assets/liabilities) at fair value, which are Level 2 financial instruments. There were no transfers in either direction between Level 1 and Level 2 in 2020 and 2019. No financial instruments were measured at Level 3.

Forward foreign exchange contracts

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months.

Hedge accounting

VAT Group uses cash flow hedges to reduce and manage the economic impact of its main currency risks. As of December 31, 2020 and 2019, 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, 2020. The hedging reserves included net unrealized gains of CHF 4.1 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 2.7 million). Net gains of CHF 9.1 million (prior year: net losses of CHF 5.6 million) were reclassified to earnings in 2020. The maturity of derivatives classified as a cash flow hedge was up to 12 months.

Accounting policies
Derivatives are initially recorded at fair value and subsequently adjusted for fair value changes. The measurement 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 IFRS 9 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. 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.

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 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.

5.3 Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2020 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	CHF Libor + 0.95%	2023	58,847
Fixed-rate bond	CHF	1.50%	2023	199,503
Finance lease liability				7,988
Total loans and borrowings				**266,338**
Thereof:				
Current				61,522
Non-current				204,817

As of December 31, 2019 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD Libor +1.15%	2023	23,414
Revolving credit facility (RCF)	CHF	CHF Libor +1.15%	2023	24,201
Fixed-rate bond	CHF	1.50%	2023	199,291
Finance lease liability				7,182
Total loans and borrowings				**254,088**
Thereof:				
Current				50,221
Non-current				203,867

VAT Group AG maintains a syndicated five-year revolving credit facility (RCF) of USD 300.0 million.

The RCF is subject to the financial covenant “net senior debt/EBITDA” ratio, with which the Group complied with for the financial year 2020.

Additionally, VAT Group AG has entered into a Credit Facility Agreement with a total facility of USD 95.0 million, maturing on April 30, 2021. As of December 31, 2020, no loan was drawn from this facility. This credit facility is subject to the financial covenant “Equity Capital Ratio”, with which the Group complied with for the period from the inception date of the agreement to December 31, 2020.

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). The bond carries a coupon rate of 1.5% and has a term of five years with a final maturity on May 23, 2023. On December 31, 2020, the market value of the bond was CHF 203.6 million.

The carrying amounts as of December 31, 2020, include financing costs of CHF 1.6 million (prior year CHF 2.3 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	2020	Cash-effective adjustment		Non-cash-effective adjustment		2019
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	266,338	120,000	–111,729	4,346	–367	254,088
Total liabilities from financing activities	**266,338**	**120,000**	**–111,729**	**4,346**	**–367**	**254,088**

As of December 31 In CHF thousand	2019	Cash-effective adjustment		Non-cash-effective adjustment		2018
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	254,088	110,000	–92,692	10,638	–544	226,686
Total liabilities from financing activities	**254,088**	**110,000**	**–92,692**	**10,638**	**–544**	**226,686**

Accounting policies
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.

The Group recognizes a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

5.4 Equity

Share capital

As of December 31, 2020, 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, 2020.

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 purchased own shares held as treasury shares at a weighted average purchase price of CHF 49.75 pursuant to the share-based payment plans as shown in note 4.2. As of December 31, 2020, the Group held 8,327 own shares (prior year: 12,683).

Dividends

VAT declared and paid following dividend half from the reserves from capital contributions and half from retained earnings.

In CHF thousand	2020	2019
Dividends paid	**119,961**	**119,941**

The Board of Directors proposed a dividend in the amount of CHF 4.00 per share for the financial year 2019 (prior year: CHF 4.00 per share). The dividend was approved and paid out in May 2020.

Earnings per share

In CHF thousand	2020	2019
Basic earnings per share (in CHF)	**4.45**	**2.50**
Net profit	133,461	74,825
Weighted average number of shares outstanding (in thousands of units)	29,990	29,986

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 4.2.

In CHF thousand	2020	2019
Diluted earnings per share (in CHF)	**4.45**	**2.49**
Net profit	133,461	74,825
Weighted average number of shares outstanding (in thousands of units)	30,006	29,999

Accounting policies

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.

5.5 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	2020	2019
Financial assets measured at amortized cost		
Cash and cash equivalents	137,871	109,822
Trade and other receivables	91,827	88,784
Accrued income	36	63
Long-term loans	846	831
Total financial assets recorded at amortized cost	**230,580**	**199,500**
Financial assets measured at fair value		
Equity shares	31	34
Forward exchange contracts	6,840	3,150
Total financial assets measured at fair value	**6,871**	**3,184**
Financial liabilities recorded at amortized cost		
Trade and other payables	32,877	51,003
Accrued expenses	10,546	10,037
Other non-current liabilities	180	195
Loans and borrowings	258,350	246,906
Finance lease liability	7,988	7,183
Total financial liabilities recorded at amortized cost	**309,942**	**315,323**
Financial liabilities measured at fair value		
Forward exchange contracts	26	53
Total financial liabilities measured at fair value	**26**	**53**

Accounting policies

Classification The Group classifies non-derivative financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL) and financial assets measured at amortized cost. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

A financial asset measured at amortized cost is a non-derivative financial asset if both of the following conditions are met and if it is not designated as FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. 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 category financial assets measured at amortized cost comprise “Cash and cash equivalents”, “Trade and other receivables”, “Accrued income” and “Long-term loans” on the balance sheet.

Recognition and measurement Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Loss rates are based on actual credit loss experience over the past years and current conditions. Current conditions are reflected in the development of the country risk premium of the Group's sales region. The allowance matrix is reviewed periodically to determine an adequate impairment provision. Losses on trade and other receivables are not material. Individual impairment provisions are recorded for accounts where collection cannot be expected.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost 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.

5.6 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, JPY and KRW. 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 risk is monitored periodically. The foreign exchange exposure of these investments is actually not material for the Group and is not hedged.

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, 2020 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	236,123	155,706	80,417
EUR/CHF	31,481	21,180	10,300
JPY/CHF	58,744	27,122	31,622
KRW/CHF	13,037	1,378	11,658

As of December 31, 2019 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	272,508	215,781	56,727
EUR/CHF	26,000	17,477	8,523
JPY/CHF	67,300	32,297	35,002
KRW/CHF	10,414	953	9,461

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, 2020, the cumulated impact on net financial assets/liabilities would be as follows:

As of December 31 In CHF thousand	2020	2019
USD/CHF	3,337	2,387
EUR/CHF	427	359
JPY/CHF	1,312	1,473
KRW/CHF	484	398
Total	**5,560**	**4,617**

An increase in major currency rates would have a positive (prior year: positive) impact and a decrease would have an equal negative (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.

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.

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 assets 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. The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. No collateral is required.

Further information about trade receivables and the provision for impairment of trade receivables is provided in note 3.1.

With respect to trade receivables, the Group has two main customers representing 37% (prior year: 35%) 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 31.12.2020 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	32,877	–32,877	–32,857	–20			
Accrued expenses	10,546	–10,546	–2,565	–7,981			
Other non-current liabilities	180	–180			–180		
Loans and borrowings	258,350	–267,268	–60,826	–2,250	–3,000	–201,192	
Lease liabilities	7,988	–8,642	–657	–2,443	–2,318	–982	–2,242
Non-derivative financial liabilities	**309,942**	**–319,513**	**–96,904**	**–12,695**	**–5,498**	**–202,174**	**–2,242**
Forward exchange contracts used for hedging: – Outflow	26	–11,306	–3,319	–7,987			
– Inflow		11,280	3,309	7,971			
Derivative financial liabilities	**26**	**–26**	**–10**	**–16**			

At 31.12.2019 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	51,003	–51,003	–45,079	–5,924			
Accrued expenses	10,037	–10,037	–4,526	–5,511			
Other non-current liabilities	195	–195					–195
Loans and borrowings	246,906	–262,638	–50,196	–2,250	–3,000	–207,192	
Lease liabilities	7,183	–7,459	–694	–2,020	–2,180	–2,267	–298
Non-derivative financial liabilities	**315,323**	**–331,332**	**–100,495**	**–15,704**	**–5,180**	**–209,459**	**–493**
Forward exchange contracts used for hedging: – Outflow	53	–11,878	11,878				
– Inflow		11,825	11,825				
Derivative financial liabilities	**53**	**–53**	**–53**				

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 maintain a strong capital basis. 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	2020	2019
Total equity	555,352	523,436
Total balance sheet	1,001,619	972,675
Equity ratio	**55.4%**	**53.8%**

6. Other disclosures

6.1 Income Tax

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	2020	2019
Current tax:		
Current tax on earnings for the period	27,327	20,890
Adjustments in respect of prior periods	–115	580
Total current tax expense	**27,212**	**21,469**
Change in deferred tax	13	2,709
Total deferred tax expense	**13**	**2,709**
Income tax expense	**27,225**	**24,179**

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	2020	2019
Earnings before income taxes	160,686	99,004
Tax at the average group tax rate of 17.02% (previous year: 15.84%)[1]	**27,349**	**15,682**
Effect of tax rates in foreign jurisdictions[1]	304	487
Effect in change of tax rate	–1,341	5,873
Expenses not deductible for tax purposes	3,950	1,690
Income not subject to tax	–4,497	–526
Effect of current-year losses for which no deferred tax asset is recognized	470	20
Withholding taxes included in the tax expenses	811	705
Other tax effects	180	246
Total tax expenses recorded in consolidated income statement	**27,225**	**24,179**
Effective tax rate	**16.9%**	**24.4%**

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

The tax rate in 2020 is lower than in 2019. This is mainly due to a one-time effect in 2019, when the tax reform in Switzerland abolished the privileged tax regimes.

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

January 1–December 31 In CHF thousand			2020			2019
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	19,814	–2,873	16,941	86	–12	74
Changes in the fair value of hedging reserves	1,715	–264	1,451	4,356	–626	3,730

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

January 1–December 31 In CHF thousand			2020			2019
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	356	243	599	658	–59	598

Deferred tax balances

The deferred tax assets and liabilities were as follows:

As of December 31 In CHF thousand			2020			2019
	Deferred tax assets	Deferred tax liabilities	Net closing balance	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	52	–205	–153	2	–596	–594
Inventories	2,984	–3,191	–207	2,996	–2,571	426
Property, plant and equipment	251	–5,969	–5,718	1,434	–5,097	–3,663
Investment properties		–46	–46		–50	–50
Intangible assets		–40,207	–40,207		–41,463	–41,463
Other non-current assets		–62	–62		–90	–90
Other current liabilities	1,656	–252	1,403	624	–128	496
Provisions	1	–1,555	–1,553		–1,552	–1,552
Other non-current liabilities	269	–1	268	37		37
Defined benefit obligations	3,718		3,718	6,047		6,047
Tax losses carried forward	1,904		1,904	2,058		2,058
Non-refundable withholding taxes on future distributions		–1,007	–1,007		–694	–694
Total deferred tax assets/(liabilities) before set-off	**10,835**	**–52,496**	**–41,660**	**13,200**	**–52,241**	**–39,041**
Set-off of balances within the same tax jurisdiction	-4,905	4,905	0	–6,307	6,307	0
Net deferred tax assets/(liabilities)	**5,930**	**-47,591**	**-41,660**	**6,893**	**–45,934**	**–39,041**

The movement in deferred tax balances is as follows:

In CHF thousand	2020	2019
Net tax liabilities as of January 1	**–39,041**	**–36,084**
Recognized in income statement	–13	–2,709
Recognized in OCI	–2,873	–638
Exchange differences	267	390
Net tax liabilities as of December 31	**–41,660**	**–39,041**

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 1.0 million (prior year: CHF 0.7 million).

Tax losses

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The details of the tax losses carried forward for which no deferred tax assets were recognized are as follows:

As of December 31 In CHF thousand	2020	2019
Opening balance	**5,735**	**4,953**
Tax losses for which no deferred tax assets were recognized	2,936	87
Recognition of previous tax loss carry-forward	0	–196
Adjustment prior year	0	940
Tax loss carry-forward expired	–303	0
Exchange differences	–7	–49
Closing balance	**8,362**	**5,735**

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

As of December 31 In CHF thousand	2020	2019
Expiry in 0–3 years	0	309
Expiry after 3 years	8,362	5,426
Total	**8,362**	**5,735**

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.

Accouting policies
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.

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.

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. 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.

Current and deferred tax assets and liabilities are netted whenever they relate to the same taxing authority and taxable entity.

6.2 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.–31.12.2020	01.01.–31.12.2019	31.12.2020	31.12.2019
1 Euro	1.07	1.11	1.08	1.09
100 Japanese Yen	0.88	0.91	0.86	0.89
100 Korean Won	0.08	0.09	0.08	0.08
1 Malaysian Ringgit	0.22	0.24	0.22	0.24
1 US Dollar	0.94	0.99	0.88	0.97

6.3 Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities. As of December 31, 2020, assets in the amount of CHF 0.7 million were pledged (prior year: no assets were pledged).

6.4 List of subsidiaries

The subsidiaries of the Company as of December 31, 2020, 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, Grenoble	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%
Netherlands	VAT Netherlands B.V., Utrecht	D	EUR	0	100%
Romania	VAT Romania S.R.L., Arad	D/P	RON	7,787	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	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

Accounting policies
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.

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.

6.5 Subsequent events

The Company has evaluated subsequent events through March 3, 2021, which represents the date when the consolidated financial statements were approved.

6.6 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020, and earlier application is permitted; however, the Group has not early applied the new or amended standards in preparing these consolidated financial statements.

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 2020 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 74 to 115) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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 2020 amounted to CHF 692 m (2019: CHF 570 m) and are primarily related to the sale of vacuum valves, bellows and service support.

Revenue is a key performance indicator and therefore in the focus of internal and external stakeholders. VAT Group recognizes 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 or order confirmations. There is a risk that revenues may be recognized 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

When performing the audit, we had a focus on the appropriate recognition of revenue transactions, in accordance with the Group's accounting policies.

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 with reference to shipping documentation to either side of the balance sheet date with focus on revenues recognized in December 2020. Moreover, we obtained trade debtors confirmations and if required performed alternative procedures, such as subsequent cash-receipts or traced our samples taken to invoices and delivery notes.

In addition to the procedures described above, we considered the risk of management override by testing the monthly key control of matching sales subledger to the general ledger. Together with this control we checked whether any other persons than accounting staff have performed journal entries in the revenue accounts and if user access rights in the general ledger are appropriately allocated.

Moreover, we assessed the Group's disclosures relating to revenue recognition.

For further information on revenue recognition refer to the following: Note 2.2 "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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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, 3 March 2021

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2020

Income statement

January 1–December 31 In CHF thousand	Note	2020	2019
Dividend income		160,000	179,800
Interest income		1,915	2,299
Other financial income	3.1	627	573
Total income		**162,541**	**182,672**
Interest expenses		–3,934	–4,355
Other financial expenses		–1,720	–1,456
Personnel expenses		–902	–995
Other operating expenses	3.2	–1,449	–1,454
Total expenses		**–8,005**	**–8,259**
Direct tax		–127	–140
Gain for the period		**154,409**	**174,274**

Balance sheet

As of December 31 **In CHF thousand**	**Note**	**2020**	**2019**
Assets			
Cash and cash equivalents		190	306
Other receivables due from third parties		42	81
Prepayments and accrued income		722	687
Current assets		**954**	**1,074**
Financial assets	3.4	1,018	1,650
Loans granted to companies in which the entity holds an investment		161,306	115,153
Investments in subsidiaries	3.3	502,850	502,850
Non-current assets		**665,174**	**619,653**
Total assets		**666,128**	**620,727**
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	60,000	49,188
Other payables	3.5	383	616
Short-term provisions		150	140
Accrued expenses and deferred income	3.6	3,187	2,980
Current liabilities		**63,720**	**52,923**
Long-term interest-bearing liabilities	3.4	200,000	200,000
Non-current liabilities		**200,000**	**200,000**
Total liabilities		**263,720**	**252,923**
Equity	3.7		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		75,333	135,313
– Other capital reserves		3,682	3,682
Accumulated gains:			
– Profit/loss brought forward		166,398	52,105
– Gain for the period		154,409	174,274
Treasury shares	3.8	–414	–571
Total equity attributable to owners of the Company		**402,408**	**367,804**
Total liabilities and equity		**666,128**	**620,727**

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. VAT Group AG is listed on the SIX Swiss Exchange since April 14, 2016.

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 income statement and balance sheet items

3.1 Other financial income

Other financial income for the year 2020 consists of gains from the disposal of treasury shares and amounts to CHF 0.5 million (prior year: CHF 0.2 million). The remaining amount results from net foreign exchange gains on financing activities.

3.2 Other operating expenses

As of December 31 In CHF thousand	2020	2019
Insurance, duties and other charges	118	89
Rental expenses	5	5
Travel expenses	13	16
Consulting and audit fees	539	397
Administration expenses	774	947
Total other operating expenses	**1,449**	**1,454**

3.3 Significant investments in subsidiaries

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

Country	Company	Currency	Capital in thousands		Share in capital and voting rights	
			2020	2019	2020	2019
Luxembourg	VAT Management S.à r.l.	CHF	30	30	100%	100%

The indirect investments are shown in note 6.4 of the consolidated financial statements of VAT Group.

3.4 Interest-bearing liabilities

As of December 31 In CHF thousand	2020	2019
Short-term interest-bearing liabilities due to third parties	60,000	49,188
Total short-term interest-bearing liabilities	**60,000**	**49,188**
Long-term interest-bearing liabilities due to third parties	200,000	200,000
Total long-term interest-bearing liabilities	**200,000**	**200,000**

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

As of December 31, 2020 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 0.95%	2023	60,000
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at 31.12.2020				**260,000**
Thereof:				
Current				60,000
Non-current				200,000

As of December 31, 2019 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR 1m + 1.15%	2023	24,188
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 1.15%	2023	25,000
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at 31.12.2019				**249,188**
Thereof:				
Current				49,188
Non-current				200,000

The carrying amount of the financing expenses in connection with the Revolving Credit Facility (RCF) amounts to CHF 1.2 million as at December 31, 2020. These expenses were capitalized and will be recognized in profit and loss over the remaining duration of the credit facility. As at December 31, 2020, CHF 0.4 million (prior year: CHF 0.4 million) are recognized within "Prepayments and accrued income." CHF 0.7 million (prior year: CHF 1.2 million) are disclosed as "Financial assets."

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). In connection with the bond, financing expenses in the amount of CHF 0.2 million (prior year: 0.2 million) are recognized within "Prepayments and accrued income." CHF 0.3 million (prior year: 0.5 million) are disclosed as "Financial assets." On December 31, 2020, the market value of the bond was CHF 203.6 million.

3.5 Other payables

As of December 31 In CHF thousand	2020	2019
Other payables due to third parties	45	278
Other payables due to companies in which the entity holds an investment	338	338
Total other payables	**383**	**616**

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2020	2019
Accrued expenses and deferred income due to third parties	2,803	2,628
Accrued expenses and deferred income due to governing bodies	384	352
Total accrued expenses	**3,187**	**2,980**

3.7 Equity

As of December 31, 2020, 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, 2020.

3.8 Treasury shares

	01.01.–31.12.2020		01.01.–31.12.2019	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**12,683**	**CHF 45.00**	**15,264**	**CHF 45.00**
Purchase of treasury shares	342	CHF 160.60		
Share-based payments	−4,698	CHF 159.09	−2,581	CHF 108.63
Treasury shares as at December 31	**8,327**	**CHF 49.75**	**12,683**	**CHF 45.00**

On December 31, 2020, VAT Group held 8,327 treasury shares with an acquisition price of CHF 0.4 million.

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, 2020	Voting rights as of December 31, 2019
Rudolf Maag	3,000,570	3,000,570
BlackRock Inc.	1,852,490	below 5%
Capital Group Companies Inc.	1,540,280	below 5%
Invesco Ltd.	below 5%	1,988,203

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	2020	2019
Board of Directors		
Martin Komischke, Chairman	1,582	1,109
Hermann Gerlinger	1,155	916
Heinz Kundert	30,161	34,327
Urs Leinhäuser	4,465	4,247
Daniel Lippuner (since May 14, 2020)	700	n/a
Karl Schlegel	38,184	37,225
Libo Zhang	371	210
Group Executive Committee		
Michael Allison, CEO	508	508
Stephan Bergamin, CFO	243	0
Thomas Berden, COO (since October 1, 2020)	0	n/a
Jürgen Krebs, COO (until January 31, 2020)	n/a	0

As of December 31, 2020 and 2019, 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. VAT Group granted 1,421 shares with a fair value of CHF 173.20 per share for the period 2019/20 (prior period: 1,852 shares, amounting to CHF 0.2 million). As of December 31, 2020, VAT Group AG allocated 911 shares (prior year: 1,125 shares) amounting to CHF 0.2 million (prior year: CHF 0.2 million) to its Board of Directors, which will be transferred in financial year 2021.

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	2020
Balance brought forward	**166,398**
Gain for the period	154,409
Total accumulated gains	**320,808**

The Board of Directors proposes to the General Meeting the following appropriation of available earnings:

In CHF thousand	2020
Dividend payment	–67,500
Total accumulated gains to be carried forward	**253,308**

Appropriation of reserves from capital contributions

In CHF thousand	2020
Reserves from capital contributions as of 31.12.2020	**75,333**
Dividend payment out of reserves from capital contributions	–67,500
Reserves from capital contributions carried forward	**7,833**

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 135 million, half from accumulated gains and half 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.

KPMG

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 2020, 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 120 to 127) for the year ended 31 December 2020 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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	Jan Bellinger
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

St. Gallen, 3 March 2021

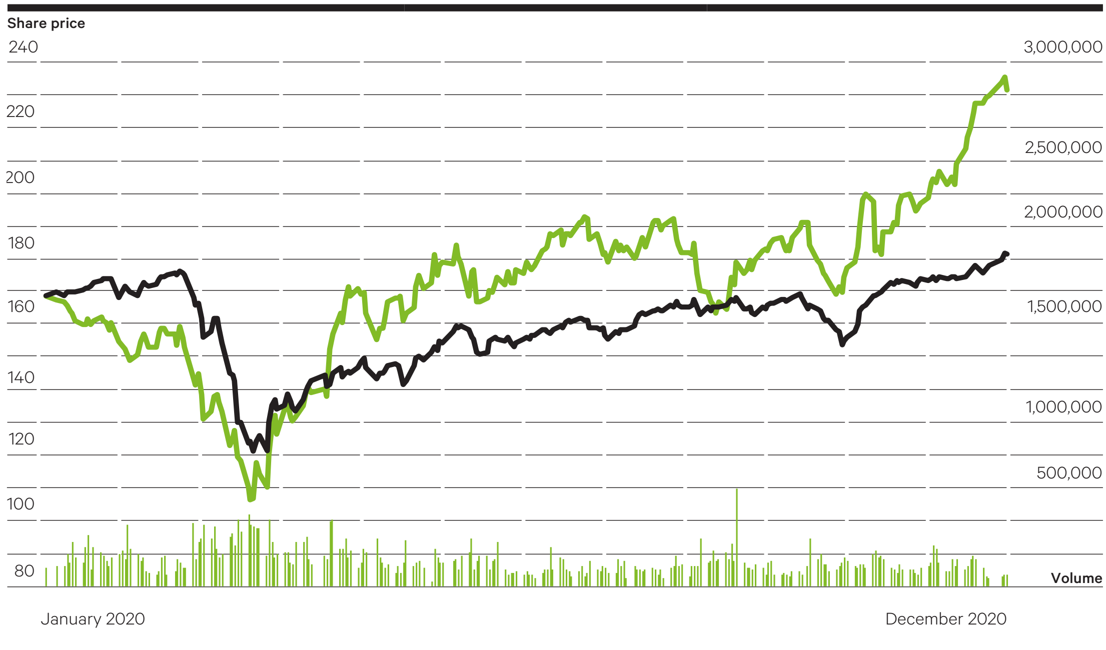
Shareholder Information

Despite the COVID-19 pandemic and the associated market uncertainty, VAT's share price developed positively during 2020. Demand remained healthy in the semiconductor sector, the company's most important market, due in large part to its designation as system relevant during the pandemic. The widespread shift to home office and other remote work activities also accelerated some of VAT's long-term growth drivers, such as Big Data, device interconnectivity, the Internet of Things and artificial intelligence. As a result, VAT again extended its No. 1 market position in 2020. Higher revenues and ongoing internal improvement measures allowed VAT to increase its EBITDA margin by over 4 percentage points compared with 2019, reaching a record 31.4%. Free cash flow also reached an all-time high, allowing VAT to propose to its shareholders a dividend increase to CHF 4.50 per share from CHF 4.00 a year earlier.

Stable shareholder base

VAT's core shareholder base remained largely unchanged compared with 2019, with the exception of Invesco Ltd., a US institutional investment firm, who reduced their position from 6.6% at the end of 2019 to just below 3% at the end of 2020. BlackRock Inc. in turn increased its position in VAT to about 6% in early 2021. As of the publication of this annual report, there are five shareholders who each own more than 3% of VAT's outstanding shares and whose cumulative shareholding amounts to about 28% of VAT's shares. The free float of VAT shares, as defined by the SIX Swiss Exchange, was approximately 89% at the end of 2020. The number of registered shareholders decreased from about 11,500 at the end of 2019 to about 10,500 at the end of 2020.

Share price development



In 2020, the price of VAT shares increased by about 35% from CHF 163.55 to CHF 220.80. During the same period, the Swiss stock market as measured by the SPI ex SLI® TR Index increased by 7%. On May 20, 2020, shareholders received a dividend of CHF 4.00 per share, half of the amount paid from capital contribution reserves, the other half from accumulated gains.

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**	Approximately 89%
Market capitalization as of December 31, 2019	CHF 6.6 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

Switzerland	39%
Other countries	18%
Shares in transit	43%

The vast majority of registered shares not held in Switzerland are held in the rest of Europe (mainly the UK) and the US.

Number of shares held	
1–100 shares	4,655
101–1,000 shares	4,978
1,001–10,000 shares	659
10,001–100,000 shares	116
100,001–1,000,000	17
More than 1,000,000 shares	2
Total number of shareholders	**10,427**

Market Capitalization
in CHF bn as of December 31, 2020

6.6

Disclosure of shareholdings
With effect from January 1, 2016, under Art. 110 of the Federal Act on Financial Market Infrastructure (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 43 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 share-holders up to 100% of free cash flow to equity (FCFE) so long as the Group's net debt does not significantly exceed 1x EBITDA.

For the fiscal year 2020, VAT's Board of Directors is proposing to pay out a dividend of CHF 4.50 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

94.4

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

		2020	2019
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	7.24	5.13
Free cash flow per share	CHF	4.90	4.66
Book value per share	CHF	18.59	17.45
Dividend per share[1]	CHF	4.50	4.00
Share price high	CHF	224.20	164.30
Share price low	CHF	107.65	82.15
Closing share price on December 31	CHF	220.80	163.55
Average daily trading volume	Shares	149,347	160,00

1 Proposed by the Board of Directors

Financial Calendar

Date	Event
2020	
Thursday, April 15, 2021	Q1 2021 trading update
Friday, May 7, 2021	Closing of share register, 5.00 pm CEST
Tuesday, May 18, 2021	Annual General Meeting
Thursday, May 20, 2021	Ex-date
Tuesday, May 25, 2021	Dividend payment
Thursday, August 5, 2021	Half-year 2021 results
Friday, October 15, 2021	Q3 2021 trading update

5-year key figures

In CHF million	2020	2019	2018	2017	2016	CAGR 2016–2020
Order intake	724.5	585.0	648.0	736.2	561.9	6.6%
Order backlog as of December 31	145.3	114.5	113.6	165.6	122.1	4.4%
Net sales	692.4	570.4	698.1	692.4	507.9	8.1%
Gross profit	430.1	345.4	419.5	431.9	318.0	7.8%
Gross profit margin	62.1%	60.6%	60.1%	62.4%	62.6%	–
EBITDA adjusted[1]		–	–	215.1	158.1	–
EBITDA margin adjusted[1]		–	–	31.1%	31.1%	–
EBITDA	217.2	154.0	215.2	212.2	149.6	9.8%
EBITDA margin	31.4%	27.0%	30.8%	30.6%	29.5%	–
EBIT	176.3	107.7	179.7	178.7	118.3	10.5%
EBIT margin	25.5%	18.9%	25.7%	25.8%	23.3%	–
Net income[2]	133.5	74.8	135.7	115.7	67.2	18.7%
Net income margin	19.3%	13.1%	19.4%	16.7%	13.2%	–
Basic earnings per share (in CHF)	4.45	2.50	4.53	3.86	2.43	16.3%
Diluted earnings per share (in CHF)	4.45	2.49	4.52	3.86	2.42	16.4%
Cash flow from operating activities	172.8	157.7	171.7	155.6	146.4	4.2%
Capex[3]	25.9	18.0	48.0	47.6	19.2	7.7%
Capex margin	3.7%	3.2%	6.9%	6.9%	3.8%	–
Free cash flow[4]	147.0	139.9	123.9	108.5	128.1	3.5%
Free cash flow margin	21.2%	24.5%	17.7%	15.7%	25.2%	–
Free cash flow conversion rate[5]	67.7%	90.8%	57.5%	51.1%	85.6%	–
Free cash flow to equity[6]	143.0	135.4	119.6	104.4	117.5	5.0%

As of December 31 In CHF million	2020	2019	2018	2017	2016	CAGR 2015–2019
Total assets	1,001.6	972.7	968.2	991.1	883.4	3.2%
Total liabilities	446.3	449.2	404.0	433.1	972.8	–17.7%
Equity	555.4	523.4	564.2	558.0	510.6	2.1%
Net debt	128.5	144.3	147.6	143.7	133.9	–1.0%
Net debt/EBITDA	0.6	0.9	0.7	0.7	0.9	–9.8%
Invested capital[7]	423.8	356.1	358.3	327.0	246.1	14.6%
NOPAT[8]	161.0	103.4	155.2	159.6	110.1	10.0%
Return on invested capital (ROIC)	41.3%	28.6%	43.3%	48.8%	44.7%	–
Dividend per share[9] (in CHF)	4.50	4.00	4.00	4.00	4.00	–
Payout ratio[10]	94.4%	88.6%	100.4%	115.0%	102.1%	–
Number of employees[11]	2,041	1,810	1,712	1,946	1,439	9.1%

1 Adjusted EBITDA in 2015, 2016 and 2017 excludes one-off items related to the IPO in April 2016.
2 2015 includes interest cost on shareholder loan.
3 Capex comprises purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
4 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
5 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
6 Free cash flow to equity is calculated as cash flow from operating 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.
7 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks and deferred income taxes) (current income tax liabilities) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities). less current liabilities (excluding loans & borrowings and and deferred income tax liabilities).
8 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 (excluding foreign exchange gains/losses from financing activity) less taxes at the average Group rate of 16% (previous year: 16%).
9 2020 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 18, 2021.
10 Percentage of free cash flow to equity proposed to be paid out as dividend
11 Number of employees expressed as full time equivalents (FTE).

Technical Glossary

AI (artificial intelligence) The simulation of human intelligence in machines that are programmed to think like humans and mimic their actions.

ALD (atomic layer deposition) An advanced deposition technique that allows for ultra-thin films of a few nanometers to be deposited in a precisely controlled way.

Control Valve A valve that controls pressures or gas flows in different steps of semiconductor manufacturing.

Deposition The transfer of material onto a semiconductor wafer, including physical vapor deposition (PVD), chemical vapor deposition (CVD), and molecular beam epitaxy (MBE).

Etching A process for removing material in a specified area through a chemical reaction or physical bombardment.

EUV (extreme ultraviolet) lithography Uses light with a wavelength of 13.5-nm to manufacture transistors and interconnect wiring of a semiconductor chip.

Fab Common name for a semiconductor fabrication plant, a factory used to manufacture integrated circuits.

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.

Internet of Things (IoT) The interconnection via the Internet of computing devices embedded in everyday objects, enabling them to send and receive data.

Isolation Valve Used to seal high-vacuum process chambers from neighboring processes that are at different pressure levels.

Liquid-Crystal Display (LCD) A type of flat-panel display that uses an array of backlit thin-film transistors to control each pixel.

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.

Mechatronics Multidisciplinary branch of engineering that focuses on electrical and mechanical systems, and includes robotics, electronics, telecommunications, control and product engineering.

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. 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) 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.

Subfab The area underneath a semiconductor fabrication plant that contains support equipment (pumps, etc.) for processing tools.

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.

Transfer Valve Used to move substrates such as wafers, glass panels and other materials into and out of manufacturing process chambers.

Vacuum A pressure below the ambient atmosphere
- Typical atmospheric pressure at sea level: 1,000 millibars (mbar)
- Pressure at typical cruising altitude for commercial aircraft: 100 mbar
- High vacuum used in coating processes: 10^{-8} mbar (1 one-hundred-millionth of a millibar)
- Ultra-high vacuum used in deposition processes: 10^{-10} mbar (1 ten-billionth of a millibar)

Wafer The thin, circular or nearly square slices of mono- or multicrystalline silicon on which semiconductors and PV cells are built.

Contact

This complete report is only available in English.

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Forward-looking Statement
Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should be considered to be forward-looking statements. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the company to be materially different from those expressed or implied by such forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the company’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the performance, security and reliability of the company’s information technology systems, political, economic and regulatory changes in the countries in which the company operates or in economic or technological trends or conditions. As a result, investors are cautioned not to place undue reliance on such forward-looking statements.

Except as otherwise required by law, VAT disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this report.

OUTLOOK 2021:

VAT expects the Internet of Things, cloud computing and other digitalization megatrends to continue to drive mid-term growth. These have been boosted by pandemic-related trends, such as increased home office and online commerce.

For 2021, the company expects net sales*, EBITDA, EBITDA margin, net income and free cash flow to grow compared with 2020.

* At constant foreign exchange rates