ANNUAL REPORT 2023:

Strong results delivered – albeit below the record levels of 2022 – in a challenging market environment. VAT continues to invest in its readiness to capture the market recovery expected during 2024.

VAT is the leading supplier of high-vacuum valves and related services used in the manufacture of semiconductors, displays, solar cells and a variety of other high-precision products. The company reported the expected lower results as the business dynamics slowed, coupled with increasing macroeconomic uncertainties. On the back of its leading market position and technology strength, VAT continuously invests in innovation and production capacity to fully participate in the coming growth opportunities and aims to outgrow the market during the expected recovery in 2024 and beyond.

PASSION. PRECISION. PURITY.

VAT strives to deliver strong business performances through the cycle. In partnership with our customers, we leverage our technology leadership and knowledge to provide innovative, high-value vacuum solutions. This mission is based on our four passions: Integrity, Teamwork, Customer Centricity and Innovation. We believe this is the road to sustainable value creation for our customers, employees, suppliers, shareholders, and for the communities in which we operate. VAT – we change the world with vacuum solutions.

Key figures

In CHF million	2023	2022	Change
Order intake	691.9	1,209.9	–42.8%
Order backlog as of December 31	291.6	517.7	–43.7%
Net sales	885.3	1,145.5	–22.7%
Gross profit	546.7	733.7	–25.5%
Gross profit margin	61.7%	64.1%	–
EBITDA	270.9	400.4	–32.3%
EBITDA margin	30.6%	35.0%	–
EBIT	228.6	359.4	–36.4%
EBIT margin	25.8%	31.4%	–
Net income	190.3	306.8	–38.0%
Net income margin	21.5%	26.8%	–
Basic earnings per share (in CHF)	6.35	10.23	–37.9%
Diluted earnings per share (in CHF)	6.34	10.22	–38.0%
Cash flow from operating activities	256.4	294.0	–12.8%
Capex[1]	69.2	66.2	4.5%
Capex margin	7.8%	5.8%	–
Free cash flow[2]	188.8	228.2	–17.3%
Free cash flow margin	21.3%	19.9%	–
Free cash flow conversion rate[3]	69.7%	57.0%	–
Free cash flow to equity[4]	181.8	224.6	–19.1%

As of December 31 In CHF million	2023	2022	Change
Total assets	1,168.5	1,274.8	–8.3%
Total liabilities	411.3	494.5	–16.8%
Equity	757.2	780.3	–2.9%
Net debt	63.2	36.8	71.7%
Net debt/EBITDA	0.2	0.1	153.8%
Invested capital[5]	599.6	642.6	–6.7%
NOPAT[6]	207.4	317.0	–34.6%
Return on invested capital (ROIC)	33.4%	57.3%	–
Dividend per share[7]	6.25	6.25	0.0%
Payout ratio[8]	103.1%	83.5%	–
Number of employees[9]	2,666	2,991	–10.9%

1 Capex: acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
2 Free cash flow: cash flow from operating activities minus cash flow from investing activities.
3 Free cash flow conversion rate: free cash flow as a percentage of EBITDA.
4 Free cash flow to equity: free cash flow less interest paid.
5 Invested capital is defined as total assets less acquired intangibles and non-interest bearing liabilities.
6 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization plus finance income less taxes at the average Group rate of 16.0% (previous year 16.0%).
7 2023 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 14, 2024; CHF 6.25 per share to be paid from accumulated gains.
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).

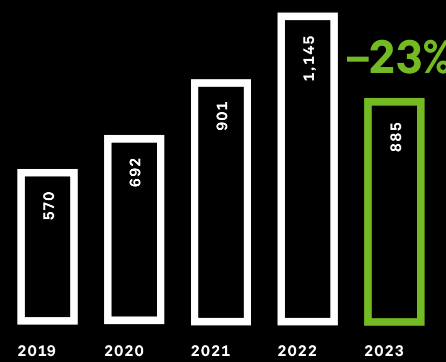
Key figures

Net sales
in CHF million

885

2022: 1,145

Net sales development
in CHF million



EBITDA
in CHF million

271

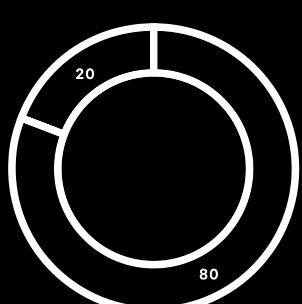
2022: 400

EBITDA margin
in %

30.6

2022: 35.0

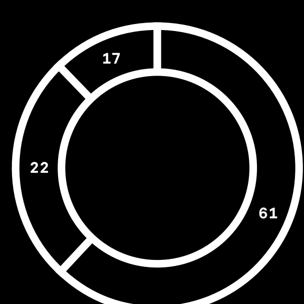
Net sales by segment
in %



80 VALVES
20 GLOBAL SERVICE

2022:
81 VALVES
19 GLOBAL SERVICE

Net sales by region
in %



61 ASIA
22 AMERICAS
17 EMEA

2022:
62 ASIA
26 AMERICAS
12 EMEA

Free cash flow
in CHF million

189

2022: 228

Dividend per share*
in CHF

6.25

2022: 6.25

* 2023 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 14, 2024; CHF 6.25 per share to be paid from accumulated gains.

Dear Stakeholders,

Despite the market headwinds that characterized 2023, VAT continued to benefit from its leadership position in long-term growth markets, driven by global digitalization – including the application and rapid adoption of Artificial Intelligence (AI). This is being augmented by other factors, such as the need for sustainable energy and the increased use of vacuum processes in a wider range of industries. This proliferation of vacuum processes is playing optimally to VAT's core strength in vacuum valves and adjacencies, and is at the core of our sustainable growth strategy and value creation.

As expected, we experienced a softer trading year and consequently our results were lower than the record performance of 2022. Despite these challenging markets, macroeconomic and geopolitical uncertainties – but thanks to the efforts of our colleagues globally – VAT again delivered a very decent set of results overall. Maintaining the EBITDA margin above the 30% mark, despite a drop in sales of about 23% and a significant foreign exchange headwind, is further proof of the company's resilience and ability to weather changes in the business environment.

Despite the slower market in 2023, VAT continues to operate in an industry that is characterized by a variety of strong and sustainable growth drivers. While our business has cyclical swings, our markets are growing over time and periods of increased demand tend to last longer than the temporary softness. VAT constantly monitors and anticipates its customers' current and future needs to always be ready to support them and move quickly to meet their evolving requirements, from both capacity and technology perspectives. This includes having adequate production capacity, providing leading-edge technologies, a comprehensive product offering and employing the most skilled and experienced workforce who are ready and able to deliver.

VAT is also set to continue its success story and further widen its competitive position thanks to the benefits derived from our operational excellence and best-cost supply chains.

After six years at the helm of VAT, the end of 2023 saw the retirement of Chief Executive Officer Mike Allison. On behalf of the board, I would like to thank Mike for his professionalism, commitment and steady leadership of VAT. Over the past six years he has been a key force in leading and shaping our transition process and in putting VAT into the strong position it currently occupies.

VAT continued to focus on innovation, customer intimacy and being an attractive employer to bring the best people in our industry to VAT. In addition, we develop our own people, and our strong internal talent pipeline has enabled us to promote several internal candidates to top jobs in VAT. I was therefore delighted when the Board appointed Urs Gantner as our new Chief Executive Officer. As he takes up his role in 2024, Urs also marks two decades with the company. In addition, we also tapped into our internal talent pool when promoting Loïc Mazet as the new head of our Advanced Industrials business unit following Karin Dahlström's retirement.

In late 2023, the Board of Directors reviewed and confirmed the overall strategy communicated during the Capital Markets Day in December 2022. In practice, this means the previously identified growth and focus areas – and the overall direction for growth – are firmly in place and there was no need for major changes. VAT is on track to deliver on its 2027 targets, assuming underlying assumptions on the semiconductor industry's investments measured by the overall wafer fabrication equipment (WFE) volume remain broadly as forecast at about 135 billion US dollars in 2027.

VAT operates in dynamic and fast-changing markets and 2024 will be no different. We do expect to see gradually improved trading as we meet increased demand due to anticipated renewed investments, especially in the semiconductor industry. Indeed, our ongoing multi-million Swiss franc investments in our Swiss-based Innovation Center and in additional production capacity in Malaysia – even during the downturn – show we have a long-term strategic commitment to innovation, growth and in continuing to meet customer demand.

"These solid results show the company's resilience and ability to weather changes in the business environment."

DR. MARTIN KOMISCHKE
CHAIRMAN OF THE BOARD OF DIRECTORS

As sustainability and Environment, Social and Governance (ESG) in business grows in importance, VAT continues to integrate sustainability considerations – in their widest sense – within our core business. In 2023, VAT published its inaugural set of sustainability targets in its second Sustainability Report. As we continue to build a sustainability focused culture and mindset in the company, we have strengthened our management and governance structures. You can expect to see ongoing improvements in the implementation and transparent reporting of our sustainability related efforts in 2024 and beyond. Separately, our 2023 Sustainability Report outlines performance to date and progress towards our overall targets.

Recognizing that we experienced a tough year, I would like to extend my and the Board's thanks and gratitude to our employees. I would also like to take this opportunity to put on record our appreciation for their cooperation in adjusting to the slower market and business dynamics, which even included a period of short time working in our Swiss facilities. I am in no doubt that our skilled, committed colleagues around the world are central to the long-term success of our business.

Our global production and value chain allows us to adjust capacity and cost while continuing to meet customers' technology and service requirements. Our financial foundation and prudent yet value-generating capital allocation creates a stable platform for our business.

With 2023 behind us, and prospects for the future look brighter, your Board of Directors will recommend a dividend of CHF 6.25 per share and will ask for approval of this payout at the Annual General Meeting on May 14, 2024.

And finally, the Board and I extend our thanks to all our stakeholders. Without our loyal customers, dedicated suppliers and the good standing with the communities VAT operates in, our success would not be possible. We look forward to your continuing support and to working with you to develop and nurture this successful business, now and for the future.

Sincerely,

Dr. Martin Komischke

CEO Interview

Mike, following the record results in 2022, your final year as CEO of VAT has seen a marked slowdown in the semiconductor industry. What has the impact been on VAT?
As we breached the CHF 1 billion mark in net sales for the first time in our company's history, coupled with a record EBITDA-margin of 35%, 2022 was an outstanding year. However, by the middle of that year, we could already see the signs of a market weakness and our swift action and preparation meant we were able to come through it with good results. Looking now at the actual results of 2023 we can say that this downturn was much steeper and deeper than we forecast, exacerbated by the ongoing strength of the Swiss franc against all our major trading currencies. Nonetheless, I am proud VAT has risen to this challenge – being here for our customers, but also for our shareholders and our global team.

How did you notice that we were entering a downturn and what was the reaction?
VAT operates in a long-term growth industry, but during the second half of 2022, we started to notice a slowdown in order intake and a deterioration in some of our end markets. After three years of unprecedented growth semiconductor inventories were at a record high, especially in the memory sector and – coupled with a potential global recession looming – we knew we needed to activate our internal down-side protocols to minimize the impact of the predicted downturn.

However, whilst executing our cost-saving measures, we knew that the next upswing would not be too far away. One of the key success factors throughout the history of VAT is the fact that we always maintain or expand our readiness for the next upturn – this is where we generally gain share and therefore a fast start in all our factories is critical. All our efforts in reducing costs by ending non-essential projects or releasing our temporary workforce were carried out as sensitively as possible, and with the least possible negative impact on our ability to bounce back stronger from this downturn.

What was VAT's performance in 2023 and what stands out for you?
Despite the difficult investment environment in the semiconductor industry, we were still able to post strong results for 2023. We achieved orders of CHF 692 million, which is down 43% on the previous year. Thanks to a strong orderbook we were able to generate sales of CHF 885 million, which is down 23% compared to the record of 2022. The 2023 EBITDA margin amounted to 30.6%. While this is below our stated mid-term range of 32 to 37%, we were able to move our second half margin of 32.1% into that range again. These numbers show that while market conditions are difficult, VAT is performing strongly. Our large exposure to the semiconductor sector, where the slowdown was strongest, was somewhat buffered as we benefited greatly from our Advanced Industrials (ADV) business. Its lower overall business volatility and the strategic initiatives paid off with ADV growing its sales by about 20% in 2023.

Beyond financials, what else has VAT accomplished for 2023?
2023 was a year of two halves. As mentioned, we saw the slowdown in the first half and expected a gradual improvement in the second half, so we continued investing in our next ramp-up phase. This includes continued investment in our Malaysia operations, R&D efforts, the development of new products which are either in qualification, or starting early trials with key customers to be launched in due course. In Haag, we broke ground for the new Innovation Center, which we plan to open in early 2025. This will be the new central hub for the VAT team – offering engineers the space to develop next generation products, interact with our clients, but also offering a canteen – where our team can both relax and share downtime together. We are ready to harness this next phase of growth that the industry will serve up.

In your outlook for 2024 you sound certain that it will be a better year than 2023. What gives you this confidence?
2024 will be a mixed year – call it a transitional year. We expect to see steady improvement in the market environment and this should accelerate during the second half of 2024. Market observers predict today, that 2025 will be a year of substantial investment growth in semiconductor manufacturing capacity and typically VAT would expect to see orders for these investment plans to materialize up to six months ahead of this growth.

There are several factors that make such a scenario plausible. First, there is a consensus that our market will grow towards USD 1 trillion in semiconductor revenues by the end of the decade, fueled by the digitalization of our society. Second, there are more than 95 semiconductor fabrication plants that are currently being built and are expected to come online over the next two to three years.

MICHAEL “MIKE” ALLISON, CEO UNTIL DECEMBER 31, 2023

“Striving for breakthrough innovation, customer satisfaction and cost excellence resulted not only in strong 2023 results but also positions us for outperformance in the upcycle.”

We anticipate the adaption of new production technologies like ALD or EUV to increase in the next years. New semiconductor technologies, like Gate All Around (GAA) or High Bandwidth Memory (HBM), will require new production and more 'capital intense' equipment. Shorterterm, the restricted capacity in the newer memory fabs is creating demand for high-end wafer fab equipment – which we are benefiting from.

Looking back at your time at the helm, what do you think has changed the most at VAT in the past six years that you have been CEO?
Over the last 60 years, all VAT CEOs had the drive to move the company forward with its products and services. In addition, the last two had the task of moving VAT from a family-owned company to a stock listed company, without losing the special cultural aspects that made VAT great.

Over the last six years, it was therefore important to instill a “large company” mentality within VAT, bringing in processes, organizational structure, global supply chain and production capacity to enable our growth. We also put a strong key account structure around our top 10 customers and this, together with our relentless focus on technological and engineering differentiators, has put us in the commanding position that we occupy today. My predecessors also had a great vision to invest at the right locations at the right time. Developing plans for building a second manufacturing site – in addition to the one in Switzerland – in Malaysia to be closer to our customers were crucial to our recent success and gains in market share.

However, that progress would not have been possible without the great VAT-family. I have worked in several companies and in many different countries and cultures, but what I have found here at VAT is truly unparalleled. There is this sense of pride in what we do, they are excited by the opportunities ahead and there is a true spirit of togetherness. Despite having almost three times more employees compared to the time of the IPO in 2016, these developments have not fundamentally changed the family spirit I found when I joined VAT. Combining tradition with the great ideas new people bring, enables us to continuously evolve and it's this that makes this company unique.

Why are you leaving now, at the beginning of an upturn?
I decided at the end of 2022 that it was the right time for me to leave by the end of 2023. I just turned 61 having worked in the semiconductor industry for nearly 40 years and having asked a lot from my family in all the moves we did during that time, it was the right thing to do. As well as giving me more time to spend with my family, I also realized that it was the optimal point in the cycle to hand over the business to the next generation. Leaving in an upcycle is not easy as the demands on the CEO and executive team are extreme, so it made sense to have a year of preparation and handover to the new team at that point. As soon as Urs was appointed, we spent almost six months planning the future and getting the company ready for the next stage of growth and I believe this transition was optimal for the company. And now, as we see 2024 as a year with improving business conditions, it's the right time to finally pass the reins to the team who has enabled VAT to flourish and see them reap the benefits from this hard work.

What do you expect your successor Urs Gantner to do differently?
Seeing Urs taking over the CEO role from me fills me with great pride and joy. For six years, I worked with Urs, first in his role as business unit head Semiconductor and for the last 18 months in his role as Executive Vice President of the Semiconductor Solutions Group (SSG). If anyone can continue the VAT legacy, while at the same time embracing the future opportunities that our newly developing adjacencies business will offer, Urs is the perfect choice. Having been with VAT for nearly 20 years, Urs has been instrumental in developing our semiconductor business and designing our mid-term strategy, together with the VAT leadership team and the Board of Directors. So, I expect limited change to the big picture strategy, but I am sure Urs will bring his own personal and distinctive style to the way he leads VAT in the future. I thank him for being an excellent colleague and wish him all the best in his new role.

What do you consider to be your legacy at VAT?
The successful ramp-up of all our facilities and reaching over CHF 1 billion in sales is a highlight for me, but so was building a fully engaged team who are ready to take on the next stage of our journey to CHF 2 billion. If I'd have to choose one thing I'm most proud of, then it must be the oneVAT spirit that we have cultivated and deepened, and consequently watching levels of engagement with our colleagues improve year by year. I enjoyed sponsoring a campaign for our employees and to see how diverse their outside-of-work activities are – and how they translate the enthusiasm into our VAT passions of integrity, teamwork, customer centricity and innovation. It has been a great privilege to lead such a wonderful, skilled and committed extended team and I will look forward to witnessing their success, but from now on, from the outside.

What will you do now, Mike?
For the moment, I'm enjoying that I don't have to respond to e-mails! I will be working on my golf swing but will also stay very close to the industry. After a break in 2024, I expect to take on a few board positions and also get involved in industry projects. Having been involved in the semiconductor industry for around 40 years, this is like an extended family to me, so I will keep connected and continue to fight hard to make semiconductors a priority in Europe.

Our Milestones – Anticipating the next growth phase

1965
Founded in Flawil, Switzerland

VAT was founded in Flawil, Switzerland, in 1965, producing vacuum valves used in scientific research. Our founder Siegfried Schertler wanted to focus and decided to purchase the factory grounds in Haag we now call our headquarters. While the scientific research market was his starting point, Schertler also entered different markets that required precision manufacturing in high-vacuum environments, such as thin-film industrial coatings and optics.

1988
Entry into semiconductor sector

In the late 1980s, VAT was ready to engage with the semiconductor sector as the number of ever smaller node sizes built on a single silicon chip grew substantially, increasing the purity requirements in the production of these semiconductors.
The engineering and design competencies leading to near particle-free manufacturing environments established VAT's reputation as a leader in innovation and product quality – building the foundation for today's market position with its customers in the semiconductor industry.

2016
Listing on SIX Swiss Exchange

With a change of ownership in 2014, VAT had the opportunity to re-organize and strengthen its internal processes in preparation of substantial future business growth and the anticipated stock exchange listing. During two years under private equity ownership, the transition from a family-owned company to a public company was prepared, laying the foundation for growing the market share in the semiconductor industry from ca. 50% in 2016 to over 70% in 2023.

2019
Short-lived market slowdown

Following remarkable market growth from 2016 to 2018, some overcapacity in the semiconductor manufacturing equipment market led to a short-lived market slowdown. During this approximately 12 months of lower demand, VAT invested heavily in Malaysia to create new production capacity, anticipating strong growth in the following years, especially in semiconductors.

2023
Ready for next growth phase

Following VAT's record-breaking CHF 1.15 billion in sales in 2022, the market again entered a phase of lower volumes. However, in anticipation of the next upcycle, VAT continued its multiple operational optimization programs.
At the same time the company invested in both R&D – with the start of the construction of the new Innovation Center in Haag – and further capacity expansions in Malaysia with the completion of Plant 1B in Malaysia. At the same time, it maintained the capability to quickly react to the next market upturn to the fullest, and in anticipating and serving its customers' needs, remained at the heart of all the measures taken in 2023.

It is in VAT's DNA to prepare for the next period of growth and this will hold true for 2024/2025 as the sector returns to higher investment activity and expansion.

A sustainable strategy for competitive success

The Digital Revolution is one of the most important trends shaping – and fundamentally transforming – the lives of people everywhere. It enables more and more people to share information instantly, improve daily routines and drive innovation. Economic growth in many areas depends on it and it enables more efficient use of resources. Working models have changed thanks to the use of digitalization, allowing people to work and learn remotely thereby, reducing the environmental impact of travel. Many achievements in modern healthcare would not have been possible without the use of digital devices, but perhaps the biggest positive impact of digitalization is society's ability to address one of the most urgent global challenges – climate change – in ways that would have been unthinkable just a few years ago. Ultimately, digitalization has the potential to further improve the quality of life and equality of opportunity for millions, while at the same time playing a role in limiting the negative environmental impacts on our planet.

This new digital world relies on more complex and powerful semiconductors, and VAT plays an important role in this transformation. Manufacturing these advanced devices can only be done in the purest vacuum environment, and VAT's leading-edge vacuum valve technology is a key contributor to that process.

The contribution digitalization can make to business globally was highlighted in 2023 with the mass adoption of Artificial Intelligence (AI) with OpenAI and Bing creating the ability for users to create new applications and even new business models. For AI to deliver on its promises, the latest technologies in semiconductor design and production are required and VAT's technology and market leadership in advanced semiconductor manufacturing positions the company to capture the growth potential presented by these technologies.

Higher semiconductor performance and lower energy hunger drive technology and innovation

The semiconductor is digitalization's technological powerhouse, and it has developed beyond all recognition from the pioneering devices of more than 60 years ago. But it may still be early days in the race to increase processing power, while reducing size and power consumption. Back in 1956, IBM developed a data storage device with a capacity of five megabytes that weighed about a ton. Today's most powerful high-capacity micro SD memory chip stores 1.5Tb and weighs less than 5 grams. In 2015, the volume of data and information created, captured, copied, and consumed globally amounted to some 16 zettabytes (10^21 bytes), and this number is expected to grow more than ten times by 2025 to over 180 zettabytes. The expected growth has accelerated over the past years and is predicted to continue at least throughout this decade. To make this possible, the value of semiconductors to process or store all this data is forecast to reach more than USD one trillion by 2030, up from about USD 600 million in 2023.

To handle this expected data growth, not only a larger number of semiconductors is required but even more importantly faster and less energy consuming ones are needed. It is estimated that electricity consumption by data centers around the globe today represents between 240 – 340TWh or around 1.0% – 1.3% of total global final electricity demand. In addition, another 110TWh or 0.4% of final electricity demand is estimated to be used by cryptocurrency mining. Reducing this energy hunger by developing more efficient semiconductors is therefore a key priority.

By "printing" microscopic transistors, or integrated circuits (ICs) onto a silicon wafer, semiconductors can store and process vast amounts of information. The more ICs that can be printed onto a wafer or chip, the faster the chip performs. Today's semiconductors routinely contain ICs in node sizes of 5 – 10 nanometers, smaller than the average virus. Nodes of 3 nanometers are becoming more common – like in the latest generation of smartphones – and the industry is already talking about nodes of 1 – 2 nanometers. That means that a chip the size of a fingernail, containing not only billions of transistors and being immensely powerful, while at the same time consuming less energy than semiconductors with larger node sizes.

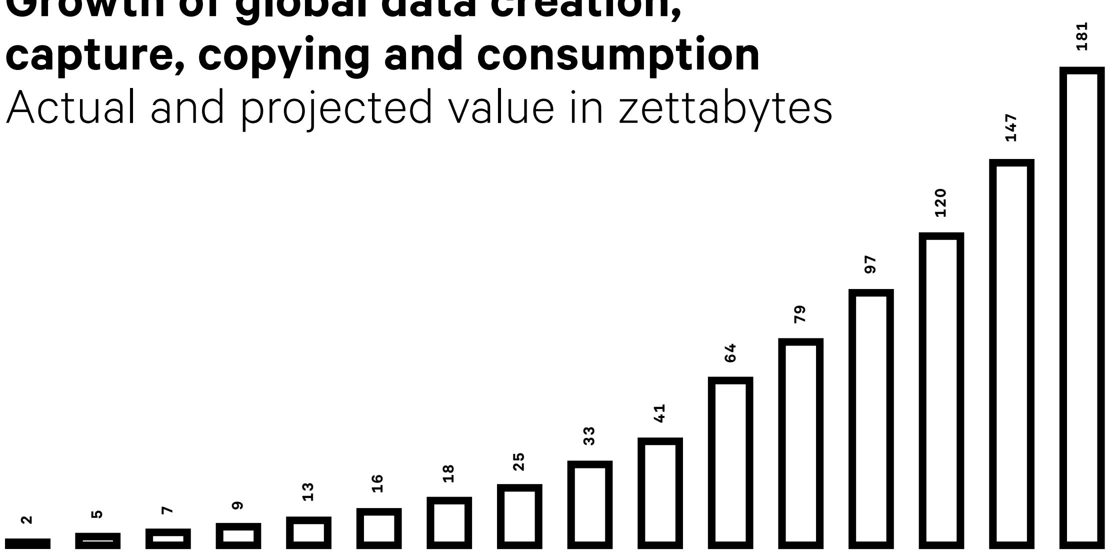
Designing and manufacturing at this 'nano' scale becomes ever more demanding and presents a multitude of challenges. Typically, more than 1,500 steps are required to produce a final semiconductor, including lithography, deposition, etching, packaging, and inspection. The entire process takes up months from start of manufacture to the final product. Eliminating contaminants from the whole process therefore is a key success factor. Even the tiniest particle landing on a chip during fabrication can significantly reduce the chip's performance or cause it to fail. As the world needs more semiconductors and becomes more dependent on them in almost every activity, manufacturing purity and precision become paramount to increase the production yield to the highest possible level.

With specially designed and manufactured valves that ensure an extremely pure vacuum chamber in which semiconductors are made, VAT provides that kind of precision. VAT valves create an extremely tight seal between process chambers, isolating chambers from one another and the external environment, as well as controlling the volume and pressures of gases moving in and out of the chambers. This ensures the vacuum remains as particle-free as possible as wafers are moved from one chamber to the next. Similar processes are also used to manufacture high-resolution displays, such as LED (light-emitting diode) and OLED (organic light-emitting diode) screens used in smart phones and televisions. In addition, other industries are also turning to high-vacuum manufacturing processes where extreme precision is required. These industries are covered through the business unit Advanced Industrials, serving sectors such as solar, specialty industrial coating, life sciences, energy transition and generation, among others. VAT serves all these markets with the most advanced valve technologies, delivered via a flexible global manufacturing and service footprint, and long-standing relationships with some of the world's most exacting customers.

VAT serves a long-term growth market
The semiconductor industry is VAT's largest end market, accounting for close to 80% of net sales in 2023. The overall value of semiconductor sales is expected to reach more than USD 1 trillion by 2030, up from about USD 600 billion in 2023. This represents an annual growth rate (CAGR) of about 9% over the period 2023 to 2030, and almost double the pace of growth during the previous decade.

VAT typically sells its valves to OEMs (original equipment manufacturers) who build the valves into a wide

Growth of global data creation, capture, copying and consumption
Actual and projected value in zettabytes



Source: Statista 2024

variety of tools used in chip fabrication, generally referred to as wafer fabrication equipment (WFE). OEMs then sell these to the ultimate end user, the chip fabricators. In addition, VAT sells a wide variety of service products, ranging from spare parts to customized retrofits that allow customers to adjust production to new demands without automatically having to invest in new equipment.

As a result, and with its major exposure to the semiconductor industry, VAT's most useful measure of demand through the business cycle is investment from semiconductor manufacturers into large fabrication facilities, both new capacity and the retrofit and upgrade of existing equipment. In 2023, global WFE spending was flat at around USD 98 billion*, after having grown substantially from less than USD 60 billion in 2019. It is expected that 2024 will see slight growth of WFE over the 2023 level, with an acceleration in 2025 to around USD 113 billion, followed by around USD 130 billion in 2027.

Leading technology and market position – the basis for VAT's ongoing profitable growth

VAT benefits from these trends – in growing investment needs and higher technological requirements – in two ways.

The first is simply the growing volume of semiconductor units needed as chips are used in more and more devices. There is ever-increasing demand for more digital devices in industry, greater interconnectivity in consumer electronics, expanded cloud computing and data storage related to the growth in AI. Together, these developments require the fabrication of a larger number of chips, which drive increasing investments in additional manufacturing tools, thus generating increasing demand for vacuum valves.

The second factor is the increasing complexity in the manufacturing of the leading-edge semiconductors with node sizes of 3 nanometer and less. These more powerful and more energy-efficient chip designs typically pack more transistors into the same or a smaller space, which in turn require more process steps, higher manufacturing purity and longer times in the process chambers. Vacuum valve performance becomes even more critical to meet these new demands. This market segment is expected to grow by more than 9% a year (CAGR) over the period 2023 to 2028, and nearly double the growth expectations for general WFE.

* VLSITechInsights Inc., January 2024.

Being a preferred supplier while maneuvering successfully through market fluctuations

VAT's largest market, semiconductors, is characterized by phases of strong investments, typically followed by shorter periods of lower demand. The industries investment activities are varying in response to technology advancements, changes in GDP, inflation, consumer spending and other factors. While the spread between peaks and troughs in investments has become less over time, partly due to the integration of semiconductors into a broader range of products today – such as personal digital devices, vehicles, 5G telecommunications networks and cloud computing – compared with the traditional market driven by GDP-related demand for consumer products such as cell phones and personal computers, the swings still exists and need to be dealt with appropriately.

The industry has seen tremendous consolidation from many producers to a much smaller number of strong market leaders – both OEMs and chip fabricators – over the past 15 years. Today these large players have reached a position enabling them to fund research and development, and to achieve the economies of scale needed for long-term profitability. This has created a large global market in which a few participants remain and where the barriers to entry have become prohibitively high. In turn, this situation has also created a substantial consolidation in the supply chain of the OEMs. To be a successful supplier to these OEMS, VAT must constantly demonstrate its willingness and ability to invest in R&D to provide the products and solutions needed in the technological advancements and to also invest proactively in adequate production capacity and an expert workforce.

To fulfill these requirements, VAT has structured its operational model in a highly flexible manner, allowing it to quickly react to market upswings and to support its customers with the quality and quantity of products and services needed, but also to be flexible in adjusting its overall setup in slower market phases without jeopardizing the ability to quickly react to the next market recovery. The resulting deep customer relationships, based on a track record of successful collaboration, enable the company to stay ahead of the curve. As a result, VAT continues to deliver against its strategic targets over the entire business cycle.

VAT's installed base of valves 2023
in million

>1.6

2020: 1.2

As the global technology leader in vacuum valves, VAT is poised to benefit from these two growth drivers.

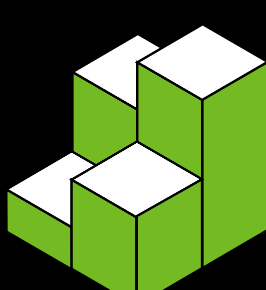
With its very long track record with semiconductor OEM customers – dating back to 1988 – VAT also has by far the largest installed base of vacuum valves in the field – more than 1.6 million in 2023 – and this is expected to grow significantly as a result of the large investments by the semiconductor industry over the last couple of years. These investments will also lead to a larger demand in services over the coming years and will provide VAT with a significant long-term service opportunity in gates, spare parts and consumables, upgrades and retrofits.

Set up to get the most from its competitive advantages
VAT continues to optimize its business setup and operating model to best meet the needs of its customers on a sustainable basis and to gain the greatest benefit from its significant competitive advantages from both the technological and market position perspectives.

The company is structured in two segments. The Valves segment is focused on VAT's core vacuum valves technology and consists of the two business units aligned with its biggest markets: Semiconductors and Advanced Industrials. Starting January 1, 2023, VAT reorganized its Display & Solar activities – previously a separate business unit within the Valves segment – by integrating these activities into the Semiconductor and the Advanced Business unit. The display business became part of the Semiconductor business and the Solar business moved to the Advanced Industrial business unit. The moves were aimed at taking advantage of synergies and economies of scale related to technology, business drivers and customer needs.

Four strategic priorities

Gain market share in all our core businesses and markets



Expand Share of Wallet with adjacencies

The second segment, Global Service, supplies a growing range of service products and solutions to help customers improve their competitiveness through increased productivity and uptime.

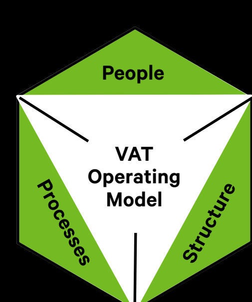
VAT is headquartered in Haag, Switzerland, the location of the company's primary production facility and the site of most of its research and development activities, including a new CHF 40-million Innovation Center that is expected to be inaugurated at the beginning of 2025. VAT also operates the industry's only particle measurement lab in San José, CA, in the US. VAT expanded its manufacturing and engineering footprint to Penang, Malaysia in 2012 to support its growing customer base in Asia. The facility in Malaysia is dedicated to semiconductor industry OEMs. In 2023, the plant had a factory output of about CHF 260 million, slightly lower than in 2022, reflecting the lower market demand for semiconductor manufacturing tools compared to 2022. During 2023, most of the expansion of capacity in Penang in a second factory was completed thanks to a CHF 70-million investment that brings the production capacity in the two Malaysian factories to over CHF 1 billion, which is approximately the total capacity available in Haag, Switzerland.

This expansion of its global production footprint has significantly enhanced VAT's already formidable ability to collaborate closely with customers and precisely develop the solutions they need, to deliver them faster, and provide quicker service. With many customers operating in the Asian region, the production hub in Penang also shortens distribution lines, reducing the environmental impact of transcontinental logistics. It has also increased operational flexibility and, importantly, business continuity, allowing VAT to not only quickly shift production and supply as markets circumstances change, as well as to optimize productivity and cost over the business cycle, but also to guarantee its customers that even in the case of an accident or fire in one facility, their demand for products and services will continue to be met. In addition, a diversified talent pool also fosters innovation, broadening the base of expertise and experience, and providing people with opportunities to develop both personally and professionally, making VAT an ever more attractive employer.

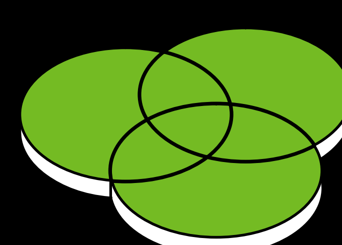
Innovation – pushing the boundaries of technology and setting industry standards

Over nearly 60 years, VAT has developed its position as the technology leader in high-end vacuum valves. The company's strong track record of R&D investment – typically about 5–6% of sales every year – a team of around 300 scientists and research engineers, and a portfolio of some 500 patents, represents a considerable competitive advantage. R&D investments are maintained even in phases of lower market activities as at present so that our OEM customers also have sufficient R&D capacity to develop new manufacturing platforms for the next technology generation. In 2023, VAT investments in R&D amounted to CHF 54 million, or about 6% of sales.

VAT2B: Build strong capabilities and further improve operational excellence



Execute VAT's ESG strategy that creates value for all stakeholders



VAT measures the success of its R&D efforts partly through the number of new specification wins and agreements with customers on new product designs to address specific customer requirements for upcoming generations of new equipment. Specification wins are significant to the extent they fix all the components used in the upcoming manufacturing platforms. A specified component will be used for the entire lifespan or production period of that tool. Winning a specification is therefore important, as it secures business in the future when they translate into revenues as the customer rolls out new tools and equipment over the subsequent three to seven years. In 2023, VAT succeeded in securing a record number of specification wins, predominantly in the leading-edge technologies. Some 120 wins were achieved in 2023 – a new record – giving the company a clearer view of future sales and market position.

Our success with new specification wins is also the result of VAT's close collaboration with customers, which provides an additional advantage. Qualifying a new product with a customer – such as developing the specifications, providing quality assurance and testing, and securing the long-term supply chain – comes with considerable costs. Being able to constantly demonstrate to our customer our willingness and ability to invest in innovation gives VAT an edge with customers.

Based on this combination of technology leadership, deep customer relationships, global production and service footprint, together with highly qualified and engaged people, VAT has been able to steadily outgrow the overall market on a regular basis.

2023 strategy review expects profitable growth to be maintained

In late October 2023, VAT's Board of Directors held its annual strategy review meeting, updating the profitable growth path laid out in late 2022. Overall, the Board did not identify any reason to fundamentally change direction, despite the temporary lower market demand experienced in 2023, and therefore all four key strategic priorities were once again confirmed.

The first element in the strategy is a clear focus on continued market share gains in our core valves business. The company aims to grow its share in the high-end semiconductor market from approximately 75% today to 85% by 2027 by building on its leading-edge valve technology used to fabricate the most advanced chips. This segment of WFE is expected to have the fastest growth and VAT – as the technology leader – is expected to capitalize on this market position and make commensurate gains in this area. The specification wins achieved in the last three years form an excellent basis for this expected growth. In the other, predominantly semiconductor-driven business, Global Service, VAT also intends to increase its market share by tapping more opportunities from its fast-growing installed base of valves, coupled with a tighter focus on its biggest customers. Finally, in the Advanced Industrials business unit, the company will continue to build its offering for the more industrial customers in all regions as the demand for vacuum valves expands into more and more industrial sectors.

The second important growth pillar is to continuously increase customer value by providing complementary technologies in areas that are closely adjacent to the core valves business. These adjacencies include motion components, such as lifters used in moving materials along the wafer pathway and advanced valve modules, comprising multiple valves with other components. In these two adjacencies, VAT has already been able to gain significant market share and intends to continue this trend. Other adjacent products that will start contributing to the VAT business include in precision delivery Atomic Layer Deposition (ALD) gas inlet valves or a new generation of pressure measurement and control technology. These adjacencies are expected to generate more than CHF 300 million in sales by 2027.

Thirdly, developing an organization that has the capabilities to meet the emerging challenges of a dynamic, demanding, and high-growth market is key to our future success. To this end, the company launched the VAT2B program in 2022, whose overall ambition is to achieve flawless execution against the company's strategic priorities. This means, for example, making sure the company can adjust capacity by up to 30% year-on-year, either higher or lower, over the cycle, while remaining on course to achieve its financial targets. VAT intends to build its own digital capabilities to not only improve internal business processes but also to make it easier for customers to interact seamlessly with the company. And VAT is committed to providing its people with a rewarding work environment that fosters engagement and personal growth. Initiatives under the VAT2B program have been accelerated during 2023 with a focus on the target operating model, helping the company to coordinate functions, projects, and investments across the Group.

Finally, VAT aims to strengthen its environment, social and governance (ESG) capabilities. VAT issued its second Sustainability Report in mid-2023, in which it again committed to building a sustainability culture and issuing an inaugural set of ESG-related targets in Green House Gas (GHG) reduction and gender diversity on a management level and in our new hires. For 2024, VAT intends to show improvements in target-setting, continue its participation in sustainability ratings and further increase the engagement score, measured annually through a Group-wide Employee Engagement Survey.

Staying ahead of the curve

With these four strategic pillars, VAT is confident that it will further strengthen its market and technology leadership in all its attractive markets. The positive long-term growth outlook is confirmed and not derailed by temporary market softness which is a periodic feature of the semiconductor industry. The company has reached its No. 1 position by building competitive advantages over many years: deep relationships with customers, a dedication to innovation, a flexible and cost-efficient global footprint, and an engaged and highly skilled workforce. These allow VAT to generate consistent long-term growth, profitability, and cash flow across the business cycle, thereby generating sustainable value for all its stakeholders.

On course to meet mid-term targets but foreign exchange risk to reported numbers

At its last Capital Market Day in December 2022, VAT issued its set of financial targets for the period 2022 to 2027. At the same time, the previously communicated and subsequentially adjusted mid-term targets for the period 2020 – 2025 were confirmed.

Overall, VAT believes that it is on course to meet these targets based on the assumptions shared at the time. These assumptions are based on a Wafer Fab Equipment (WFE) spend in 2025 and 2027 of about USD 110 billion and USD 135 billion respectively and a USD to Swiss franc exchange rate of 0.95 to 1. While the current WFE investment forecasts are broadly in line with the company's assumptions in late 2022, making the like-for-like results in 2025 and 2027 feasible, foreign exchange developments pose a strong headwind. Over the last 18 months, the Swiss franc has substantially strengthened against not only the USD but against all of VAT's major trading currencies. As a result, reported Swiss franc numbers for 2025 and 2027 may be lower than the like-for-like numbers calculated for the exchange rates in the original plan.

On this basis, and including new estimates of revenues to be generated from service and adjacent technologies, VAT in March 2022 adjusted several of its original 2025 targets issued in late 2020. Net sales are forecast to grow at a low double-digit pace in the period 2022 to 2027, compared with the high single-digit rate forecast previously for the 2020 to 2025 period. This would lead to 2027 net sales of between CHF 1.8 billion and CHF 2.2 billion, versus the sales target expected in March 2022 of CHF 1.5 billion by 2025.

The EBITDA margin is forecast to remain in the 32%–37% range over the cycle, while Return on Invested Capital (ROIC) is now expected to be above 45% compared with above 40% for the prior target period.

The table below summarizes the mid-term targets for 2025 and 2027 based on WFE of USD 110 billion and USD 135 billion respectively and a USD/Swiss franc exchange rate of 0.95 to 1:

Financial targets	2020 – 2025	2022 – 2027
Net sales growth	~CHF 1.5 billion	~CHF 1.8 – 2.2 billion
EBITDA margin corridor over the cycle	32–37%	
Return on Invested Capital (ROIC)	>45%	
Capital expenditure as % of sales	4–5%	
R&D investment as % of sales	5–6%	
Free cash flow conversion as % of EBITDA	60–65%	
Dividend payout as % of free cash flow to equity	Up to 100%	

VAT's approach to sustainability

VAT's products play an important role in the technological shifts that will lead to a more sustainable society. That's because they are critical components in the equipment used to manufacture semiconductors which, in turn, make possible many of the innovations needed to address issues such as climate change, efficient resource use, and sustainable economic growth. It is VAT's core belief that business success can only be sustained by integrating a broad range of values into strategic and operational planning. These values include the responsibility to ensure the company operates in a way that minimizes its impacts on the environment, supports its people and the communities in which they work, and manages its business with the highest ethical standards.

VAT has always paid attention to the impact of its manufacturing activities on the environment, reflecting its origins in Switzerland where environmental protection has a long tradition. However, VAT has more recently also begun to address specific environmental challenges, such as climate change, in a more systematic and rigorous way as it is, clear businesses can – and should – play a more active role in managing these risks.

In addition, VAT recognizes that business success also depends on providing employees with opportunities to grow and develop, and on playing a positive role in the communities in which it operates. Building a solid framework within which the company can integrate all these issues into a comprehensive ESG strategy has been a management goal since the company went public in 2016.

One of the first steps came in 2018 when VAT adopted the Responsible Business Alliance (RBA) Code of Conduct. This sets standards on social, environmental and ethical issues and is specifically aimed at the electronics industry. VAT has also adopted other international standards, such as the Universal Declaration of Human Rights, the International Labor Organization's (ILO) conventions, the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, several ISO standards, the UN's Sustainable Development Goals and the Global Reporting Initiative.

Within this framework of standards and principles, VAT then began building sustainability into the company's business strategy, using an ESG framework, based on the company's performance in the areas of environmental impact, social responsibility and governance. This process culminated in 2022 with the integration of sustainability elements to the midterm strategic plan that the company presented to the financial community at its Capital Markets Day in December. This include the allocation of supervisory oversight of sustainability within the Board of Directors and the formal amendment to its Articles of Association in May 2023, that established sustainable development as central to its corporate purpose.

Operationally, several steps were taken. These include a first Materiality Assessment, improved processes for measuring emissions – assisted by external experts and which are more in line with industry standards – and participation in an independent third-party RBA Code of Conduct audit that assessed VAT's corporate social responsibility performance. At the same time, VAT continued to drive ongoing initiatives, such as the annual Employee Engagement Survey, the VAT Cares program to support projects that help people in need around the world and a variety of individual projects in areas such as increased recycling, reducing waste and promoting the use of renewable energy.

Looking ahead, VAT recognizes that strengthened performance in social responsibility and corporate governance and lowering environmental impacts support business success and make VAT a preferred partner for our employees, customers, suppliers, local communities, and shareholders.

VAT's products contribute to a sustainable economy

The maintenance of high-purity vacuums, an area in which VAT is the technology leader, is vital to many of the products and processes needed to address critical issues such as global climate change and natural resource depletion.

E
- Define emission targets
- Complete materiality assessment
- Expand and improve reporting on emissions, waste and water use

S
- Define and implement diversity targets
- Build community engagement
- Improve employer-of-choice status

G
- Change articles of association to line up with ESG goals
- Link executive pay to ESG performance

In many cases, vacuum valves play an indirect role, such as in the manufacture of semiconductors, which are needed, for example, to store energy in a modern smart grid, to operate electric vehicles and to vastly improve the energy and resource efficiency of a wide variety of industrial processes. VAT valves are also needed in the increasingly complex processes of manufacturing the most efficient solar photovoltaic cells, which convert sunlight to electricity and are essential in the successful transition to low carbon power generation. Ongoing efforts to make these solar panels more efficient require more vacuum deposition steps in the production process. VAT valves allow for the extremely high precision and quality required to apply thin films to passivate surfaces, control interfaces and deposit conductive layers of solar cells, all of which are needed to achieve further increases in solar cell efficiency. As the race towards higher cell efficiency continues, lowering the levelized cost of solar energy through more efficient use of space available for panel installation, VAT will be a key partner in these efforts.

A leader in Environment, Social and Governance (ESG)

VAT aims to adhere to the highest sustainability standards. To achieve this goal, and based on the company's first materiality assessment started in late 2022 and concluded in 2023, opportunities were identified to improve measurement of greenhouse gas emissions and other impacts, together with the integration of ESG performance into mid-term strategic and

Climate protection

50%

reduction in CO_2 emissions
by 2025 (vs. 2022)

Leadership diversity

25%

share of women
in leadership positions
by 2027

Workforce diversity

23%

share of women
among new
hires by 2027

25%

share of women
among new hires
by 2030

operational planning. As a result, the company has established its first ESG targets for the period 2022–2030. These targets have been announced in the second VAT Sustainability report published in July 2023. The key targets were on climate protection, leadership and workforce diversity.

During 2023, VAT not only laid the foundation for the ESG targets, but also initiated key efforts to ensure these targets can be successfully realized. One focus was clearly on further measures to be implemented related to Scope 3 greenhouse gas (GHG) emissions. The Board of Directors has decided that by the end of 2024 VAT should be able to commit to the Science based Target Initiative (SBTi) on future GHG reductions.

Social responsibility is the basis for sustainable success

VAT's efforts in social responsibility continue to focus on investing in the local communities in which it operates. In Penang, Malaysia, for example, the company has invested heavily to double its existing world-class manufacturing capacity and engineering facility serving its customers in Asia by building a second large production facility, which will be operational in late 2024. Work continued on existing initiatives there, like the build-out of the apprentice training center at the site which, together with local vocational institutes, encourages skills development by offering both on-the-job training as well as employment. In addition to directly providing jobs, training and advanced technology, these investments have significant other benefits for the region through the build-up of local supply chains, recruitment of local technical and engineering talent and providing local people with opportunities to participate in, and benefit from VAT's global value chain.

During 2023, VAT also continued to invest in its main production site in Switzerland, including the start of the CHF 40-million construction of a new R&D campus to bring its Swiss-based innovation teams together under a single roof. The investment includes the potential addition of about 100 new jobs for scientists and engineers.

Engagement score at all-time high

The company has also prioritized engaging with employees and conducted its seventh annual employee engagement survey to measure how well VAT communicates goals, manages specific issues, and provides open feedback channels for people to participate more actively in decision-making. VAT not only achieved the highest response rate ever with 92% of employees answering the survey, but overall engagement again showed a significant upward trend, crossing the four point mark (out of a maximum of five) for the first time at 4.09.

VAT also recognizes the value of employee diversity as a contributor to innovation and employee satisfaction. This includes making sure that people are recognized and fairly compensated for their contributions to the company, and in 2023, VAT renewed the Fair-ON-Pay Advanced certificate, recognizing VAT for its commitment to ensure equal pay for equal work for men and women. Providing a fair, inclusive, equitable and rewarding work environment is key to attracting the talent VAT needs to remain competitive in a highly demanding business.

Good corporate governance

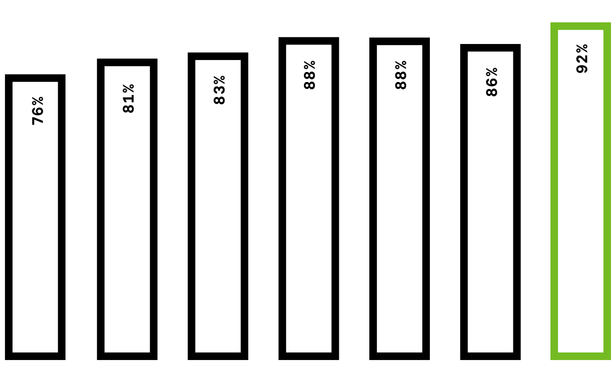
Since VAT was taken public in 2016 on the Swiss SIX Exchange, considerable investments have been made to ensure the company adheres to the highest principles of good corporate governance. The company aims to ensure transparency, achieve the proper balance between management and control, while safeguarding the interests of a broad base of stakeholders. Ultimately, VAT intends to achieve the same level of industry leadership in corporate governance and all other areas of ESG performance as it has built in the development of the world's most advanced vacuum valve technologies.

At the Annual General Meeting held in May 2023, VAT submitted several changes to its Articles of Association to its shareholders. Some of these adjustments were driven by changes in the Swiss company law, while others aimed at modernizing the overall articles to reflect the current governance standards. One of these changes included sustainability in the company purpose to reflect its importance for VAT.

One key governance pillar is VAT's Code of Conduct – which was thoroughly revised and adjusted during 2023 – based on international standards set out by the UN, the ILO, the OECD, and other global industry organizations. The Code provides employees with a clear understanding of VAT's core values and the standards that govern our business and lays the groundwork for how we treat our customers, suppli-

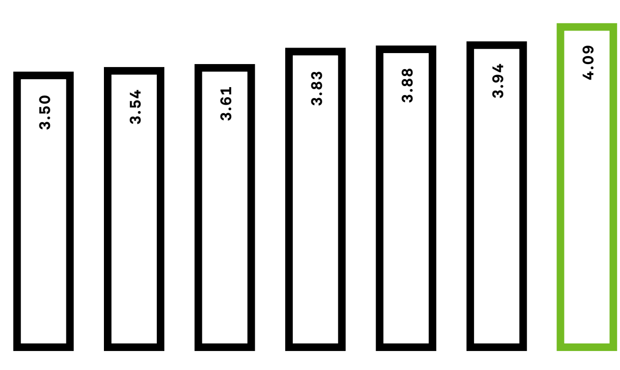
2,208

employees made their voices heard in 2023



Gallup Average = 81%

Engagement trend



ers, investors, employees, the communities where we operate, and each other. The Code is supplemented by whistleblower safeguards and strictly enforced anti-bribery and anti-corruption rules which are also applied to the selection and monitoring of suppliers.

The company's ESG and sustainability strategy is also being developed with a governance structure that allocates management and oversight accountability at the appropriate levels of the organization. In this regard, strategy development is taking place under the supervisory oversight by two members of the Board of Directors. Additional members include one Group Executive Committee member, the Vice President of Sustainability and other contributors.

Moving forward
In addition to publishing its second Sustainability Report in July 2023, VAT took a number of concrete steps to strengthen its ESG capabilities. Based on the initial materiality assessment, VAT identified and prioritized the ESG issues that are most critical to the company's business and stakeholders. Such assessments enable the company to address non-financial impacts, allocate resources to the most important issues, and align value creation more clearly with a broader stakeholder base. These efforts were for the first time augmented through participation in several key sustainability ratings, such as CDP, Sustainalytics, EcoVadis and RBA. In addition, and to be implemented in 2024, VAT re-designed its employment principles in Switzerland, making VAT a more attractive employer, while at the same time increasing the focus on the wellbeing of its employees. Cornerstones of these new principles include a higher vacation allowance and a simplified short term incentive scheme applicable to all employees.

First Sustainability Report under the Swiss Responsible Business Initiative (RBI)
In mid-April 2024, VAT will publish its third Sustainability Report, in accordance with the changes in the Swiss Law regarding the reporting of non-financial disclosure. Like all listed companies in Switzerland, the Report then will be submitted to the 2024 Annual General Meeting on May 14, 2024.

MAPS:

Vacuum valves play a key role in the global digital transformation and VAT's market and technology lead creates sustainable growth opportunities.

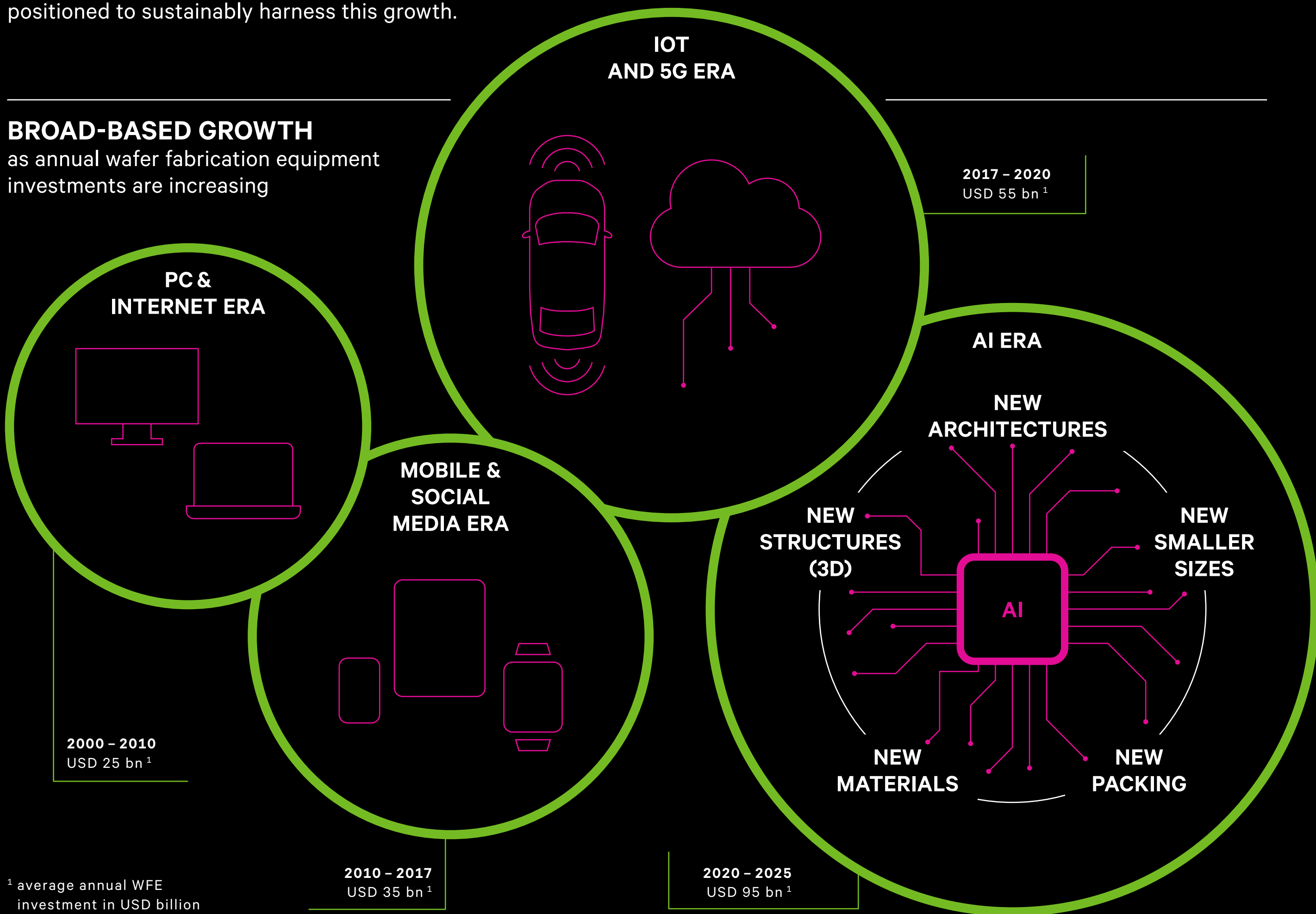
The world is being profoundly changed by the rapid development of digital technologies. The Internet of Things, cloud computing, wireless communications everywhere, and accelerating use of artificial intelligence promise to improve the quality of life for people all over the world. The following pages show how VAT's advanced vacuum valves contribute to this unprecedented development.

HARNESSING LONG-TERM MEGA-TRENDS

Megatrends such as digitalization, renewable energy generation, and population growth and aging will drive demand for semiconductors and other vacuum-based manufacturing for years to come. VAT, through its technology and market lead is best positioned to sustainably harness this growth.

BROAD-BASED GROWTH

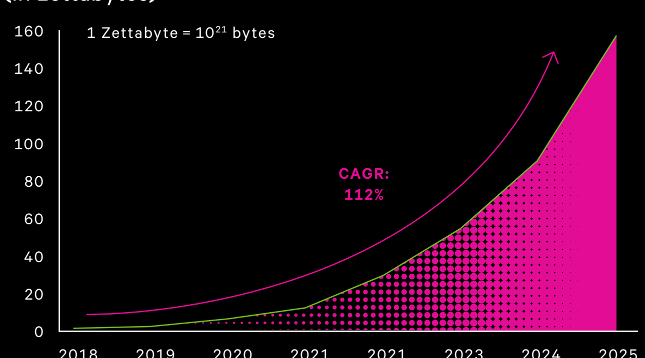
as annual wafer fabrication equipment investments are increasing



[1] average annual WFE investment in USD billion

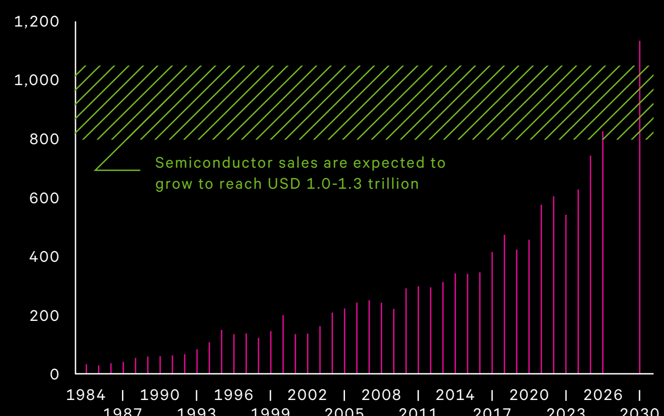
THE WORLD IS IN A STAGE OF EXPLOSIVE GROWTH IN DATA GENERATION

Amount of data created worldwide (in zettabytes)



END-MARKET GROWTH FUELS IC VOLUMES

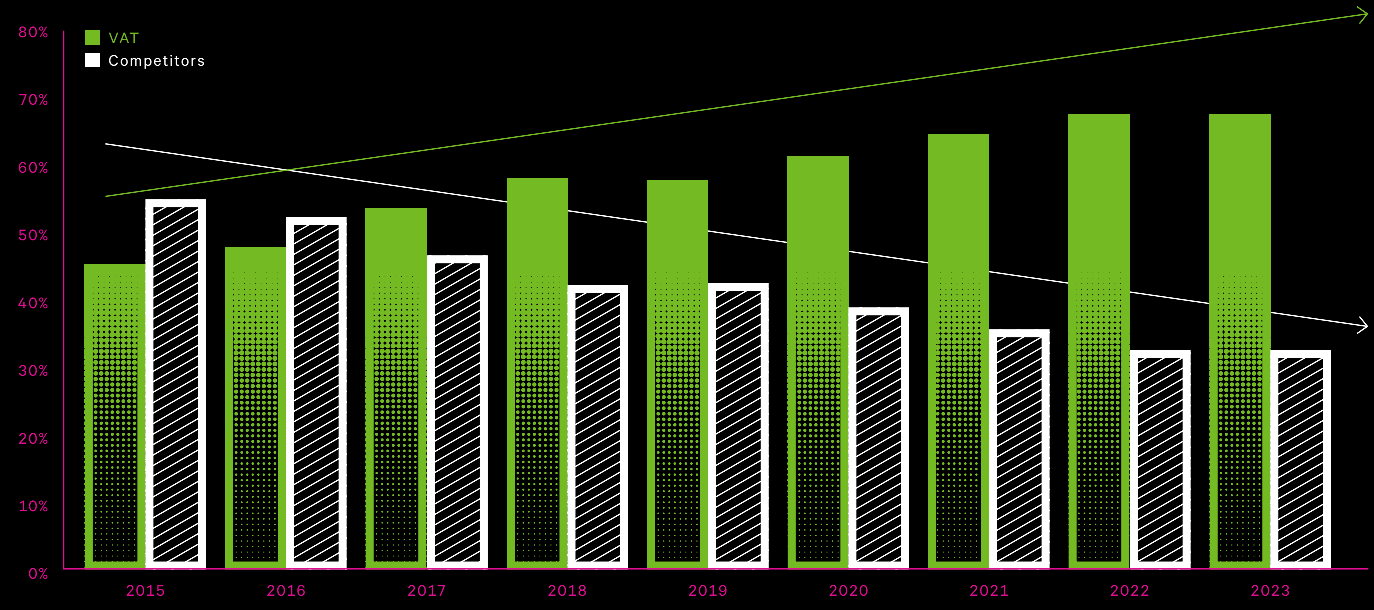
in USD billion



Smaller and more powerfull semi-conductors become ever more complex, allowing VAT to leverage its technology leadership

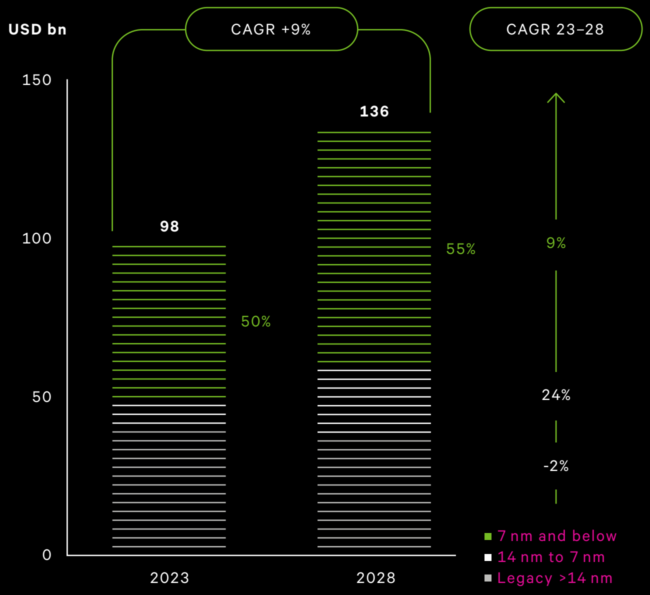
UNDISPUTED MARKET LEADER

Market share Semi and related[2]



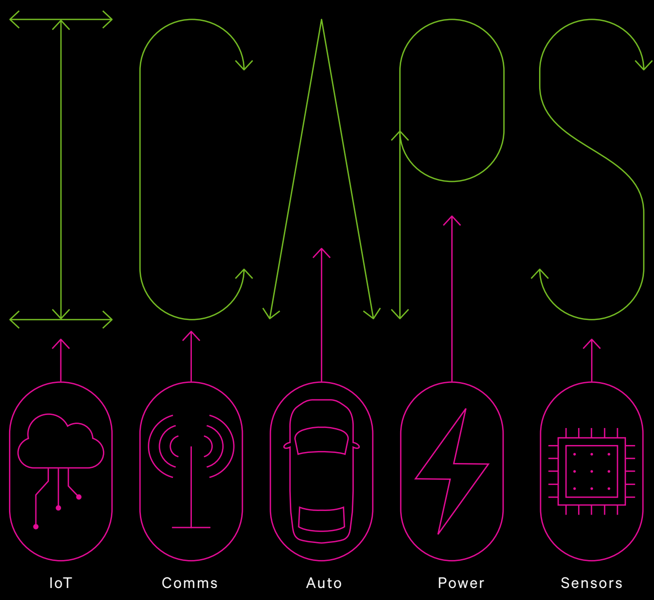
Source: 2 TechInsights Inc. February 2024

STRONG GROWTH OF LEADING-EDGE SEMICONDUCTORS[3] …



Source: 3 TechInsights Inc. December 2023

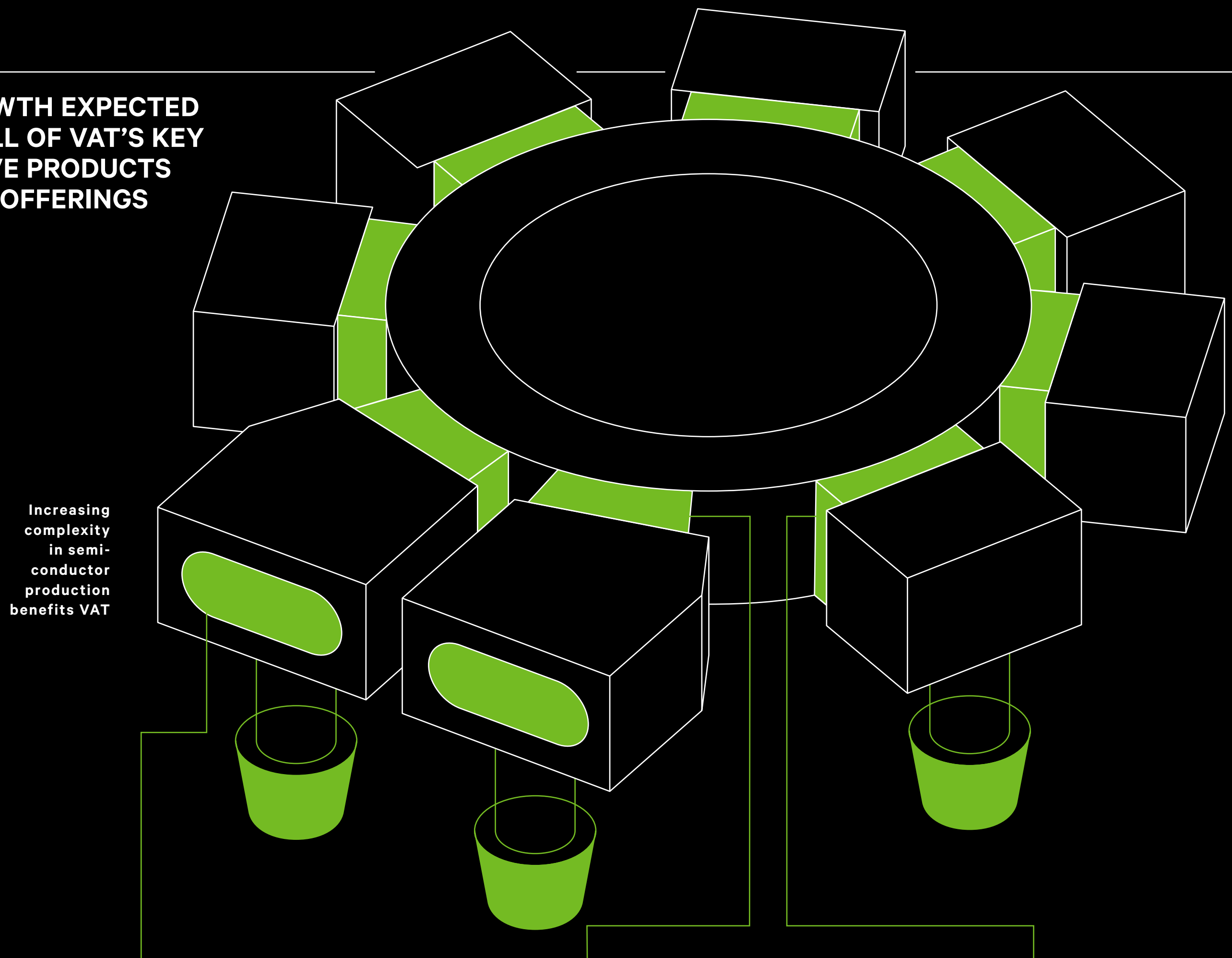
… BUT ICAPS PRESENT A HUGE OPPORTUNITY IN LARGER NODE APPLICATIONS



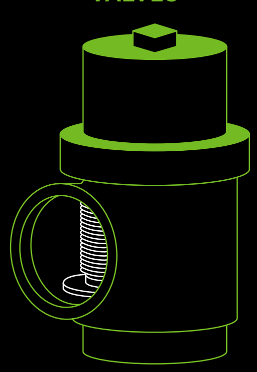
VAT VALVES AND SOLUTIONS ARE CRITICAL TO THE SEMICONDUCTOR PRODUCTION

In partnership with our customers, VAT leverages its technology leadership to provide innovative, high-value vacuum solutions – from vacuum design in the wafer path to vacuum solutions around the process module.

GROWTH EXPECTED IN ALL OF VAT'S KEY VALVE PRODUCTS AND OFFERINGS

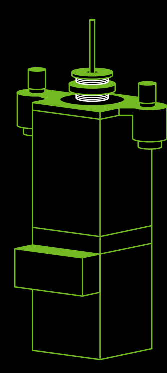


VALVES



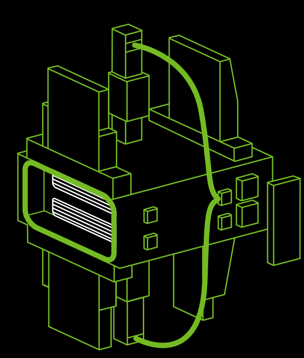
Market share growth in Control, Transfer and Isolation Valves

MOTION COMPONENTS



Growth through migrating pneumatic products into mechatronic solutions

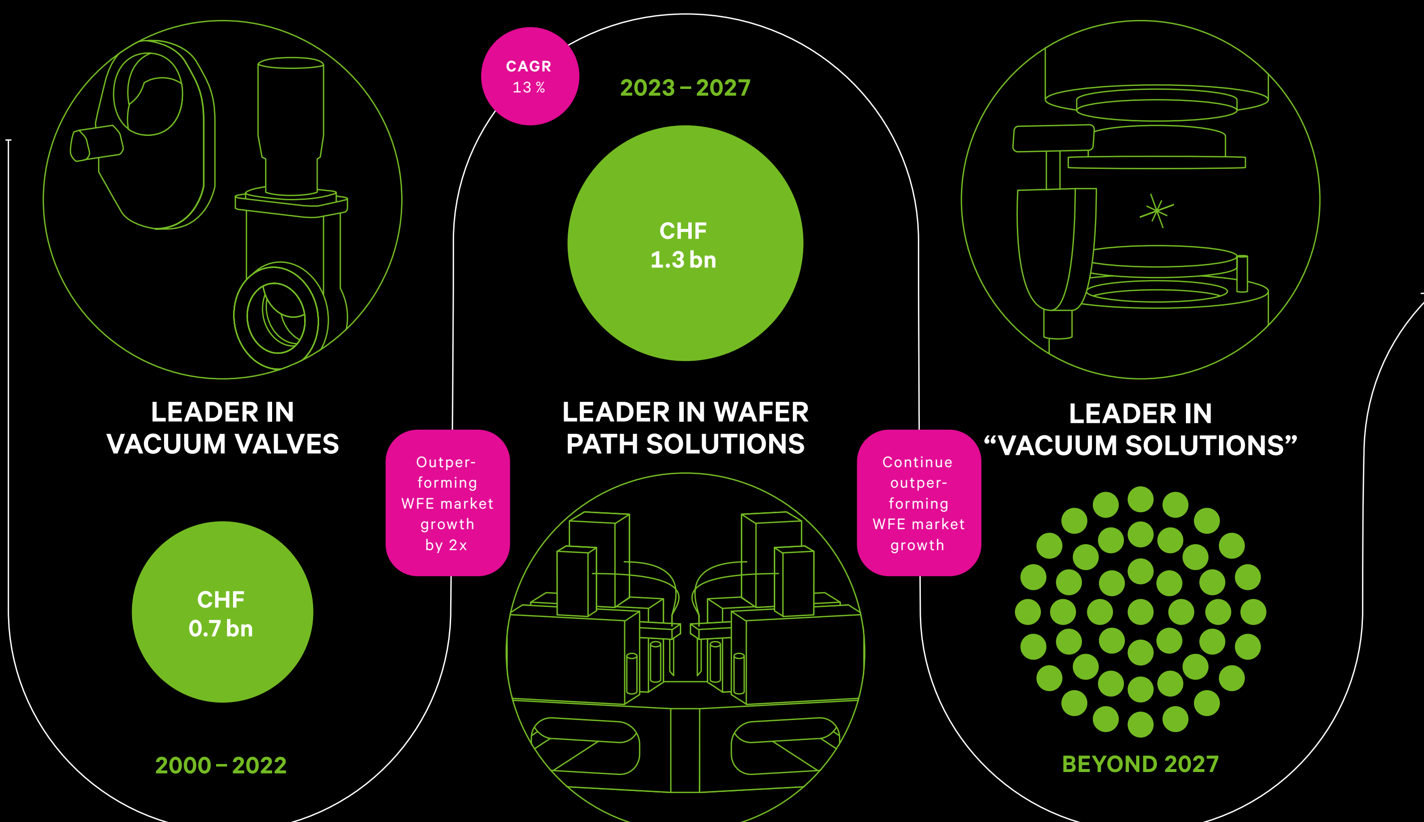
ADVANCED MODULES



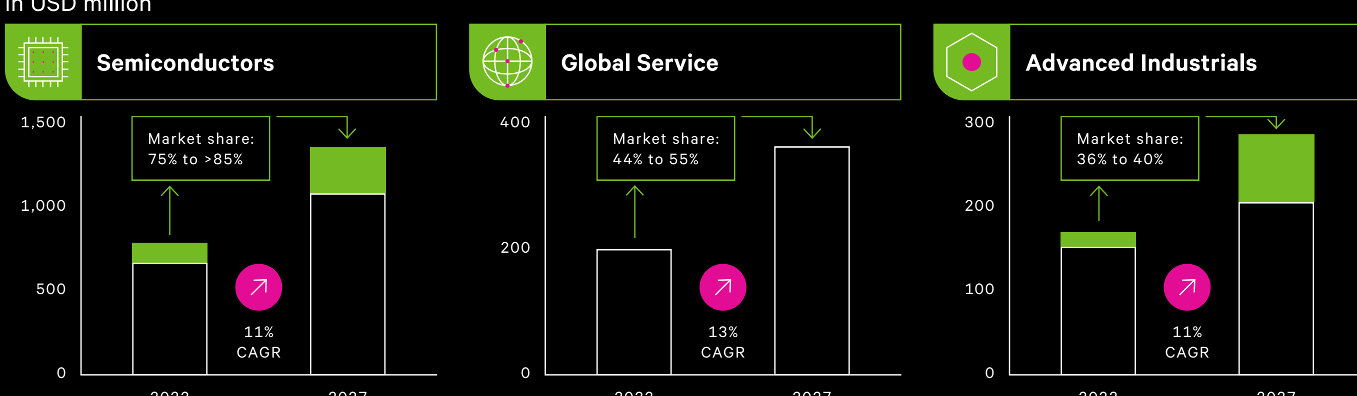
Growth through complex integrated systems for leading-edge platforms

Establishing the Semiconductor Solutions Group leverages the existing customer relationship, the technology and market leadership in the coming years

SSG AIMS TO OUTPACE THE MARKET IN THE NEXT FIVE YEARS AND GROW IN CONNECTED SOLUTIONS BEYOND 2027



SALES AND MARKET SHARE TO GROW IN ALL OUR BUSINESSES
in USD million



GLOBAL SERVICE OFFERS A BROAD PORTFOLIO OF SERVICE PRODUCTS

VAT's Global Service offering makes it the preferred service provider for valve-related services and vacuum components in the Semiconductor, Display and Solar industries for OEMs and end-users.

BU GLOBAL SERVICE PRODUCT SECTORS

Spares & Repairs

- Spare parts & spare part packages for OEMs and end customers
- Fixed Price Refurbishment (FPR)
- Valve repairs and refurbishments in local Service Centers

MISSION
Delight our customers by optimizing performance of Installed Base

Gates

- Various types of Gates and Seal-ings
- In-house Competence Center for Sealing technology
- In-house production of Gates incl. vulcanization

MISSION
Ensure maximum production quality with high-performance gates

Upgrades & Retrofits

- Upgrade and retrofit of control valves, gate valves and transfer valves for OEMs and end customers
- Upgrade and retrofit of motion components

MISSION
Improve customer performance in yield, uptime and throughput

Subfab

- Wide range of isolation and gate valves for forelines and abatement systems in various processes
- Portfolio spread with new safety valve (QSV) and new materials (Aluminium)

MISSION
Ensure a reliable and safe subfab operation at reasonable TCO

A RECURRING REVENUE STREAM

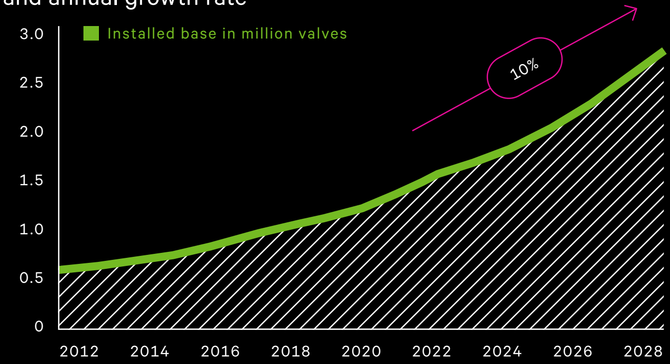
Over the lifespan of a valve, services can generate sales of up to 5x the original valve sales price

5x

Adjacencies offer additional service opportunities both in VAT products and upgrades and retrofits

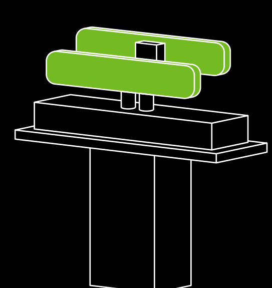
VAT REPAIRABLE VALVE INSTALLED BASE

and annual growth rate

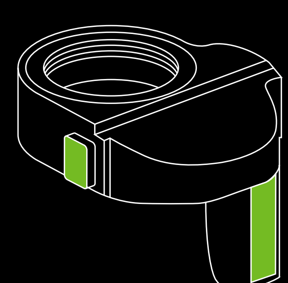


Repairable valves

Transfer valves



Control valves

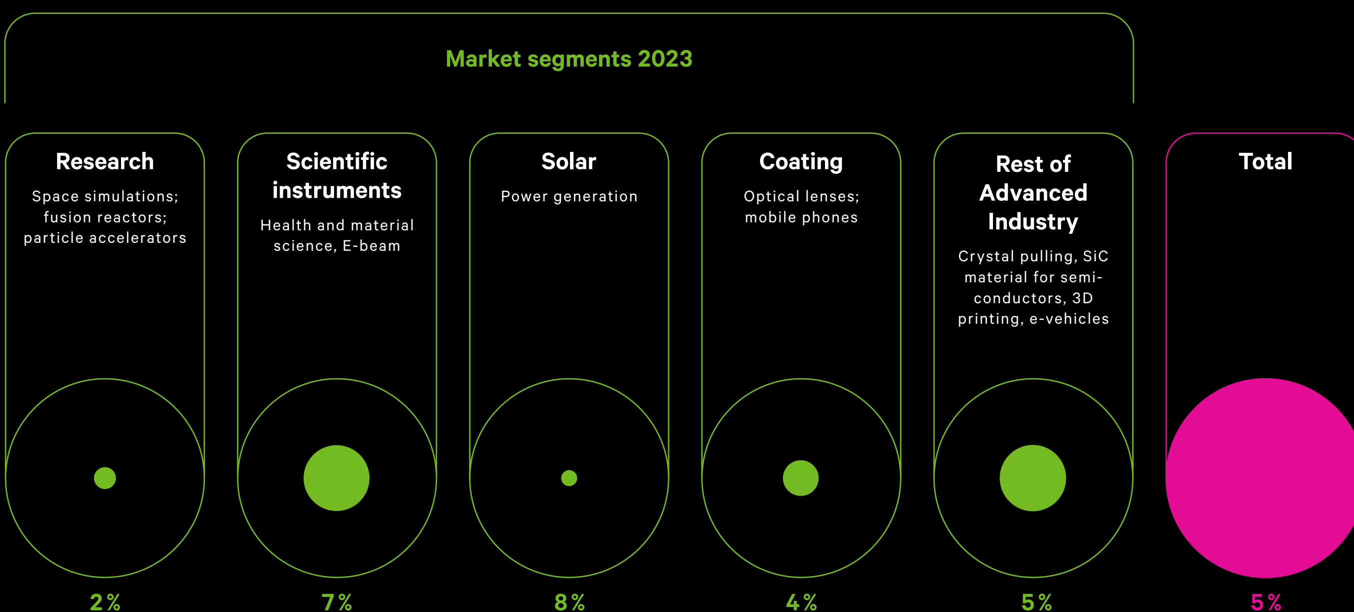


ADVANCED INDUSTRIALS TAP NEW OPPORTUNITIES

Our Advanced Industrials business continues to develop VAT´s core vacuum technologies to address attractive non-semiconductor industrial markets where vacuum-based manufacturing is becoming more important.

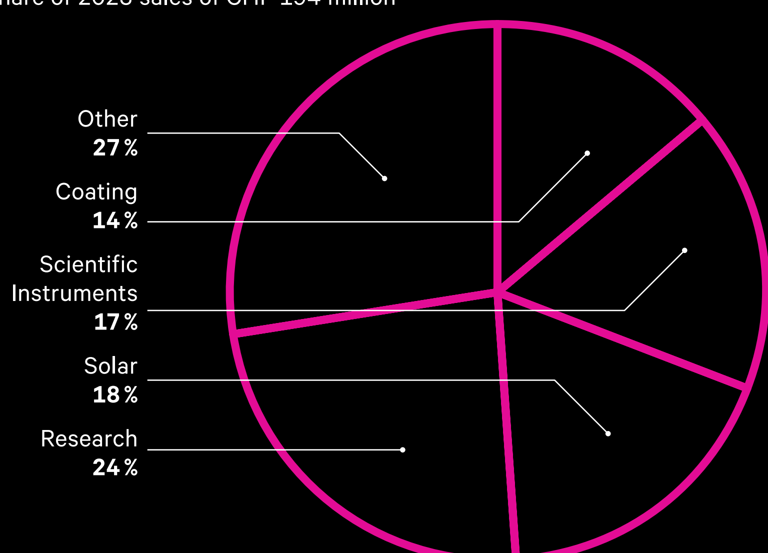
SERVING AN EXPANDING AND GROWING ADVANCED INDUSTRIAL BASE

relative market segment size and expected market growth (CAGR 2022 – 2027)



ADVANCED INDUSTRIALS MARKET SALES BREAKDOWN

Share of 2023 sales of CHF 194 million



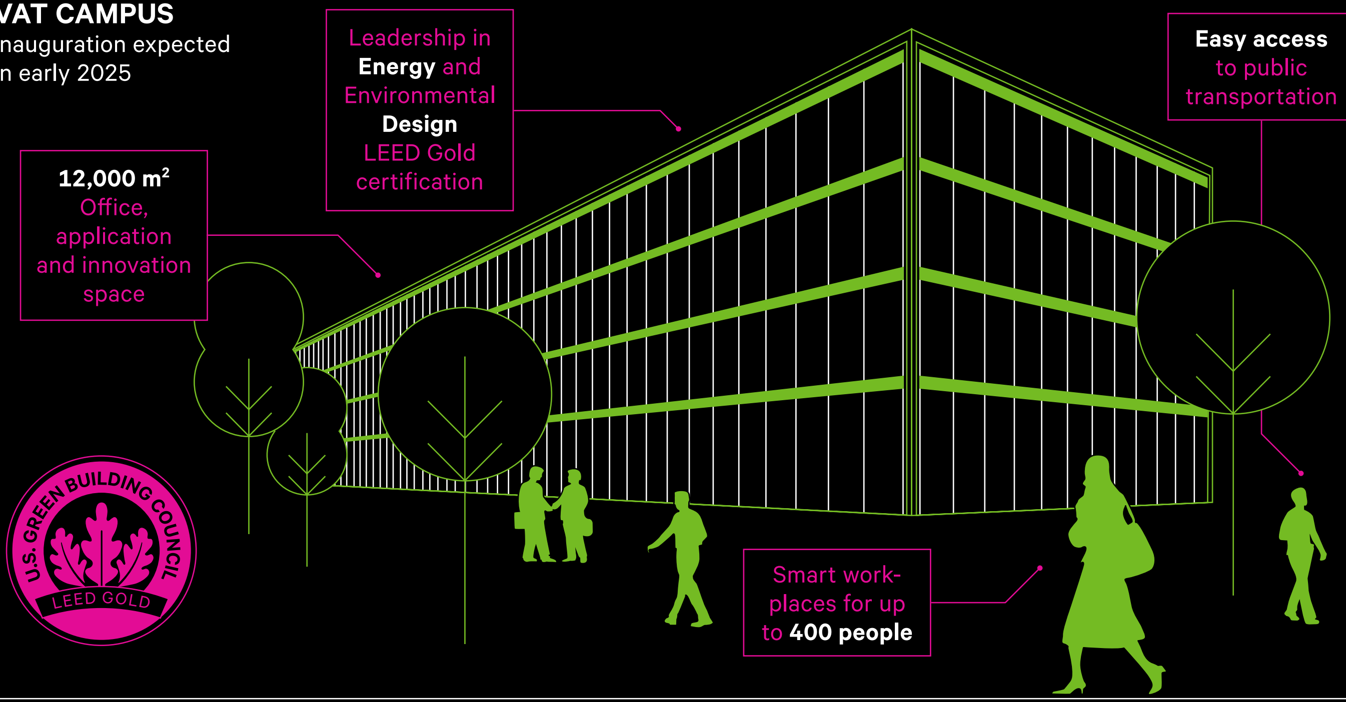
ADVANCED INDUSTRIAL SALES GROWTH 2023

+20 %

INNOVATION – INVESTING INTO FUTURE SUCCESS

The new Innovation Center represents the heart of VAT's innovation engine. Building on 60 years of innovation heritage, it is designed to accelerate our customer-centric innovation, drive global collaboration and fast development cycles to increase the speed to market for leading-edge vacuum solutions.

VAT CAMPUS
inauguration expected in early 2025

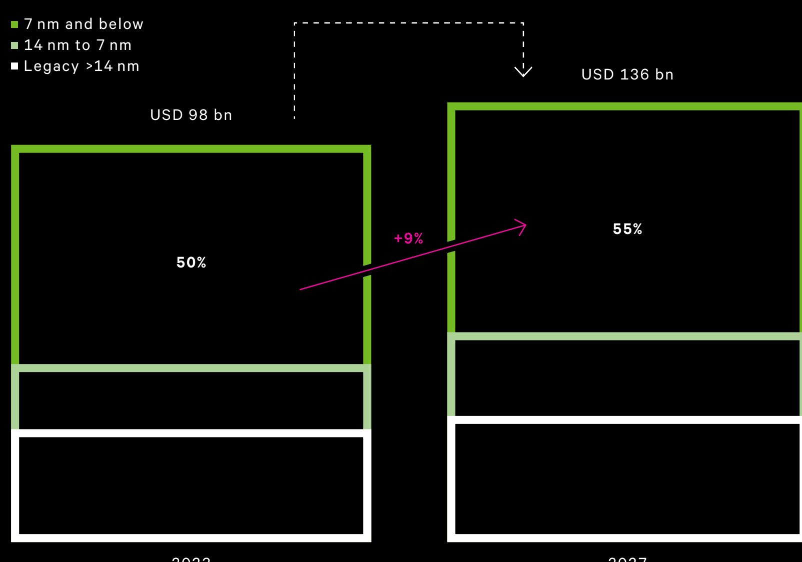


RECORD R&D INVESTMENTS
in CHF million

54

6.1%
OF SALES

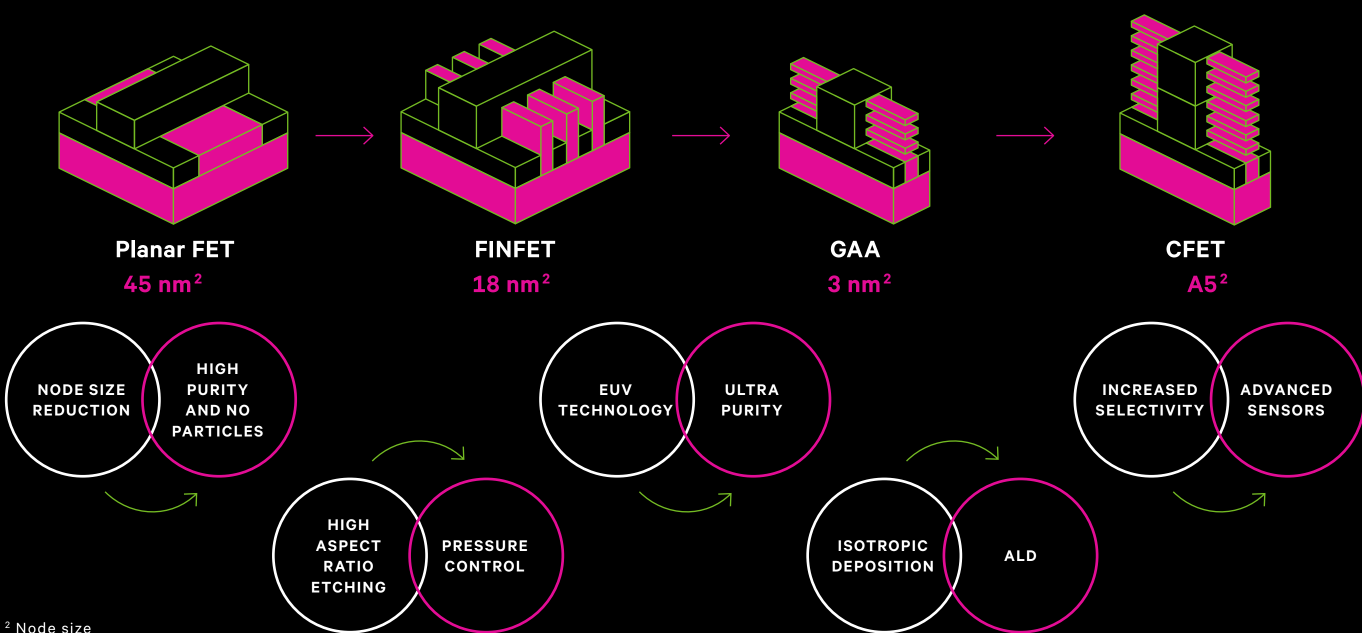
SMALLER NODES REQUIRE MOST ADVANCED VALVES
Share of Wafer Fab Equipment spend by node size [1]



Source:1 TechInsights Inc. December 2023

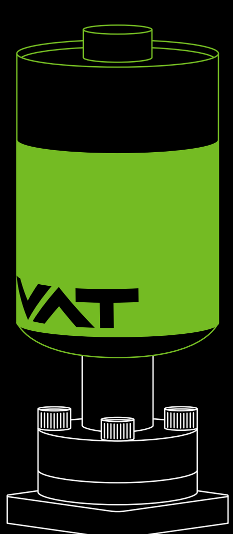
Investing in future technologies and pushing the boundaries for vacuum applications for nearly 60 years is one key success factor of VAT.

TECHNOLOGY INFLECTIONS DRIVE VAT'S INNOVATION



[2] Node size

INNOVATION FOR TOMORROW'S INDUSTRY CHALLENGES

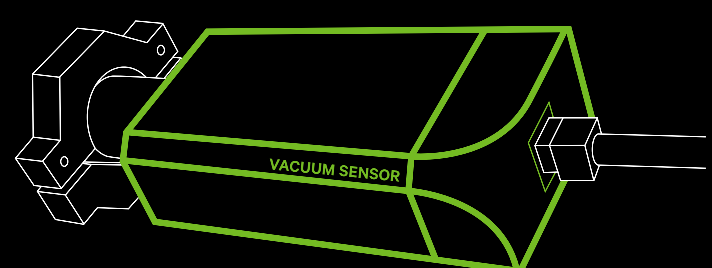


PRECISION DELIVERY
ALD Valve

Atomic Layer Deposition (ALD) processes are required to fill the nanometric gaps with high precision across the wafer. They require high speed valves to manage process gas flows with a repeatability in the order of a millisecond.

PROCESS CONTROL
Microelectromechanical Systems (MEMS)

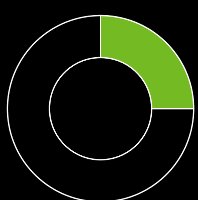
Future leading edge chip manufacturing processes will require advanced pressure controls. VAT's MEMS technology allows the integration of new types of pressure sensors, bringing our control valves to the next performance level.



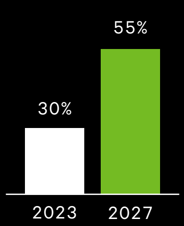
THE VALUE OF A GLOBAL FOOTPRINT

With manufacturing, technology, application and supply hubs close to all its major customers, VAT can move quickly and cost-effectively to meet their rapidly changing needs.

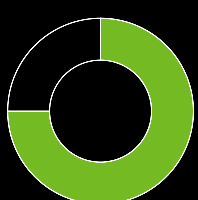
BUILDING AN INCREASINGLY FAST AND FLEXIBLE GLOBAL VALUE CHAIN



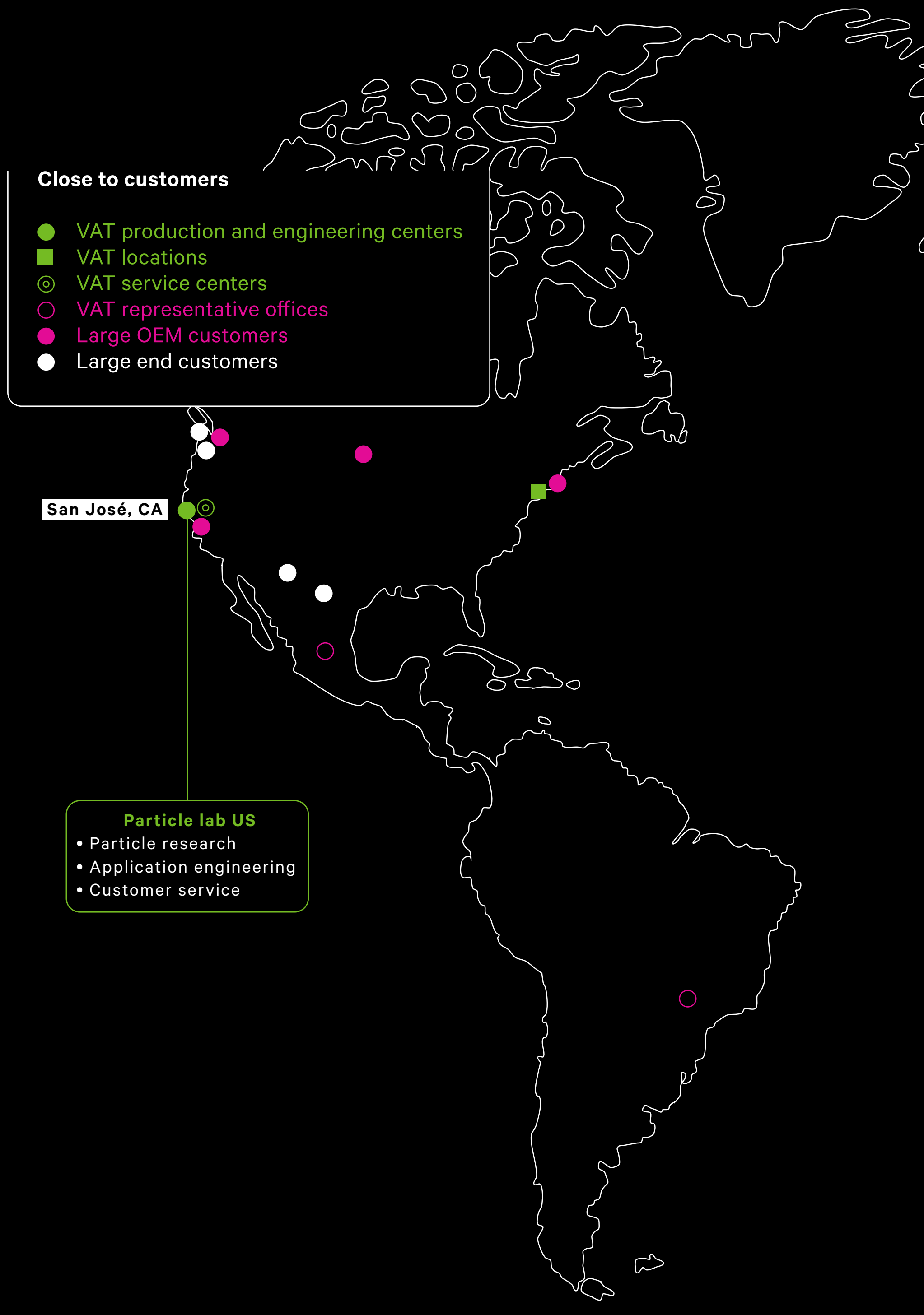
25% flexible factory workforce group-wide at top of business cycle



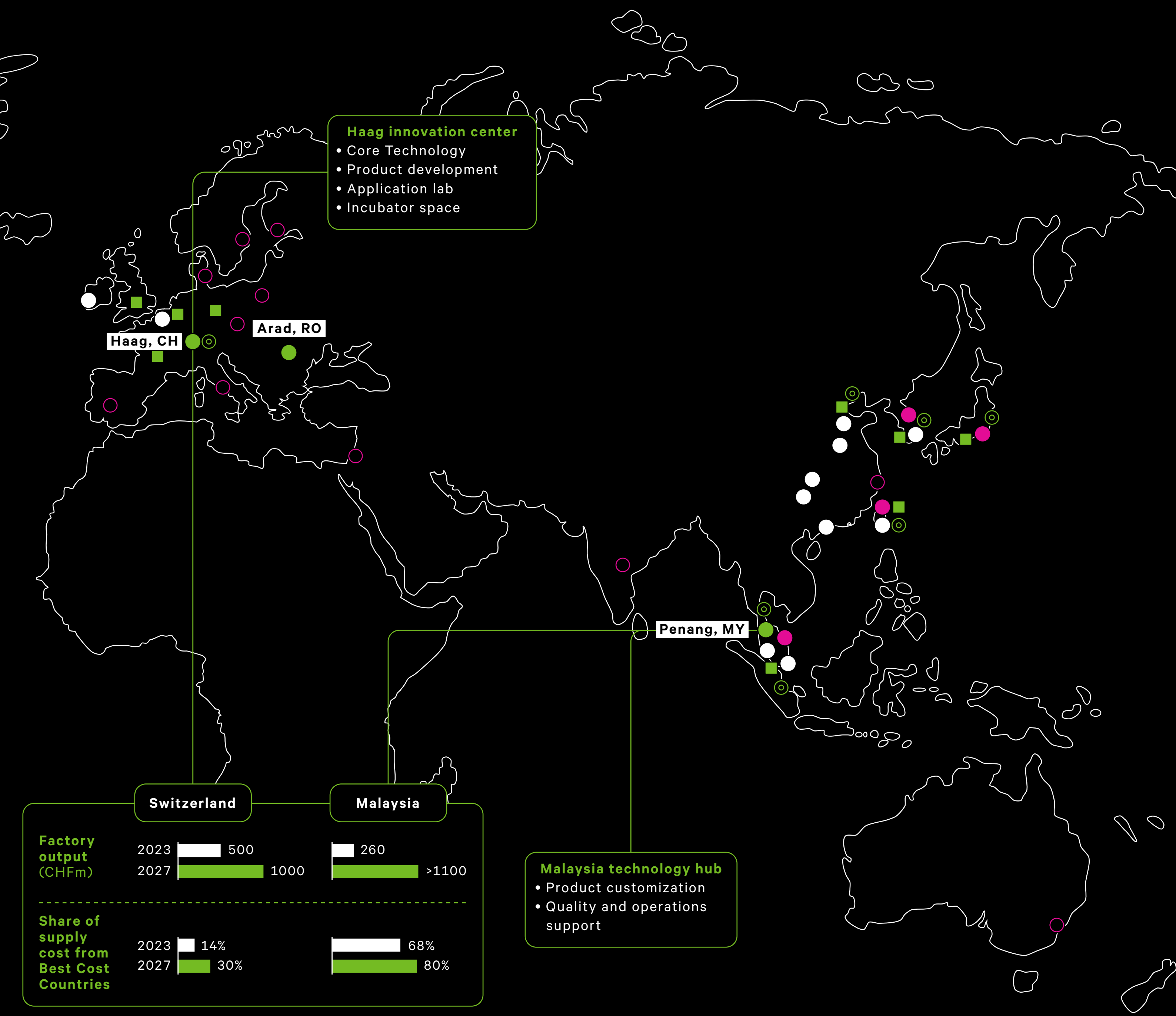
Best cost country sourcing is expected to grow substantially by 2027



75% of our components are outsourced and around 2/3 of our costs are variable

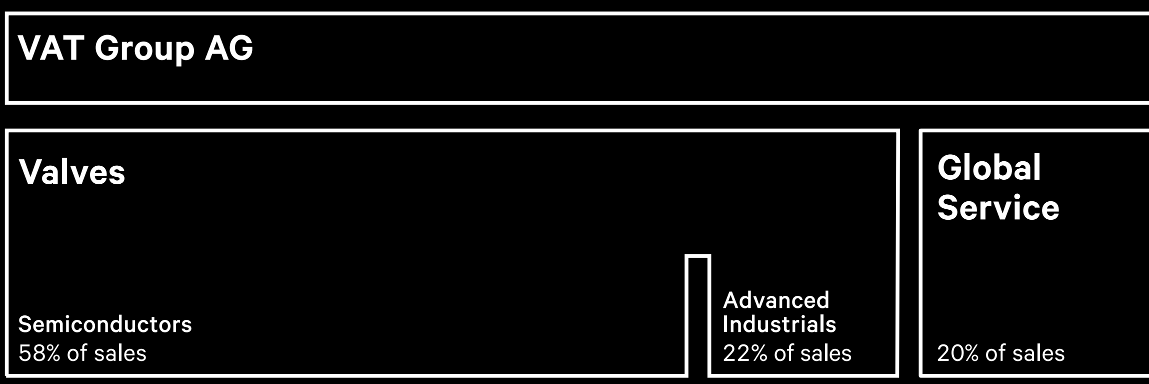


Our global footprint gives us cost and supply flexibility so we can stay ahead of the curve as markets change.

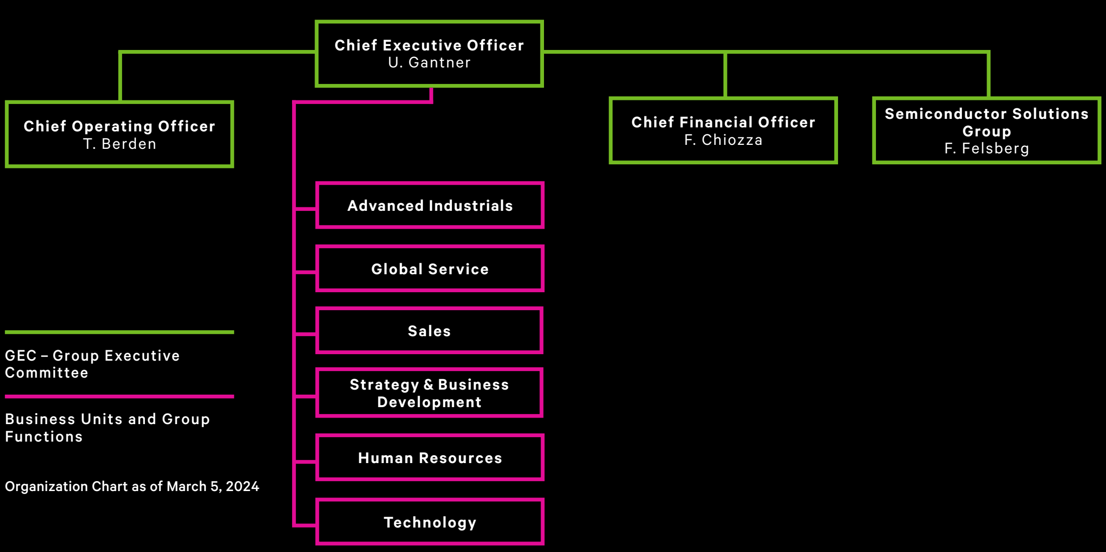


ORGANIZATION VAT GROUP AG

VAT Group is organized and managed in two segments: Valves and Global Service.
The Valves segment comprises the two business units Semiconductors, and Advanced Industrials.



The VAT Group is led by the Group Executive Committee (GEC) consisting of the CEO, CFO, COO and EVP for the Semiconductor Solutions Group.



Organization Chart as of March 5, 2024

In a challenging market environment, VAT delivers strong results albeit below the record levels of 2022

In 2023, the global semiconductor industry – VAT's largest market – experienced the anticipated slowdown in investment activities, which had already started during the fourth quarter of 2022. While VAT's long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence remained firmly in place, capital investments into additional manufacturing capacity took a breather after three years of unprecedented growth. The main reasons for this were the short-term market demand slowdown in the consumer sector, coupled with inflationary trends and geopolitical uncertainties.

Starting in late 2022, and for most of 2023, VAT customers adjusted their inventory to reflect the underlying demand. This translated directly into lower orders and sales for VAT. While the bottom of this downturn was reached in the first half of 2023, momentum was slow to return and slightly accelerated demand only fed through during the fourth quarter.

During the year, the most pronounced slowdown in the investment activity in the semiconductor sector was witnessed in the memory space and in the flash memory (NAND) sector where investments were a third lower than in 2022. In DRAM, the decline was 16% and the logic sector held its investment volume relatively stable which was only depressed by 2% compared to 2022. Technology progress continued with node sizes shrinking further with sub 7nm becoming more and more mainstream technologies, fueling additional investments in lithography tools. While the overall wafer fab equipment (WFE) investments for the non-lithography space declined by some 7% in 2023, lithography investments increased by more than 25% compared to a year earlier, to a large extent driven by demand for immersion tools from China. In 2023, for the first time, the largest portion of the wafer fab equipment investments came from end users in markets related to ICAPS – IoT, Communications, Automotive, Power and Sensors. Whereas the leading-edge foundry-logic segment use the most advanced process technologies, for primarily digital applications, ICAPS leverage mature or highly specialized process technologies to manufacture a wide range of devices. In addition, China invested heavily into its own semiconductor infrastructure, mainly in the lagging edge technologies. As a result, WFE volume in 2023 was flat compared to 2022, based on preliminary numbers compiled by TechInsight.

In the Global Service business segment, which is also predominantly exposed to the semiconductor market, business declined in 2023 as fabs also reduced their

Net sales
in CHF million

885

2022: 1,145

inventories, especially in spare parts and consumables, as their capacity utilizations declined significantly. This development is common in phases of declining market demand for semiconductors; however, the inventory levels of spares and consumables was at an elevated level after the supply chain challenges witnessed in 2021 and 2022, coupled with record levels of capacity utilization. The lower number of new fab constructions also negatively impacted the sub-fab business, and upgrades and retrofit of existing tools were also weak.

In the Advanced Industrial markets, the order pattern was muted throughout 2023 as global industrial activity slowed. It was only towards the end of the year that a rebound was felt in certain industries in areas such as research, uranium enrichment and solar-related businesses.

Technology investments, ramping-up production capabilities and operational excellence remain key focus areas

As the global technology leader in valves with a focus on the development of additional adjacent products, VAT continued to make significant investments in innovation and product development, which are both major drivers of future growth and profitability. In 2023, R&D investments increased by about 7% compared to 2022 and amounted CHF 54 million, or 6% of net sales.

As a result of the ongoing innovation efforts and the close collaboration with its customers, VAT won 120 specifications for future manufacturing platforms, 21% higher than the specification wins recorded in 2022. These specification wins are proof of VAT's superior innovation and technology position, especially in all the leading-edge applications currently under development. These wins are also the foundation of VAT's future growth and expected market share gains.

VAT also continued its large investment program by executing the build-up of both its second manufacturing site in Penang, Malaysia and its Innovation Center in Switzerland. Once completed, Malaysia will have an installed annual production capacity of more than CHF 1 billion and, together with roughly CHF 1 billion annual capacity in Switzerland, represents sufficient production reserves to accommodate all foreseeable customer demand for the next couple of years. Investing proactively in creating sufficient capacity is one key differentiator and success factor in VAT's markets, as customers continue to consolidate their supplier base.

Work on the Innovation Center in Switzerland started during 2023 and is expected to be finalized in early 2025, offering both R&D and corporate working space. The new center will enable VAT to add some 100 additional engineers with specific experience in the field of mechatronics.

Lower overall results after three years of unprecedented growth

Against the background of weaker markets especially in the semiconductor-related businesses, VAT sales in 2023 declined from the record levels posted in 2022. In line with this drop in sales, EBITDA, EBITDA margin, free cash flow and net income also decreased. However, the absolute overall performance remained at a very reasonable level, especially when considering the strong foreign exchange headwind triggered by the ongoing strength of the Swiss franc against all of VAT's trading currencies.

Total orders amounted to CHF 692 million, down 43% from the very high levels seen in 2022. The decline reflects our VAT's customers' inventory adjustments, especially in the semiconductor-related valves and service businesses. This was further impacted by the

EBITDA margin
EBITDA as % of net sales

30.6

2022: 35.0

Net income
in CHF million

190

2022: 307

slowly normalizing supply chain situation, which reduced our customers' need to hold extra stock. Against this sharp order decline, which is the normal pattern in a business downturn in the sector, VAT executed a large part of the backlog it had at the end of 2022. At the end of 2023, VAT's order backlog amounted to CHF 292 million, which is still a healthy level going into 2024, but about 44% below the record level of CHF 518 million at the end of 2022.

Group net sales in 2023 fell below the CHF 1 billion mark and reached CHF 885 million, which is still the third highest sales volume in VAT's history, but approximately 23% below the volume recorded in 2022. The decline was most pronounced in the business unit Semiconductors, followed by the Global Service business. The business unit Advanced Industrials on the contrary, posted higher sales than in 2022, which was as a result of the good order intake of 2022. Foreign exchange movements, especially in the US dollar against the Swiss franc, had a sizeable negative impact of about 7 percentage points on the 2023 Group net sales.

Gross profit* declined 26% compared with 2022 to CHF 547 million, and the gross profit margin declined to 62% from 64% a year earlier, reflecting partly the inventory reduction of finished goods and work in progress. Personnel costs as a percentage of net sales increased from 20% in 2022 to 24% in 2023, reflecting VAT's commitment to carry an appropriate number of its highly qualified permanent employees through any temporary market softness to be ready to satisfy any customer demand in the next market upswing. In absolute terms, personnel costs declined by 7%, mainly the result of fewer temporary employees. The total number of employees (measured as full-time equivalents, FTEs) declined from 2,991 to 2,666, or 11% compared to a year earlier.

Despite another year of strong operational execution and cost discipline, EBITDA for the year decreased by 32% to CHF 271 million, reflecting mainly the impact from the lower volumes sold and investments in our workforce. Heding gains which are booked above the EBITDA line in other income had a positive impact. As a result, the full-year EBITDA margin declined by about 4.4 percentage points from 35% in 2022 to a still very healthy 30.6%, as VAT successfully executed its cost and productivity measures. While this is slightly below the EBITDA margin band of 32% to 37%, as communicated at the 2022 capital markets day, VAT consciously opted for continued commitment to its highly qualified permanent employees as well as to an unchanged and actually higher total R&D spend in 2023. In the second half of 2023, the EBITDA margin had recovered to 32.1% which was within the target band. Foreign exchange movements, primarily in the US dollar against the Swiss franc, had a positive impact of about 1.6 percentage points on the reported 2023 EBITDA margin, as hedging gains recorded in other income above the EBITDA line offset negative impact on the operational items, such as the revaluation of accounts receivable or accounts payable.

Compared with 2022, VAT's 2023 EBIT amounted to CHF 229 million, down CHF 131 million, or 36%, while the EBIT margin decreased by about 6 percentage points to 25.8%.

Below the EBIT line, VAT incurred substantially higher net finance costs compared to the previous year. While finance income remained relatively stable,

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

finance costs increased by 361% to CHF 24 million, mainly the result of net foreign exchange losses on financing activities. The net finance result amounted to minus CHF 21 million, compared to minus CHF 3 million a year earlier.

Earnings before taxes (EBT) decreased to CHF 207 million from CHF 356 million, down 42%. The effective tax rate for 2023 was only 8%, down from 14% in 2022. This was mainly driven by higher profits from Swiss entities, where statutory tax rates are lower, and the effect of prior year items in Swiss entities.

As a result of these factors – and as indicated by company management during the year – realized net income attributable to shareholders decreased in 2023, amounting to CHF 190 million, or 38% less compared with 2022.

On December 31, 2023, VAT's net debt amounted to CHF 63 million, representing a leverage ratio expressed as net debt-to-EBITDA of around 0.2 times, compared to a leverage ratio of 0.1 at the end of 2022. The average leverage over the course of 2023 was around 0.3 times net debt-to-EBITDA, as improving free cash flow generation through the year reduced net debt after the seasonal peak at the end of May when VAT paid its dividend. The equity ratio at year-end amounted to 65% compared with 61% a year earlier.

Substantial free cash flow despite lower EBITDA and higher capex support proposal of an unchanged dividend

One of VAT's key performance indicators and the basis for its dividend consideration is free cash flow, which in 2023 declined from its record level of CHF 228 million in 2022 and amounted to CHF 189 million, down 17% year-on-year. This still represents a high level, whereby cash inflow from operating activities decreased by about CHF 38 million while cash outflows for capex increased by CHF 3 million from CHF 66 million in 2022 to CHF 69 million in 2023.

Capex amounted to approximately 8% of net sales in 2022, above the company's guidance of 4–5% of sales on average. This is mainly due to investments in production capacity in Malaysia, where VAT is establishing a second factory scheduled to be opened in 2024, and investments in an Innovation Center in Haag, Switzerland, which is expected to be completed in early 2025.

At year-end 2023, net trade working capital amounted to CHF 244 million, approximately 19% lower than at the same time in 2022. Net trade working capital represented 28% of sales, a 2-percentage-point increase versus 2022, mainly as a precautionary measure in anticipation of the business acceleration expected in 2024.

Free cash flow as a percentage of net sales increased from 20% to 21% in 2023 and the free cash flow conversion rate was at 70% of EBITDA. Free cash flow to equity amounted to CHF 182 million compared with CHF 225 million in 2022.

At its Annual General Meeting on May 14, 2024, VAT's Board of Directors will propose an unchanged dividend for the fiscal year ending December 31, 2023, of CHF 6.25 per registered share, reflecting good free cash flow generation in 2023 and the expected positive business development in 2024. The proposed dividend of CHF 6.25 per registered share will be paid from the company's accumulated gains. The proposal amounts to a total dividend of CHF 187.5 million, or 103% of VAT's free cash flow to equity.

Dividend proposal
in CHF

6.25

2023 actual: 6.25

Improving market conditions through 2024 expected to lead to better annual results

VAT expects investments in semiconductor manufacturing equipment to gradually improve over the course of 2024 as investments – especially in the memory sector – are anticipated to recover from the lower levels seen in 2023.

However, short-term market factors such as slower progress on reducing inflation, concerns about the overall strength of the global economy, or ongoing geopolitical tensions represent uncertainty factors influencing the timing and magnitude of the expected recovery.

Another factor of uncertainty is the speed of investment in China's domestic semiconductor manufacturing capabilities. Massive additions to China's domestic manufacturing capabilities, mainly in the memory space but also in certain logic types, occurred during 2022 and 2023. While these investments happened in the so-called lagging edge nodes it nevertheless made up a large portion of the 2023 global WFE spend. Estimates by SEMI.org indicate that about 34% of global semiconductor investments in 2023 were carried out in China, a full eight percentage points more than in 2022. Whether this level of investment is maintained in 2024 is not obvious and it is also unclear how much the other large semiconductor nations in Asia like Taiwan, Korea or Japan will increase their investment amounts.

This uncertainty is also displayed in the rather wide range of WFE growth expectations by the semiconductor market research firms. On average, these firms look at WFE spend in 2024 between USD 90 – 100 billion with accelerated double digit growth in 2025.

This development is expected to benefit the semiconductor exposure in the Valves business and the Global Service business at VAT. Being the undisputed technology and market leader is expected to benefit the company in the anticipated recovery, especially as a large part of the spend will be geared towards the leading-edge technologies in both the logic and the memory area. In addition, VAT expects further growth in adjacent products such as advanced modules or motion components. Increasing factory capacity utilizations in the existing fabs will, on the other hand increase the requirement for spare parts and consumables for our service business. Together with the growing installed base of serviceable VAT products, Global Service is expected to grow again in 2024. The continued expansion of vacuum-based manufacturing into industries such as industrial coatings and e-beam applications is expected to benefit the Advanced Industrials business, while solar photovoltaic demand is expected to grow as the transition to renewable energies continues in most parts of the world.

On this basis, VAT expects full-year sales and EBITDA in 2024 to be higher compared to 2023. The EBITDA margin is also expected to increase, however the expected continuing strength of the Swiss franc against VAT's trading currencies will continue to present some headwinds to the company's margin recovery.

In 2024, VAT will complete construction of the new production facility in Malaysia, thereby ramping-up production and engineering services in Penang. At the same time, significant investments in R&D will also continue, including the new Innovation Center in Switzerland.

Net income and free cash flow are also expected to be higher, capex is forecast at CHF 70 – 80 million.

Valves

VAT's Valves segment designs and delivers the industry's broadest range of high-precision vacuum valves. In 2023, the segment comprised two business units: Semiconductors, serving the semiconductor industry and high-end flat-panel displays; and Advanced Industrials, for customers in a variety of industries, scientific research and solar photovoltaic markets. The Valves segment operates manufacturing facilities in Switzerland, Malaysia and Romania, with sales, product development and engineering support in all major markets.

In 2023 demand in the semiconductor markets was muted overall after three consecutive years of unprecedented growth. Although the industry's long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence, are still firmly in place, short-term market demand for semiconductors slowed down – mainly in the consumer sector – affecting capital investments into additional manufacturing capacity. In addition, inflationary trends and geopolitical uncertainties added to lower overall investment activity in additional semiconductor manufacturing equipment and capacity.

The business impact for VAT's semiconductor business was mainly driven by the fact that customers ordered fewer products and services as they reduced their own existing inventory in anticipation of the lower volumes. This is a normal development in VAT's business as the company is considered an early cycle participant. VAT benefits early from an expected growth in the wafer fab equipment (WFE) spend, as customers must build inventory ahead of their volumes going up. Equally VAT is exposed early on to a downturn as customers adjust their inventories, as they anticipate future lower demand. As a result, VAT's semiconductor business declined more in 2023 than the overall WFE development showed. This underperformance was further impacted by the fact that the WFE is measured in US dollars, while VAT reports its performance in what was a strengthening Swiss franc during the period.

The segment's other business unit, Advanced Industrials, had a mixed performance. As this business is more project-driven, orders and sales development depend largely on the timing of project awards. While the overall use of vacuum-based manufacturing continued to expand steadily into various industries, such as precision coatings and electron beam equipment used in medical applications, 3D printing and scientific research, VAT also witnessed an increase in power generation-related activities, such as fusion projects as well as renewed demand for uranium enrichment technologies. Demand in the solar photovoltaic sector was steady on the back of increasing demand for renewable energy and more efficient solar cell technologies.

New all-time high in specification wins in Semiconductors

The Semiconductor business unit is VAT's largest and accounts for approximately 60% of the Group's total sales. As a result of the slowdown in the semiconductor equipment business orders and sales decreased by 49% and 33% respectively, amounting to orders of CHF 388 million and sales of CHF 518 million. This development was driven by the combination of postponements of certain WFE investments, de-stocking of inventories at our customers' end and the negative impact from the Swiss franc's strength against all of VAT's trading currencies. The negative business development was most apparent during the first half of 2023, with a gradual stabilization and recovery in the second half which strengthened towards the end of the year, indicating that the low point of the correction has been passed.

Despite these challenges, the business unit took further strategic steps to position itself for future growth by continuing its investment in innovation and production capacity. As a result, and marking a significant milestone for the business, a record number of key specification wins in leading-edge tools was achieved. Partially through the securing of these new contracts this business unit is expected to show the fastest growth in the segment in the coming years.

The Semiconductors business unit recorded important wins with adjacent products in areas where VAT is already present. Notably, these were in deposition and etching, but also wins with new adjacent products were recorded in applications where we expect substantial growth in the next upturn, such as Atomic Layer Deposition (ALD). In addition to these success-

Key figures Valves

In CHF million	2023	2022	Change
Order intake	554.4	970.9	–42.9%
– Semiconductors	387.7	765.4	–49.4%
– Advanced Industrials	166.7	205.4	–18.8%
Net sales	712.4	932.7	–23.6%
– Semiconductors	518.0	770.5	–32.8%
– Advanced Industrials	194.4	162.2	19.9%
Inter-segment sales	70.30	89.20	–21.2%
Segment net sales	782.7	1021.9	–23.4%
Segment EBITDA	239.3	354.5	–32.5%
Segment EBITDA margin	30.6%	34.7%	
Segment net operating assets	798.6	840.4	–5.0%
of which net trade working capital	202.8	260.9	–22.3%

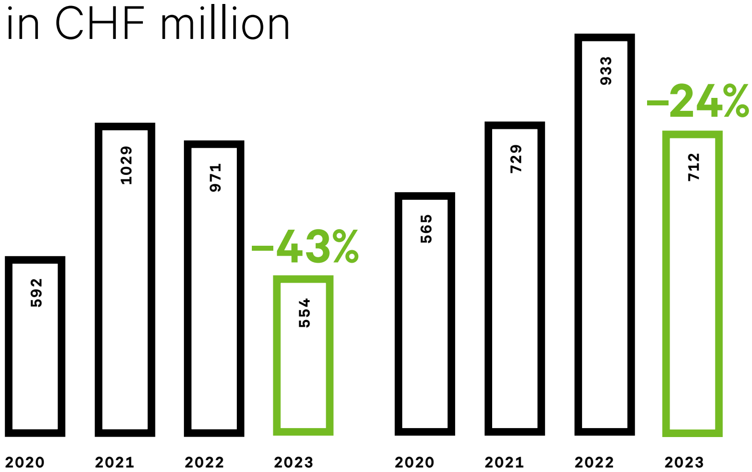
es in the semiconductor area, strategic wins in Displays were achieved in the field of evaporation (OLED IT) applications. Additionally, the business unit Semiconductors experienced fast growth in the Chinese markets.

To strengthen the business unit's readiness for the next upturn, VAT continued optimizing its supply chain for high-volume products while secondary source qualification and the strategic relocation of operations to the Malaysia facility were also undertaken. These initiatives not only position the business for increased efficiency and flexibility, but also positively impact its environmental footprint and cycle time.

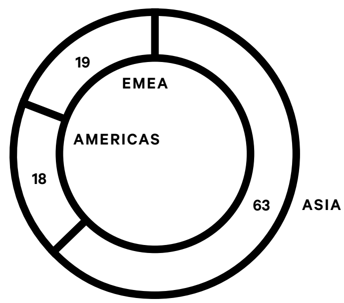
Advanced Industrials continues to grow 2023
The Advanced Industrials business unit serves a wide variety of customers with vacuum-based technologies in areas such as scientific instruments, crystal pulling for silicon production, thin-film coatings, and scientific research. In 2023, the business unit achieved all-time high net sales of CHF 194 million, a 20% increase over the previous year. This sales development was the result of larger project orders recorded in 2022 and the expansion of strategic markets. Order intake was negatively impactetd by lower activities in scientific instruments and some overstocking at solar customers in 2022. As a result, order intake in 2023 declined by 19% to CHF 167 million. Larger orders received towards the end of the year, however, indicate that the strategic positioning and execution is intact.

Demand was highest in Asia, with record 2023 sales fuelled by strong demand on research and working off the solar order backlog. In Europe, the business nearly matched their record order intake of the previous year through converting strategic research projects and satisfying high demand in the nuclear sector. The US market saw flat sales and negative order intake, particularly in the scientific instrument sector, which softened due to the semiconductor turndown, leading to a decrease in demand for metrology and inspection equipment.

Order intake & net sales
in CHF million



Net sales
by region %



Performance review 2023

Total orders in the Valves segment in 2023 amounted to CHF 554 million, down 43% from the previous year. Net sales reached CHF 712 million, a decrease of 24% compared with CHF 933 million in 2022. Geographically, the share of total segment sales was stable in Asia, mainly the result of strong China sales offsetting weakness in other countries in this area. Sales in the US – as a percentage of the segment's sales – decreased, while Europe increased, due to the strong sales growth in the Advanced Industrials business.

The segment reported EBITDA of CHF 239 million, down 33% from the year before, and a segment EBITDA margin of 30.6% versus 34.7% in 2022. The lower profitability was due to volume effects and adverse foreign exchange movements as the Swiss franc strengthened substantially against all major trading currencies. This more than offset the ongoing operational improvements, including increasing the share of component and raw material supplies from best-cost countries.

Market outlook 2024

The 2024 market outlook for the Valves segment presents a mildly positive picture. Capital spending in semiconductor manufacturing is expected to ramp-up during the year, with a faster paced increase in the later part of the year. This is due to the requirement for investments in areas such as High Bandwidth Memory (HBM) or leading-edge memory to support the expected proliferation of applications using artificial intelligence (AI), and the launch of Gate All Around (GAA) technology. The Display business is expected to further benefit from the OLED IT capacity expansions in Korea and China. In the business unit Advanced Industrials, the research sector is expected to soften due to the timing of certain high energy research projects. In scientific instruments the positive mid- and long-term trend is expected to continue as the sector is working off its backlog. The solar market is expected to be flat in 2024 after the strong growth in 2023. Overall, the Advanced industrials sector outlook remains attractive in 2024, driven by the energy transition and investments in nuclear applications, particularly with the expansion in fission (uranium enrichment) driven by the geopolitical developments in Europe.

Global Service

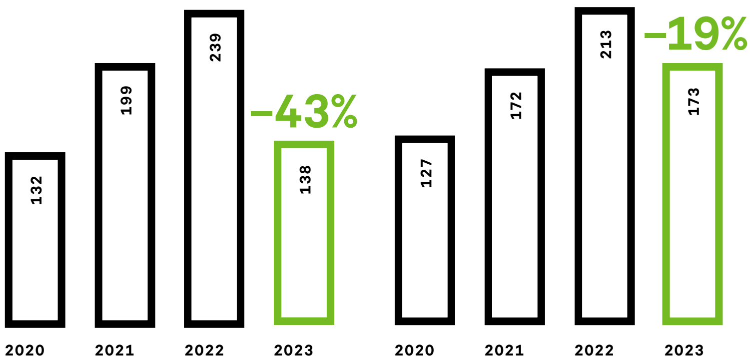
With the onset of the overall slowdown in the Semiconductor market, the Global Service segment saw significantly reduced order intake and sales in 2023, over the prior year. Utilization rates at both foundry and integrated device manufacturing (IDM) fab locations dropped significantly from the record levels seen in 2022, when industry-average utilization was close to 100%. These utilization rates in 2023 marked historic lows, in some sectors dipping below 70% for the first time in over two decades, before starting a timid recovery towards the end of the year. The steepest decline was seen in the memory sectors producing DRAM and NAND Flash devices. This decline in utilization rates, coupled with very high inventory levels built up at the end of 2022 – partly the result of the COVID-induced supply chain challenges in 2021 and 2022 – resulted in the significant drop for the service business in 2023 globally. The fall in the global market demand for services was consistent with VAT's Global Service sales being driven by three primary factors: VAT valve installed base, fab utilization, and fab inventory levels. In this case the larger than expected drop in utilization, coupled with the high customer inventory levels at the start of 2023, prevented service sales from keeping pace with the expanded valve installed base.

Despite these temporary market challenges, in 2023 the Global Service business unit continued to focus on new products for the after-market with the launch of several new valves designed specifically to be field replacement products of both VAT valves and competitor valves. A remote plasma source valve and a high stroke pendulum valve were brought to market and are being qualified at key customers. In addition, new repair offerings in Display and Solar applications were introduced and are expected to grow significantly in the next few years.

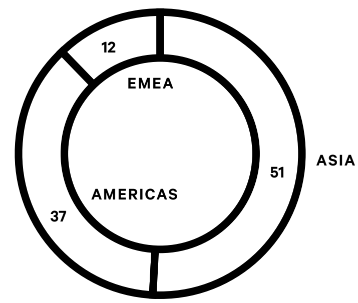
Key figures Global Service

In CHF million	2023	2022	Change
Order intake	137.5	239.0	–42.5%
Net sales	172.9	212.7	–18.7%
Inter-segment sales	–	–	–
Segment net sales	172.9	212.7	–18.7%
Segment EBITDA	69.1	96.6	–28.5%
Segment EBITDA margin	39.9%	45.4%	
Segment net operating assets	132.2	131.8	0.3%
of which net trade working capital	40.7	36.4	11.8%

Order intake & net sales
in CHF million



Net sales
by region %



Performance review 2023
Orders in the Global Service segment decreased 43% year-on-year to CHF 138 million. Net sales were down 19% to CHF 173 million, as backlog execution buffered against the order decline. The sales decline was witnessed across all four major business areas of the Global Service business unit: Gates, Spares and repair, Retrofit and Service, ranging from 3% to 24% lower. EBITDA reduced by 29% versus 2022, to CHF 69 million. The EBITDA margin in 2023 was 40% compared to 45% a year earlier, mainly the result of lower VAT factory loading and the strength of the Swiss franc.

Market outlook 2024
Orders in the fourth quarter of 2023 began to pick up for the Global Service Business segment, reflecting the slightly improving fab utilization situation in the semiconductor industry. This development is expected to continue throughout 2024 with order intake expected to accelerate significantly in the second half of the year. In addition, VAT has used the slower market dynamics of 2023 to strengthen ties with a number of its key customers. Increasing business activity is expected with OEMs, IDMs, and foundries throughout the year, utilizing new business models to render additional support and value to these customers across VAT's large service network.

Board of Directors

Martin Komischke
Chairman of the Board of Directors

Urs Leinhäuser
Vice-Chairman of the Board of Directors

Hermann Gerlinger
Member of the Board of Directors

Karl Schlegel
Member of the Board of Directors

Libo Zhang
Member of the Board of Directors

Daniel Lippuner
Member of the Board of Directors

Maria Heriz
Member of the Board of Directors

Petra Denk
Member of the Board of Directors

Group Executive Committee

Michael Allison
CEO (until 31.12.2023)

Fabian Chiozza
CFO

Thomas Berden
COO

Urs Gantner
EVP SSG (until 31.12.2023, CEO as per 01.01.2024)

Finn Felsberg
EVP SSG (as per 01.12.2023)

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 Code of Best Practice for Corporate Governance, and the corporate governance provisions of the Swiss Code of Obligations. 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 https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf Committee Charters published at https://ir.vatvalve.com/en/corporate-governance and the Organizational Regulations of VAT Group AG published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf

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 2023 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; eleven distribution companies in Europe, North America and Asia; and two holding 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 2023 of VAT Group AG on page 119.

VAT Group's operational structure is organized into two business segments aimed at delivering maximum value to customers: Valves and Global Service. This structure is described in more detail in the segment information in the notes to the financial statements on pages 91 to 94.

1.2 Significant shareholders

As of December 31, 2023, 20,160 shareholders were registered in VAT Group AG's share register, holding 15,425,204 shares (as defined below under 2.1).

Disclosure notifications of significant shareholdings in VAT Group AG that were filed in 2023 with VAT Group AG and the SIX Swiss Exchange are available from the online publication platform of the SIX Swiss Exchange: https://www.ser-ag.com/en/resources/notifications-market-participants/significant-shareholders.html#/.

As of December 31, 2023 (or as per the date indicated), VAT Group AG was aware 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[1]	10.00%
BlackRock, Inc.[2]	5.72%
UBS Fund Management (Switzerland) AG[3]	3.02%
Norges Bank (the Central Bank of Norway)[4]	3.01%

1 Position for Rudolf Magg as per VAT share register dated December 31, 2023
2 Position for BlackRock, Inc. as per filing dated April 28, 2023
3 Position for UBS Fund Management (Switzerland) AG as per filing dated June 6, 2023
4 Position for Norges Bank (the Central Bank of Norway) as per filing dated June 2, 2023

VAT has been informed by Capital Group Companies, Inc. on February 13, 2024, that it had reduced its position in VAT shares to below the threshold of 3%. Further details are available from the online publication platform of the SIX Swiss Exchange: https://www.ser-ag.com/en/resources/notifications-market-participants/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, 2023, was CHF 12.7 billion with a free float as defined by SIX Swiss Exchange of approximately 90%. During 2023, 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 Capital band

At the Annual General Meeting on May 16, 2023, the shareholders approved the creation of a capital band of -5/+10% of the issued share capital for a period of three years. According to the new Art. 3b. of the Articles of Association, the Board of Directors is authorized until the 2026 Annual General Meeting to increase the share capital within a range by issuing a maximum of 3,000,000 registered shares or by cancelling a maximum of 1,500,000 registered shares or by reducing the par value of the existing registered shares. The aforementioned number of shares relates to the existing par value of the shares of CHF 0.10. The upper limit of the capital band is therefore CHF 3,300,000 and the lower limit CHF 2,850,000. Within the authorization period, the Board of Directors may also change the capital several times, including in partial amounts, but only within the upper and lower limits of the capital band.

2.4 Changes in share capital

There have been no changes in the share capital during the reporting year.

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

As of December 31, 2023, 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.

2.6 Own shares

As of December 31, 2023, VAT Group AG held 20,394 of its own shares. None of its subsidiaries held any shares in VAT Group AG.

2.7 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 said shares in their own name and for their own account, that there is no agreement on the redemption or return of corresponding shares, that they bear the economic risk associated with the shares and that they comply with the disclosure requirement stipulated by the Federal Act on Financial Market Infrastructure (FinMIA) of June 19, 2015. Entry in the share register of registered shares as shareholder with voting rights is subject to the approval of VAT Group AG. Entry of registered shares with voting rights may be refused based on the grounds set out in Article 5 para. 3, 4 and 5 of the Articles of Association.

Persons not expressly making the declaration referred to in Article 5 paragraph 2 of the Articles of Association (hereafter referred to as 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, at the application for registration or thereafter upon request by VAT Group AG, makes known the names, addresses and shareholdings of the persons for whose account he is holding 0.5% or more of the share capital

1 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

outstanding at that time and provided that the disclosure requirement stipulated by the Federal Act on Financial Market Infrastructure (FinMIA) of June 19, 2015 is complied with.
The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements.

Subject to Article 652b paragraph 3 of the Swiss Code of Obligation, the abovementioned limit of registration also applies to the subscription for or acquisition of registered shares by exercising preemptive, option or convertible rights arising from shares or any other securities issued by VAT Group AG or third parties.

Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with the intent to circumvent the entry restriction are considered as one shareholder or nominee. VAT Group AG may in special cases approve exceptions to these restrictions. No such cases were approved in 2023.

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

2.8 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 eight non-executive members (including the Chairman).

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, 2023.

Board of Directors[1]

Name	Age[1]	Position	Year of 1st election
Martin Komischke	66	Chairman	2017
Urs Leinhäuser	64	Vice Chairman	2018
Hermann Gerlinger	70	Member	2017
Karl Schlegel	70	Member	2016
Libo Zhang	53	Member	2018
Daniel Lippuner	54	Member	2020
Maria Heriz	46	Member	2022
Petra Denk	51	Member	2023

1 as of December 31, 2023

3.2 Background, other activities and functions

As of December 31, 2023, 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.

2 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

Martin Komischke serves as Chairman of the Board of Hoerbiger Holding AG (since 2016), as a member of the Board of Directors of Stäubli Holding AG (since 2016) and as Vice President of the Board of Trustees of Hoerbiger-Stiftung (since 2016).

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

Urs Leinhäuser, Vice Chairman, 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. He became Vice Chairman in May 2022.
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). 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.

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 since then 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 Carl Zeiss AG. Hermann Gerlinger is a member of the Supervisory Board of Siltronic AG since 2011 and guest member of the Technology Committee of the ASML Board of Directors since 2018.

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

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 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 as a member of the SPT Roth AG Advisory Board and on the Advisory Board at Deutsche Bank AG.

Libo Zhang holds a degree and a doctorate in economics and an 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 and was since then re-elected annually.
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 Chairman of the Board of Directors of Heberlein Technology AG, member of the Board of Directors of 3S Swiss Solar Solutions AG and member of the Board of Directors of Juice Services AG. He further serves as a Member of the Board of Trustees of Remnex Anlagestiftung. Daniel Lippuner holds a degree in economics and business administration from the University of Applied Sciences, St. Gallen, Switzerland.

Maria Heriz was born in 1977 and has dual Spanish-French citizenship. She became a member of the Board of Directors of VAT Group AG in May 2022 and was re-elected in 2023.
Maria Heriz is currently the Chief Product and Marketing Officer at Tektronix Inc, an American company best known for manufacturing test and measurement devices. From 2015 – 2018, she held senior management positions at NXP Semiconductors, a Dutch semiconductor designer and manufacturer. Prior to that, Maria Heriz worked at Texas Instruments for nearly 15 years, where she managed key accounts and held senior management positions in global sales.

Maria Heriz holds degrees from the Polytechnic University of Madrid, Spain, and the École nationale supérieure des telecommunications ENST Paris, France.

Prof. Dr. Petra Denk was born in 1972 and is a German citizen. She became member of the Board of Directors of VAT Group in May 2023.
Mrs. Denk is currently professor of Energy and Economics at the University of Applied Sciences in Landshut Germany and director and founder of the Institute of Systemic Energy Consulting Ltd also in Landshut. Prior to her professorship, she held a number of senior management positions at E.ON Energie in Munich, with experience in mergers and acquisitions, business development, and strategy development. She is also a Supervisory Board Member at Aixtron SE and of Pfisterer AG. Mrs. Denk is also a member of the Board of Directors of Berner Kraftwerke AG and a member of the Scientific Board for the Center of Applied Energy Studies in Germany focused on the reduction of CO_2 emissions through renewable energies and efficiency measures.

Mrs. Denk holds a PhD in physics from the University of Munich and the Centre national de la recherche scientifique (CNRS) in Paris.

3.3 Mandates and other permitted activities

According to Article 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

3 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next ordinary shareholders' meeting. Based on VAT Group AG's Articles of Association and its Organizational Regulations 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 twelve 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[5] or by other regulations.

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

- to ultimately direct the Company and issue the necessary directives;
- to determine the organization;
- to organize the accounting, the internal control system (ICS), the financial control and the financial planning as well as to perform a risk assessment;
- to appoint and recall the persons entrusted with the management and representation of the Company and grant signatory power;
- to ultimately supervise the persons entrusted with the management, in particular with respect to compliance with the law, the Articles of Association, regulations and directives;
- to prepare the business report, the compensation report and the report on non-financial matters pursuant to Article 964c of the Swiss Code of Obligations;
- to prepare the General Meeting and to execute its resolutions;
- to file a petition for probate and inform the court in the event of over-indebtedness;
- to pass 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;
- to pass resolutions on changes to the share capital, insofar as this is within the competence of the Board of Directors, confirm changes in share capital, prepare the corresponding reports and amend the Articles of Association;
- to examine compliance with the legal requirements regarding the appointment, election and the professional qualifications of the Auditors;
- to execute the agreements pursuant to Articles 12, 36 and 70 of the 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 four times a year, or whenever a member or the CEO indicating the reasons so requests. 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 (simple majority). In the case of a tie, the director chairing the meeting 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 electronic communication means (telephone, video conference etc.). Absent members cannot be represented and abstentions do not count as votes. 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 652e,

4 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf.
5 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

652g, 653g, 653t and 653u 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 members of the Group Executive Committee attend the meetings of the Board of Directors in an advisory capacity. The members of the Group Management Board attend at least one meeting 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 Technology Committee (TC) was introduced in 2017.

The Committees may conduct or authorize investigations within their areas of responsibility; if necessary, they may involve external experts. The table below outlines the Committee memberships of the current members of the Board of Directors as of December 31, 2023.

Board of Directors

	Audit Committee (AC)	Nomination and Compensation Committee (NCC)	Technology Committee
Martin Komischke	–	–	–
Libo Zhang	Member	Chairperson	–
Hermann Gerlinger	–	Member	Chairperson
Urs Leinhäuser	Chairperson	Member	–
Karl Schlegel	–	–	Member
Daniel Lippuner	Member	–	Member
Maria Heriz	–	–	–
Petra Denk	–	–	Member

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 Chairperson 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 and Daniel Lippuner.

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

- Evaluating the external auditors and ensuring their qualification in accordance with the applicable statutory provisions and submitting a proposal to the Board of Directors for the election of the auditors at the Annual General Meeting.
- Assessing the work of the current auditors and approving on request of the CFO the budgeted fee for the auditing activities of the external auditors.
- Structuring and nomination of the internal audit unit; issuing instructions to the internal auditors (upon request of the Board of Directors as the case may be) and assessing their work.
- Checking, discussing with the affected parties and approving the audit plans of the internal and external auditors.
- Approving any non-audit services by the external auditors.

4 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf.
5 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.
6 The AC charter of VAT Group AG is published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/E_VAT_Audit-Committee_2023.pdf.

- Inquiring the Group Executive Committee and the internal and external auditors on the Group's significant risks, contingent liabilities and other liabilities and assessing the measures to manage these risks and liabilities that were implemented by the Group.
- Reviewing and discussing the interim and annual financial statements of the Company and the Group, including material off-balance sheet items with the relevant members of the Group Executive Committee.
- Discussing the results of the annual audit with the external auditors, discussing the reports of the internal auditors and issuing proposals or recommendations to the Board of Directors.
- Assessing and facilitating collaboration between the internal and external auditors.
- Summarily assessing the annual business expenses incurred by the members of the Group Executive Committee.

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 at 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 Libo Zhang who is supported by Urs Leinhäuser and Hermann Gerlinger.

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

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

- the compensation scheme of the VAT Group pursuant to the principles of art. 25 and 26 of the Articles of Association[8],
- the compensation of the executive management,
- 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 Article 23 of the Articles of Association and further additional occupation of the members of the executive management,
- Criteria for the nomination and for the election/re-election of members to the Board of Directors and the nomination of members to 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 68 to 69.

7 The NCC charter of VAT Group AG is published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/231214_VAT_NCC_Charter_EN.pdf.
8 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.
9 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf.

3.10 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 Technology Committee (TC).

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 and support for the Board of Directors in its supervisory function, in particular with regard to the selection of adequate technology and product options and the far-reaching effects of these decisions. 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, Daniel Lippuner and Petra Denk.

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 Chairperson, and are held as often as business requires, but usually ahead of each ordinary Board of Directors meeting.

In order to perform their duties, at least half of the Committee members have to be present in person or participate through electronic communication means. 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 Chairperson 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.

10 The TC charter of VAT Group AG is published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/tc-charter-of-vat-group-ag.pdf.
11 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf.

3.12 Overview of meetings in 2023

During 2023, the Board of Directors and the Committees conducted regular formal meetings and conference calls.

Formal meetings and conference calls

	BoD	AC	NCC	Technology Committee
Total number of meetings/calls in 2023	5/6	4/5	4/0	3/0
Usual average duration approx. (in hours) of Meetings/Calls in 2023	6/1.5	2.5/1	2/0	2/0
Martin Komischke	5/6	–	2/0	–
Libo Zhang	5/6	4/4	4/0	–
Hermann Gerlinger	5/6	–	4/0	3/0
Urs Leinhäuser	5/6	4/5	4/0	–
Karl Schlegel	5/5	–	–	2/0
Daniel Lippuner	5/6	4/5	–	3/0
Maria Heriz	5/6	–	–	–
Petra Denk	4/3			2/0
Internal Audit, PwC	–	4/0	–	–
External Audit (KPMG)	–	4/1	–	–
External Advisors	2/0	0/1	4/0	–

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 of Legal and Compliance attended all meeting of the Board of Directors, all of the AC and the NCC meetings and acted 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.

12 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.
13 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf.

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, CFO and the EVP SSG. 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 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 periodic reporting to the AC. Operationally, the Group Executive Committee is responsible for controlling risk management. In addition, responsible persons are designated in the company for significant individual risks and control activities, such as periodic internal audits of internal control systems (more details can be found in Section 8.1 herein).

4. Group Executive Committee

Subject to those affairs, which lie within the responsibility of the Board of Directors according to Swiss law, the Articles of Association[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

As of December 31, 2023, the members of the Group Executive Committee were:

Michael (Mike) Allison, CEO, born in 1962, British citizen, joined VAT on January 1, 2018 and was appointed 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, Mike Allison helped transform Edwards into one of the leading companies in the Semiconductor Vacuum sector. In addition to his responsibilities at Edwards / Atlas Copco, Mike Allison also spent 20 years at KLA-Tencor, where he held many key positions, 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.

Mike Allison is stepping down as CEO on December 31, 2023.

14 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.
15 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2023.pdf.

Fabian Chiozza, born in 1981, Swiss citizen, was appointed as CFO of VAT Group AG in April 2021.
Fabian Chiozza joined VAT Group AG from Autoneum Group, the global leader in acoustic and thermal management for the automotive industry, where he was the divisional CFO for the Business Group South America, Middle East and Africa, Fabian previously Chiozza held a variety of senior finance positions at Rieter Group, including Group Controller, and established a successful track record in corporate development and mergers and acquisitions.

Fabian Chiozza is a member of the Board of the Industrie- und Handelskammer St. Gallen/Appenzell, an association that promotes the interests of local industry, trade and service companies.

He holds a Master's degree in Accounting and Finance from the University of St. Gallen (HSG), Switzerland.

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.

Urs Gantner, born in 1970, Swiss citizen, was appointed Executive Vice President Semiconductor Solutions Group (EVP SSG) in August 2022
Urs Gantner joined VAT in 2004 as a product manager for customized transfer valve solutions. He was named head of the Semiconductor business unit in 2015, helping to grow the business while improving its operational structure and performance by taking advantage of the company's growing global footprint. Urs Gantner also played a central role in the development and growth of VAT's manufacturing facility in Malaysia, including the localization of engineering and product management, and has led the expansion of VAT's valves business into adjacent product markets.

Urs Gantner, holds a Master of Science degree in mechanical engineering from the Federal Institute of Technology (ETH).

Urs Gantner is succeeding Mike Allison as CEO of VAT Group AG on January 1, 2024.

Finn Felsberg, born 1976, German citizen, was appointed Executive Vice President Semiconductor Solutions Group (EVP SSG) in December 2023. He succeeds Urs Gantner, who was appointed VAT Group AG's new CEO, effective January 1, 2024.
Before joining VAT, Finn Felsberg worked for over 20 years at Infineon Technologies AG, based in Munich, Germany. He served in a variety of roles at Infineon, from purchasing and operations to project management for new semiconductor fabs and strategy development. More recently, Finn Felsberg held senior management positions in Infineon's Automotive divisions, as general manager of the Powertrain, Safety, and ASICs (Application-specific Integrated Circuits) business and Senior Vice President & General Manager of the Power Integration & Supply business.

Finn Felsberg holds a degree in Industrial Engineering and Business Management from the Nordakademie University of Applied Sciences in Elmshorn, Germany.

4.2 Mandates and other permitted activities

According to Article 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 Article 727 para. 1 number 2 of the Swiss Code of Obligations, and up to five mandates in

16 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

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.

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 65. 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 Articles 25 to 29 of the Articles of Association[17].

The rules regarding the approval of the remuneration by the shareholders' meeting are set in Article 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 68, 69, 70 and 76.

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

Article 689c para. 4 Swiss Code of Obligation provide that the Board of Directors must ensure that the shareholders are able to grant proxies and instruct the independent proxy on (i) agenda items included in the invitation to the shareholders' meeting, and (ii) on unannounced motions on agenda items and on new agenda items in accordance with Article 704b Swiss Code of Obligations. The independent proxy is required to exercise the

17 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

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 16, 2023, Roger Föhn of ADROIT, Kalchbühlstrasse 4, 8038 Zurich, Switzerland, was elected as the independent proxy for the term ending at the conclusion of the next ordinary shareholders' meeting.

6.3 Quorums required

No statutory quorums other than those defined by Swiss corporate law and the Swiss Federal Merger Act apply. Any article of the Articles of Association[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 60 days if requested by one or more shareholders representing in aggregate at least 5% of VAT Group AG's nominal share capital or votes.

Registered shareholders with voting rights individually or jointly representing at least 0.5% of the nominal share capital or votes of VAT Group AG may demand that items be put on the agenda or that a motion relating to an agenda item be included in the notice convening the General Meeting. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 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 date, beginning, mode and venue of the meeting, the agenda items, the proposals of the Board of Directors together with a brief statement of the reasons, if applicable, the proposals of the shareholders together with a brief statement of the reasons and the name and address of the independent proxy.

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 (FinMIA), 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).

The opting-out clause in VAT Group AG's Articles of Association expired on December 31, 2020 and was deleted from the Articles of Association as part of their revision at the 2023 Annual General Meeting.

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 74.

18 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf.

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 co-sourced with PricewaterhouseCoopers (PwC) in order to execute the individual audits and PwC was responsible to plan, execute and report the audits. VAT Group AG appointed its own internal auditor in November 2023, who will take over the tasks of PwC. 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. In 2023, three internal audits were conducted.

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 since then annually), auditing the consolidated financial statements and the individual financial statements of VAT Group AG. Mr. Simon Niklaus was named lead auditor in 2021. The holder of this office changes every seven years, in accordance with Swiss law.

In 2023, aggregate audit fees for KPMG's audit of VAT Group AG and the VAT Group amounted to about CHF 430,000.

In 2023, KPMG rendered additional services, in respect to compliance, tax returns and tax advice amounting to aggregate fees of about CHF 90,000.

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 and calls (in person or by telephone/video conference) of the AC in the year under review. An overview of meetings and attendance can be found in Section 3.12 herein.

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

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

9. Blackout Periods

VAT Group AG has adopted an Insider Dealing and Market Manipulation Policy ("Trading Policy"). In addition to the members of the Board of Directors, the Group Executive Board, the Group Management Board, their assistants, secretaries and other personal employees, the Trading Policy applies to all other persons who have access to inside information and for whom the CEO or the CFO declares the Trading Policy to be applicable. This designated group of addressees ("Blocked Persons") must not deal in VAT securities (shares of VAT Group AG, any other securities issued by VAT Group AG and any derivatives and other financial instruments from the aforementioned securities) or make recommendations to any other person while in possession of inside information. Inside information is defined as confidential information which, if made public, can have a significant effect on the trading price of VAT securities.

In order to avoid any appearance of improper use of inside information, blackout periods have been defined in the Trading Policy. Blackout periods are specific periods of time before the publication of confidential and potentially price-sensitive information. Regardless of whether a Blocked Person is in the possession of inside information, Blocked Persons are barred from dealing in VAT securities

- from December 31 until the lapse of one SIX trading day following the public release of the annual results;
- from March 31 until the lapse of one SIX trading day following the public release of the Q1 trading up-date;
- from June 30 until the lapse of one SIX trading day following the public release of the semi-annual results;
- from September 30 until lapse of one SIX trading day following the public release of the Q3 trading up-date.

Exceptions from this ban may only be granted upon prior request in the form of written approval by the Board of Directors or the CEO/CFO, as applicable. In 2023 no such exceptions have been granted.

10. 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 https://ir.vatvalve.com/en/event-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 https://ir.vatvalve.com.

All upcoming dates can be found in the financial calendar on page 144 of this annual report.

Contact information:
VAT Group AG

Investor Relations & Sustainability	Investor Relations
Michel R. Gerber	Christopher Wickli

Seelistrasse 1
CH-9469 Haag
T +41 81 772 61 61
E-mail: investors@vat.ch
VAT Group AG's website: www.vatvalve.com

Ad hoc messages: https://ir.vatvalve.com/en/news
Financial reports: https://ir.vatvalve.com/en/financial-reports
Newsletter subscription: https://ir.vatvalve.com/en/news-service

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 in the 2023 financial year.

The Compensation Report is written in accordance with the revised Code of Obligations, in effect as of January 1, 2023, 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 a challenging market environment, VAT Group delivered another set of strong results albeit below the record levels of 2022. VAT Group experienced the anticipated slowdown in investment activities, which had already started during the fourth quarter of 2022. While VAT's long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence remained firmly in place, capital investments into additional manufacturing capacity took a breather after three years of unprecedented growth. The main reasons for this were the short-term market demand slowdown in the consumer sector, coupled with inflationary trends and geopolitical uncertainties. As a result, the company achieved sales of CHF 885 million, and because of the lower volumes coupled with the adverse foreign exchange impacts, a full-year EBITDA margin of 30.6%, which was the result of operational efficiency and a strong focus on cost. Free cash flow amounted to CHF 189 million.

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 the reporting year, the NCC continued to focus on the succession planning for positions on the Board and the GEC. Petra Denk was elected as a member of the Board at the 2023 Annual General Meeting (AGM) on May 16, 2023. Petra brings significant expertise to the Board in the area of renewable energies and energy infrastructure, and has more than ten years of experience in the semiconductor equipment sector. The Board will benefit from her expertise as VAT Group further continues to drive growth. Martin Komischke decided not to stand for re-election as a member of the NCC. His decision emphasizes the importance of good corporate governance at VAT Group. Further, the Board has appointed Urs Gantner, Executive Vice President Semiconductor Solutions Group, as the new CEO of VAT Group effective January 1, 2024. Urs Gantner will succeed Mike Allison, who announced in February 2023 that he will retire at the end of the fiscal year 2023. Urs will continue to work closely with all stakeholders around the globe while building strong new collaborations to further shape the market and remain market leader. The Board thanks Mike for his great contribution to the company's success over the past six years and bringing VAT Group into its current position as a world market leader for vacuum valves. Finally, the Board has appointed Finn Felsberg as the new Executive Vice President Semiconductor Solutions Group and as successor to Urs Gantner, effective December 1, 2023.

In the reporting year 2023, the NCC updated the performance objectives of the short-term variable compensation and their weightings to reiterate the commitment to creating a sustainability culture as part of the 2030 long-term sustainability strategy. Sustainability objectives are weighted 25% of the total STI and comprise environment, social and governance objectives and additionally sustainability projects for the CEO and the GEC members.

Further, the NCC conducted a thorough review of the short-term and long-term plans for the GEC based on market practice and shareholders' feedback. The NCC came to the conclusion, that the 2023 compensation system is overall in line with market practice and hence remains unchanged for 2024. As approved in 2022, share ownership guidelines for the GEC were introduced as of January 1, 2024.

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 2023 and the say-on-pay vote for the 2024 AGM. You will find further information on the NCC activities and on VAT Group's compensation system and governance on the following pages.

At the 2023 AGM, a consultative vote on the Compensation Report for fiscal year 2022 was conducted for shareholders to express their opinion on the compensation principles and structure of the Board and the GEC. The shareholders approved the Compensation Report as well as the binding votes.

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 2024 until the 2025 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2023, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2025, and on the maximum aggregate amount of the long-term incentive plan of the GEC for financial year 2025.

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 4, 2024

2 Compensation at a glance

Summary of current remuneration system Board of Directors

The members of the Board receive a fixed compensation as an annual fee in the form of cash and shares, in order to ensure their independence in the performance of their supervisory function; shares are blocked for three years. The compensation system does not contain any performance-related components.

Structure and levels of Board compensation AGM 2023 until AGM 2024

In CHF (gross)	Chair of the Board	Vice-Chair of the Board	Member of the Board
Fixed basic fee	320,000	160,000	110,000

In CHF (gross)	Committee chair	Committee member
Audit Committee	25,000	15,000
Nomination and Compensation Committee	25,000	15,000
Technology Committee	25,000	15,000

Summary of current compensation system Group Executive Committee

The compensation of the GEC consists of fixed and variable elements.

- Base salary and pensions and employee benefits form the fixed compensation.
- Variable compensation drives and rewards best-in-class performance based on ambitious and stretched targets. It consists of short-term and long-term elements.

Structure of compensation for the GEC

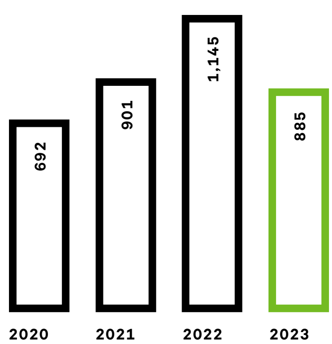
Element	Purpose	Vehicle
Base salary	Pay for the function	Continuous
Short-Term Incentive (STI)	Reward annual financial and individual performance; attract & retain	1-year, performance-based cash
Long-Term Incentive (LTI)	Reward long-term performance Align to shareholders' interests	3-year cliff vesting period of PSUs, subject to performance conditions
Pensions and employee benefits	Cover retirement, death and disability risks	Continuous
Non-tangible rewards such as work environment and culture, personal development and career opportunities		

Compensation policy and principles applicable to the GEC

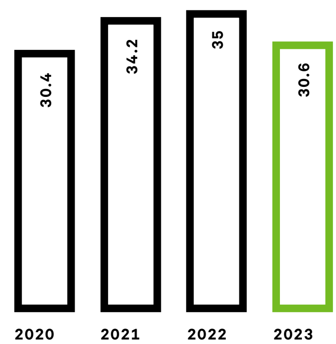
VAT Group's compensation principles support the company's business strategy and foster the commitment of all employees to the company's long-term goals. The compensation principles are:

- Internal fairness
- Reward for performance
- Focus on sustainable long-term value creation
- Alignment to shareholders' interest
- Market competitiveness
- Simplicity and transparency

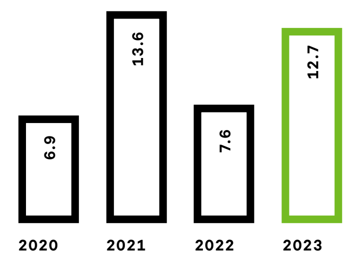
Sales in CHF million



EBITDA Margin in %



Market Capitalization in CHF billion



VAT Group's financial performance

After three years of unprecedented growth, VAT Group suffered a setback in 2023 as the market environment turned substantially negative. The overall level of performance however is still considered to be at a very high level and the recovery of VAT's share price during 2023 indicates the positive sentiment for future growth of VAT Group in the stock markets.

Compensation awarded for the Board for 2022/2023

The compensation paid to the Board for the term AGM 2022 to AGM 2023 is within the maximum aggregate amount approved by the shareholders.

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2022 – AGM 2023	1,350,000	1,279,286

Short-term performance achievement for 2023

The overall performance achievement was marked by strong results resilience and the average payout for the GEC resulted in 109% of target (2022: 111%), which is similar compared to prior year. The significant increase in STI payout compared to 2022 of +15.9% is mainly due to the change in GEC composition compared to 2022.

Fixed compensation awarded for the GEC for 2023

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2023	2,500,000	2,262,290

Compensation governance

- Authority for decisions related to compensation are governed by the Articles of Association of VAT Group.
- The maximum aggregate amounts of compensation of the Board and of the GEC are subject to binding votes at the Annual General Meeting.
- In addition, the Compensation Report for the preceding period is subject to a consultative vote at the AGM.
- The Board is supported by the NCC in preparing all compensation-related decisions regarding the Board and the GEC.

3 Compensation governance

3.1 Articles of Association

The Articles of Association of VAT Group can be found on the corporate website https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf. The provisions on compensation in the Articles of Association summarized in Table 1 below 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.

3.2 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 AGM. At the AGM 2023, Libo Zhang (NCC chair), Hermann Gerlinger and Urs Leinhäuser have been re-elected as members of the NCC. Martin Komischke did not stand for re-election as a member of the NCC.

It is the responsibility of the NCC 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 56.

1 The NCC charter of VAT Group AG is published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/231214_VAT_NCC_Charter_EN.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 2023, 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 58.

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 2023, PricewaterhouseCoopers Switzerland (PwC) was mandated to provide independent advice and consulting services related to Board and executive compensation practices. PwC provides also other services to VAT Group.

4. Compensation for the Board of Directors

4.1 Compensation principles

In order to ensure their independence in exercising their supervisory duties, members of the Board receive a fixed compensation only as an annual fee. The compensation is delivered partially in cash and partially in three-year restricted shares, to strengthen the alignment to shareholders' interests. The fees are not subject to the achievement of any specific performance conditions.

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

Table 3: Structure and levels of Board compensation AGM 2023 until AGM 2024

In CHF (gross)	Chair of the Board	Vice-Chair of the Board	Member of the Board
Fixed basic fee	320,000	160,000	110,000

	Chair of the Committee		Member of the Committee
Audit Committee (AC)	25,000		15,000
Nomination and Compensation Committee (NCC)	25,000		15,000
Technology Committee (TC)	25,000		15,000

70% of total compensation is awarded in cash and 30% is awarded in three-year restricted shares. During the three-year restriction period (blocking period), the shares 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.

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 benchmarked every two to three years 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 2021, a thorough review has been conducted 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 Group (delisted in December 2022), Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis + Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. This peer group is balanced in terms of market capitalization, revenue size and headcount. The analysis concluded that while the overall compensation structure is in line with market practice, the compensation levels are below market median. In 2022, the Board decided to increase the compensation levels closer to market median for the Board term starting at the AGM 2022 and discontinued the compensation for additional tasks or projects that go beyond their function and normal duties of their mandate. Based on the changes made in 2022, the Board did not apply further changes in 2023 to keep the board retainers stable over a period of time.

5. Compensation for the GEC

5.1 Compensation principles

VAT Group's compensation principles for the GEC support VAT Group'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.

Equal Pay

VAT Group is committed to treat every employee in an inclusive and equal way across all countries the company operates in. To consistently evaluate that pay equality is valid, VAT Group has carried out an analysis in Switzerland as required by the Swiss Federal Act on Gender Equality. Since 2021, VAT Group obtained the Fair-On-Pay certificate which demonstrates that the company is compliant with the Swiss equal pay standards. As of 2024, VAT Group will further expand an equal pay analysis across a broader group.

5.2 Compensation structure

The compensation structure of GEC members consists of several elements: a fixed compensation comprising an annual base salary (ABS), pensions and employee benefits, a variable component consisting of a short-term incentive (STI) and a long-term incentive (LTI) as illustrated in Table 4.

Table 4: Structure of compensation for GEC

	Program	Purpose	Plan period	Threshold and maximum opportunity
ABS	Monthly fixed cash pay for the role performed	Attract and retain	Continuous	Fixed
Pensions and employee benefits	Pension and insurances	Protect against risks Attract and retain	Continuous	Fixed
STI	Annual variable cash compensation	Reward annual financial and individual performance	1 year	0–150% of an individual's target amount
LTI	Equity-based incentive plan	Reward long-term performance Align to shareholders' interests	3 years	0–200% of an individual's target as performance share units (PSUs) granted, settled in shares following vesting
Non-tangible rewards such as work environment and culture, personal development and career opportunities				
Malus and clawback provisions: STI and LTI are subject to forfeiture conditions to reduce or eliminate unvested awards (malus) and clawback provisions to allow for recovery of payments/vested awards				

To ensure competitiveness with the market, the compensation of the GEC is benchmarked every two to three years. In 2022, a benchmarking of the GEC compensation has been conducted by PwC 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 Group (delisted in December 2022), Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis + Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. Further, in 2023, the compensation system of the GEC was assessed against the same peer group, excluding Bobst Group. The results of the benchmark analysis served as a basis to assess the competitiveness of the compensation system of the GEC members. The NCC came to conclusion that the compensation system of the GEC is in line with market practice and remains broadly unchanged for 2024.

5.3 Fixed Compensation: Annual base salary (ABS)

The ABS is a fixed component of compensation paid in cash, typically monthly, to attract and retain employees. It reflects the scope, complexity 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, professional experience and geographic location.

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

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

5.4 Fixed Compensation: Pensions and Employee Benefits

GEC members participate in the benefits plan available in the country of their employment contract. Benefits consist mainly of pension, 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.

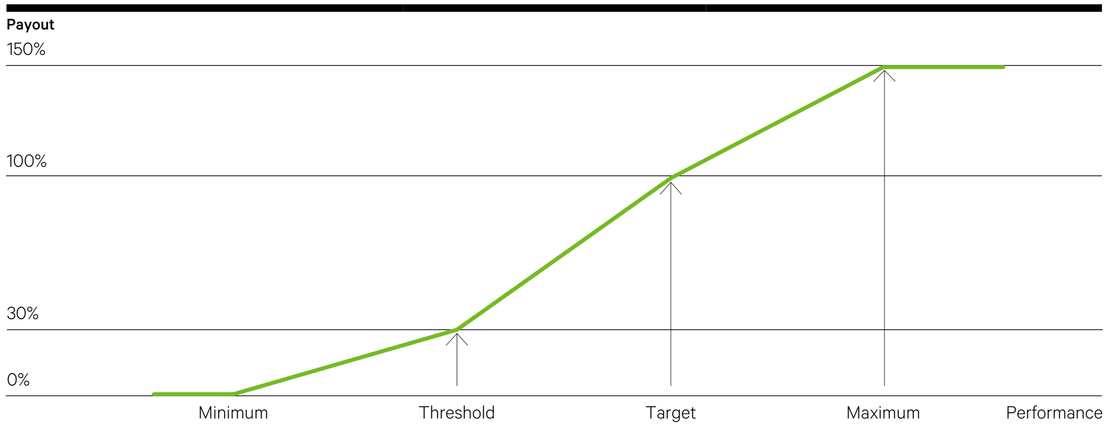
In addition, GEC members are eligible for standard benefits, such as a representation allowance and other benefits in kind, according to competitive market practice. The monetary value of these other elements of compensation is evaluated at fair value and is disclosed in the compensation tables.

5.5 Variable Compensation: Short-Term Incentive (STI)

The short-term (one-year) incentive is designed to drive outstanding performance throughout the organization by closely aligning compensation with the achievement of annual financial and non-financial objectives set at the beginning of the year. As of the reporting year, to reiterate the commitment to creating a sustainability culture, ESG (environment, social and governance) and sustainability objectives for the GEC were specified and defined in alignment with the recently issued sustainability report. The ESG and sustainability objectives replace the individual performance objectives and include ESG targets and sustainability projects. Further, the weightings of the performance objectives were rebalanced with 50% profitability (2022: 46.6%), 25% growth (2022: 23.4%) and 25% ESG and sustainability objectives (2022: 30% individual performance including ESG).

The individual STI target amounts for the GEC are annually reviewed in the context of total compensation. The target STI nominal value translates to a percentage of ABS of 65% for the CEO and between 43% and 50% for the other GEC members for 2023 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. An additional threshold target for 30% payout level is also defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

Table 5: STI payout curve for 2023



The performance objectives are proposed annually by the NCC and approved by the Board. They are directly derived from the business strategy of profitable growth such as specifications wins which translates into revenues as the customer rolls out its new equipment for semiconductor, display and solar markets. Further, ESG and sustainability performance objectives take into account the commitment to sustainability as part of the 2030 long-term sustainability strategy as well as key strategic projects to support growth and profitability. Table 6 illustrates the performance objectives including the weightings in detail.

After year-end, the NCC assesses the achievement of those performance objectives and calculates the corresponding payout factor, which is subject to Board approval. For the ESG and Sustainability objectives, 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 and proposes the corresponding performance achievement percentage to the Board for approval.

Table 6: STI key performance objectives for the CEO and other GEC members in 2023

Focus in 2023	Performance objectives	Weighting
Profitability	EBITDA margin Free cash flow	25% 25%
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	25%
ESG and Sustainability	ESG targets: GHG emissions reduction, accident rate improvement, sustainability report, training and development with a focus on compliance and risk management Sustainability projects: process efficiencies, cost-saving initiatives, program optimization, digitalization	25%
Total		**100%**

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

5.6 Variable Compensation: Long-Term Incentive (LTI)

GEC members are also eligible to participate in the LTI plan, designed to motivate executives to create long-term value for VAT Group and its shareholders in a sustainable manner. The LTI is granted in the form of performance share units (PSUs), subject to a three-year cliff vesting period depending on the achievement of the following performance objectives:

- relative net sales growth, with a 33 1/3% weight,
- relative total shareholder return (TSR), with a 33 1/3% weight,
- relative Return on Invested Capital (ROIC), with a 33 1/3% weight.

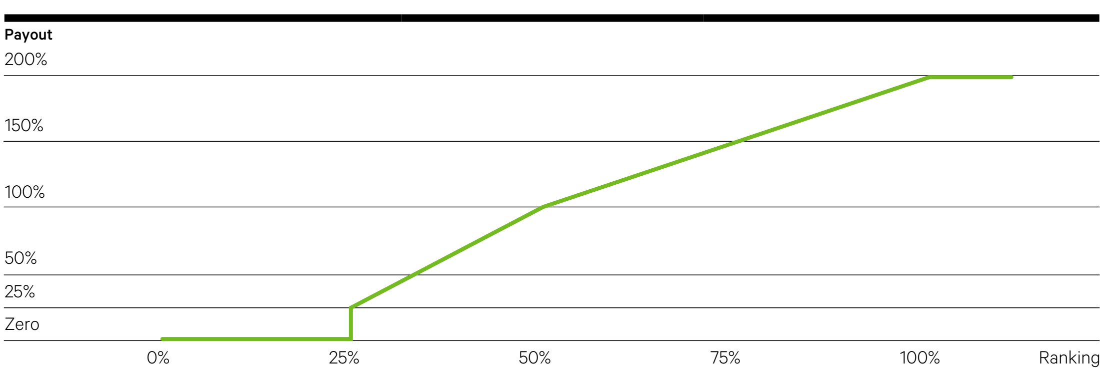
The performance objectives were chosen to ensure alignment with the overall business strategic and financial targets. In particular, relative sales growth represents a top-line objective and is accompanied by relative TSR to provide investors with strong returns and ROIC which expresses how well VAT Group is generating profit relative to the capital it has invested in its business. All three performance objectives are equally weighted with one third and are meaningful and balanced performance objectives for VAT Group.

In 2023, the LTI nominal value amounts represent 65% of the ABS for the CEO and between 46% and 50% of the 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, relative ROIC 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 three payout factors (relative sales growth, relative ROIC 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 determined by the Board prior to the annual grant of PSUs and may be adjusted if required. For 2023 grants, the peer group remained mainly stable compared to 2022 consisting of selected 23 industrial companies with a similar market cycle and thus are comparable in terms of products, technology, customers, suppliers. Unlike a general equity sector index composed of a number of companies primarily involved in the production and sale of semiconductor products, such as for example the PHLX Semiconductor Sector Index (SOX), the selected peers represent high-performing companies in our industry and intensify the performance benchmarking. The peer group for the grants made in 2023 is illustrated in Table 8.

Table 8: Peer group for the 2023 LTI grant

Advanced Energy Industries	Advantest	Aixtron	Applied Materials	ASM international
ASML	Axcelis Technologies	CKD	Comet	Ferrotec
Horiba	Ichor	Inficon	KLA Corporation	LAM Research
Manz	MKS Instruments	Pfeiffer Vacuum	Pivotal Systems[1]	SMC
Tokyo Electron	Ulvac	Veeco Instruments		

1 Company was delisted in 2023.

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 exceptional circumstances (e.g., negative profit), the Board has discretion to determine appropriate measures such as reducing the performance factor of vesting PSUs. Specifically, when determining the final performance factor for the LTI 2020, vesting in 2022, there was no discretion applied.

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 the 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.

5.7 Employment contracts

GEC members are employed under employment contracts of unlimited duration with a notice period of six months and twelve months for the CEO. 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.

5.8 Malus and clawback provisions

Malus and clawback 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.

6. Compensation awarded to the Board and to GEC in 2023

6.1 Compensation awarded to the Board in 2023

For 2023, the members of the Board received a total compensation of CHF 1.4 million (2022: CHF 1.2 million) in the form of fixed basic fees of CHF 1.1 million (2022: CHF 0.9 million), committee fees and other expenses of CHF 0.2 million (2022: CHF 0.2 million) and social security contributions of CHF 0.1 million (2022: CHF 0.1 million). Out of the total compensation of CHF 1.4 million (2022: CHF 1.2 million), CHF 0.4 million (2022: CHF 0.3 million) are awarded in form of restricted shares. The increase of 15.6% compared to previous year results from the extension of the Board of Directors by one additional member as well as the adjustment of the fees closer to market median since AGM 2022.

Table 9: Compensation of the Board in 2023 and 2022

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2023	320,000	-	1,500	21,573	343,073	98,226
	2022	282,500	20,834	1,500	23,636	328,470	87,825
Urs Leinhäuser[1], Vice-Chair	2023	160,000	40,000	1,500	15,896	217,396	61,408
	2022	129,271	38,542	1,500	13,724	183,037	48,959
Petra Denk[2]	2023	64,167	8,750	875	–	73,792	21,875
	2022	–	–	–	–	–	–
Hermann Gerlinger	2023	110,000	40,000	1,500	9,537	161,037	46,056
	2022	100,105	38,542	1,500	8,733	148,880	40,209
Heinz Kundert[3], Vice-Chair	2023	–	–	–	–	–	–
	2022	35,938	4,792	625	1,014	42,369	11,167
Maria Heriz[4]	2023	110,000	–	1,500	–	111,500	33,830
	2022	64,167	–	875	–	65,042	19,250
Daniel Lippuner	2023	110,000	30,000	1,500	11,649	153,149	42,931
	2022	100,105	22,292	1,500	10,135	134,032	35,667
Karl Schlegel	2023	110,000	15,000	1,500	7,767	134,267	38,380
	2022	100,105	23,125	1,500	7,642	132,372	35,610
Libo Zhang	2023	110,000	40,000	1,500	12,357	163,857	46,056
	2022	100,105	28,125	1,500	10,612	140,342	37,417
Total	2023	**1,094,167**	**173,750**	**11,375**	**78,779**	**1,358,071**	**388,762**
	2022	912,296	176,252	10,500	75,496	1,174,544	316,104

1 Vice-Chair since AGM of May 17, 2022.
2 Member since AGM of May 16, 2023.
3 Member and Vice-Chair until AGM May 17, 2022.
4 Member since AGM of May 17, 2022.

At the AGM on May 17, 2022, shareholders approved a maximum aggregate compensation amount of CHF 1,350,000 for the Board for the compensation period from the AGM 2022 until the AGM 2023. The compensation paid to the Board for this term was CHF 1,279,286 and is therefore within the approved limits.

At the AGM of May 16, 2023, shareholders approved a maximum aggregate compensation amount of CHF 1,550,000 for the Board for the term from the AGM 2023 until the AGM 2024. The maximum aggregate amount compared to the prior period was increased due to the extension of the Board of Directors by one additional member to eight members. The compensation paid to the Board for this term is anticipated to be approximately CHF 1,412,442. The final amount will be disclosed in the 2024 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.

In accordance with the Articles of Association, loans to members of the Board are not permitted. Hence, no member, former member, or closely related parties of the Board were granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

6.2 Compensation awarded to the GEC for 2023

In 2023, the members of the GEC received a total compensation of CHF 3.87 million (2022: CHF 3.25 million). This amount comprises annual base salaries of CHF 1.69 million (2022: CHF 1.36 million), STI of CHF 1.01 million (2022: CHF 0.87 million), other expenses of CHF 0.01 million (2022: CHF 0.00 million), contributions to social security and post-employment benefits of CHF 0.56 million (2022: CHF 0.47 million) and an LTI grant value of CHF 0.60 million (2022: CHF 0.56 million). The variable compensation amounts to 84% (2022: 96%) of the fixed compensation for the CEO and 63% (2022: 66%) on average for all the other GEC members.

Table 10: Compensation of the GEC in 2023 and 2022

(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	2023	630,000	0	221,520	851,520	449,532	268,779	1,569,831
	2022	550,004	0	213,287	763,291	446,400	284,665	1,494,356
Other GEC	2023	1,064,167	10,000	336,604	1,410,771	557,461	328,025	2,296,257
	2022	806,672	0	253,406	1,060,078	422,693	276,405	1,759,176
Total GEC[1]	2023	**1,694,167**	**10,000**	**558,124**	**2,262,291**	**1,006,993**	**596,804**	**3,866,088**
	2022	1,356,676	0	466,693	1,823,369	869,093	561,070	3,253,532

1 Five GEC members were in office on December 31, 2023, including one month in office for the newly appointed Executive Vice-President Semiconductor Solutions Group.
Four GEC members were in office on December 31, 2022, including five months in office for the Executive Vice-President Semiconductor Solutions.
2 Includes payments related to the relocation of the new GEC member in 2023.
3 STI for 2023 to be paid out until June 30, 2024; STI for 2022 was paid out until June 30, 2023.
4 Grant value of the LTI awarded is based on the Monte Carlo evaluation of the PSU.
The total number of PSU granted in 2023 amounted to 1,547 (2022: 896) for the CEO and 1,888 (2022: 870) for the other GEC members, based on the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date.
5 All compensation amounts are disclosed gross.

The total aggregate annual base salaries of the GEC increased by 25% overall compared to prior year (2022: +4%). This increase is mainly due to the change in GEC composition compared to 2022, and to a lesser extent due to an increase in ABS for some GEC members, as well as the overlap in payments for one function in 2023.

The overall financial and individual performance achievement of the GEC was marked by strong results resilience despite an overall challenging market environment. VAT Group delivered another set of strong results albeit below the record levels of 2022. Management executed the flex cost model very successfully, offsetting to a large extent major adverse factors including the strong headwind due to the strengthening of the Swiss franc against all major trading currencies. As a result, the company achieved sales of CHF 885 million. The lower volumes coupled with the adverse foreign exchange impacts, lead to an EBITDA margin of 30.6%, the result of operational efficiency and a strong focus on cost. Free cash flow amounted to CHF 189 million.

The total aggregate amount of STI payout of CHF 1.01 million is 15.9% higher compared to previous year, mainly due to the change in GEC composition year-on-year (Executive Vice-President Semiconductor Solutions Group in office for 5 months in 2022 only) and to a lesser extent due to a slight increase in STI target for some GEC members. The overall average payout for the GEC resulted in 109% of target (111% for 2022). There was no discretion applied by the Board when determining the final payout for 2023.

Table 11: summary of 2022 performance for the STI

		Weighting	Performance achievement	Threshold (30%)	Target payout (100%)	Maximum (150%)
Profitability	EBITDA margin	25%	30.6%			
	Free cash flow	25%	CHF 189 million			
	Specification wins[1]	25%	140%			
ESG and Sustainability	ESG and sustainability projects	25%	Achievement of individual performance of the GEC ranged between 110% and 125%			
Total		**100.0%**		**The overall average payout of the GEC was 109% (2022: 111%)**		

1 Weighted performance objectives, disclosed as achievement rate.

The LTI grant value amounted to CHF 0.60 million (2022: CHF 0.56 million). The PSU numbers were determined by dividing the LTI nominal target value by the market value of shares prior to the grant date. Overall, the fair value of the PSU in 2023 was lower compared to prior year (LTI grant value per PSU 2023: CHF 173.75, 2022: CHF 317.70). The higher overall grant value of 6% mainly due to the change in GEC composition year-on-year and a slight increase in target LTI for some GEC members.

In line with the overall increase of the total compensation for 2023 for the GEC, the social security and pension contributions increased compared to the previous year.

The total fixed compensation of CHF 2.26 million (including pension and social security contributions) awarded for the financial year 2023 is within the maximum aggregate compensation amount of CHF 2.50 million approved by the shareholders.

The aggregate grant value of CHF 0.60 million awarded under the LTIP at target is within the maximum amount of CHF 2.00 million approved by the shareholders for the financial year 2023.

The STI for 2023 of CHF 1.01 million will be submitted to shareholders' vote at the 2024 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.

In accordance with the Articles of Association, loans to members of the GEC are not permitted. Hence, 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.

7. Shareholdings and vesting of outstanding LTI award

7.1 Shareholdings as of December 31, 2023

At the end of 2023, members of the Board held a total of 49,222 (2022: 48,181) registered shares of VAT Group. GEC members held a total of 15,940 (2022: 10,379) registered shares of VAT Group and a total of 8,878 (2022: 8,319) performance share units.

The details on shareholdings of the members of the Board and the GEC are included in table 12 "Number of shareholdings".

At the end of 2023, members of the Board and the GEC did not hold any stock options.

Table 12: Numbers of shareholdings[1]

Shares held by the Board	December 31, 2023	December 31, 2022
Martin Komischke, Chair	2,463	2,156
Urs Leinhäuser, Vice-Chair	4,909	4,717
Petra Denk (since May 16, 2023)	-	-
Hermann Gerlinger	1,566	1,422
Maria Heriz (since May 17, 2022)	106	0
Daniel Lippuner	1,021	887
Karl Schlegel	38,549	38,429
Libo Zhang	714	570
Total	**49,222**	**48,181**

Shares held by the GEC	December 31, 2023	December 31, 2022
Mike Allison, CEO	9,131	5,181
Fabian Chiozza, CFO	0	0
Thomas Berden, COO	1,085	0
Finn Felsberg EVP Semiconductor Solutions Group (since December 1, 2023)	-	-
Urs Gantner, EVP Semiconductor Solutions Group (since August 4, 2022)	5,724	5,198
Total	**15,940**	**10,379**

1 includes shareholding of related parties of the respective members.

7.2 Vesting of outstanding LTI award

The vesting for the 2020 LTI award which was due to vest by end of 2022 (LTI performance period 2020-2022), considers the performance of the relative sales growth and the relative TSR against the peer group. The performance condition relative sales growth ranked 86.5% against the peer group while the relative TSR ranked 72.0% against the peer group. Therefore, the combined performance led to an overall payout factor of the two equally weighted performance conditions of 160%, and the 3,323 units granted to the current members of the GEC in office at the time of grant have vested into 5,318 shares (3,323 PSUs granted multiplied by the payout factor of 160%) with a vesting value of CHF 1,699,633.

The PSU grant under the LTI plan in 2021 vested at the end of 2023. The final payout factor will be available in May 2024, after the annual results of the peers for 2023 have been published and will be reported in the 2024 Compensation Report.

Table 13: Vesting level of PSUs

Grant year	Vesting year	Overall performance factor, in percentage
2018	2020	79%
2019	2021	118%
2020	2022	160%
2021	2023	vested, performance evaluation pending
2022	2024	Pending[1]
2023	2025	Pending[1]

1 Performance periods are still ongoing. Numbers will be available after the end of the respective performance period.

8. External mandates

Members of the Board and the GEC have the following external mandates according to Article 734e of the Swiss Code of Obligations.

Table 14: External mandates of the Board and the GEC, as of December 31, 2023

Board

Name	Company	Function
Martin Komischke*	Hoerbiger Holding AG Hoerbiger-Stiftung Stäubli Holding AG	Chairman of the Board of Directors Vice Chairman of the Board of Trustees Member of the Board of Directors
Urs Leinhäuser	Amman Group Holding AG Avesco AG PENSADOR Partner AG ADULCO GmbH	Member of the Board of Directors Chairman of the Board of Directors Member of the Board of Directors Managing Partner
Petra Denk*	Aixtron SE Pfisterer Holding AG BKW AG	Member of the Supervisory Board Member of the Supervisory Board Member of the Board of Directors
Hermann Gerlinger*	Siltronic AG ASML	Member of the Supervisory Board Guest Member of the Technology Committee
Maria Heriz	–	–
Daniel Lippuner*	Heberlein Technology AG Remnex Anlagestiftung 3S Swiss Solar Solutions AG Juice Services AG	Chairman of the Board of Directors Member of the Board of Trustees Member of the Board of Directors Member of the Board of Directors
Karl Schlegel*	–	–
Libo Zhang	SPT Roth AG Deutsche Bank AG	Member of the Advisory Board Member of the Advisory Board

GEC

Name	Company	Function
Mike Allison	International Board of SEMI	Member of the Board
Thomas Berden	–	–
Fabian Chiozza	Industrie- und Handelskammer St. Gallen-Appenzell	Member of the Board
Finn Felsberg	–	–
Urs Gantner	–	–

* Further mandates include the position of a Managing Director of a private corporation

Report of the Statutory Auditor

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Remuneration Report

Opinion

We have audited the Remuneration Report of VAT Group AG (the Company) for the year ended 31 December 2023. The audit was limited to the information pursuant to Art. 734a-734f of the Swiss Code of Obligations (CO) in the sections 6.1, 6.2, 7.1 and 8 of the Remuneration Report.

In our opinion, the information pursuant to Art. 734a-734f CO in the accompanying Remuneration Report complies with Swiss law and the Company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Remuneration Report" section of our report. We are independent of the Company 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.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the tables marked "audited" in the Remuneration Report, the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the Remuneration Report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Remuneration Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the audited financial information in the Remuneration Report 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.

Board of Directors' Responsibilities for the Remuneration Report

The Board of Directors is responsible for the preparation of a Remuneration Report 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 a Remuneration Report that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

KPMG

Auditor's Responsibilities for the Audit of the Remuneration Report

Our objectives are to obtain reasonable assurance about whether the information pursuant to Art. 734a-734f CO is 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 SA-CH 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 this Remuneration Report.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the Remuneration Report, 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

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

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

KPMG AG

Simon Niklaus	Simon Hörler
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

St. Gallen, March 4, 2024

Enclosure:
- Remuneration Report

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, 2023

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2023	2022
Net sales	**2.1, 2.2**	**885,316**	**1,145,479**
Raw materials and consumables used		–320,157	–443,884
Changes in inventories of finished goods and work in progress		–18,486	32,101
Personnel expenses	4.1	–213,409	–230,261
Other income	2.3	24,643	8,962
Other expenses	2.4	–86,996	–111,984
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**270,911**	**400,414**
Depreciation, amortization and impairment		–42,327	–40,969
Earnings before interest and taxes (EBIT)[1]		**228,584**	**359,446**
Finance income	5.1	2,611	2,233
Finance costs	5.1	–24,110	–5,229
Earnings before income taxes		**207,085**	**356,450**
Income tax expenses	6.1	–16,775	–49,671
Net income attributable to owners of the Company		**190,310**	**306,779**
Earnings per share (in CHF)			
Basic earnings per share	5.4	6.35	10.23
Diluted earnings per share	5.4	6.34	10.22

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

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2023	2022
Net income attributable to owners of the Company		**190,310**	**306,779**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	4.3	–16,421	11,735
Related tax	6.1	2,343	–1,702
Subtotal		**–14,078**	**10,033**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		6,518	2,583
Related tax	6.1	–921	–375
Currency translation adjustments		–14,391	–5,591
Subtotal		**–8,794**	**–3,383**
Other comprehensive income for the period (net of tax)		**–22,872**	**6,650**
Total comprehensive income for the period attributable to owners of the Company		**167,438**	**313,429**

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 90 ff.

Consolidated balance sheet

In CHF thousand	Note	Dec 31, 2023	Dec 31, 2022
Assets			
Cash and cash equivalents		144,108	174,365
Trade and other receivables	3.1	108,752	163,204
Other investments, including derivatives	5.5	18,089	10,801
Prepayments and accrued income		4,375	9,621
Inventories	3.2	188,455	229,247
Current tax assets		1,913	2,602
Current assets		**465,692**	**589,839**
Property, plant and equipment	3.3	234,822	204,320
Investment properties		1,624	1,673
Intangible assets and goodwill	3.4	459,422	470,560
Other receivables	3.1	1,029	1,157
Other investments		891	876
Deferred tax assets	6.1	4,976	6,360
Non-current assets		**702,764**	**684,947**
Total assets		**1,168,456**	**1,274,786**

In CHF thousand	Note	Dec 31, 2023	Dec 31, 2022
Liabilities			
Trade and other payables	3.5	81,867	133,408
Loans and borrowings	5.3	201,053	202,998
Provisions	3.7	2,207	2,246
Derivative financial instruments	5.2	544	3,265
Accrued expenses and deferred income	3.6	36,783	42,360
Current tax liabilities		20,611	47,700
Current liabilities		**343,066**	**431,977**
Loans and borrowings	5.3	6,253	8,184
Other non-current liabilities		1,548	2,211
Deferred tax liabilities	6.1	43,492	49,358
Defined benefit obligations	4.3	16,936	2,737
Non-current liabilities		**68,229**	**62,490**
Total liabilities		**411,295**	**494,466**
Equity			
Share capital	5.4	3,000	3,000
Share premium		344	344
Reserves		−7,570	1,223
Treasury shares	5.4	−6,795	−5,317
Retained earnings[1]		768,183	781,069
Total equity attributable to owners of the Company		**757,161**	**780,320**
Total liabilities and equity		**1,168,456**	**1,274,786**

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 90 ff.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
Equity as of Jan 1, 2022	**3,000**	**6,479**	**2,448**	**2,158**	**–4,501**	**624,786**	**634,370**
Net income attributable to owners of the Company						306,779	306,779
Total comprehensive income for the period attributable to owners of the Company			2,208	–5,591		10,033	6,650
Treasury shares acquired					–4,459		–4,459
Dividend payment		–7,498				–157,459	–164,957
Reclassification[1]		1,363				–1,363	0
Share-based payments (net of tax)					3,644	–1,708	1,936
Equity as of Dec 31, 2022	**3,000**	**344**	**4,657**	**–3,433**	**–5,317**	**781,069**	**780,320**

[1] Transaction costs from the IPO in 2016 were treated differently in the consolidated financial statements than in the statutory financial statements of VAT Group AG. This reclassification aligns the share premium in the consolidated financial statements with the share premium of the statutory financial statements of VAT Group AG.

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
Equity as of Jan 1, 2023	**3,000**	**344**	**4,657**	**–3,433**	**–5,317**	**781,069**	**780,320**
Net income attributable to owners of the Company						190,310	190,310
Total comprehensive income for the period attributable to owners of the Company			5,597	–14,391		–14,078	–22,872
Treasury shares acquired					–5,742		–5,742
Dividend payment						–187,436	–187,436
Share-based payments (net of tax)					4,264	–1,683	2,581
Equity as of Dec 31, 2023	**3,000**	**344**	**10,254**	**–17,824**	**–6,795**	**768,183**	**757,161**

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 90 ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2023	2022
Net income attributable to owners of the Company		**190,310**	**306,779**
Adjustments for:			
Depreciation, amortization and impairment		42,327	40,969
(Profit)/loss from disposal of property, plant and equipment		–120	–17
Change in defined benefit obligations		–2,199	752
Net impact from foreign exchange		7,681	5,737
Income tax expenses	6.1	16,775	49,671
Net finance costs	5.1	21,499	2,996
Other non-cash-effective adjustments		2,116	2,063
Change in trade and other receivables		42,833	–43,831
Change in prepayments and accrued income		4,949	–5,743
Change in inventories		25,859	–81,035
Change in trade and other payables		–49,565	54,587
Change in accrued expenses and deferred income		–1,029	–1,092
Change in provisions		–12	–352
Cash generated from operations		301,425	331,485
Income taxes paid		–45,019	–37,517
Cash flow from operating activities		**256,406**	**293,968**
Purchases of property, plant and equipment		–60,267	–58,974
Proceeds from sale of property, plant and equipment		294	17
Purchases of intangible assets and development expenditure		–8,969	–7,265
Interest received		1,294	426
Cash flow from investing activities		**–67,648**	**–65,797**
Proceeds from borrowings	5.3	310,000	80,000
Repayments of borrowings	5.3	–310,000	–80,000
Repayments of lease liabilities	5.3	–3,137	–3,164
Purchase of treasury shares		–5,742	–4,459
Dividend paid	5.4	–187,436	–164,957
Interest paid		–6,952	–3,575
Other finance expenses paid		–2,316	–1,082
Cash flow from financing activities		**–205,583**	**–177,238**
Net increase/(decrease) in cash and cash equivalents		**–16,825**	**50,933**
Cash and cash equivalents at beginning of period		174,365	127,152
Effect of movements in exchange rates on cash held		–13,432	–3,720
Cash and cash equivalents at end of period		**144,108**	**174,365**

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 90 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, 2023, 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 4, 2024.

Basis of accounting

The consolidated financial statements of the Group have been prepared based on IFRS Accounting Standards. 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, 2023. 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) post-employment benefits, see note 4.3,
e) provisions, see note 3.7,
f) contingent considerations, see note 5.2.

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 reports in two segments: Valves and the Global Service segment:

- **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.

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 segment Valves only arise from sales of goods, net sales in the segment Global Service came from sales of services and sales of goods.

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. 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, 2023 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	712,449	172,867	885,316		885,316
Inter-segment sales	70,292		70,292	–70,292	0
Segment net sales	**782,741**	**172,867**	**955,608**	**–70,292**	**885,316**
Segment EBITDA	**239,314**	**69,055**	**308,370**	**–37,459**	**270,911**

January 1–December 31, 2022 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	932,731	212,748	1,145,479		1,145,479
Inter-segment sales	89,208		89,208	–89,208	0
Segment net sales	**1,021,939**	**212,748**	**1,234,687**	**–89,208**	**1,145,479**
Segment EBITDA	**354,504**	**96,645**	**451,149**	**–50,735**	**400,414**

As of December 31, 2023 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Segment assets	847,220	134,084	981,304	1,624	982,928
Segment liabilities	48,613	1,895	50,508		50,508
Segment net operating assets	**798,607**	**132,190**	**930,797**	**1,624**	**932,420**
Of which net trade working capital	202,802	40,687	243,489		243,489

As of December 31, 2022 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Segment assets	916,333	139,462	1,055,796	1,673	1,057,469
Segment liabilities	75,907	7,708	83,615	377	83,992
Segment net operating assets	**840,427**	**131,754**	**972,181**	**1,296**	**973,478**
Of which net trade working capital	260,905	36,396	297,301	–377	296,924

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	2023	2022
Segment EBITDA	308,370	451,149
Corporate and eliminations	–37,459	–50,735
Depreciation, amortization and impairment	–42,327	–40,969
Finance costs net	–21,499	–2,996
Earnings before income taxes	**207,085**	**356,450**

Assets

As of December 31 In CHF thousand	2023	2022
Segment assets	981,304	1,055,796
Corporate and eliminations	1,624	1,673
Cash and cash equivalents	144,108	174,365
Other assets[1]	41,420	42,952
Assets	**1,168,456**	**1,274,786**

1 The main positions included in other assets are other receivables, other investments, deferred tax assets and prepayments and accrued income.

Liabilities

As of December 31 In CHF thousand	2023	2022
Segment liabilities	50,508	83,615
Corporate and eliminations	0	377
Loans and borrowings	207,306	211,182
Other liabilities[1] and provisions	153,481	199,292
Liabilities	**411,295**	**494,466**

1 Only trade payables are allocated to segments.

Geographic information

Net sales

January 1–December 31 In CHF thousand	2023	2022
Switzerland	8,734	7,488
Europe excl. Switzerland	136,047	124,405
USA	192,062	290,350
Japan	86,640	127,637
Korea	61,867	103,496
Singapore	106,294	172,700
China	224,001	217,851
Asia excl. Japan, Korea, Singapore and China	63,608	91,533
Other	6,062	10,019
Total	**885,316**	**1,145,479**

No other individual country represented more than 10% of net sales in 2023 and 2022.

Non-current assets

As of December 31 In CHF thousand	2023	2022
Switzerland	593,090	595,309
Europe excl. Switzerland	6,643	6,593
USA	701	1,723
Malaysia	88,942	65,735
Asia excl. Malaysia	6,492	7,193
Total	**695,868**	**676,554**

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 2023 and 2022.

Major customers
Revenues from two customers of the Group's Valves and Global Service segments represented approximately 17% and 10%, respectively, of the Group's total revenues (prior year: two customers represented approximately 19% and 18%, respectively).

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, 2023 In CHF thousand	Valves	Global Service	Total
Order intake	554,387	137,495	691,881
Net sales by region			
Asia	453,558	88,852	542,411
Americas	131,164	63,239	194,403
EMEA	127,726	20,776	148,502
Net sales	**712,449**	**172,867**	**885,316**

January 1 – December 31, 2022 In CHF thousand	Valves	Global Service	Total
Order intake	970,871	239,024	1,209,895
Net sales by region			
Asia	606,334	106,882	713,216
Americas	215,420	77,529	292,950
EMEA	110,976	28,337	139,313
Net sales	**932,731**	**212,748**	**1,145,479**

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	2023	2022
Net foreign exchange gains on operating and investing activities	11,873	0
Work performed by the entity and capitalized	8,699	7,184
Rental income from investment properties	72	74
Change in provision for impairment on trade receivables	2	8
Gains from sale of fixed assets	120	17
Other income	3,877	1,679
Total other income	**24,643**	**8,962**

2.4 Other expenses

January 1–December 31 In CHF thousand	2023	2022
Marketing and advertising	1,182	1,297
Distribution	11,474	19,520
Office rent	368	304
Administrative expenses	28,165	24,816
Travel expenses	3,768	4,294
Repair and maintenance	19,268	25,522
Energy and supplies	15,326	20,061
Insurance, duties and other charges	3,547	3,120
Net foreign exchange losses on operating and investing activities	0	9,365
Research and development expenses[1]	879	1,034
Other operating expenses	3,019	2,651
Total other expenses	**86,996**	**111,984**

1 Includes only third-party expenses

3. Operating assets and liabilities

3.1 Trade and other receivables

As of December 31 In CHF thousand	2023	2022
Trade receivables – gross	98,831	151,916
Less provision for impairment of trade receivables	–226	–248
Trade receivables – net	**98,605**	**151,668**
Recoverable VAT and withholding tax	6,651	7,865
Deposits	1,108	1,475
Receivables from social security	3,202	3,016
Other	216	337
Total trade and other receivables	**109,781**	**164,360**
Thereof:		
Current trade and other receivables	108,752	163,204
Non-current other receivables	1,029	1,157

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	2023	2022
Raw materials and consumables	92,798	105,548
Work in progress	11,630	17,186
Semi-finished goods	46,077	59,076
Finished goods	37,950	47,438
Total inventories	**188,455**	**229,247**

In the financial year 2023, inventories of CHF 3.1 million (previous year: CHF 0.8 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 and standard 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, 2023 In CHF thousand	Land [1]	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under con-struction	Total
Balance at Jan 1, 2023	**14,864**	**96,759**	**19,110**	**118,759**	**8,395**	**23,786**	**492**	**72,359**	**354,523**
Additions				2,764	34	1,547		59,968	64,314
Movement non-cash			689						689
Disposals		–199	–240	–261	–92	–4,407	–27		–5,225
Transfer		3,095		12,792	6,155	3,809		–25,851	0
Exchange differences	–1,111	–3,228	–993	–5,793	–151	–1,424	–25	–5,061	–17,786
Balance at Dec 31, 2023	**13,753**	**96,427**	**18,565**	**128,262**	**14,341**	**23,311**	**440**	**101,415**	**396,515**
Accumulated depreciation and impairment									
Balance at Jan 1, 2023	**–369**	**–32,990**	**–7,199**	**–84,281**	**–6,781**	**–18,367**	**–216**		**–150,203**
Depreciation charge	–170	–3,853	–3,136	–10,248	–814	–3,018	–117		–21,355
Impairment loss		–122		–369	–50	–299			–840
Disposals		153	236	190	34	4,407	27		5,047
Transfer				59		–59			0
Exchange differences	60	527	504	3,518	114	921	13		5,658
Balance at Dec 31, 2023	**–478**	**–36,284**	**–9,595**	**–91,130**	**–7,497**	**–16,416**	**–293**		**–161,692**
Net book amount Dec 31, 2023	**13,275**	**60,143**	**8,970**	**37,132**	**6,844**	**6,896**	**147**	**101,415**	**234,822**

[1] Includes long-leased land with a carrying amount of CHF 7.2 million.

January 1–December 31, 2022 In CHF thousand	Land [2]	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under con-struction	Total
Balance at Jan 1, 2022	**7,876**	**95,859**	**13,675**	**113,543**	**7,724**	**22,919**	**452**	**31,144**	**293,191**
Additions	7,322			5,011	53	922		49,198	62,506
Movement non-cash			8,167				114		8,281
Disposals			–2,251	–40	–3	–1,140	–65		–3,499
Transfer		2,055		2,401	679	1,561		–7,180	–484
Exchange differences	–334	–1,155	–482	–2,156	–58	–476	–9	–803	–5,473
Balance at Dec 31, 2022	**14,864**	**96,759**	**19,110**	**118,759**	**8,395**	**23,786**	**492**	**72,359**	**354,523**
Accumulated depreciation and impairment									
Balance at Jan 1, 2022	**–237**	**–28,933**	**–6,476**	**–75,416**	**–6,218**	**–17,216**	**–157**		**–134,653**
Depreciation charge	–148	–4,229	–3,054	–10,235	–607	–2,547	–125		–20,944
Impairment loss				–20		–351			–370
Disposals			2,120	40	3	1,140	58		3,361
Transfer						345			345
Exchange differences	16	172	211	1,351	42	262	7		2,059
Balance at Dec 31, 2022	**–369**	**–32,990**	**–7,199**	**–84,281**	**–6,781**	**–18,367**	**–216**		**–150,203**
Net book amount Dec 31, 2022	**14,495**	**63,769**	**11,910**	**34,478**	**1,614**	**5,419**	**276**	**72,359**	**204,320**

[2] Includes long-leased land with a carrying amount of CHF 8.4 million.

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in property, plant and equipment as of December 31, 2023, aggregate to CHF 52.3 million (prior year: CHF 72.8 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, except long-leased land. 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

Leases mainly consist of warehouses, factory facilities and offices. In addition, the Group leases vehicles and IT equipment. Lease payments are determined in corresponding contracts.

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 Group 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, 2023, the Group recognized CHF 3.3 million (prior year: CHF 3.2 million) of depreciation charges and CHF 0.2 million (prior year: CHF 0.2 million) of interest costs from these leases.

In 2023, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.4 million (prior year: CHF 0.3 million). Total cash outflows for leases amount to CHF 3.1 million (prior year: CHF 3.2 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, 2023 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Development costs in progress	Total
Balance at Jan 1, 2023	**183,923**	**15,863**	**270,491**	**120,900**	**12,498**	**20,078**	**623,754**
Additions		60				8,910	8,969
Disposals		–4,192			–36		–4,228
Transfer		386			5,415	–5,801	0
Exchange differences		–142			–14	–8	–164
Balance at Dec 31, 2023	**183,923**	**11,975**	**270,491**	**120,900**	**17,864**	**23,179**	**628,332**
Accumulated amortization and impairment							
Balance at Jan 1, 2023	**0**	**–11,502**	**–137,013**	**0**	**–4,677**	**0**	–153,193
Amortization charge		–1,345	–15,652		–3,008		–20,004
Impairment loss		–68			–10		–77
Disposals		4,192			36		4,228
Exchange differences		126			12		138
Balance at Dec 31, 2023	**0**	**–8,598**	**–152,664**	**0**	**–7,647**	**0**	–168,909
Net book value Dec 31, 2023	**183,923**	**3,377**	**117,827**	**120,900**	**10,217**	**23,179**	**459,422**

January 1–December 31, 2022 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Development costs in progress	Total
Balance at Jan 1, 2022	**183,923**	**11,386**	**270,491**	**120,900**	**10,318**	**20,617**	**617,635**
Additions		105				7,184	7,289
Disposals					–1,559		–1,559
Transfer		4,454			3,749	–7,720	484
Exchange differences		–82			–10	–3	–95
Balance at Dec 31, 2022	**183,923**	**15,863**	**270,491**	**120,900**	**12,498**	**20,078**	**623,754**
Accumulated amortization and impairment							
Balance at Jan 1, 2022	**0**	**–9,780**	**–121,361**	**0**	**–3,746**	**0**	**–134,888**
Amortization charge		–1,455	–15,652		–2,118		–19,224
Impairment loss					–380		–380
Disposals					1,559		1,559
Transfer		–345					–345
Exchange differences		78			8		85
Balance at Dec 31, 2022	**0**	**–11,502**	**–137,013**	**0**	**–4,677**	**0**	**–153,193**
Net book value Dec 31, 2022	**183,923**	**4,361**	**133,478**	**120,900**	**7,821**	**20,078**	**470,560**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in intangible assets as of December 31, 2023, aggregate to CHF 0.8 million (prior year: CHF 2.5 million).

Research and development costs

In 2023, research and development expenses amounting to CHF 54.2 million (previous year: CHF 50.7 million) were included in the items "Raw materials and consumables used", "Personnel expenses", "Other expenses" and "Depreciation, amortization and impairment". For 110 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 8.7 million (previous year: CHF 7.1 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	Valves	Global Service	2023 Total	Valves	Global Service	2022 Total
Goodwill	148,181	35,742	183,923	148,181	35,742	183,923
Brand and trademarks	94,618	26,282	120,900	94,618	26,282	120,900
Total carrying amount	**242,799**	**62,024**	**304,823**	**242,799**	**62,024**	**304,823**

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 2024 to 2026. 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, 2023	Valves	Global Service
Discount rate (WACC) before tax	14.0%	14.0%
Terminal value growth rate	1.5%	1.5%

As of December 31, 2022	Valves	Global Service
Discount rate (WACC) before tax	12.9%	13.0%
Terminal value growth rate	1.5%	1.5%

A reasonably possible change in any of the above key assumption would not 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 it is appropriate that the acquired brands and trademark have an indefinite useful life as VAT-branded products are globally known and have a strong market position. They have a history of strong revenue and cash flow performance, and VAT has the intent and ability to support the brand with spending to maintain its value for the foreseeable future.

Acquired computer software licenses are capitalized only if criteria of IAS 38 are met. 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.

Cloud computing arrangements
Cloud-based software arrangements are contracts under which VAT pays a fee in exchange for software services hosted by a supplier. Such contracts generally are service contracts under which VAT does not receive a software asset but that provide VAT the right to access the supplier's application software over the contract term. The fees to obtain access to the cloud provider's application software as well as up-front implementation costs incurred to configure or customize the software are recognized as operating expenses when the services are received, unless they relate to the development of additional software code and meet the definition of, and the recognition criteria for, an intangible asset that the Company controls (e.g. costs to create a new interface between the Company's existing on-premise systems and the cloud-based software).

3.5 Trade and other payables

As of December 31 In CHF thousand	2023	2022
Trade payables	50,508	83,992
VAT and other tax payables	3,733	3,762
Employee benefit liabilities	6,972	8,664
Prepayments received from customers	19,436	33,124
Contingent considerations	800	1,500
Other liabilities	418	2,367
Total trade and other payables	**81,867**	**133,408**

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

As of December 31 In CHF thousand	2023	2022
Swiss Franc	28,462	55,614
Euro	10,280	15,432
US Dollar	16,989	21,313
Malaysian Ringgit	10,259	13,122
Romanian Leu	1,252	1,679
Chinese Yuan	11,169	22,314
Other currencies	3,455	3,934
Total trade and other payables	**81,867**	**133,408**

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	2023	2022
Accrued expenses – personnel related	11,386	16,921
Accrued expenses – other	25,398	25,424
Deferred income	0	14
Total accrued expenses and deferred income	**36,783**	**42,360**

3.7 Provisions

January 1–December 31, 2023 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at Jan 1, 2023	**2,246**	**916**	**3,162**
Additions	2,200	14	2,214
Used	–2,107		–2,107
Unused amount released	–131		–131
Unwind of discount		12	12
Exchange differences	–1	–10	–11
Balance at Dec 31, 2023	**2,207**	**932**	**3,139**
Thereof:			
Current provisions	2,207		2,207
Non-current provisions[1]		932	932

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.

Other provisions
Other provisions mainly consist of a restoration liability for a rented warehouse. The restoration liability is subject to a degree of uncertainty with regard to timing and the amount to be paid.

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	2023	2022
Wages and salaries	174,547	189,743
Share-based payment	2,297	2,177
Social security costs	18,975	17,708
Pension costs – defined contribution plans	1,016	1,318
Pension costs – defined benefit plans	7,561	9,052
Other personnel expenses	9,013	10,263
Total personnel expenses	**213,409**	**230,261**
Number of employees (FTE)	2,666	2,991

4.2 Share-based payments

At December 31, 2023, 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. The members of the Board received 1,147 shares (prior period: 958 shares) with a fair value of CHF 330.10 per share for the period 2022/23. For the period 2023/24, the Group allocated 735 shares (prior period: 1,068 shares).

Long-term incentive plan – LTIP (equity-settled share-based payment)
Long-term incentive plans (LTIP) are in place for the Group's management. So-called Performance Share Units (PSUs) were allocated to the 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 equal weighted metrics relative sales growth, relative Total Shareholder Return (TSR) and relative Return on Invested Capital (ROIC). 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	Sales growth fair value at grant date	ROIC fair value at grant date	Volatility	Risk-free rate	Dividend yield
Long-term incentive plan 2021	CHF 220.80	CHF 157.91	CHF 169.80	CHF 169.80	34.5%	0.9%	2.5%
Long-term incentive plan 2022	CHF 454.40	CHF 322.79	CHF 346.34	CHF 346.34	35.2%	0.0%	1.7%
Long-term incentive plan 2023	CHF 252.80	CHF 176.39	CHF 189.26	CHF 189.26	38.8%	1.6%	2.9%

The Group's management received 13,114 shares with a fair value of CHF 319.60 per share in 2023 from the LTIP 2020 (prior period: 11,529 shares with a fair value of CHF 278.00 per share from the LTIP 2019). For the LTIP 2023 VAT Group granted 9,113 Performance Share Units PSUs to the Group's management. As of December 31, 2023, the number of outstanding Performance Share Units (PSUs) under the plan are 18,904 (prior year: 22,600).

Accounting policies
The grant date fair value of the equity-settled share-based payment arrangement granted to 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 two defined benefit plans in place: all employees in France 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	2023	2022
France	53	76
Switzerland	16,883	2,661
Net defined benefit liability in the balance sheet	**16,936**	**2,737**

Income statement

January 1–December 31 In CHF thousand	2023	2022
France	–19	–4
Switzerland	7,580	9,056
Pension costs – defined benefit plans	**7,561**	**9,052**

Swiss pension 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 up 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 2023, 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. A sharing of the funding gap between employer and employee (risk sharing) is taken into account. 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 foundation amended their pension fund regulations due to the old-age and survivor's insurance reform 21 (OASI 21) and streamlined the retirement and risk benefits for all salary levels. This resulted in a plan amendment, which was recognized as part of the service costs in the financial year 2023.

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

As of December 31 In CHF thousand	2023	2022
Present value of defined benefit obligation	243,767	203,719
Fair value of plan assets	226,884	201,058
Net defined benefit liability	**16,883**	**2,661**

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

January 1–December 31 In CHF thousand	2023	2022
Opening defined benefit obligation	**203,719**	**223,584**
Service costs	6,809	8,979
Plan participants contributions	9,636	8,347
Interest expense	4,468	662
Remeasurement (gains)/losses	24,513	–32,136
Plan amendments	665	0
Benefits paid through pension assets	–6,043	–5,717
Closing defined benefit obligation	**243,767**	**203,719**

January 1–December 31 In CHF thousand	2023	2022
Opening fair value of plan assets	**201,058**	**209,916**
Interest income	4,614	646
Return on plan assets (excl. amounts in net interest)	8,092	–20,401
Plan participants contributions	9,636	8,347
Employer contributions	9,636	8,347
Benefits received/(paid) through pension assets net	–6,043	–5,717
Administration expense	–109	–80
Closing fair value of plan assets	**226,884**	**201,058**

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

As of December 31 In CHF thousand	2023	2022
Defined benefit obligation for active employees	199,712	166,329
Defined benefit obligation for pensioners	44,055	37,390
Total defined benefit obligation	**243,767**	**203,719**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2023	2022
Current service costs	6,809	8,979
Interest expense on defined benefit obligation	4,468	662
Interest income on plan assets	–4,614	–646
Plan amendment	665	0
Administration expense	109	80
Total defined benefit cost/(income) recognized in income statement	**7,437**	**9,075**
Thereof:		
Employee benefit expenses	7,583	9,059
Finance (income)/expenses	–146	16
Actuarial (gain)/loss arising from financial assumptions	21,163	–37,186
Actuarial (gain)/loss arising from experience adjustment	3,350	5,050
Return on plan assets (excl. amounts included in net interest)	–8,092	20,401
Total defined benefit cost/(income) recognized in OCI	**16,421**	**–11,735**

The major asset categories are as follows:

As of December 31 In CHF thousand	2023	2022
Equity instruments (quoted market prices)	65,729	58,430
Debt instruments (quoted market prices)	58,746	53,987
Real estate (quoted market prices)	54,325	56,768
Alternative investments (quoted market prices) and others	33,205	20,700
Cash	14,879	11,173
Total	**226,884**	**201,058**

The significant actuarial assumptions were as follows:

As of December 31	2023	2022
Discount rate	1.52%	2.25%
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	2023	2022
Retiring at the end of the reporting period:		
Male	22.82	22.70
Female	24.59	24.48
Retiring 20 years after the end of the reporting period:		
Male	25.07	24.97
Female	26.58	26.49

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 2023		Impact on defined benefit obligation 2022	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–7,135	6,635	–6,281	6,636
Salary growth rate (+/– 0.25%)	1,007	–614	802	–785
Life expectancy at age 65 (+/– 1 year)	3,714	–3,867	2,408	–2,454

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, 2024, amount to CHF 11.1 million.

The weighted average duration of the defined benefit obligation is 13.3 years (prior year: 12.3 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. Risk-sharing features are 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 effect is recognized within "Finance income and 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	2023	2022
Contribution to Swiss pension plan	–9,636	–8,347
Administration charge to Swiss pension plan	196	0

Business transactions with related parties are based on arm's-length conditions.

Key management personnel includes members of the Board of Directors and Group Executive Committee (GEC) 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	2023	2022
Short-term employee benefits	–3,907	–3,280
Post-employment benefits	–488	–404
Share-based payments	–1,504	–1,907
Total	**–5,899**	**–5,590**

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

January 1–December 31 In CHF thousand	2023	2022
Other payables due to Swiss autonomous employee benefit plan	3,101	1,427
Accrued expenses and deferred income due to governing bodies	305	212
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	16,883	2,661

Shares held by the Board of Directors and the Group Executive Committee are disclosed in note 4.4 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	2023	2022
Interest income	1,309	441
Other finance income	1,302	1,793
Finance income	**2,611**	**2,233**
Interest expenses	–5,308	–3,576
Net foreign exchange losses on financing activities	–17,537	–365
Other finance expenses	–1,265	–1,288
Finance costs	**–24,110**	**–5,229**
Total finance result	**–21,499**	**–2,996**

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 Fair value estimation

The following table shows the fair values of financial assets and financial liabilities measured at fair value including their levels in the fair value hierarchy.

As of December 31 In CHF thousand	Measurement principle	Contract value		Fair value	
		2023	2022	2023	2022
Derivatives held for hedging (USD)	Level 2[1]	311,213	226,492	13,683	8,617
Derivatives held for hedging (JPY)	Level 2[1]	51,569	30,424	3,391	1,786
Derivatives held for hedging (KRW)	Level 2[1]	10,344	10,264	132	362
Derivatives held for hedging (CNY)	Level 2[1]	35,540	0	845	0
Derivative assets		**408,666**	**267,179**	**18,052**	**10,765**
Equity shares	**Level 1[2]**	**0**	**0**	**37**	**36**
Thereof:					
Current assets		408,666	267,179	18,089	10,801
Derivatives held for hedging (USD)	Level 2[1]	0	50,521	0	–591
Derivatives held for hedging (JPY)	Level 2[1]	7,591	34,261	–25	–1,047
Derivatives held for hedging (KRW)	Level 2[1]	16,629	25,393	–353	–1,626
Derivatives held for hedging (CNY)	Level 2[1]	3,006	0	–165	0
Derivative liabilities		**27,226**	**110,175**	**–544**	**–3,265**
Contingent considerations[4]	Level 3[3]	**1,400**	**2,700**	**–1,400**	**–2,700**
Thereof:					
Current liabilities		28,026	111,675	–1,344	–4,765
Non-current liabilities		600	1,200	–600	–1,200

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.
2 The fair value of equity shares are based on quoted market prices in active markets.
3 Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies particularly to contingent considerations in business combinations.
4 Contingent considerations are disclosed in trade and other payables and other non-current liabilities.

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 2023 and 2022. Contingent considerations are Level 3 financial instruments and linked to the fulfillment of certain parameters related to earn-out clauses. The calculation of the contingent considerations is based on current achievements and the assumption that the target revenue will be reached. The contingent considerations were reduced by CHF 1.3 million via finance income in 2023. This reduction was caused by a change of expectation in the timing of the respective revenue.

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, 2023 and December 31, 2022, the Group held currency forwards and non-deliverable 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, 2023. The hedging reserves included net unrealized gains of CHF 10.3 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 4.7 million). Net gains of CHF 23.1 million (prior year: net losses of CHF 0.5 million) were reclassified to earnings in 2023. 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, 2023 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.85%	2027	0
Term loan facility	CHF	SARON + 0.90%	2025	198,982
Lease liability				8,324
Total loans and borrowings				**207,306**
Thereof:				
Current				201,053
Non-current				6,253

1 Margin applicable at year end.

As of December 31, 2022 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.65%	2027	0
Term loan facility	CHF	SARON + 0.75%	2025	0
Fixed-rate bond	CHF	1.50%	2023	199,929
Lease liability				11,252
Total loans and borrowings				**211,181**
Thereof:				
Current				202,998
Non-current				8,184

1 Margin applicable at year end.

VAT Group AG maintains a syndicated revolving loan facility of CHF 250.0 million, maturing on December 21, 2027, and includes an uncommitted extension option of two times one year. The outstanding loan as of December 31, 2023 amounts to CHF 0 million. The movement of the outstanding loan in the financial year 2023 was driven by raising and repaying of CHF 110.0 million.

Additionally, VAT Group AG maintains a syndicated term loan facility of CHF 200.0 million, maturing on May 30, 2025, and includes an uncommitted extension option of one time one year. The outstanding loan as of December 31, 2023 amounts to CHF 200.0 million. The movement of the outstanding loan in the financial year 2023 was driven by raising of CHF 200.0 million. The term loan facility has been utilized to repay the fixed-rate bond with a nominal value of CHF 200.0 million, which matured on May 23, 2023.

The facilities are subject to the financial covenant “total net debt/EBITDA” ratio, with which the Group complied with for the financial year 2023.

Loans under the revolving loan facility and the term loan facility can be utilized with revolving periods of one, three or six months. Due to the covenant and the revolving nature of the facilities, the utilized loans as of December 31, 2023 are classified as current liabilities.

The carrying amount as of December 31, 2023 includes financing costs of CHF 1.0 million (prior year: CHF 0.1 million), which will be recognized in profit and loss over the remaining duration of the facilities.

Reconciliation of movements of liabilities to cash flows from financing activities

As of December 31 In CHF thousand	2023	Cash-effective adjustment			Non-cash-effective adjustment		2022
		Addition	Repayment	Transaction costs	Addition[1]	Foreign exchange	
Loans and borrowings	207,306	310,000	–313,137	–1,375	1,116	–479	211,181
Total liabilities from financing activities	**207,306**	**310,000**	**–313,137**	**–1,375**	**1,116**	**–479**	**211,181**

1 Includes changes of lease liabilities and amortization of finance costs

As of December 31 In CHF thousand	2022	Cash-effective adjustment			Non-cash-effective adjustment		2021
		Addition	Repayment	Transaction costs	Addition[1]	Foreign exchange	
Loans and borrowings	211,181	80,000	–83,164	0	7,658	–254	206,942
Total liabilities from financing activities	**211,181**	**80,000**	**–83,164**	**0**	**7,658**	**–254**	**206,942**

1 Includes changes of lease liabilities and amortization of finance costs.

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, 2023 and 2022, 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, 2023 and 2022.

A capital band between CHF 2,850,000 (lower limit) and CHF 3,300,000 (upper limit) was approved at the last general meeting and added to the articles of association of VAT Group AG. The Board of Directors is authorized within the capital band to increase or reduce the share capital once or several times and in any amounts until May 16, 2026 or until the capital band expires earlier, or to acquire or sell shares directly or indirectly. The capital band was not utilized as of December 31, 2023.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Treasury shares

VAT Group AG purchased its own shares held as treasury shares at a weighted average purchase price of CHF 333.19 pursuant to the share-based payment plans as shown in note 4.2. As of December 31, 2023, the Group held 20,394 own shares (prior year: 18,082).

Dividends

The Board of Directors proposed a dividend of CHF 6.25 per share from accumluated gains for the financial year 2022 (for the financial year 2021: CHF 0.25 from the reserves from capital contributions and CHF 5.25 from accumulated gains). The dividends for the financial years 2022 and 2021 were approved and paid out in May 2023 and May 2022 respectively.

In CHF thousand	2023	2022
Dividends paid	**187,436**	**164,957**

The proposed 2023 dividend per share amounts to CHF 6.25 and will be paid out in May 2024 subject to approval at the Annual General Meeting.

Earnings per share

In CHF thousand	2023	2022
Basic earnings per share (in CHF)	**6.35**	**10.23**
Net profit	190,310	306,779
Weighted average number of shares outstanding (in thousands of units)	29,984	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	2023	2022
Diluted earnings per share (in CHF)	**6.34**	**10.22**
Net profit	190,310	306,779
Weighted average number of shares outstanding (in thousands of units)	30,004	30,010

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	2023	2022
Financial assets measured at amortized cost		
Cash and cash equivalents	144,108	174,365
Trade and other receivables	99,570	153,089
Accrued income	73	43
Long-term loans	891	876
Total financial assets recorded at amortized cost	**244,643**	**328,373**
Financial assets measured at fair value		
Equity shares	37	36
Forward exchange contracts	18,052	10,765
Total financial assets measured at fair value	**18,089**	**10,801**
Financial liabilities recorded at amortized cost		
Trade and other payables	50,926	86,358
Accrued expenses	25,398	25,424
Other non-current liabilities	15	94
Loans and borrowings	198,982	199,929
Lease liability	8,324	11,252
Total financial liabilities recorded at amortized cost	**283,645**	**323,058**
Financial liabilities measured at fair value		
Forward exchange contracts	544	3,265
Other payables	800	1,500
Other non-current liabilities	600	1,200
Total financial liabilities measured at fair value	**1,944**	**5,965**

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

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, KRW, CNY and MYR. 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, JPY, KRW and CNY. 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 currently not material for the Group and is not hedged.

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

As of December 31, 2023 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	353,192	250,900	102,292
EUR/CHF	37,589	23,589	14,000
JPY/CHF	42,955	16,001	26,954
KRW/CHF	19,180	3,321	15,860
CNY/CHF	14,842	2,707	12,135
MYR/CHF	8,071	14,095	–6,024

As of December 31, 2022 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	444,010	291,103	152,907
EUR/CHF	37,214	28,573	8,642
JPY/CHF	72,957	36,499	36,458
KRW/CHF	12,430	5,364	7,066
CNY/CHF	20,758	2,852	17,905
MYR/CHF	9,074	17,026	–7,952

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, 2023, the cumulated impact on net financial assets/liabilities would be as follows:

As of December 31 In CHF thousand	2023	2022
USD/CHF	4,296	6,433
EUR/CHF	588	364
JPY/CHF	1,132	1,534
KRW/CHF	666	297
CNY/CHF	510	753
MYR/CHF	253	335

An increase in major currency rates would have a positive impact for USD, EUR, JPY, KRW and CNY and a negative impact for MYR (prior year: positive impact for USD, EUR, JPY, KRW and CNY / negative impact for MYR). A decrease would have an equal negative / positive (prior year: negative / positive) 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 the 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 27% (prior year: 37%) 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 Dec 31, 2023 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	51,726	–51,726	–48,928	–2,798			
Accrued expenses	25,398	–25,398	–19,794	–5,604			
Other non-current liabilities	615	–615			–15	–600	
Loans and borrowings	198,982	–201,315	–1,315	–200,000			
Lease liabilities	8,324	–8,966	–620	–1,583	–1,709	–1,960	–3,093
Non-derivative financial liabilities	**285,045**	**–288,019**	**–70,656**	**–209,986**	**–1,724**	**–2,560**	**–3,093**
Forward exchange contracts used for hedging: – Outflow	544	–27,770	–1,982	–25,789			
– Inflow		27,226	1,930	25,297			
Derivative financial liabilities	**544**	**–544**	**–52**	**–492**			

At Dec 31, 2022 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	87,859	–87,859	–85,829	–2,030			
Accrued expenses	25,424	–25,424	–21,459	–3,966			
Other non-current liabilities	1,294	–1,294			–94	–1,200	
Loans and borrowings	199,929	–203,000		–203,000			
Lease liabilities	11,252	–11,713	–691	–2,457	–2,036	–2,878	–3,651
Non-derivative financial liabilities	**325,759**	**–329,290**	**–107,979**	**–211,452**	**–2,131**	**–4,078**	**–3,651**
Forward exchange contracts used for hedging: – Outflow	3,265	–113,440	–55,581	–57,859			
– Inflow		110,175	54,553	55,622			
Derivative financial liabilities	**3,265**	**–3,265**	**–1,028**	**–2,237**			

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	2023	2022
Total equity	757,161	780,320
Total liabilities and equity	1,168,456	1,274,786
Equity ratio	**64.80%**	**61.21%**

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	2023	2022
Current tax:		
Current tax on earnings for the period	35,028	52,883
Adjustments in respect of prior periods	–15,875	65
Total current tax expense	**19,154**	**52,949**
Change in deferred tax	–2,379	–3,278
Total deferred tax expense	**–2,379**	**–3,278**
Income tax expense	**16,775**	**49,671**

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	2023	2022 restated [3)]
Earnings before income taxes	207,085	356,450
Tax at the average group tax rate of 14.70% (previous year: 14.61%)[1]	**30,451**	**52,067**
Effect of tax rates in foreign jurisdictions[1]	–155	–326
Effect in change of tax rate	–151	–151
Expenses not deductible for tax purposes	2,855	3,836
Income not subject to tax	–713	–3,358
Effect of prior year items[2]	–15,875	65
Withholding taxes included in the tax expenses	1,290	1,003
Other tax effects	–927	–3,466
Total tax expenses recorded in consolidated income statement	**16,775**	**49,671**
Effective tax rate	**8.1%**	**13.9%**

1 The applicable tax rate is determined using the average statutory tax rate applicable to the Group, calculated on a weighted average basis ignoring algebraic signs. Therefore, the effect of tax rates in foreign jurisdictions is disclosed.
2 This item mainly reflects a one-off tax benefit granted in respect of prior years and a prior year tax income related to a counter adjustment to mitigate international double taxation.
3 The Group's restated weighted average tax rate for 2022 is 14.61% (reported for 2022: 15.85%). The decrease is due to the inclusion of TRAF (Federal Act on Tax Reform and AHV Financing) transitional measures applied to a portion of the Swiss profits in the Group's weighted average tax rate, rather than considering a reconciling item.

The Group's effective tax rate decreased to 8.1% in 2023 (2022: 13.9%). This is mainly due to higher profits from Swiss entities, where statutory tax rates are lower, and the effect of prior year items in Swiss entities.

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

January 1–December 31 In CHF thousand			2023			2022
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	–16,421	2,343	–14,078	11,735	–1,702	10,033
Changes in the fair value of hedging reserves	6,518	–921	5,597	2,583	–375	2,208

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

January 1–December 31 In CHF thousand			2023			2022
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	2,038	543	2,581	1,873	64	1,936

Deferred tax balances

The deferred tax assets and liabilities were as follows:

As of December 31 In CHF thousand			2023			2022
	Deferred tax assets	Deferred tax liabilities	Net closing balance	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	662	–772	–109	341	–619	–278
Inventories	3,795	–4,419	–624	4,744	–5,329	–584
Property, plant and equipment	173	–5,459	–5,285	15	–5,872	–5,857
Investment properties		–33	–33		–38	–38
Intangible assets	21	–34,129	–34,107	32	–36,217	–36,185
Other current liabilities	1,838	–125	1,713	2,674	–221	2,453
Provisions	1	–2,524	–2,523		–2,612	–2,612
Other non-current liabilities	497		497	263		263
Defined benefit obligations	2,428		2,428	406		406
Non-refundable withholding taxes on future distributions		–473	–473		–567	–567
Total deferred tax assets/(liabilities) before set-off	**9,417**	**–47,933**	**–38,516**	**8,475**	**–51,474**	**–42,998**
Set-off of balances within the same tax jurisdiction	–4,441	4,441	0	–2,115	2,115	0
Net deferred tax assets/(liabilities)	**4,976**	**–43,492**	**–38,516**	**6,360**	**–49,358**	**–42,998**

The movement in deferred tax balances is as follows:

In CHF thousand	2023	2022
Net tax liabilities as of January 1	–42,998	–44,474
Recognized in income statement	2,379	3,278
Recognized in OCI	2,343	–1,702
Exchange differences	–241	–100
Net tax liabilities as of December 31	**–38,516**	**–42,998**

For some Group companies, dividend payments are subject to a withholding tax which cannot be fully recovered in Switzerland. Deferred tax liabilities in the amount of the non-recoverable withholding tax credits are recorded in profit and loss. The balance of these deferred tax liabilities was CHF 0.5 million (prior year: CHF 0.6 million).

Tax losses
The group has no tax loss carry-forwards as at December 31, 2023 and 2022.

There are temporary differences with respect to investments in subsidiaries of CHF 5.9 million (prior year: CHF 4.6 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.

Global minimum tax

The group is subject to the OECD Pillar Two model rules to prevent Base Erosion and Profit Shifting (BEPS). Pillar Two legislation has been enacted in Switzerland, the jurisdiction in which the company is incorporated, and becomes effective on January 1, 2024. Other jurisdictions in which the group operates also implement the legislation from January 1, 2024. However, since the newly enacted Pillar Two legislation is only effective from January 1, 2024, there is no current tax impact for the year ended December 31, 2023. The group applies the temporary mandatory exemption from recognition and disclosure of deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023, and accounts for the impact of the top-up tax as a current tax when it is incurred.

Under the legislation, the group is required to pay a top-up tax for the difference between its GloBE (Global Anti-Base Erosion) effective tax rate per jurisdiction and the 15% minimum rate.

All of the group's entities have a statutory tax rate that exceeds 15% except for the group entities operating in Switzerland (jurisdictional blending).

Due to the complexities in applying the legislation and calculating GloBE income, the quantitative impact of the legislation cannot yet be estimated reliably. Therefore, even for those entities with a statutory tax rate above 15%, there may still be Pillar Two tax implications.

Accounting 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 approximations 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	
	Jan 1 – Dec 31, 2023	Jan 1 – Dec 31, 2022	Dec 31, 2023	Dec 31, 2022
1 Chinese Yuan	0.13	0.14	0.12	0.13
1 Euro	0.97	1.01	0.93	0.99
100 Japanese Yen	0.64	0.73	0.60	0.71
100 Korean Won	0.07	0.07	0.07	0.07
1 Malaysian Ringgit	0.20	0.22	0.18	0.21
1 US Dollar	0.90	0.95	0.84	0.92

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, 2023, assets in the amount of CHF 0.3 million were pledged (prior year: assets in the amount of CHF 0.3 million were pledged).

6.4 List of subsidiaries

The subsidiaries of the Company as of December 31, 2023 and 2022, are the following:

Country	Company	Function	Currency	Capital in thousands	Share 2023	Share 2022
China	VAT Vacuum Valves Shanghai Company Ltd., Shanghai	D	CNY	1,618	100%	100%
	VAT Vacuum Valves Beijing Company Ltd., Beijing	D	USD	800	100%	100%
France	VAT SARL, Grenoble	D	EUR	50	100%	100%
Germany	VAT Deutschland GmbH, Dresden	D	EUR	26	100%	100%
Japan	VAT Ltd., Tokyo	D	JPY	96,470	100%	100%
Korea	VAT Korea Ltd., Pyeongtaek City	D	KRW	300,000	100%	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	100,000	100%	100%
Netherlands	VAT Netherlands B.V., Utrecht	D	EUR	0	100%	100%
Romania	VAT Romania S.R.L., Arad	P	RON	7,821	100%	100%
Singapore	VAT Singapore Pte. Ltd., Singapore	D	SGD	500	100%	100%
Switzerland	VAT Vakuumventile AG, Sennwald	D/P	CHF	100	100%	100%
	Comvat AG, Sennwald	D/P	CHF	275	100%	100%
	VAT Holding AG, Sennwald	H	CHF	300	100%	100%
Taiwan	VAT Taiwan Co. Ltd., Hsin-Chu City	D	TWD	12,000	100%	100%
United Kingdom	VAT Vacuum Products Ltd, Warwickshire	D	GBP	1	100%	100%
USA	VAT Inc., Delaware	D	USD	0	100%	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 4, 2024, 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, 2023, and earlier application is permitted; however, the Group has not applied the new or amended standards early 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 2023 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 material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) and Swiss Standards on Auditing (SA-CH). 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, together with the requirements of the Swiss audit profession, as well as those of 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 2023 amounted to CHF 885m (2022: CHF 1,145m) and are primarily related to the sale of vacuum valves 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 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. 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 material accounting policies"

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information 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 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.

Board of Directors' Responsibilities 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 Accounting Standards 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, ISA and SA-CH 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, ISA and SA-CH, 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 Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the 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

Simon Niklaus
Licensed Audit Expert
Auditor in Charge

Simon Hörler
Licensed Audit Expert

St. Gallen, 4 March 2024

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2023

Income statement

January 1–December 31 In CHF thousand	Note	2023	2022
Dividend income		230,000	170,000
Interest income		3,262	1,001
Other financial income	3.1	306	7
Total income		**233,568**	**171,008**
Interest expenses		–5,066	–3,302
Other financial expenses		–1,289	–1,317
Personnel expenses		–1,421	–1,209
Other operating expenses	3.2	–2,332	–2,216
Total expenses		**–10,107**	**–8,045**
Direct tax		–270	–62
Gain for the period		**223,190**	**162,901**

Balance sheet

As of December 31 In CHF thousand	Note	2023	2022
Assets			
Cash and cash equivalents		295	1,432
Other receivables due from third parties		40	73
Prepayments and accrued income		428	533
Current assets		**763**	**2,038**
Financial assets	3.4	662	1,004
Loans granted to companies in which the entity holds an investment		106,746	73,330
Investments in subsidiaries	3.3	868,724	868,724
Non-current assets		**976,131**	**943,058**
Total assets		**976,894**	**945,095**
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	0	200,000
Other payables		23	1,609
Short-term provisions		241	67
Accrued expenses and deferred income	3.5	1,875	2,942
Current liabilities		**2,140**	**204,618**
Long-term interest-bearing liabilities due to third parties	3.4	200,000	0
Non-current liabilities		**200,000**	**0**
Total liabilities		**202,140**	**204,618**
Equity	3.6		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		344	344
– Other capital reserves		3,682	3,682
Accumulated gains:			
– Profit brought forward		551,333	575,867
– Gain for the period		223,190	162,901
Treasury shares	3.7	–6,795	–5,317
Total equity attributable to owners of the Company		**774,754**	**740,478**
Total liabilities and equity		**976,894**	**945,095**

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 2023 consists of gains from the disposal of treasury shares (prior year: other financial income results from net foreign exchange gains).

3.2 Other operating expenses

As of December 31 In CHF thousand	2023	2022
Insurance, duties and other charges	178	195
Rental expenses	5	5
Travel expenses	56	88
Consulting and audit fees	890	920
Administration expenses	1,202	1,009
Total other operating expenses	**2,332**	**2,216**

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	
			2023	2022	2023	2022
Switzerland	VAT Holding AG	CHF	300	300	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	2023	2022
Short-term interest-bearing liabilities due to third parties	0	200,000
Total short-term interest-bearing liabilities	**0**	**200,000**
Long-term interest-bearing liabilities due to third parties	200,000	0
Total long-term interest-bearing liabilities	**200,000**	**0**

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

As of December 31, 2023 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.85%	2027	0
Term loan facility	CHF	SARON + 0.90%	2025	200,000
Total loans and borrowings at Dec 31, 2023				**200,000**
Thereof:				
Current				0
Non-current				200,000

1 Margin applicable at year end.

As of December 31, 2022 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.65%	2027	0
Term loan facility	CHF	SARON + 0.75%	2025	0
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at Dec 31, 2022				**200,000**
Thereof:				
Current				200,000
Non-current				0

1 Margin applicable at year end.

Financing expenses in connection with the revolving loan facility and the term loan have been capitalized. As at December 31, 2023, CHF 0.4 million (prior year: CHF 0.4 million) are recognized within “Prepayments and accrued income”. CHF 0.7 million (prior year: CHF 1.0 million) are disclosed as "Financial assets".

3.5 Accrued expenses and deferred income

As of December 31 In CHF thousand	2023	2022
Accrued expenses and deferred income due to third parties	1,260	2,461
Accrued expenses and deferred income due to governing bodies	615	482
Total accrued expenses	**1,875**	**2,942**

3.6 Equity

As of December 31, 2023 and 2022, 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 legal capital reserves consist of the premium from contributions in kind. From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital.

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, 2023 and 2022.

A capital band between CHF 2,850,000 (lower limit) and CHF 3,300,000 (upper limit) was approved at the last general meeting and added to the articles of association of VAT Group AG. The Board of Directors is authorized within the capital band to increase or reduce the share capital once or several times and in any amounts until May 16, 2026 or until the capital band expires earlier, or to acquire or sell shares directly or indirectly. The capital band was not utilized as of December 31, 2023.

3.7 Treasury shares

	Jan 1 – Dec 31, 2023		Jan 1 – Dec 31, 2022	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**18,082**	**294.02**	**14,383**	**CHF 312.97**
Purchase of treasury shares	16,573	346.48	16,186	CHF 275.49
Share-based payments	–14,261	298.98	–12,487	CHF 291.82
Treasury shares as at December 31	**20,394**	**333.19**	**18,082**	**CHF 294.02**

On December 31, 2023, VAT Group AG held 20,394 treasury shares with an acquisition price of CHF 6.8 million.

4. Other information

4.1 Full-time equivalents

VAT Group AG does not have any employees.

4.2 Collateral for third-party liabilities

Collateral provided for liabilities of third parties amounts to CHF 1.5 million (prior year: CHF 1.0 million). These are guarantees issued on behalf of subsidiaries.

4.3 Significant shareholders

The following shareholders owned more than 5% of voting rights as of December 31:

Shareholder	Voting rights as of December 31, 2023	Voting rights as of December 31, 2022
Rudolf Maag	3,000,570	3,000,570
Capital Group Companies Inc.	1,783,956	1,505,281
BlackRock Inc.	1,728,304	1,715,219

4.4 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	2023	2022
Board of Directors		
Martin Komischke, Chairman	2,463	2,156
Urs Leinhäuser	4,909	4,717
Petra Denk (since May 16, 2023)	0	n/a
Maria Heriz (since May 17, 2022)	106	0
Hermann Gerlinger	1,566	1,422
Daniel Lippuner	1,021	887
Karl Schlegel	38,549	38,429
Libo Zhang	714	570

Group Executive Committee		
Michael Allison, CEO	9,131	5,181
Fabian Chiozza, CFO	0	0
Thomas Berden, COO	1,085	0
Finn Felsberg, EVP Semiconductor Solutions Group (since December 1, 2023)	0	n/a
Urs Gantner, EVP Semiconductor Solutions Group (since August 4, 2022)	5,724	5,198

As of December 31, 2023 and 2022, none of the members of the Board of Directors or the Group Executive Committee held conversion rights or options, and no loans or credits were outstanding between the parties and the Company.

4.5 Shares granted to the Board of Directors

Members of the Board of Directors receive 30% of the total compensation in restricted shares. The members of the Board received 1,147 shares with a fair value of CHF 330.10 per share for the period 2022/23 (prior period: 958 shares, amounting to CHF 0.3 million). As of December 31, 2023, VAT Group AG allocated 735 shares (prior year: 1,068 shares) amounting to CHF 0.3 million (prior year: CHF 0.3 million) to its Board of Directors, which will be transferred in financial year 2024.

4.6 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	2023
Balance brought forward	**551,333**
Gain for the period	223,190
Total accumulated gains	**774,523**

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

In CHF thousand	2023
Dividend payment	–187,500
Total accumulated gains to be carried forward	**587,023**

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 187.5 million from accumulated gains.

The number of shares with dividend rights will change if the number of 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 (the Company), which comprise the balance sheet as at 31 December 2023, 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 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 Standards on Auditing (SA-CH). 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 Company in accordance with the provisions of Swiss law, together with 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.

Key Audit Matters

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.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Board of Directors' Responsibilities 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 Company'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 Company 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 SA-CH 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 SA-CH, 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 the Company'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 Company'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 Company 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 PS-CH 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

Simon Niklaus	Simon Hörler
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

St. Gallen, 4 March 2024

Shareholder Information

Despite the prospect of a significantly lower result for the business year 2023, compared to the record level achieved a year earlier, VAT's share price rebounded sharply throughout 2023 as investors gained growing confidence that the market downturn witnessed in 2022 would reach its low point in 2023 and that 2024 would again be a year of growth. This change in investor sentiment was predominantly seen in the technology and semiconductor sectors, where share prices increased on a broad scale, while the broader markets recorded a much weaker recovery.

Share price development

VAT's share price on December 31, 2023, amounted to CHF 421.50, compared with CHF 252.80 on December 31, 2022. VAT's market capitalization at year end amounted to CHF 12.7 billion, about 67% more than at the beginning of the year. The Swiss Leader Index increased by about 5% during the same period. Trading liquidity in VAT shares increased slightly to approximately 85,000 shares per day or CHF 28.1 million in value.

Short-term, VAT expects an improvement in its key semiconductor market in 2024, albeit at a moderate pace. Nevertheless, VAT's medium-term growth drivers – 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, drive demand for more and higher performance semiconductors, that can only be manufactured in the purest vacuum environments, which plays to VAT's market-leading technology advantages. By 2030, global sales of semiconductors are expected to exceed USD 1 trillion, compared to about USD 600 billion in 2023. With this medium-term growth firmly in place, VAT expects its 2024 results to be higher than those recorded in 2023. Throughout the market downturn, VAT continued to invest in technology and production capacity in readiness to support its customers' requirements during the expected market recovery. As the global technology and market leader in vacuum valves – and by adding adjacent products to the existing offering – VAT has a proven strategy in place to harvest the opportunities offered in its markets. With a constant focus on cost and free cash flow, VAT has one of the best financial positions, allowing it to constantly invest in its future success.

VAT's major shareholders

There have been some changes among VAT's major shareholders since the beginning of 2023. As of the publication of this annual report, there are now four institutions (formerly three) who each own more than 3% of VAT's outstanding shares and whose cumulative shareholding amounts to about 22% (previously 21%) of VAT's shares. The free float of VAT shares, as defined by the SIX Swiss Exchange, amounted to approximately 90% at the end of 2023 and the number of registered shareholders amounted to 20,160 (2022: 20,516).

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 90%
Market capitalization as of December 31, 2023	CHF 12.65bn	**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	12%
Shares in transit	49%

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	13,655
101–1,000 shares	5,667
1,001–10,000 shares	698
10,001–100,000 shares	126
100,001–1,000,000	13
More than 1,000,000 shares	1
Total number of shareholders	**20,160**

Market Capitalization
in CHF bn as of December 31, 2023

12.65

Disclosure of shareholdings
With effect from January 1, 2016, under Art. 110 of the Federal Act on Financial Market Infrastructure (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 49 of this report.

Dividend policy
VAT Group AG is committed to an attractive dividend policy that reflects the company's strong free cash flow generation and solid balance sheet. In line with this policy, VAT Group intends to distribute to its shareholders up to 100% of free cash flow to equity (FCFE).

At its Annual General Meeting on May 14, 2024, VAT's Board of Directors will propose an unchanged dividend for the fiscal year ending December 31, 2023, of CHF 6.25 per registered share. The whole amount will be paid from the company's accumulated gains.

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 business in a timely manner and in compliance with the rules of the SIX Swiss Exchange.

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: https://ir.vatvalve.com.

Key data on VAT registered shares

		2023	2022
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	9.03	13.35
Free cash flow per share	CHF	6.29	7.61
Book value per share	CHF	25.24	26.01
Dividend per share[1]	CHF	6.25	6.25
Share price high	CHF	422.70	469.60
Share price low	CHF	252.80	198.70
Closing share price on December 31	CHF	421.50	252.80
Average daily trading volume	Shares	84'868	84,127
Average daily trading value	CHF million	28.1	23.8

1 Proposed by the Board of Directors.

Financial Calendar

Date	Event
2024	
Thursday, April 11, 2024	Q1 2024 trading update
Friday, May 3, 2024	Record date, closing of share register, 5.00p.m. CEST
Tuesday, May 14, 2024	Annual General Meeting, St Gallen, Switzerland
Thursday, May 16, 2024	Ex-date
Tuesday, May 21, 2024	Dividend payment
Thursday, July 18, 2024	Half-year 2024 results
Thursday, October 17, 2024	Q3 2024 trading update
2025	
Tuesday, March 4, 2025	Q4 and Full-year 2024 results

5-year key figures

In CHF million	2023	2022	2021	2020 restated[1]	2019 restated	CAGR 2019–2023
Order intake	691.9	1,209.9	1,227.9	724.5	585.0	4.3%
Order backlog as of December 31	291.6	517.7	461.2	145.3	114.5	26.3%
Net sales	885.3	1,145.5	901.2	692.4	570.4	11.6%
Gross profit	546.7	733.7	570.5	430.1	345.4	12.2%
Gross profit margin	61.7%	64.1%	63.3%	62.1%	60.6%	–
EBITDA	270.9	400.4	307.9	210.5	148.2	16.3%
EBITDA margin	30.6%	35.0%	34.2%	30.4%	26.0%	–
EBIT	228.6	359.4	264.9	169.8	102.5	22.2%
EBIT margin	25.8%	31.4%	29.4%	24.5%	18.0%	–
Net income	190.3	306.8	217.4	127.9	70.3	28.3%
Net income margin	21.5%	26.8%	24.1%	18.5%	12.3%	–
Basic earnings per share (in CHF)	6.35	10.23	7.25	4.27	2.34	28.3%
Diluted earnings per share (in CHF)	6.34	10.22	7.24	4.26	2.34	28.3%
Cash flow from operating activities	256.4	294.0	239.8	166.2	151.9	14.0%
Capex[2]	69.2	66.2	44.1	19.2	12.1	54.6%
Capex margin	7.8%	5.8%	4.9%	2.8%	2.1%	–
Free cash flow[3]	188.8	228.2	195.7	147.0	139.9	7.8%
Free cash flow margin	21.3%	19.9%	21.7%	21.2%	24.5%	–
Free cash flow conversion rate[4]	69.7%	57.0%	63.6%	69.8%	94.4%	–
Free cash flow to equity[5]	181.8	224.6	192.0	143.0	135.4	7.6%

As of December 31 In CHF million	2023	2022	2021	2020	2019	CAGR 2019–2023
Total assets	1,168.5	1,274.8	1,064.9	989.1	966.5	4.9%
Total liabilities	411.3	494.5	430.5	444.5	448.3	-2.1%
Equity	757.2	780.3	634.4	544.6	518.2	9.9%
Net debt	63.2	36.8	79.7	128.5	144.3	-18.6%
Net debt/EBITDA	0.2	0.1	0.3	0.6	0.9	-29.4%
Invested capital[6]	599.6	642.6	463.9	411.1	350.0	14.1%
NOPAT[7]	207.4	317.0	235.5	155.6	99.0	20.3%
Return on invested capital (ROIC)	33.4%	57.3%	53.8%	40.6%	28.0%	–
Dividend per share[8]	6.25	6.25	5.50	4.50	4.00	–
Payout ratio[9]	103.1%	83.5%	85.9%	94.4%	88.6%	–
Number of employees[10]	2,666	2,991	2,540	2,041	1,810	10.2%

1 Prior-period financial statements have been restated in line with a clarification in 2021 by the IFRS Interpretations Committee that costs for cloud-based services, such as VAT's new ERP system, are to be expensed through the income statement when they occur, rather than capitalized.
2 Capex: acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
3 Free cash flow: cash flow from operating activities minus cash flow from investing activities.
4 Free cash flow conversion rate: free cash flow as a percentage of EBITDA.
5 Free cash flow to equity: free cash flow less interest paid.
6 Invested capital is defined as total assets less acquired intangibles and non-interest bearing liabilities.
7 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization plus finance income less taxes at the average Group rate of 16.0% (previous year 16.0%).
8 2023 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 14, 2024; CHF 6.25 per share to be paid from accumulated gains.
9 Percentage of free cash flow to equity proposed to be paid out as dividend.
10 Number of employees expressed as full time equivalents (FTE).

Technical Glossary

5G The fifth generation of wireless cellular networks used to connect digital devices for e-mobility, smart power grids, industrial automation and other applications.

AI (artificial intelligence) The simulation of human intelligence processes by machines, especially computer systems, and used in applications such as natural language processing, speech recognition and machine vision.

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).

e-beam technologies The use of a focused beam of electrons within a vacuum to perform processes such as ultra-thin coating and precision welding, as well as in medical and scientific research.

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

EUV (extreme ultraviolet) lithography A photolithography process using light with a wavelength near 13.5 nm to make extremely small integrated circuits on the most advanced semiconductors.

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.

MEMS (micro-electromechanical systems) A process technology used to create microscopic integrated devices or systems that combine mechanical and electrical components.

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.

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).

Contact

This complete report is only available in English.

For further information please contact:
VAT Group AG
Seelistrasse 1
9469 Haag
T +41 81 771 61 61
www.vatvalve.com

Investor Relations & Sustainability
Michel R. Gerber
T +41 81 553 70 13
investors@vat.ch

Design/Layout/Production
Hilda Ltd.
www.hilda.ch

Print
J.E. Wolfensberger AG
www.wolfensberger-ag.ch

Concept
Linkgroup AG, Zurich
www.linkgroup.ch

This annual report is printed
on FSC-certified paper.

MIX
Paper | Supporting responsible forestry
FSC® C007616
www.fsc.org

Climate neutral
Print product
ClimatePartner.com/11665-1703-1002

Forward-looking statements
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 2024:

VAT expects investments in semiconductor manufacturing equipment to gradually improve over the course of 2024.

On this basis, VAT expects full-year sales*, EBITDA, net income and free cash flow in 2024 to be higher compared to 2023.

* At constant foreign exchange rates

PASSION. PRECISION. PURITY.