
Financial Statements

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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, 2022

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2022	2021
Net sales	2.1, 2.2	1,145,479	901,159
Raw materials and consumables used		-443,884	-362,337
Changes in inventories of finished goods and work in progress		32,101	31,648
Personnel expenses	4.1	-230,261	-201,162
Other income	2.3	8,962	11,486
Other expenses	2.4	-111,984	-72,874
Earnings before interest, taxes, depreciation and amortization (EBITDA)¹		400,414	307,920
Depreciation, amortization and impairment		-40,969	-43,058
Earnings before interest and taxes (EBIT)¹		359,446	264,862
Finance income	5.1	2,233	239
Finance costs	5.1	-5,229	-7,366
Earnings before income taxes		356,450	257,735
Income tax expenses	6.1	-49,671	-40,295
Net income attributable to owners of the Company		306,779	217,440
Earnings per share (in CHF)			
Basic earnings per share	5.4	10.23	7.25
Diluted earnings per share	5.4	10.22	7.24

¹ Interest includes other items as reported in the financial results

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2022	2021
Net income attributable to owners of the Company		306,779	217,440
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	4.3	11,735	12,533
Related tax	6.1	-1,702	-1,817
Subtotal		10,033	10,716
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		2,583	-1,948
Related tax	6.1	-375	282
Currency translation adjustments		-5,591	-327
Subtotal		-3,383	-1,993
Other comprehensive income for the period (net of tax)		6,650	8,723
Total comprehensive income for the period attributable to owners of the Company		313,429	226,163

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 84 ff.

Consolidated balance sheet

In CHF thousand	Note	Dec 31, 2022	Dec 31, 2021
Assets			
Cash and cash equivalents		174,365	127,152
Trade and other receivables	3.1	163,204	124,548
Other investments, including derivatives	5.5	10,801	4,610
Prepayments and accrued income		9,621	4,047
Inventories	3.2	229,247	152,763
Current tax assets		2,602	563
Current assets		589,839	413,684
Property, plant and equipment	3.3	204,320	158,538
Investment properties		1,673	1,723
Intangible assets and goodwill	3.4	470,560	482,746
Other receivables	3.1	1,157	1,968
Other investments		876	861
Deferred tax assets	6.1	6,360	5,347
Non-current assets		684,947	651,183
Total assets		1,274,786	1,064,867

In CHF thousand	Note	Dec 31, 2022	Dec 31, 2021
Liabilities			
Trade and other payables	3.5	133,408	79,769
Loans and borrowings	5.3	202,998	2,105
Provisions	3.7	2,246	2,520
Derivative financial instruments	5.2	3,265	932
Accrued expenses and deferred income	3.6	42,360	43,954
Current tax liabilities		47,700	30,145
Current liabilities		431,977	159,425
Loans and borrowings	5.3	8,184	204,837
Other non-current liabilities		2,211	2,619
Deferred tax liabilities	6.1	49,358	49,821
Defined benefit obligations	4.3	2,737	13,796
Non-current liabilities		62,490	271,072
Total liabilities		494,466	430,497
Equity			
Share capital	5.4	3,000	3,000
Share premium		344	6,479
Reserves		1,223	4,606
Treasury shares	5.4	-5,317	-4,501
Retained earnings ¹		781,069	624,786
Total equity attributable to owners of the Company		780,320	634,370
Total liabilities and equity		1,274,786	1,064,867

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 84 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, 2021	3,000	73,969	4,114	2,485	-414	461,419	544,573
Net income attributable to owners of the Company						217,440	217,440
Total comprehensive income for the period attributable to owners of the Company			-1,665	-327		10,716	8,723
Treasury shares acquired					-4,344		-4,344
Dividend payment		-67,491				-67,491	-134,982
Share-based payments (net of tax)					257	2,703	2,960
Equity as of Dec 31, 2021	3,000	6,479	2,448	2,158	-4,501	624,786	634,370

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.

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 84 ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2022	2021
Net income attributable to owners of the Company		306,779	217,440
Adjustments for:			
Depreciation, amortization and impairment		40,969	43,058
(Profit)/loss from disposal of property, plant and equipment		-17	-114
Change in defined benefit obligations		752	760
Net impact from foreign exchange		5,737	824
Income tax expenses	6.1	49,671	40,295
Net finance costs	5.1	2,996	7,127
Other non-cash-effective adjustments		2,063	1,082
Change in trade and other receivables		-43,831	-31,143
Change in prepayments and accrued income		-5,743	-2,089
Change in inventories		-81,035	-47,779
Change in trade and other payables		54,587	33,408
Change in accrued expenses and deferred income		-1,092	7,558
Change in provisions		-352	-93
Cash generated from operations		331,485	270,336
Income taxes paid		-37,517	-30,546
Cash flow from operating activities		293,968	239,790
Purchases of property, plant and equipment		-58,974	-32,425
Proceeds from sale of property, plant and equipment		17	327
Purchases of intangible assets and development expenditure		-7,265	-10,542
Acquisition of subsidiary, net of cash acquired		0	-1,586
Interest received		426	131
Cash flow from investing activities		-65,797	-44,095
Proceeds from borrowings	5.3	80,000	110,000
Repayments of borrowings	5.3	-80,000	-170,000
Repayments of lease liabilities	5.3	-3,164	-2,433
Purchase of own shares		-4,459	-4,344
Dividend paid	5.4	-164,957	-134,982
Interest paid		-3,575	-3,732
Other finance expenses paid		-1,082	-1,217
Cash flow from financing activities		-177,238	-206,707
Net increase/(decrease) in cash and cash equivalents		50,933	-11,012
Cash and cash equivalents at beginning of period		127,152	137,871
Effect of movements in exchange rates on cash held		-3,720	292
Cash and cash equivalents at end of period		174,365	127,152

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 84 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, 2022, 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 1, 2023.

Basis of accounting

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

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. A number of standards have been modified on miscellaneous points with effect from January 1, 2022. 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, 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	–
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

January 1–December 31, 2021 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	729,183	171,976	901,159	–	901,159
Inter-segment sales	74,956	–	74,956	–74,956	–
Segment net sales	804,140	171,976	976,115	–74,956	901,159
Segment EBITDA	269,695	77,821	347,516	–39,596	307,920

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

As of December 31, 2021 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Segment assets	783,456	126,798	910,254	1,723	911,977
Segment liabilities	45,708	4,526	50,233	74	50,307
Segment net operating assets	737,749	122,272	860,021	1,650	861,670
Of which net trade working capital	191,044	27,612	218,656	-74	218,582

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	2022	2021
Segment EBITDA	451,149	347,516
Corporate and eliminations	-50,735	-39,596
Depreciation, amortization and impairment	-40,969	-43,058
Finance costs net	-2,996	-7,127
Earnings before income taxes	356,450	257,735

Assets

As of December 31 In CHF thousand	2022	2021
Segment assets	1,055,796	910,254
Corporate and eliminations	1,673	1,723
Cash and cash equivalents	174,365	127,152
Other assets ¹	42,952	25,738
Assets	1,274,786	1,064,867

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	2022	2021
Segment liabilities	83,615	50,233
Corporate and eliminations	377	74
Loans and borrowings	211,182	206,942
Other liabilities ¹ and provisions	199,292	173,248
Liabilities	494,466	430,497

¹ Only trade payables are allocated to segments.

Geographic information

Net sales

January 1–December 31 In CHF thousand	2022	2021
Switzerland	7,488	6,452
Europe excl. Switzerland	124,405	110,780
USA	290,350	303,668
Japan	127,637	108,284
Korea	103,496	86,303
Singapore	172,700	94,859
China	217,851	124,710
Asia excl. Japan, Korea, Singapore and China	91,533	59,238
Other	10,019	6,865
Total	1,145,479	901,159

No other individual country represented more than 10% of net sales in 2022 and 2021.

Non-current assets

As of December 31 In CHF thousand	2022	2021
Switzerland	595,309	582,677
Europe excl. Switzerland	6,593	4,219
USA	1,723	2,645
Asia	72,928	53,466
Total	676,554	643,007

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 2022 and 2021.

Major customers

Revenues from two customers of the Group's Valves and Global Service segments represented approximately 19% and 18%, respectively, of the Group's total revenues (prior year: two customers represented approximately 21% and 20%, 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, 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

January 1 – December 31, 2021 In CHF thousand	Valves	Global Service	Total
Order intake	1,028,798	199,143	1,227,942
Net sales by region			
Asia	396,114	77,468	473,582
Americas	236,187	69,591	305,778
EMEA	96,882	24,916	121,798
Net sales	729,183	171,976	901,159

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	2022	2021
Net foreign exchange gains on operating and investing activities	0	201
Work performed by the entity and capitalized	7,184	9,755
Rental income from investment properties	74	76
Change in provision for impairment on trade receivables	8	477
Gains from sale of fixed assets	17	120
Other income	1,679	856
Total other income	8,962	11,486

2.4 Other expenses

January 1–December 31 In CHF thousand	2022	2021
Marketing and advertising	1,297	971
Distribution	19,520	11,006
Office rent	304	328
Administrative expenses	24,816	17,617
Travel expenses	4,294	1,551
Repair and maintenance	25,522	20,504
Energy and supplies	20,061	13,223
Insurance, duties and other charges	3,120	2,639
Losses from sale of fixed assets	0	7
Net foreign exchange losses on operating and investing activities	9,365	0
Research and development expenses ¹	1,034	1,383
Other operating expenses	2,651	3,647
Total other expenses	111,984	72,874

¹ Includes only third-party expenses

3. Operating assets and liabilities

3.1 Trade and other receivables

As of December 31 In CHF thousand	2022	2021
Trade receivables – gross	151,916	116,380
Less provision for impairment of trade receivables	-248	-260
Trade receivables – net	151,668	116,121
Recoverable VAT and withholding tax	7,865	7,759
Deposits	1,475	1,775
Receivables from social security	3,016	482
Other	337	380
Total trade and other receivables	164,360	126,516
Thereof:		
Current trade and other receivables	163,204	124,548
Non-current other receivables	1,157	1,968

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	2022	2021
Raw materials and consumables	105,548	56,345
Work in progress	17,186	22,699
Semi-finished goods	59,076	36,040
Finished goods	47,438	37,679
Total inventories	229,247	152,763

In the financial year 2022, inventories of CHF 0.8 million (previous year: CHF 2.4 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, 2022 In CHF thousand	Land	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

January 1–December 31, 2021 In CHF thousand	Land	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, 2021	7,879	95,731	11,821	105,968	10,406	22,150	1,014	7,958	262,928
Acquired through business combination (see note 6.5)				17	3	1			20
Additions		19		848	163	1,748		29,647	32,425
Movement non-cash			2,560				302		2,862
Disposals	-2	-10	-636	-219	-31	-2,130	-854	-15	-3,896
Transfer		179		7,770	-2,801	1,210		-6,359	0
Exchange differences	-1	-61	-71	-841	-16	-61	-9	-88	-1,148
Balance at Dec 31, 2021	7,876	95,859	13,675	113,543	7,724	22,919	452	31,144	293,191
Accumulated depreciation and impairment									
Balance at Jan 1, 2021	-207	-24,776	-4,273	-63,889	-6,404	-16,242	-668	0	-116,460
Depreciation charge	-31	-4,200	-2,566	-10,827	-1,174	-2,826	-349		-21,973
Impairment loss				-32	-46	-281			-360
Disposals	2	10	291	31	31	2,119	854		3,339
Transfer				-1,352	1,352				0
Exchange differences		33	72	654	22	14	6		801
Balance at Dec 31, 2021	-237	-28,933	-6,476	-75,416	-6,218	-17,216	-157	0	-134,653
Net book amount Dec 31, 2021	7,639	66,925	7,199	38,127	1,505	5,702	296	31,144	158,538

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in property, plant and equipment as of December 31, 2022, aggregate to CHF 72.8 million (prior year: CHF 24.4 million).

Accounting policies

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method based on the following useful lives:

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

Land is not depreciated. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

Leases – as a lessee

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, 2022, the Group recognized CHF 3.2 million (prior year: CHF 2.9 million) of depreciation charges and CHF 0.2 million (prior year: CHF 0.1 million) of interest costs from these leases.

In 2022, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.3 million (prior year: CHF 0.3 million). Total cash outflows for leases amount to CHF 3.2 million (prior year: CHF 2.4 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, 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

January 1–December 31, 2021 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, 2021	183,717	10,952	263,600	120,900	5,550	18,072	602,791
Acquired through business combination	206		6,891				7,097
Additions						10,542	10,542
Disposals		-146			-2,619		-2,765
Transfer		605			7,400	-8,004	0
Exchange differences		-26			-12	7	-30
Balance at Dec 31, 2021	183,923	11,386	270,491	120,900	10,318	20,617	617,635
Accumulated amortization and impairment							
Balance at Jan 1, 2021	0	-8,693	-105,881	0	-2,439	0	-117,013
Amortization charge		-1,235	-15,480		-1,319		-18,034
Impairment loss		-22			-2,619		-2,641
Disposals		145			2,619		2,764
Exchange differences		25			11		36
Balance at Dec 31, 2021	0	-9,780	-121,361	0	-3,746	0	-134,888
Net book value Dec 31, 2021	183,923	1,606	149,130	120,900	6,572	20,617	482,746

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in intangible assets as of December 31, 2022, aggregate to CHF 2.5 million (prior year: CHF 0.4 million).

Research and development costs

In 2022, research and development expenses amounting to CHF 50.7 million (previous year: CHF 45.1 million) were included in the items "Raw materials and consumables used", "Personnel expenses", "Other expenses" and "Depreciation, amortization and impairment". For 91 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 7.1 million (previous year: CHF 8.6 million) were capitalized.

Impairment testing for goodwill and intangible assets with indefinite useful lives

The intangible assets and goodwill to be tested were allocated to and measured on cash-generating units (CGUs) at the segment levels as follows.

As of December 31 In CHF thousand	2022			2021		
	Valves	Global Service	Total	Valves	Global Service	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 2023 to 2025. 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, 2022	Valves	Global Service
Discount rate (WACC) before tax	12.9%	13.0%
Terminal value growth rate	1.5%	1.5%

As of December 31, 2021	Valves	Global Service
Discount rate (WACC) before tax	10.2%	10.2%
Terminal value growth rate	1.7%	1.7%

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	2022	2021
Trade payables	83,992	50,307
VAT and other tax payables	3,762	6,355
Employee benefit liabilities	8,664	4,444
Prepayments received from customers	33,124	16,185
Contingent considerations	1,500	2,100
Other liabilities	2,367	378
Total trade and other payables	133,408	79,769

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

As of December 31 In CHF thousand	2022	2021
Swiss Franc	55,614	27,564
Euro	15,432	9,536
US Dollar	21,313	26,116
Malaysian Ringgit	13,122	10,212
Romanian Leu	1,679	1,361
Chinese Yuan	22,314	3,044
Other currencies	3,934	1,935
Total trade and other payables	133,408	79,769

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	2022	2021
Accrued expenses – personnel related	16,921	25,505
Accrued expenses – other	25,424	18,325
Deferred income	14	125
Total accrued expenses and deferred income	42,360	43,954

3.7 Provisions

January 1–December 31, 2022 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at Jan 1, 2022	2,320	289	2,609
Additions	753	914	1,667
Used	-828	-107	-935
Unused amount released		-170	-170
Exchange differences		-9	-9
Balance at Dec 31, 2022	2,246	916	3,162
Thereof:			
Current provisions	2,246		2,246
Non-current provisions ¹		916	916

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	2022	2021
Wages and salaries	189,743	166,784
Share-based payment	2,177	1,960
Social security costs	17,708	16,621
Pension costs – defined contribution plans	1,318	1,054
Pension costs – defined benefit plans	9,052	8,100
Other personnel expenses	10,263	6,643
Total personnel expenses	230,261	201,162
Number of employees (FTE)	2,991	2,540

4.2 Share-based payments

At December 31, 2022, the Group had the following share-based payment arrangements.

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

Members of the Board receive 30% of the total compensation in restricted shares. The restricted shares are subject to a three-year blocking period during which they cannot be transferred, sold, pledged or otherwise disposed of. VAT Group granted 958 shares (prior period: 950 shares) with a fair value of CHF 268 per share for the period 2021/22. For the period 2022/23, the Group allocated 1,068 shares (prior period: 485 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 starting with the LTIP 2021 additionally the performance indicator 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 2020	CHF 163.55	CHF 116.57	CHF 125.62	n/a	32.2%	0.5%	2.8%
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%

VAT Group granted 11,529 shares with a fair value of CHF 278.00 per share in 2022 from the LTIP 2019 (prior period: 4,765 shares with a fair value of CHF 252.80 per share from the LTIP 2018). As of December 31, 2022, the number of outstanding Performance Share Units (PSUs) under the plan are 22,600 (prior year: 29,026).

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 French employees are covered by a non-funded defined benefit plan and all Swiss entities have a funded contributory defined benefit pension plan covering their employees with the following amounts recognized in balance sheet and income statement:

Balance sheet

As of December 31 In CHF thousand	2022	2021
Japan ¹	0	48
France	76	80
Switzerland	2,661	13,668
Net defined benefit liability in the balance sheet	2,737	13,796

¹ The defined benefit plan in Japan was dissolved in 2022.

Income statement

January 1–December 31 In CHF thousand	2022	2021
Japan ¹	0	33
France	-4	10
Switzerland	9,056	8,057
Pension costs – defined benefit plans	9,052	8,100

¹ The defined benefit plan in Japan was dissolved in 2022.

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 2022, the minimum interest was 1.00% (prior year: 1.00%).

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

All other actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries and the return on plan assets) and are regularly assessed by the Board of Trustees. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings. Since 2020, a sharing of the funding gap between employer and employee (risk sharing) is taken into account. The restructuring contributions for the employer must, at a minimum, be equal to the sum of employee contributions. Under the formal regulatory framework of the pension plan, the employer has no legal obligation to pay additional contributions to eliminate more than 60% of a funding deficit or of a structural funding shortfall. In the case of the actuarial valuation, the legal obligation is regarded as the upper limit of the employer's share of the costs of future benefits within the meaning of IAS 19.87(c).

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

As of December 31 In CHF thousand	2022	2021
Present value of defined benefit obligation	203,719	223,584
Fair value of plan assets	201,058	209,916
Net defined benefit liability	2,661	13,668

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

January 1–December 31 In CHF thousand	2022	2021
Opening defined benefit obligation	223,584	214,375
Service costs	8,979	7,927
Plan participants contributions	8,347	7,302
Interest expense	662	396
Remeasurement (gains)/losses	-32,136	-951
Benefits paid through pension assets	-5,717	-5,465
Closing defined benefit obligation	203,719	223,584

January 1–December 31 In CHF thousand	2022	2021
Opening fair value of plan assets	209,916	188,914
Interest income	646	361
Return on plan assets (excl. amounts in net interest)	-20,401	11,582
Plan participants contributions	8,347	7,302
Employer contributions	8,347	7,302
Benefits received/(paid) through pension assets net	-5,717	-5,465
Administration expense	-80	-80
Closing fair value of plan assets	201,058	209,916

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

As of December 31 In CHF thousand	2022	2021
Defined benefit obligation for active employees	166,329	178,501
Defined benefit obligation for pensioners	37,390	45,083
Total defined benefit obligation	203,719	223,584

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2022	2021
Current service costs	8,979	7,927
Interest expense on defined benefit obligation	662	396
Interest income on plan assets	-646	-361
Administration expense	80	80
Total defined benefit cost/(income) recognized in income statement	9,075	8,042
Thereof:		
Employee benefit expenses	9,059	8,007
Finance expenses	16	35
Actuarial (gain)/loss arising from financial assumptions	-37,186	-2,892
Actuarial (gain)/loss arising from demographic assumptions	0	-4,445
Actuarial (gain)/loss arising from experience adjustment	5,050	6,386
Return on plan assets (excl. amounts included in net interest)	20,401	-11,582
Total defined benefit cost/(income) recognized in OCI	-11,735	-12,533

The major asset categories are as follows:

As of December 31 In CHF thousand	2022	2021
Equity instruments (quoted market prices)	58,430	59,113
Debt instruments (quoted market prices)	53,987	67,993
Real estate (quoted market prices)	56,768	40,940
Alternative investments (quoted market prices) and others	20,700	26,456
Cash	11,173	15,414
Total	201,058	209,916

The significant actuarial assumptions were as follows:

As of December 31	2022	2021
Discount rate	2.25%	0.30%
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	2022	2021
Retiring at the end of the reporting period:		
Male	22.70	22.57
Female	24.48	24.37
Retiring 20 years after the end of the reporting period:		
Male	24.97	24.86
Female	26.49	26.40

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 2022		Impact on defined benefit obligation 2021	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/- 0.25%)	-6,281	6,636	-6,917	6,457
Salary growth rate (+/- 0.25%)	802	-785	992	-592
Life expectancy at age 65 (+/- 1 year)	2,408	-2,454	2,936	-3,130

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, 2023, amount to CHF 9.0 million.

The weighted average duration of the defined benefit obligation is 12.3 years (prior year: 15.0 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. Since fiscal year 2020, 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 expense is recognized within "Finance costs." Other expenses related to defined benefit plans are recognized within "Employee benefit expenses."

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

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

4.4 Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2022	2021
Contribution to Swiss pension plan	8,347	7,302

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

Key management personnel includes members of the Group Executive Committee (GEC) of VAT Group AG. The GEC was enhanced by one member effective August 4, 2022. The compensation paid or payable to key management personnel for employee services is shown below:

January 1–December 31 In CHF thousand	2022	2021
Short-term employee benefits	2,439	2,686
Post-employment benefits	404	402
Share-based payments	1,614	1,299
Total	4,457	4,387

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

January 1–December 31 In CHF thousand	2022	2021
Other payables due to Swiss autonomous employee benefit plan	1,427	106
Accrued expenses and deferred income due to governing bodies	212	185
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	2,661	13,668

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	2022	2021
Interest income	441	146
Other finance income	1,793	93
Finance income	2,233	239
Interest expenses	-3,576	-3,517
Net foreign exchange losses on financing activities	-365	-1,297
Other finance expenses	-1,288	-2,552
Finance costs	-5,229	-7,366
Total finance result	-2,996	-7,127

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	
		2022	2021	2022	2021
Derivatives held for hedging (USD)	Level 2 ¹	226,492	164,431	8,617	1,644
Derivatives held for hedging (JPY)	Level 2 ¹	30,424	64,954	1,786	2,712
Derivatives held for hedging (KRW)	Level 2 ¹	10,264	35,735	362	222
Derivative assets		267,179	265,120	10,765	4,578
Equity shares	Level 1²	0	0	36	33
Thereof:					
Current assets		267,179	265,120	10,801	4,610
Derivatives held for hedging (USD)	Level 2 ¹	50,521	66,279	-591	-930
Derivatives held for hedging (JPY)	Level 2 ¹	34,261	0	-1,047	0
Derivatives held for hedging (KRW)	Level 2 ¹	25,393	1,263	-1,626	-1
Derivative liabilities		110,175	67,542	-3,265	-932
Contingent considerations⁴	Level 3³	2,700	4,488	-2,700	-4,488
Thereof:					
Current liabilities		111,675	69,642	-4,765	-3,032
Non-current liabilities		1,200	2,388	-1,200	-2,388

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 2022 and 2021. 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 1.8 million via finance income in 2022. 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, 2022 and December 31, 2021, 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, 2022. The hedging reserves included net unrealized gains of CHF 4.7 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 2.4 million). Net losses of CHF 0.5 million (prior year: net gains of CHF 0.8 million) were reclassified to earnings in 2022. 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, 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.

As of December 31, 2021 In CHF thousand	Currency	Nominal interest rate ¹	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	SARON + 0.95%	2023	0
Fixed-rate bond	CHF	1.50%	2023	199,716
Lease liability				7,226
Total loans and borrowings				206,942
Thereof:				
Current				2,105
Non-current				204,837

¹ Margin applicable at year end.

In 2022 VAT Group AG has entered a term and multicurrency revolving credit facilities agreement of CHF 450.0 million. The agreement contains a multicurrency revolving loan facility and a term loan facility. The agreement is subject to the financial covenant "total net debt/EBITDA" ratio, with which the Group complied with for the financial year 2022.

The revolving loan facility of CHF 250.0 million has a term of five years and includes an uncommitted extension option of two times one year. The facility replaces the previously maintained revolving credit facility which was voluntarily cancelled in 2022 before its maturity.

The term loan facility of CHF 200.0 million has a term of two and a half years and includes an uncommitted extension option of one time one year. The term loan facility's purpose is to refinance the outstanding bond which matures in 2023.

The nominal interest rate of the revolving loan facility and term loan facility consists of the interest reference rate (SARON for CHF loans) and the lenders margin which is semi-annually determined based on the achieved leverage ratio of VAT Group.

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). The bond carries a coupon rate of 1.5% and has a term of five years with a final maturity on May 23, 2023. On December 31, 2022, the market value of the bond was CHF 199.4 million (prior year: CHF 203.6 million).

The carrying amount as of December 31, 2022 includes financing costs of CHF 0.1 million (prior year: CHF 0.3 million), which will be recognized in profit and loss over the remaining duration of the bond.

Reconciliation of movements of liabilities to cash flows from financing activities

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

¹ Includes changes of lease liabilities and amortization of finance costs

As of December 31 In CHF thousand	2021	Cash-effective adjustment		Non-cash-effective adjustment		2020
		Addition	Repayment	Addition ¹	Foreign exchange	
Loans and borrowings	206,942	110,000	-172,433	3,020	16	266,338
Total liabilities from financing activities	206,942	110,000	-172,433	3,020	16	266,338

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, 2022 and 2021, 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, 2022 and 2021.

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 own shares held as treasury shares at a weighted average purchase price of CHF 294.02 pursuant to the share-based payment plans as shown in note 4.2. As of December 31, 2022, the Group held 18,082 own shares (prior year: 14,383).

Dividends

The Board of Directors proposed the following dividend for the financial year 2021, CHF 0.25 per share from the reserves from capital contributions and CHF 5.25 per share from retained earnings (for the financial year 2020: CHF 2.25 from the reserves from capital contributions and CHF 2.25 from retained earnings). The dividends for the financial years 2021 and 2020 were approved and paid out in May 2022 and May 2021 respectively.

In CHF thousand	2022	2021
Dividends paid	164,957	134,982

Earnings per share

In CHF thousand	2022	2021
Basic earnings per share (in CHF)	10.23	7.25
Net profit	306,779	217,440
Weighted average number of shares outstanding (in thousands of units)	29,986	29,991

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	2022	2021
Diluted earnings per share (in CHF)	10.22	7.24
Net profit	306,779	217,440
Weighted average number of shares outstanding (in thousands of units)	30,010	30,021

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	2022	2021
Financial assets measured at amortized cost		
Cash and cash equivalents	174,365	127,152
Trade and other receivables	153,089	118,117
Accrued income	43	43
Long-term loans	876	861
Total financial assets recorded at amortized cost	328,373	246,173
Financial assets measured at fair value		
Equity shares	36	33
Forward exchange contracts	10,765	4,578
Total financial assets measured at fair value	10,801	4,610
Financial liabilities recorded at amortized cost		
Trade and other payables	86,358	50,685
Accrued expenses	25,424	18,325
Other non-current liabilities	94	142
Loans and borrowings	199,929	199,716
Lease liability	11,252	7,226
Total financial liabilities recorded at amortized cost	323,058	276,093
Financial liabilities measured at fair value		
Forward exchange contracts	3,265	932
Other payables	1,500	2,100
Other non-current liabilities	1,200	2,388
Total financial liabilities measured at fair value	5,965	5,420

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 and KRW. To manage its foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The risk is monitored periodically. The foreign exchange exposure of these investments is actually not material for the Group and is not hedged.

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

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

As of December 31, 2021 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	280,078	200,174	79,904
EUR/CHF	32,240	20,934	11,306
JPY/CHF	65,453	27,758	37,695
KRW/CHF	8,534	1,537	6,997
CNY/CHF	14,576	2,411	12,165
MYR/CHF	2,043	12,078	-10,035

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, 2022, the cumulated impact on net financial assets/liabilities would be as follows:

As of December 31 In CHF thousand	2022	2021
USD/CHF	6,433	3,351
EUR/CHF	364	474
JPY/CHF	1,534	1,581
KRW/CHF	297	293
CNY/CHF	753	510
MYR/CHF	335	421

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 prior year, a reasonably possible change of 50 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss by a material amount. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Credit risk

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

Credit risk is managed on Group level, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of its new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial assets and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated counterparties with a minimum rating of "A" are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. No collateral is required.

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

With respect to trade receivables, the Group has two main customers representing 37% (prior year: 40%) 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, 2022 In CHF thousand	Carrying amount	Contractual cash flows					
		Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	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			

At Dec 31, 2021 In CHF thousand	Carrying amount	Contractual cash flows					
		Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	52,785	-52,785	-51,847	-938			
Accrued expenses	18,325	-18,325	-11,416	-6,909			
Other non-current liabilities	2,530	-2,530			-253	-2,277	
Loans and borrowings	199,716	-204,192	-750	-2,250	-201,192		
Lease liabilities	7,226	-8,645	-714	-1,738	-2,759	-1,796	-1,638
Non-derivative financial liabilities	280,581	-286,476	-64,727	-11,835	-204,203	-4,073	-1,638
Forward exchange contracts used for hedging:							
- Outflow	932	-68,474	-30,953	-37,520			
- Inflow		67,542	30,310	37,233			
Derivative financial liabilities	932	-932	-644	-288			

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	2022	2021
Total equity	780,320	634,370
Total balance sheet	1,274,786	1,064,867
Equity ratio	61.21%	59.57%

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	2022	2021
Current tax:		
Current tax on earnings for the period	52,883	38,009
Adjustments in respect of prior periods	65	453
Total current tax expense	52,949	38,462
Change in deferred tax	-3,278	1,833
Total deferred tax expense	-3,278	1,833
Income tax expense	49,671	40,295

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	2022	2021
Earnings before income taxes	356,450	257,735
Tax at the average group tax rate of 15.85% (previous year: 16.12%)¹	56,502	41,545
Effect of tax rates in foreign jurisdictions ¹	-43	56
Effect in change of tax rate	-4,868	-3,815
Expenses not deductible for tax purposes	4,242	4,925
Income not subject to tax	-3,763	-4,594
Effect of current-year losses for which no deferred tax asset is recognized	0	20
Utilization of tax losses previously not recognized	0	-355
Withholding taxes included in the tax expenses	1,003	1,002
Other tax effects	-3,401	1,511
Total tax expenses recorded in consolidated income statement	49,671	40,295
Effective tax rate	13.9%	15.6%

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.

The Group's effective tax rate decreased to 13.9% in 2022 (2021: 15.6%). This is mainly caused by higher profits from Swiss entities, where statutory tax rates are lower.

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

January 1–December 31 In CHF thousand	2022			2021		
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	11,735	-1,702	10,033	12,533	-1,817	10,716
Changes in the fair value of hedging reserves	2,583	-375	2,208	-1,948	282	-1,665

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

January 1–December 31 In CHF thousand	2022			2021		
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	1,873	64	1,936	1,723	980	2,703

Deferred tax balances

The deferred tax assets and liabilities were as follows:

As of December 31 In CHF thousand	2022			2021		
	Deferred tax assets	Deferred tax liabilities	Net closing balance	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	341	-619	-278	507	-742	-234
Inventories	4,744	-5,329	-584	3,335	-4,372	-1,037
Property, plant and equipment	15	-5,872	-5,857	106	-8,132	-8,026
Investment properties		-38	-38		-42	-42
Intangible assets	32	-36,217	-36,185	45	-38,241	-38,196
Other current liabilities	2,674	-221	2,453	2,666	-3	2,663
Provisions		-2,612	-2,612	1	-1,940	-1,938
Other non-current liabilities	263		263	249		249
Defined benefit obligations	406		406	2,019		2,019
Tax losses carried forward			0	1,051		1,051
Non-refundable withholding taxes on future distributions		-567	-567		-982	-982
Total deferred tax assets/(liabilities) before set-off	8,475	-51,474	-42,998	9,979	-54,454	-44,474
Set-off of balances within the same tax jurisdiction	-2,115	2,115	0	-4,633	4,633	0
Net deferred tax assets/(liabilities)	6,360	-49,358	-42,998	5,347	-49,821	-44,474

The movement in deferred tax balances is as follows:

In CHF thousand	2022	2021
Net tax liabilities as of January 1	-44,474	-39,827
Acquired through business combination	0	-937
Recognized in income statement	3,278	-1,833
Recognized in OCI	-1,702	-1,817
Exchange differences	-100	-60
Net tax liabilities as of December 31	-42,998	-44,474

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 0.6 million (prior year: CHF 1.0 million).

Tax losses

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

As of December 31 In CHF thousand	2022	2021
Opening balance	7,647	8,362
Acquired through business combination	0	770
Lost due to cross-border merger	-1,182	0
Tax losses for which no deferred tax assets were recognized	0	79
Adjustment prior year	0	625
Adjustment due to tax audit	-6,299	0
Tax loss carry-forward not recognized used in the current period	0	-1,782
Exchange differences	-165	-407
Closing balance	0	7,647

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

As of December 31 In CHF thousand	2022	2021
Expiry in 0–3 years	0	0
Expiry after 3 years	0	7,647
Total	0	7,647

Further, there are temporary differences with respect to investments in subsidiaries of CHF 4.6 million (prior year: CHF 2.8 million), for which no deferred tax liabilities were recognized. The Group is able to control the timing of the reversal and it is not intended to reverse the temporary difference in the foreseeable future.

Global minimum tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement to introduce a global minimum tax rate of 15%. The Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework, followed by detailed guidance, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. Once changes to the tax laws in any jurisdiction in which VAT operates are enacted or substantively enacted, VAT may be subject to the top-up tax. At the date when the financial statements were authorized for issue, none of the jurisdictions in which VAT operates had enacted or substantively enacted the tax legislation related to the top-up tax. Management is closely monitoring the progress of the legislative process in each jurisdiction VAT operates in. At December 31, 2022, VAT did not have sufficient information to determine the potential quantitative impact.

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 approximation of the spot rates. All resulting exchange differences are recognized in other comprehensive income.

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

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

	Average exchange rates in CHF		Closing exchange rates in CHF	
	Jan 1 – Dec 31, 2022	Jan 1 – Dec 31, 2021	Dec 31, 2022	Dec 31, 2021
1 Euro	1.01	1.08	0.99	1.04
100 Japanese Yen	0.73	0.83	0.71	0.79
100 Korean Won	0.07	0.08	0.07	0.08
1 Malaysian Ringgit	0.22	0.22	0.21	0.22
1 US Dollar	0.95	0.91	0.92	0.91

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, 2022, assets in the amount of CHF 0.3 million were pledged (prior year: assets in the amount of CHF 1.1 million were pledged).

6.4 List of subsidiaries

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

Country	Company	Function	Currency	Capital in thousands	Share 2022	Share 2021
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%
Luxembourg ¹	VAT Management S.à.r.l., Luxembourg	H	CHF	30	0%	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	1,000	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 Vakuumentile 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	1	100%	100%

¹As part of the simplification of the legal structure, the subsidiary VAT Management S.à.r.l was merged into VAT Group AG, effective January 1, 2022.
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 1, 2023, 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, 2022, and earlier application is permitted; however, the Group has not early applied the new or amended standards in preparing these consolidated financial statements.

Improvements and other amendments to IFRS

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

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VAT Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2022 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 77–119) give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss 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 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 2022 amounted to CHF 1,145m (2021: CHF 901m) 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 significant 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 standalone financial statements of the company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information 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 and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and 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, ISAs 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 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 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, March 1, 2023

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2022

Income statement

January 1–December 31 In CHF thousand	Note	2022	2021
Dividend income		170,000	120,000
Interest income		1,001	1,189
Other financial income	3.1	7	1,217
Total income		171,008	122,406
Interest expenses		-3,302	-3,374
Other financial expenses		-1,317	-2,369
Personnel expenses		-1,209	-958
Other operating expenses	3.2	-2,216	-1,287
Total expenses		-8,045	-7,988
Direct tax		-62	-262
Gain for the period		162,901	114,156

Balance sheet

As of December 31 In CHF thousand	Note	2022	2021
Assets			
Cash and cash equivalents		1,432	5,520
Other receivables due from third parties		73	40
Prepayments and accrued income		533	277
Current assets		2,038	5,837
Financial assets	3.4	1,004	71
Loans granted to companies in which the entity holds an investment		73,330	71,840
Investments in subsidiaries	3.3	868,724	502,850
Non-current assets		943,058	574,762
Total assets		945,095	580,599
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	200,000	0
Other payables		1,609	27
Short-term provisions		67	237
Accrued expenses and deferred income	3.5	2,942	2,839
Current liabilities		204,618	3,103
Long-term interest-bearing liabilities due to third parties	3.4	0	200,000
Non-current liabilities		0	200,000
Total liabilities		204,618	203,103
Equity			
	3.6		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		344	7,842
– Other capital reserves		3,682	3,682
Accumulated gains:			
– Profit/loss brought forward	3.7	575,867	253,317
– Gain for the period		162,901	114,156
Treasury shares	3.8	–5,317	–4,501
Total equity attributable to owners of the Company		740,478	377,496
Total liabilities and equity		945,095	580,599

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 2022 results from net foreign exchange gains (prior year: other financial income consists mostly of gains from the disposal of treasury shares).

3.2 Other operating expenses

As of December 31 In CHF thousand	2022	2021
Insurance, duties and other charges	195	159
Rental expenses	5	5
Travel expenses	88	35
Consulting and audit fees	920	331
Administration expenses	1,009	757
Total other operating expenses	2,216	1,287

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	
			2022	2021	2022	2021
Switzerland	VAT Holding AG	CHF	300		100%	
Luxembourg	VAT Management S.à.r.l.	CHF		30		100%

As part of the simplification of the legal structure, the subsidiary VAT Management S.à.r.l. was merged into VAT Group AG, effective January 1, 2022.

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	2022	2021
Short-term interest-bearing liabilities due to third parties	200,000	0
Total short-term interest-bearing liabilities	200,000	0
Long-term interest-bearing liabilities due to third parties	0	200,000
Total long-term interest-bearing liabilities	0	200,000

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

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

As of December 31, 2021 In CHF thousand	Currency	Nominal interest rate ¹	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	SARON + 0.95%	2023	0
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at Dec 31, 2021				200,000
Thereof:				
Current				0
Non-current				200,000

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, 2022, CHF 0.4 million (prior year: CHF 0.0 million) are recognized within "Prepayments and accrued income." CHF 1.0 million are disclosed as financial assets. Financing expenses capitalized in connection with the revolving credit facility in prior years have been recognized in profit and loss in 2021.

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). In connection with the bond, financing expenses in the amount of CHF 0.1 million (prior year: 0.2 million) are recognized within "Prepayments and accrued income." CHF 0.0 million (prior year: 0.1 million) are disclosed as "Financial assets." On December 31, 2022, the market value of the bond was CHF 199.4 million.

3.5 Accrued expenses and deferred income

As of December 31 In CHF thousand	2022	2021
Accrued expenses and deferred income due to third parties	2,461	2,434
Accrued expenses and deferred income due to governing bodies	482	405
Total accrued expenses	2,942	2,839

3.6 Equity

As of December 31, 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 reserves from capital contributions consist of the premium from contribution in kind less issue stamp duty. From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital.

On March 29, 2016, a conditional capital increase of up to 1,500,000 shares was included in the articles of association of VAT Group AG which was not drawn as of December 31, 2022.

3.7 Accumulated gains - Gain on merger

VAT Group AG has taken over VAT Management S.à.r.l., Luxembourg, in the sense of Art. 163a PILA. As a result of this absorption merger, VAT Management S.à.r.l., Luxembourg was dissolved and all assets and liabilities were transferred to VAT Group AG via universal succession.

The acquisition of the assets and liabilities of VAT Management S.à.r.l. took place according to the merger agreement dated March 17, 2022 and the balance sheet as of December 31, 2021. Assets of CHF 868.8 million and liabilities of CHF 0.1 million, i.e. a surplus of assets of CHF 868.7 million, are transferred to the acquiring company. Since the absorbing company holds all shares of the absorbed company, neither a capital increase nor an allocation of shares took place.

As of December 31 In CHF thousand	2022	2021
Profit/loss brought forward	210,014	253,317
Gain on merger:		
Assets of the absorbed company	868,756	0
Liabilities of the absorbed company	-55	0
Carrying amount of the investment in the absorbed company	-502,849	0
Total profit/loss brought forward	575,867	253,317

3.8 Treasury shares

	Jan 1 – Dec 31, 2022		Jan 1 – Dec 31, 2021	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	14,383	CHF 312.97	8,327	CHF 49.75
Purchase of treasury shares	16,186	CHF 275.49	11,771	CHF 369.08
Share-based payments	-12,487	CHF 291.82	-5,715	CHF 256.66
Treasury shares as at December 31	18,082	CHF 294.02	14,383	CHF 312.97

On December 31, 2022, VAT Group AG held 18,082 treasury shares with an acquisition price of CHF 5.3 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 1.0 million (previous year: CHF 1.1 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, 2022	Voting rights as of December 31, 2021
Rudolf Maag	3,000,570	3,000,570
BlackRock Inc.	1,715,219	1,543,086
Capital Group Companies Inc.	1,505,281	1,505,281

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	2022	2021
Board of Directors		
Martin Komischke, Chairman	2,156	1,871
Hermann Gerlinger	1,422	1,242
Heinz Kundert (until May 17, 2022)	n/a	30,350
Urs Leinhäuser	4,717	4,592
Daniel Lippuner	887	787
Karl Schlegel	38,429	38,306
Libo Zhang	570	532
Maria Heriz (since May 17, 2022)	0	n/a
Group Executive Committee		
Michael Allison, CEO	5,181	468
Fabian Chiozza, CFO	0	0
Thomas Berden, COO	0	0
Urs Gantner, EVP Semiconductor Solutions Group (since August 4, 2022)	5,198	n/a

As of December 31, 2022 and 2021, 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. VAT Group granted 958 shares with a fair value of CHF 268 per share for the period 2021/22 (prior period: 950 shares, amounting to CHF 0.3 million). As of December 31, 2022, VAT Group AG allocated 1,068 shares (prior year: 485 shares) amounting to CHF 0.3 million (prior year: CHF 0.2 million) to its Board of Directors, which will be transferred in financial year 2023.

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	2022
Balance brought forward	575,867
Gain for the period	162,901
Total accumulated gains	738,768

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

In CHF thousand	2022
Dividend payment	-187,500
Total accumulated gains to be carried forward	551,268

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 own shares held by VAT Group AG changes. The Board of Directors may therefore adapt the total amount of the proposed dividend to the number of shares with dividend rights at the General Meeting.

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VAT Group AG (the Company), which comprise the balance sheet as at December 31, 2022, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 124–131) 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 standalone financial statements of the Company, the remuneration 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
Licensed Audit Expert
Auditor in Charge

Simon Hörler
Licensed Audit Expert

St. Gallen, March 1, 2023