Financial Statements

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

Consolidated financial statements for the financial year from January 1 to December 31, 2023

Consolidated income statement

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

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

Consolidated statement of comprehensive income

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

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 90 ff.

Consolidated balance sheet

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

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

1 Includes remeasurements of DBO and other reserves

The above consolidated balance sheet should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 90 ff.

Consolidated statement of changes in equity

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

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

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

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 90 ff.

Consolidated statement of cash flows

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

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 90 ff.

Notes to the consolidated financial statements

1. General information and accounting policies

General information

VAT Group AG ("the Company") is a limited liability company incorporated in accordance with Swiss law. The registered office of the Company is Seelistrasse 1, CH-9469 Haag, Switzerland.

The consolidated financial statements as at and for the year ended December 31, 2023, comprise VAT Group AG and all companies under its control (together referred to as "VAT" or "Group").

These consolidated financial statements were authorized for issue by the Group's Board of Directors on March 4, 2024.

Basis of accounting

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

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. A number of standards have been modified on miscellaneous points with effect from January 1, 2023. None of these amendments had a material effect on the Group's financial statements.

Use of judgments and estimates

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

a) intangible assets and goodwill, see note 3.4,
b) property, plant and equipment, see note 3.3,
c) income taxes, see note 6.1,
d) post-employment benefits, see note 4.3,
e) provisions, see note 3.7,
f) contingent considerations, see note 5.2.

2. Operating performance

2.1 Segment information

Background

The segment information is presented as provided to the Board of Directors and the Group Executive Committee in their role as Chief Operating Decision Maker (CODM).

Basis of segmentation

The Group reports in two segments: Valves and the Global Service segment:
- **Valves:** The Valves segment is a global developer, manufacturer and supplier of vacuum valves for the semiconductor, displays, photovoltaics and vacuum coating industries as well as for the industrial and research sector.
- **Global Service:** Global Service provides local expert support to customers and offers genuine spare parts, repairs and upgrades.

Corporate and eliminations

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

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

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

Information about reportable segments

January 1–December 31, 2023 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	712,449	172,867	885,316		885,316
Inter-segment sales	70,292		70,292	–70,292	0
Segment net sales	**782,741**	**172,867**	**955,608**	**–70,292**	**885,316**
Segment EBITDA	**239,314**	**69,055**	**308,370**	**–37,459**	**270,911**

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

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

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

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

Reconciliation of segment results to income statement and balance sheet

Income statement

January 1–December 31 In CHF thousand	2023	2022
Segment EBITDA	308,370	451,149
Corporate and eliminations	–37,459	–50,735
Depreciation, amortization and impairment	–42,327	–40,969
Finance costs net	–21,499	–2,996
Earnings before income taxes	**207,085**	**356,450**

Assets

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

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

Liabilities

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

1 Only trade payables are allocated to segments.

Geographic information

Net sales

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

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

Non-current assets

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

Non-current assets by location include property, plant and equipment, investment properties, intangible assets and goodwill. No other individual country represented more than 10% of non-current assets in 2023 and 2022.

Major customers

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

2.2 Revenue

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

Disaggregation of order intake and net sales

January 1 – December 31, 2023 In CHF thousand	Valves	Global Service	Total
Order intake	554,387	137,495	691,881
Net sales by region			
Asia	453,558	88,852	542,411
Americas	131,164	63,239	194,403
EMEA	127,726	20,776	148,502
Net sales	**712,449**	**172,867**	**885,316**

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

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

2.3 Other income

January 1–December 31 In CHF thousand	2023	2022
Net foreign exchange gains on operating and investing activities	11,873	0
Work performed by the entity and capitalized	8,699	7,184
Rental income from investment properties	72	74
Change in provision for impairment on trade receivables	2	8
Gains from sale of fixed assets	120	17
Other income	3,877	1,679
Total other income	**24,643**	**8,962**

2.4 Other expenses

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

1 Includes only third-party expenses

3. Operating assets and liabilities

3.1 Trade and other receivables

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

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

3.2 Inventories

As of December 31 In CHF thousand	2023	2022
Raw materials and consumables	92,798	105,548
Work in progress	11,630	17,186
Semi-finished goods	46,077	59,076
Finished goods	37,950	47,438
Total inventories	**188,455**	**229,247**

In the financial year 2023, inventories of CHF 3.1 million (previous year: CHF 0.8 million) were scrapped and recognized as expense.

Accounting policies
Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and standard cost method.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.3 Property, plant and equipment

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

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

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

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

Commitments for future capital expenditures

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

Accounting policies

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

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

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

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

Land is not depreciated, except long-leased land. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

Leases – as a lessee

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

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

During the period ended December 31, 2023, the Group recognized CHF 3.3 million (prior year: CHF 3.2 million) of depreciation charges and CHF 0.2 million (prior year: CHF 0.2 million) of interest costs from these leases.

In 2023, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.4 million (prior year: CHF 0.3 million). Total cash outflows for leases amount to CHF 3.1 million (prior year: CHF 3.2 million).

Accounting policies

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

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

3.4 Intangible assets and goodwill

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

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

Commitments for future capital expenditures

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

Research and development costs

In 2023, research and development expenses amounting to CHF 54.2 million (previous year: CHF 50.7 million) were included in the items “Raw materials and consumables used”, “Personnel expenses”, “Other expenses” and “Depreciation, amortization and impairment”. For 110 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 8.7 million (previous year: CHF 7.1 million) were capitalized.

Impairment testing for goodwill and intangible assets with indefinite useful lives

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

As of December 31 In CHF thousand			2023			2022
	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 2024 to 2026. The discount rates used are based on the weighted average cost of capital (WACC) derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the Capital Asset Pricing Model (CAPM). The annual impairment tests carried out supported the carrying amounts and, therefore, no need for impairment was identified.

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

As of December 31, 2023	Valves	Global Service
Discount rate (WACC) before tax	14.0%	14.0%
Terminal value growth rate	1.5%	1.5%

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

A reasonably possible change in any of the above key assumption would not cause the recoverable amount to be less than the carrying amount.

Accounting policies

Goodwill and intangible assets

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

Intangible assets, including technology and customer relationships that are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives, such as brands and trademarks, are measured at cost less accumulated impairment losses. The Group considers that it is appropriate that the acquired brands and trademark have an indefinite useful life as VAT-branded products are globally known and have a strong market position. They have a history of strong revenue and cash flow performance, and VAT has the intent and ability to support the brand with spending to maintain its value for the foreseeable future.

Acquired computer software licenses are capitalized only if criteria of IAS 38 are met. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred. Amortization is calculated using the straight-line method over the estimated useful lives and is generally recognized in the consolidated income statement.

The estimated useful lives are as follows:

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

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

Impairment of non-financial assets

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

Research and development costs

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

Cloud computing arrangements

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

3.5 Trade and other payables

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

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

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

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

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2023	2022
Accrued expenses – personnel related	11,386	16,921
Accrued expenses – other	25,398	25,424
Deferred income	0	14
Total accrued expenses and deferred income	**36,783**	**42,360**

3.7 Provisions

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

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

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

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

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

4. Employees

4.1 Employee FTE and personnel expenses

January 1–December 31 In CHF thousand	2023	2022
Wages and salaries	174,547	189,743
Share-based payment	2,297	2,177
Social security costs	18,975	17,708
Pension costs – defined contribution plans	1,016	1,318
Pension costs – defined benefit plans	7,561	9,052
Other personnel expenses	9,013	10,263
Total personnel expenses	**213,409**	**230,261**
Number of employees (FTE)	2,666	2,991

4.2 Share-based payments

At December 31, 2023, the Group had the following share-based payment arrangements.

Board member share compensation (equity-settled share-based payment)
Members of the Board receive 30% of the total compensation in restricted shares. The restricted shares are subject to a three-year blocking period during which they cannot be transferred, sold, pledged or otherwise disposed of. The members of the Board received 1,147 shares (prior period: 958 shares) with a fair value of CHF 330.10 per share for the period 2022/23. For the period 2023/24, the Group allocated 735 shares (prior period: 1,068 shares).

Long-term incentive plan – LTIP (equity-settled share-based payment)
Long-term incentive plans (LTIP) are in place for the Group's management. So-called Performance Share Units (PSUs) were allocated to the management. One PSU represents a conditional right to receive a certain number of underlying shares free of charge pursuant to the vesting period of three years and performance conditions. The number of shares allocated to each PSU ranges between zero and two shares. The allocation is dependent upon achievement of the performance targets of VAT compared to a predefined peer group on the equal weighted metrics relative sales growth, relative Total Shareholder Return (TSR) and relative Return on Invested Capital (ROIC). This LTIP is specifically designed for rewarding the performance of VAT relative to a selected peer group of companies. The inputs used in the measurement of the fair values at grant date were as follows:

	Share price at grant date	TSR fair value at grant date	Sales growth fair value at grant date	ROIC fair value at grant date	Volatility	Risk-free rate	Dividend yield
Long-term incentive plan 2021	CHF 220.80	CHF 157.91	CHF 169.80	CHF 169.80	34.5%	0.9%	2.5%
Long-term incentive plan 2022	CHF 454.40	CHF 322.79	CHF 346.34	CHF 346.34	35.2%	0.0%	1.7%
Long-term incentive plan 2023	CHF 252.80	CHF 176.39	CHF 189.26	CHF 189.26	38.8%	1.6%	2.9%

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

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

4.3 Post-employment benefits

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

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

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

Balance sheet

As of December 31 In CHF thousand	2023	2022
France	53	76
Switzerland	16,883	2,661
Net defined benefit liability in the balance sheet	**16,936**	**2,737**

Income statement

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

Swiss pension plan

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

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

Plan participants, their spouse and children are insured against the financial consequences of old age, disability and death. Their benefits are defined in pension plan rules compliant with the BVG, which is specifying the minimum benefits that are to be provided. Retirement benefits are based on the accumulated retirement capital which can either be drawn as a lifelong annuity or as a lump sum payment. The annuity is calculated by multiplying the retirement capital with the currently applicable conversion rate. The accumulated retirement capital is made up of the yearly contributions towards the old-age risk by both employer and employee and the interest thereon until retirement. Contributions towards the old-age risk are based on the rules defined by the Board of Trustees of the semi-autonomous foundation. Minimum contributions and interest are defined by the BVG and the Swiss Parliament. In 2023, the minimum interest was 1.00% (prior year: 1.00%).

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

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

The foundation amended their pension fund regulations due to the old-age and survivor's insurance reform 21 (OASI 21) and streamlined the retirement and risk benefits for all salary levels. This resulted in a plan amendment, which was recognized as part of the service costs in the financial year 2023.

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

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

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

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

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

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

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

The defined benefit cost for the period is as follows:

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

The major asset categories are as follows:

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

The significant actuarial assumptions were as follows:

As of December 31	2023	2022
Discount rate	1.52%	2.25%
Salary growth rate	1.25%	1.25%
Pension growth rate	0.00%	0.00%

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

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

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

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

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

Expected contributions to defined benefit plans for the year ending December 31, 2024, amount to CHF 11.1 million.

The weighted average duration of the defined benefit obligation is 13.3 years (prior year: 12.3 years).

Accounting policies
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Concerning the Swiss pension plans, the formal regulations include the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein referring to funding and measures to be taken to eliminate pension fund deficits. Risk-sharing features are considered in the formal rules when determining financial assumptions, which will limit the employer's share of the cost of future benefits and also include employees in the obligations to pay possible additional contributions in case of an underfunding.

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

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

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

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

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

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

4.4 Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2023	2022
Contribution to Swiss pension plan	–9,636	–8,347
Administration charge to Swiss pension plan	196	0

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

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

January 1–December 31 In CHF thousand	2023	2022
Short-term employee benefits	–3,907	–3,280
Post-employment benefits	–488	–404
Share-based payments	–1,504	–1,907
Total	**–5,899**	**–5,590**

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

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

Shares held by the Board of Directors and the Group Executive Committee are disclosed in note 4.4 of the statutory financial statements of VAT Group AG.

5. Capital and financial risk management

5.1 Finance income and costs

January 1–December 31 In CHF thousand	2023	2022
Interest income	1,309	441
Other finance income	1,302	1,793
Finance income	**2,611**	**2,233**
Interest expenses	–5,308	–3,576
Net foreign exchange losses on financing activities	–17,537	–365
Other finance expenses	–1,265	–1,288
Finance costs	**–24,110**	**–5,229**
Total finance result	**–21,499**	**–2,996**

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

5.2 Fair value estimation

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

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

1 The fair values of the derivatives held by VAT Group are based on market/broker quotes. Similar contracts are traded in an active market and quotes reflect the actual transactions in similar instruments. If all significant inputs required for the valuation of an instrument are observable, the instrument is included in Level 2.
2 The fair value of equity shares are based on quoted market prices in active markets.
3 Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies particularly to contingent considerations in business combinations.
4 Contingent considerations are disclosed in trade and other payables and other non-current liabilities.

The Group recorded foreign exchange contracts (derivative financial assets/liabilities) at fair value, which are Level 2 financial instruments. There were no transfers in either direction between Level 1 and Level 2 in 2023 and 2022. Contingent considerations are Level 3 financial instruments and linked to the fulfillment of certain parameters related to earn-out clauses. The calculation of the contingent considerations is based on current achievements and the assumption that the target revenue will be reached. The contingent considerations were reduced by CHF 1.3 million via finance income in 2023. This reduction was caused by a change of expectation in the timing of the respective revenue.

Forward foreign exchange contracts

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

Hedge accounting

VAT Group uses cash flow hedges to reduce and manage the economic impact of its main currency risks. As of December 31, 2023 and December 31, 2022, the Group held currency forwards and non-deliverable forwards as hedging instruments. The forward contracts were denominated in the same currency as the highly probable future transactions; therefore the hedge ratio on all hedges conducted by VAT Group was 1:1 as of December 31, 2023. The hedging reserves included net unrealized gains of CHF 10.3 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 4.7 million). Net gains of CHF 23.1 million (prior year: net losses of CHF 0.5 million) were reclassified to earnings in 2023. The maturity of derivatives classified as a cash flow hedge was up to 12 months.

Accounting policies

Derivatives are initially recorded at fair value and subsequently adjusted for fair value changes. The measurement of derivatives in the Group's balance sheet is based on internal valuations or on the valuation of the respective financial institution. VAT applies hedge accounting in accordance with IFRS 9 to hedge balance sheet items and future cash flows, thus reducing income statement volatility. Changes in the value of instruments designated as fair value hedges are recorded together with the change in fair value of the underlying item directly in the income statement, net. The effective portion of instruments designated as cash flow hedges is recognized in other comprehensive income. The ineffective portion of such instruments is recorded in financial result, net. Changes in value resulting from cash flow hedges recognized in equity through the consolidated statement of comprehensive income are reclassified in the income statement in the period in which the cash flow from the hedged transaction is recognized in the income statement. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income is transferred to the income statement.

Fair value estimation

Financial instruments carried at fair value are analyzed by valuation method. The different levels have been defined as follows:
– quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
– observable prices for the asset or liability, either directly or indirectly (Level 2),
– inputs for the asset or liability are not based on observable market data (Level 3).

The carrying amounts of financial assets and liabilities not measured at fair value are a reasonable approximate of their fair values. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. The fair values are based on market/broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

5.3 Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2023 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.85%	2027	0
Term loan facility	CHF	SARON + 0.90%	2025	198,982
Lease liability				8,324
Total loans and borrowings				**207,306**
Thereof:				
Current				201,053
Non-current				6,253

1 Margin applicable at year end.

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

1 Margin applicable at year end.

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

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

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

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

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

Reconciliation of movements of liabilities to cash flows from financing activities

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

1 Includes changes of lease liabilities and amortization of finance costs

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

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

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

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

5.4 Equity

Share capital

As of December 31, 2023 and 2022, the total authorized and issued number of ordinary shares comprises 30,000,000 shares with a nominal value of CHF 0.10 each. A conditional capital increase of up to 1,500,000 shares, which is included in the articles of association of VAT Group AG, was not drawn as of December 31, 2023 and 2022.

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

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

Treasury shares

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

Dividends

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

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

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

Earnings per share

In CHF thousand	2023	2022
Basic earnings per share (in CHF)	**6.35**	**10.23**
Net profit	190,310	306,779
Weighted average number of shares outstanding (in thousands of units)	29,984	29,986

Diluted earnings per share is calculated by dividing net income attributable to owners of the Company by the weighted average number of shares adjusted for all potentially dilutive shares. Dilutive shares arise from the share-based payments as shown in note 4.2.

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

Accounting policies

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

5.5 Financial instruments

Categories of financial instruments

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

As of December 31 In CHF thousand	2023	2022
Financial assets measured at amortized cost		
Cash and cash equivalents	144,108	174,365
Trade and other receivables	99,570	153,089
Accrued income	73	43
Long-term loans	891	876
Total financial assets recorded at amortized cost	**244,643**	**328,373**
Financial assets measured at fair value		
Equity shares	37	36
Forward exchange contracts	18,052	10,765
Total financial assets measured at fair value	**18,089**	**10,801**
Financial liabilities recorded at amortized cost		
Trade and other payables	50,926	86,358
Accrued expenses	25,398	25,424
Other non-current liabilities	15	94
Loans and borrowings	198,982	199,929
Lease liability	8,324	11,252
Total financial liabilities recorded at amortized cost	**283,645**	**323,058**
Financial liabilities measured at fair value		
Forward exchange contracts	544	3,265
Other payables	800	1,500
Other non-current liabilities	600	1,200
Total financial liabilities measured at fair value	**1,944**	**5,965**

Accounting policies

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

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

A financial asset measured at amortized cost is a non-derivative financial asset if both of the following conditions are met and if it is not designated as FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The category financial assets measured at amortized cost comprises “Cash and cash equivalents”, “Trade and other receivables”, “Accrued income” and “Long-term loans” on the balance sheet.

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

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

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. The carrying amounts of financial assets and liabilities not measured at fair value are a reasonable approximate of their fair values.

5.6 Financial risk management

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

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

Market risk

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

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

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

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

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

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

The management's assessment for a reasonably possible change in the foreign exchange rates could be a 5% shift in the major currencies against the Swiss Franc with all the other variables held constant. In case of net financial assets/liabilities, as of December 31, 2023, the cumulated impact on net financial assets/liabilities would be as follows:

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

An increase in major currency rates would have a positive impact for USD, EUR, JPY, KRW and CNY and a negative impact for MYR (prior year: positive impact for USD, EUR, JPY, KRW and CNY / negative impact for MYR). A decrease would have an equal negative / positive (prior year: negative / positive) impact on profit or loss and equity.

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

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

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

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

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

With respect to trade receivables, the Group has two main customers representing 27% (prior year: 37%) of the Group's total revenues. This concentration of credit risk is considered low due to the strong market position of these two customers. Country risk is mitigated by the broad geographic spread of the Group's customer base.

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

Surplus cash held by the operating entities above the balance required for working capital management is transferred to Group treasury. Group treasury utilizes surplus cash for repayment of loans as per the above-mentioned forecasts.

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

At Dec 31, 2023 In CHF thousand		Contractual cash flows					
	Carrying amount	Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	51,726	–51,726	–48,928	–2,798			
Accrued expenses	25,398	–25,398	–19,794	–5,604			
Other non-current liabilities	615	–615			–15	–600	
Loans and borrowings	198,982	–201,315	–1,315	–200,000			
Lease liabilities	8,324	–8,966	–620	–1,583	–1,709	–1,960	–3,093
Non-derivative financial liabilities	**285,045**	**–288,019**	**–70,656**	**–209,986**	**–1,724**	**–2,560**	**–3,093**
Forward exchange contracts used for hedging:							
– Outflow	544	–27,770	–1,982	–25,789			
– Inflow		27,226	1,930	25,297			
Derivative financial liabilities	**544**	**–544**	**–52**	**–492**			

At Dec 31, 2022 In CHF thousand		Contractual cash flows					
	Carrying amount	Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	87,859	–87,859	–85,829	–2,030			
Accrued expenses	25,424	–25,424	–21,459	–3,966			
Other non-current liabilities	1,294	–1,294			–94	–1,200	
Loans and borrowings	199,929	–203,000		–203,000			
Lease liabilities	11,252	–11,713	–691	–2,457	–2,036	–2,878	–3,651
Non-derivative financial liabilities	**325,759**	**–329,290**	**–107,979**	**–211,452**	**–2,131**	**–4,078**	**–3,651**
Forward exchange contracts used for hedging:							
– Outflow	3,265	–113,440	–55,581	–57,859			
– Inflow		110,175	54,553	55,622			
Derivative financial liabilities	**3,265**	**–3,265**	**–1,028**	**–2,237**			

Capital risk management

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

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

The equity ratio was as follows:

As of December 31 In CHF thousand	2023	2022
Total equity	757,161	780,320
Total liabilities and equity	1,168,456	1,274,786
Equity ratio	**64.80%**	**61.21%**

6. Other disclosures

6.1 Income tax

Income tax expenses

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

January 1–December 31 In CHF thousand	2023	2022
Current tax:		
Current tax on earnings for the period	35,028	52,883
Adjustments in respect of prior periods	–15,875	65
Total current tax expense	**19,154**	**52,949**
Change in deferred tax	–2,379	–3,278
Total deferred tax expense	**–2,379**	**–3,278**
Income tax expense	**16,775**	**49,671**

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

January 1–December 31 In CHF thousand	2023	2022 restated [3)]
Earnings before income taxes	207,085	356,450
Tax at the average group tax rate of 14.70% (previous year: 14.61%)[1]	**30,451**	**52,067**
Effect of tax rates in foreign jurisdictions[1]	–155	–326
Effect in change of tax rate	–151	–151
Expenses not deductible for tax purposes	2,855	3,836
Income not subject to tax	–713	–3,358
Effect of prior year items[2]	–15,875	65
Withholding taxes included in the tax expenses	1,290	1,003
Other tax effects	–927	–3,466
Total tax expenses recorded in consolidated income statement	**16,775**	**49,671**
Effective tax rate	**8.1%**	**13.9%**

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

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

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

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

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

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

Deferred tax balances

The deferred tax assets and liabilities were as follows:

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

The movement in deferred tax balances is as follows:

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

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

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

There are temporary differences with respect to investments in subsidiaries of CHF 5.9 million (prior year: CHF 4.6 million), for which no deferred tax liabilities were recognized. The Group is able to control the timing of the reversal and it is not intended to reverse the temporary difference in the foreseeable future.

Global minimum tax

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

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

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

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

Accounting policies

Current and deferred income tax

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

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

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

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

6.2 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying hedges.

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

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

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

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

6.3 Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities. As of December 31, 2023, assets in the amount of CHF 0.3 million were pledged (prior year: assets in the amount of CHF 0.3 million were pledged).

6.4 List of subsidiaries

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

Country	Company	Function	Currency	Capital in thousands	Share 2023	Share 2022
China	VAT Vacuum Valves Shanghai Company Ltd., Shanghai	D	CNY	1,618	100%	100%
	VAT Vacuum Valves Beijing Company Ltd., Beijing	D	USD	800	100%	100%
France	VAT SARL, Grenoble	D	EUR	50	100%	100%
Germany	VAT Deutschland GmbH, Dresden	D	EUR	26	100%	100%
Japan	VAT Ltd., Tokyo	D	JPY	96,470	100%	100%
Korea	VAT Korea Ltd., Pyeongtaek City	D	KRW	300,000	100%	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	100,000	100%	100%
Netherlands	VAT Netherlands B.V., Utrecht	D	EUR	0	100%	100%
Romania	VAT Romania S.R.L., Arad	P	RON	7,821	100%	100%
Singapore	VAT Singapore Pte. Ltd., Singapore	D	SGD	500	100%	100%
Switzerland	VAT Vakuumventile AG, Sennwald	D/P	CHF	100	100%	100%
	Comvat AG, Sennwald	D/P	CHF	275	100%	100%
	VAT Holding AG, Sennwald	H	CHF	300	100%	100%
Taiwan	VAT Taiwan Co. Ltd., Hsin-Chu City	D	TWD	12,000	100%	100%
United Kingdom	VAT Vacuum Products Ltd, Warwickshire	D	GBP	1	100%	100%
USA	VAT Inc., Delaware	D	USD	0	100%	100%

D: Distribution, H: Holding, P: Production

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

Transactions eliminated on consolidation
The Group eliminates all intra-group transactions as part of the Group's consolidation process. Any unrealized gains and losses arising from intra-group transactions are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

6.5 Subsequent events

The Company has evaluated subsequent events through March 4, 2024, which represents the date when the consolidated financial statements were approved.

6.6 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2023, and earlier application is permitted; however, the Group has not applied the new or amended standards early in preparing these consolidated financial statements.

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

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VAT Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2023 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the provisions of Swiss law, together with the requirements of the Swiss audit profession, as well as those of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Revenue Recognition

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Key Audit Matter

Revenues are an important metric considered by external and internal stakeholders. Revenues recognized for the year ended 31 December 2023 amounted to CHF 885m (2022: CHF 1,145m) and are primarily related to the sale of vacuum valves and service support.

Revenue is a key performance indicator and therefore in the focus of internal and external stakeholders. VAT Group recognizes revenues related to the sale of goods when risks, rewards and control are transferred to the counterparty. In general, contractual agreements with customers define when risks and rewards are transferred, as specific terms and conditions are mentioned in the contracts or order confirmations. There is a risk that revenues may be recognized in the wrong accounting period.

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

Our response

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

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

Furthermore, our procedures included detailed cut-off testing of revenue transactions with reference to shipping documentation to either side of the balance sheet date. Moreover, we obtained trade debtors confirmations and if required performed alternative procedures, such as subsequent cash-receipts or traced our samples taken to invoices and delivery notes.

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

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

For further information on revenue recognition refer to the following:

– Note 2.2 “Summary of material accounting policies”

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISA and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

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

St. Gallen, 4 March 2024

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

Income statement

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

Balance sheet

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

Notes to the financial statements VAT Group AG

1. General information

VAT Group AG ("the Company") is the parent Company of the VAT Group. VAT Group AG was incorporated in Switzerland on February 25, 2016. The registered office of the Company is Seelistrasse 1, CH-9469 Haag, Switzerland. VAT Group AG is listed on the SIX Swiss Exchange since April 14, 2016.

2. Basis of preparation

2.1 General

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

2.2 Investments in subsidiaries

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

3. Information on income statement and balance sheet items

3.1 Other financial income

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

3.2 Other operating expenses

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

3.3 Significant investments in subsidiaries

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

Country	Company	Currency	Capital in thousands		Share in capital and voting rights	
			2023	2022	2023	2022
Switzerland	VAT Holding AG	CHF	300	300	100%	100%

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

3.4 Interest-bearing liabilities

As of December 31 In CHF thousand	2023	2022
Short-term interest-bearing liabilities due to third parties	0	200,000
Total short-term interest-bearing liabilities	**0**	**200,000**
Long-term interest-bearing liabilities due to third parties	200,000	0
Total long-term interest-bearing liabilities	**200,000**	**0**

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

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

1 Margin applicable at year end.

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

1 Margin applicable at year end.

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

3.5 Accrued expenses and deferred income

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

3.6 Equity

As of December 31, 2023 and 2022, the share capital amounts to CHF 3.0 million and consists of 30,000,000 registered shares at par value of CHF 0.10 each.

The legal capital reserves consist of the premium from contributions in kind. From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital.

A conditional capital increase of up to 1,500,000 shares, which is included in the articles of association of VAT Group AG, was not drawn as of December 31, 2023 and 2022.

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

3.7 Treasury shares

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

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

4. Other information

4.1 Full-time equivalents

VAT Group AG does not have any employees.

4.2 Collateral for third-party liabilities

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

4.3 Significant shareholders

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

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

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

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

As of December 31	2023	2022
Board of Directors		
Martin Komischke, Chairman	2,463	2,156
Urs Leinhäuser	4,909	4,717
Petra Denk (since May 16, 2023)	0	n/a
Maria Heriz (since May 17, 2022)	106	0
Hermann Gerlinger	1,566	1,422
Daniel Lippuner	1,021	887
Karl Schlegel	38,549	38,429
Libo Zhang	714	570

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

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

4.5 Shares granted to the Board of Directors

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

4.6 Significant events after the balance sheet date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

Proposed appropriation of available earnings

Proposal for the appropriation of available earnings by the Board of Directors to the General Meeting:

Appropriation of available earnings as proposed by the Board of Directors

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

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

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

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

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

Statutory Auditor’s Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of VAT Group AG (the Company), which comprise the balance sheet as at 31 December 2023, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements comply with Swiss law and the Company’s articles of incorporation.

Basis for Opinion
We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the provisions of Swiss law, together with the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Financial Statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

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

St. Gallen, 4 March 2024

Shareholder Information

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

Share price development

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

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

VAT's major shareholders

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

Stock exchange listing

Ticker symbol	VACN (SIX); VACN.S (Reuters); VACN SW (Bloomberg)	**Legal Entity Identifier (LEI)**	529900MVFK7NVALR7Y83
Valor number	31 186 490	**Nominal value**	CHF 0.10 per share
ISIN	CH0311864901	**Free Float**	Approximately 90%
Market capitalization as of December 31, 2023	CHF 12.65bn	**Number of shares outstanding**	30,000,000
Exchange	SIX Swiss Exchange (International Reporting Standard)	**Segment**	Mid & Small Cap Swiss shares

Distribution of shareholders by domicile and breakdown of registered shareholders by numbers of shares held

Switzerland	39%
Other countries	12%
Shares in transit	49%

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

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

Market Capitalization
in CHF bn as of December 31, 2023

12.65

Disclosure of shareholdings
With effect from January 1, 2016, under Art. 110 of the Federal Act on Financial Market Infrastructure (FinMIA), anyone who acquires or sells equity securities on their own account and thereby attains, falls below or exceeds the threshold of 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔% of the voting rights in a company (whether or not such rights may be exercised), is subject to a reporting obligation. This obligation applies to anyone who directly, indirectly or in concert with third parties acquires or disposes of shares in a company incorporated in Switzerland whose equity securities are listed in whole or in part in Switzerland. It also applies to anyone who can exercise the voting rights attached to such equity securities at their own discretion. Disclosure must be made to the company and stock exchanges on which the equity securities in question are listed.

Significant shareholders
Information on significant shareholders is disclosed on page 49 of this report.

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

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

Disclosure policy
VAT Group AG is committed to open and transparent communication with shareholders, financial analysts, customers, suppliers and all other stakeholders. VAT aims to communicate material developments in its business in a timely manner and in compliance with the rules of the SIX Swiss Exchange.

Investor Relations

VAT's Investor Relations team manages the company's interaction with the financial community, including attendance at key investor conferences and providing institutional investors and analysts with various opportunities to learn more about VAT Group's strategy, business operations and governance. Investor Relations is based at the Group's headquarters in Haag, Switzerland. More information is available on the VAT Group website: https://ir.vatvalve.com.

Key data on VAT registered shares

		2023	2022
Share capital	CHF	3,000,000	3,000,000
Number of shares on December 31		30,000,000	30,000,000
Nominal value per share	CHF	0.10	0.10
Shares outstanding		30,000,000	30,000,000
EBITDA per share	CHF	9.03	13.35
Free cash flow per share	CHF	6.29	7.61
Book value per share	CHF	25.24	26.01
Dividend per share[1]	CHF	6.25	6.25
Share price high	CHF	422.70	469.60
Share price low	CHF	252.80	198.70
Closing share price on December 31	CHF	421.50	252.80
Average daily trading volume	Shares	84'868	84,127
Average daily trading value	CHF million	28.1	23.8

1 Proposed by the Board of Directors.

Financial Calendar

Date	Event
2024	
Thursday, April 11, 2024	Q1 2024 trading update
Friday, May 5, 2024	Record date, closing of share register, 5.00p.m. CEST
Tuesday, May 14, 2024	Annual General Meeting, St Gallen, Switzerland
Thursday, May 16, 2024	Ex-date
Tuesday, May 21, 2024	Dividend payment
Thursday, July 18, 2024	Half-year 2024 results
Thursday, October 17, 2024	Q3 2024 trading update
2025	
Thursday, March 6, 2025	Q4 and Full-year 2024 results

5-year key figures

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

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

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