HALF-YEAR REPORT 2019:

Sequential growth Q2 vs Q1 indicates bottom of current market cycle has been reached. VAT's efforts to strengthen its flexible operating model position it to benefit more quickly from the expected market recovery.

Q2 2019 highlights
- Net sales sequentially steady or up in all business units
- Focus on technology and innovation
- Market share gains continued, helped by spec-wins

Half-year 2019 highlights
- Low-cycle results in line with expectations vs strong first half of 2018
- Order intake 31% lower; net sales down 32%
- Global Service sales up 11% on product innovations
- EBITDA margin of 25.1% well above previous trough levels

Outlook 2019
- Softer market expected to reduce sales, EBITDA, EBITDA margin and net income vs 2018
- Mid-term EBITDA margin target confirmed at 33%, achievement by improvements of VAT's overall cost structure
- Capex of CHF 28–32 million; free cash flow expected to be above 2018 level

Guidance for Q3 2019
- VAT expects net sales of CHF 130–140 million

VAT

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Key Figures

In CHF million	6M 2019	6M 2018	Change
Order intake	261.6	380.9	–31.3%
Order backlog as of June 30, 2019, and December 31, 2018	111.8	113.6	–1.6%
Net sales	263.0	386.6	–32.0%
Gross profit	161.1	235.8	–31.7%
Gross profit margin	61.3%	61.0%	
EBITDA	65.9	122.1	–46.0%
EBITDA margin	25.1%	31.6%	
EBIT	43.0	105.0	–59.1%
EBIT margin	16.3%	27.2%	
Net income	24.9	83.6	–70.2%
Net income margin	9.5%	21.6%	
Earnings per share (in CHF)	0.83	2.79	–70.3%
Cash flow from operating activities	51.9	80.9	–35.8%
Capex[1]	6.7	33.7	–80.1%
Capex margin	2.6%	8.7%	
Free cash flow[2]	45.2	47.3	–4.4%
Free cash flow margin	17.2%	12.2%	
Free cash flow conversion rate[3]	68.6%	38.7%	

In CHF million	2019 as of June 30	2018 as of Dec 31	
Total assets	974.2	968.2	0.6%
Total liabilities	507.8	404.0	25.7%
Equity	466.4	564.2	–17.3%
Net debt	236.7	147.6	60.4%
Number of employees	1,714	1,927	–213

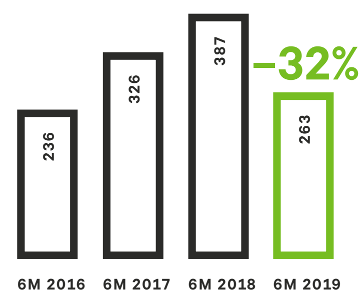
1 Capex contain purchases of property, plant equipment and intangible assets and proceeds from sale of property, plant and equipment.
2 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
3 Free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.

Net sales
in CHF million

263.0

2018 **386.6**

Net sales development
in CHF million



EBITDA
in CHF million

65.9

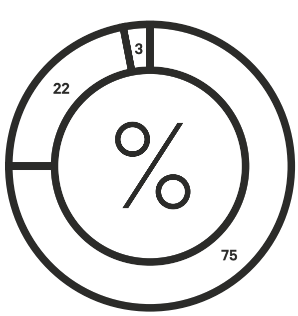
2018 **122.1**

EBITDA margin
in %

25.1

2018 **31.6**

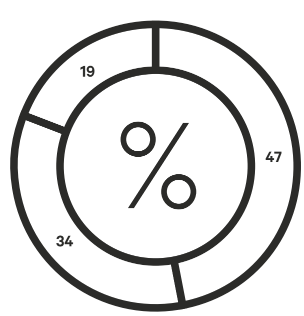
Net sales
by segment



75 VALVES
22 GLOBAL SERVICE
3 INDUSTRY

2018
84 VALVES
13 GLOBAL SERVICE
3 INDUSTRY

Net sales
by region



47 ASIA
34 AMERICAS
19 EMEA

2018
52 ASIA
31 AMERICAS
17 EMEA

Free cash flow
in CHF million

45.2

2018 **47.3**

Sequential growth Q2 vs Q1 indicates bottom of current market cycle has been reached

Q2 Summary

The cyclical market downturn showed the first signs of easing in the second quarter as VAT's Q2 order intake and net sales improved on a sequential basis compared with the first quarter of the year. Order intake in the second quarter grew 5% versus the first quarter to CHF 134 million. Q2 net sales were 6% higher than the first quarter at CHF 135 million, at the top end of the company's Q2 guidance.

Compared with the same period in 2018, the order intake decreased 19%. Net sales were 28% lower compared to the near-record level in the second quarter 2018. The declines reflect the sharp cyclical market downturn that began in the middle of 2018.

Overall, semiconductor and display manufacturers remain cautious in their capital investments. However, the original equipment manufacturers (OEMs) are developing a record number of new production platforms in anticipation of further technology advances and the expected medium-term recovery in equipment spending. This includes new process technologies, such as atomic layer deposition (ALD), which is key to the latest generation of thin-film applications.

The sequential improvement in volumes from the first quarter to the second quarter of 2019 allowed VAT, as of July 1, to end the short-time work scheme for about 400 production employees in Switzerland. The company had introduced the scheme in the third quarter of 2018 as a way to rapidly adjust its cost base in response to the market downturn while minimizing impacts on its highly-skilled workforce.

Segment Review

Compared to the strong results in the second quarter of 2018, the Valves segment – VAT's largest business – reported a year-over-year net sales decline in the second quarter of 36% to CHF 101 million. Net sales in Global Service were 23% higher at CHF 30 million. Net sales in the Industry segment were down 17% to CHF 4 million, mainly the result of moving the company's third-partly bellows business from the Industry segment to the Valves segment, effective January 1, 2019. On a sequential basis, Q2 net sales were steady to higher in all business units compared with the first quarter of 2019.

Six-Month Summary

The overall first-half results reflect the comparison with a very strong first half of 2018, when sales reached near-record levels before declining sharply in the second half as the market cycle turned negative. The downturn resulted from lower capital investments by semiconductor manufacturers as they adjusted to temporary overcapacity. Demand in other key markets, such as digital displays, remained challenging, while solar and general industry showed slightly positive trends.

VAT's order intake in the first half of 2019 was CHF 262 million, a decrease of 31% compared with the previous year. The order backlog at the end of June was CHF 112 million, 2% lower than at the end of 2018.

Group net sales declined 32% to CHF 263 million in the first six months compared with the same period a year ago. Foreign exchange rate movements had a positive impact of around 1%. Nevertheless, based on preliminary market analysis from VLSI research, VAT continued to increase its leading market share across all industries from 49% to 50%.

Segment Review

In the Valves segment, sales declined 39% to CHF 198 million. Both the Semiconductors and Display & Solar business units reported significantly lower sales as the result of the cyclical decline in their respective markets that started in the second half of 2018. However, the book-to-bill ratio in the Display & Solar business reached 1.2×, an indicator of sequentially improving revenues in the quarters to come. The market for solar photovoltaic equipment remained steady as increasing energy efficiency levels continue to improve solar energy's competitiveness. First-half sales increased in the General Vacuum business unit, supported by technology innovations such as the first order for a vacuum furnace application in China used in the production of thin-film lithium-ion batteries. The order reflects the success of VAT's strategy to apply its proven technologies in semiconductors and displays to a broader range of industrial customers.

The Global Service segment reported 11% net sales growth in the first six months to CHF 56 million, led by its valve repair and spare parts activities. The segment also released new service products during the first half, including upgrades for a wide range of transfer, control and isolation valves, as well as for advanced subfab applications used to reduce maintenance costs while improving the safety and cleanliness of pumping and abatement systems.

In the Industry segment, first-half sales declined, mainly related to a temporary reduction in demand for dampers used in high-efficiency automotive fuel injection systems, reflecting the introduction of new emission regulations in several markets.

EBITDA reflects lower volumes, EBITDA margin stronger than in previous down cycles

Gross profit for the first six months of 2019 amounted to CHF 161 million, a decrease of 32%. The gross margin of 61% however, was slightly higher than last year's level. This is the result of operational and cost improvements, especially in procurement.

EBITDA for the first half of the year decreased 46% to CHF 66 million and the EBITDA margin was 25.1% versus 31.6% a year earlier, reflecting the under absorption of fixed costs, investments in operational improvements and a higher level of R&D. In addition, foreign exchange rate movements and the introduction of the accounting standard IFRS 16 negatively affected the EBITDA margin by about 1.3 percentage points net. However, continued operational improvements in areas such as global supply chain optimization and more flexible labor cost structures allowed VAT to keep an EBITDA margin about 200 basis points above levels achieved at the bottom of previous cyclical downturns.

VAT reported net finance costs of CHF 3 million for the first six months, approximately the same as the first half of 2018. The effective tax rate for the first six months of 2019 was 35%, a temporary result of the timing of new tax regulations in Switzerland that required the booking of some tax expense in the first half. For the full year, VAT continues to expect the tax rate to normalize towards a long-term level of 18–20%.

The combination of lower sales and EBITDA with a higher tax rate resulted in a 70% reduction in net income in the first half of 2019 to CHF 25 million.

On June 30, 2019, net debt amounted to CHF 237 million, representing a leverage ratio (net debt to EBITDA) of 1.5× on a last-twelve-month (LTM) basis. The equity ratio on June 30, 2019, was 48%.

Execution of internal improvement measures continues

VAT will continue to improve its operational efficiency and flexibility in order to quickly adjust to changing markets. This includes benefits from economies of scale in its increasingly global supply chains, and ongoing operational excellence measures in areas such as product value engineering, new product development and time-to-market, more efficient and sustainable packaging and measures to reduce trade working capital.

At the same time, VAT is committed to building its long-term innovation and market leadership, maintaining investments in new product development and productivity improvements in 2019. The company will also continue to ramp up production at its facility in Penang, Malaysia, to better serve the key Asia market and enable faster and more flexible capacity adjustments through the cycle.

Free cash flow generation on track

Free cash flow in the first six months of 2019 amounted to CHF 45 million, 4% below the same period the year before. Capital expenditures in the first half of the year were significantly lower, at CHF 7 million, following the successful completion of the facility expansion in Malaysia. The company reduced net trade working capital (NWC) by approximately CHF 8 million in absolute terms compared to the end of 2018. As a percentage of LTM net sales, NWC increased to around 26%. VAT expects this ratio to improve in the second half of the year and to make progress towards its mid-term NWC guidance of about 20% of sales.

The free cash flow margin for the first six months of the year was 17%, and the free cash flow conversion rate was 69% of EBITDA.

At the end of June 2019, VAT had 1,714 employees worldwide (measured as full time equivalents, FTEs), a decrease of 213 FTEs versus the end of June 2018 and stable compared with the end of 2018.

Outlook 2019

VAT's medium-term growth drivers remain firmly in place. The Internet of Things, cloud computing and storage, artificial intelligence and many other global digitalization trends are expected to fuel further demand for semiconductors and advanced displays. This, in turn, is forecast to drive demand for VAT's high-performance vacuum components and related services, which are mission-critical in the precision manufacture of these digital devices. In addition, VAT forecasts a further expansion of vacuum-based production processes in a variety of industries.

While VAT's second quarter 2019 orders and sales indicate an end to the cyclical market downturn, visibility for the rest of 2019 remains limited. End customers in VAT's largest end markets, such as semiconductor and display manufacturers, continue to be cautious in their capital investments. VAT therefore expects net sales at constant foreign exchange rates in 2019 to be lower compared with 2018. The company also expects its full-year EBITDA margin to be lower in 2019 versus the year before. VAT maintains its mid-term EBITDA margin target of 33% by further improvements of VAT's overall cost structure.

As a consequence of the expected lower net sales and EBITDA margin levels, VAT expects net income to be below the level of 2018. Capital expenditures in 2019 are planned to be between CHF 28 and 32 million. Free cash flow in 2019 is expected to increase compared with the previous year, mainly as the result of improved net working capital management and lower capital expenditures.

Guidance for Q3 2019

VAT expects net sales of CHF 130–140 million.

Key Figures Valves

In CHF million	Q2 2019	Q2 2018 adjusted[1]	Change	6M 2019	6M 2018 adjusted[1]	Change
Order intake	101.2	136.2	–25.7%	199.3	311.4	–36.0%
Net sales	101.4	159.5	–36.4%	197.7	323.3	–38.8%
Inter-segment sales	13.0	9.8	32.7%	25.2	21.1	19.4%
Segment net sales	114.4	169.3	–32.4%	222.9	344.4	–35.3%
Segment EBITDA				56.5	118.9	–52.5%
Segment EBITDA margin[2]				25.4%	34.5%	

Key Figures Global Service

In CHF million	Q2 2019	Q2 2018 adjusted[1]	Change	6M 2019	6M 2018 adjusted[1]	Change
Order intake	28.0	25.8	8.5%	55.1	53.6	2.8%
Net sales	29.5	24.0	22.9%	56.4	50.7	11.2%
Inter-segment sales						
Segment net sales	29.5	24.0	22.9%	56.4	50.7	11.2%
Segment EBITDA				25.0	24.3	2.9%
Segment EBITDA margin[2]				44.2%	47.8%	

Key Figures Industry

In CHF million	Q2 2019	Q2 2018 adjusted[1]	Change	6M 2019	6M 2018 adjusted[1]	Change
Order intake	4.5	3.6	25.0%	7.2	16.0	–55.0%
Net sales	4.4	5.3	–17.0%	8.9	12.6	–29.4%
Inter-segment sales	2.3	2.1	9.5%	4.4	5.0	–12.0%
Segment net sales	6.8	7.4	–8.1%	13.4	17.6	–24.0%
Segment EBITDA				1.2	2.7	–54.3%
Segment EBITDA margin[2]				9.1%	15.1%	

1 Starting January 1, 2019, VAT moved its third-party bellows business from the Industry segment into the Valves segment. The move reflects VAT's ambition to drive growth in the bellows business by better aligning it with its primary markets and the needs of customers in the semiconductor and general vacuum sectors. The prior-period figures have been adjusted accordingly, which includes the realignments of net sales of CHF 10.3 million from the segment Industry to the segment Valves. In addition, the Inter-segment sales of the segment Industry were reduced by CHF 8.1 million. In the first six months of the year 2019, the segment Valves achieved net sales of CHF 7.8 million with the bellows business.
2 Segment EBITDA margin as a percentage of Segment net sales

Consolidated income statement

January 1–June 30 In CHF thousand	Note	2019 unaudited	2018 unaudited
Net sales	**4, 5**	**263,013**	**386,626**
Raw materials and consumables used		–102,363	–174,049
Changes in inventories of finished goods and work in progress		473	23,257
Personnel expenses	6, 8	–69,306	–83,855
Other income		3,630	7,491
Other expenses	6	–29,537	–37,408
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**65,910**	**122,063**
Depreciation and amortization		–22,951	–17,044
Earnings before interest and taxes (EBIT)[1]		**42,959**	**105,019**
Finance income		56	178
Finance costs		–4,628	–5,348
Earnings before income taxes		**38,387**	**99,849**
Income tax expenses	6	–13,510	–16,257
Net income attributable to owners of the Company		**24,878**	**83,593**
Earnings per share (in CHF)			
Basic earnings per share		0.83	2.79
Diluted earnings per share		0.83	2.79

1 Interest includes other items reported in the financial results.

Consolidated statement of comprehensive income

January 1–June 30 In CHF thousand	Note	2019 unaudited	2018 unaudited
Net income attributable to owners of the Company		24,878	83,593
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	11	–5,955	3,618
Related tax	11	863	–554
Subtotal		**–5,092**	**3,064**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		2,252	–3,888
Related tax		–332	595
Currency translation adjustments		149	155
Subtotal		**2,069**	**–3,138**
Other comprehensive income for the period (net of tax)		**–3,023**	**–74**
Total comprehensive income for the period attributable to owners of the Company		**21,855**	**83,519**

Consolidated balance sheet

In CHF thousand	Note	30.06.2019 unaudited	31.12.2018 audited
Assets			
Cash and cash equivalents		93,615	79,063
Trade and other receivables		84,323	94,778
Prepayments and accrued income		4,565	3,127
Other investments, including derivatives	12	1,407	314
Inventories		105,495	104,158
Current tax assets		7	4
Current assets		**289,412**	**281,442**
Property, plant and equipment		172,616	170,524
Investment properties		1,848	1,873
Intangible assets and goodwill		500,276	505,614
Trade and other receivables		2,384	1,965
Other investments, including derivatives	12	0	23
Deferred tax assets		7,695	6,746
Non-current assets		**684,818**	**686,745**
Total assets		**974,230**	**968,187**

In CHF thousand	Note	30.06.2019 unaudited	31.12.2018 audited
Liabilities			
Trade and other payables		40,727	44,568
Loans and borrowings	10	125,314	27,608
Provisions		2,671	2,577
Derivative financial instruments	12	382	1,539
Accrued expenses and deferred income		21,244	20,739
Liabilities from government grants		442	453
Current tax liabilities		17,653	24,094
Current liabilities		**208,432**	**121,579**
Loans and borrowings	10	204,966	199,078
Derivative financial instruments	12	0	23
Liabilities from government grants		314	545
Other non-current liabilities		306	199
Deferred tax liabilities		46,846	42,829
Defined benefit obligations		46,951	39,763
Non-current liabilities		**299,383**	**282,438**
Total liabilities		**507,815**	**404,017**
Equity			
Share capital		3,000	3,000
Share premium		133,950	253,891
Reserves		–24,322	–21,300
Treasury shares		–665	–687
Retained earnings		354,452	329,266
Total equity attributable to owners of the Company		**466,415**	**564,170**
Total liabilities and equity		**974,230**	**968,187**

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Remeasure-ments of DBO[1]	Other reserves	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2018, as previously reported	**3,000**	**373,823**	**–15,643**	**2,455**	**–826**	**2,925**	**–790**	**193,033**	**557,976**
Net income attributable to owners of the Company								83,593	83,593
Total comprehensive income for the period attributable to owners of the Company			3,064		–3,293	155			–74
Dividend payment		–119,932							–119,932
Share-based payments (net of tax)[2]							23	318	341
Equity as of 30.06.2018 unaudited	**3,000**	**253,891**	**–12,579**	**2,455**	**–4,120**	**3,080**	**–767**	**276,943**	**521,904**
VAT Group AG Equity as of 01.01.2019	**3,000**	**253,891**	**–26,038**	**2,455**	**–1,067**	**3,351**	**–687**	**329,266**	**564,170**
Net income attributable to owners of the Company								24,878	24,878
Total comprehensive income for the period attributable to owners of the Company			–5,092		1,920	149			–3,023
Dividend payment		–119,941							–119,941
Share-based payments (net of tax)[2]							22	308	330
Equity as of 30.06.2019 unaudited	**3,000**	**133,950**	**–31,130**	**2,455**	**853**	**3,500**	**–665**	**354,452**	**466,415**

1 DBO: Defined benefit obligations
2 Refer to note 8

Consolidated statement of cash flows

January 1–June 30 In CHF thousand	Note	2019 unaudited	2018 unaudited
Net income attributable to owners of the Company		**24,878**	**83,593**
Adjustments for:			
Depreciation and amortization		22,951	17,044
(Profit)/loss from disposal of property, plant and equipment		–3	223
Change in defined benefit liability		1,090	340
Net impact from foreign exchange		1,764	–2,538
Income tax expenses	6	13,510	16,257
Net finance costs		4,571	5,170
Other non-cash-effective adjustments		110	89
Change in trade and other receivables		5,954	9,769
Change in prepayments and accrued income		–1,476	–1,541
Change in inventories		–2,041	–33,774
Change in trade and other payables		–4,238	–9,782
Change in accrued expenses and deferred income		552	13,006
Change in provisions		184	645
Cash generated from operations		**67,805**	**98,499**
Income taxes paid		–15,875	–17,558
Cash flow from operating activities		**51,930**	**80,941**
Purchases of property, plant and equipment		–2,969	–31,392
Proceeds from sale of property, plant and equipment		147	25
Purchases of intangible assets		–3,963	–2,364
Interest received		50	44
Other finance income received		5	0
Cash flow from investing activities		**–6,731**	**–33,686**
Proceeds from borrowings[1]	10	110,000	223,936
Repayments of borrowings	10	–15,029	–114,569
Payments of lease liabilities[2]		–1,334	0
Dividend paid	7	–119,941	–119,932
Interest paid		–3,417	–3,251
Other finance expenses paid		–474	–919
Cash flow from financing activities		**–30,194**	**–14,735**
Net increase/(decrease) in cash and cash equivalents		**15,005**	**32,519**
Cash and cash equivalents at beginning of period		79,063	72,021
Effect of movements in exchange rates on cash held		–452	–15
Cash and cash equivalents at end of period		**93,615**	**104,525**

1 Includes financing costs in the amount of CHF 0.0 million (prior year: CHF 1.0 million).
2 The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

Notes to the condensed consolidated interim financial statements

1. 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, 9469 Haag, Switzerland.

The consolidated interim financial statements as at and for the six-month period ended June 30, 2019, comprise VAT Group AG and all companies under its control (together referred to as "VAT" or "Group").

The Group develops, manufactures and sells vacuum valves for the semiconductor, displays, photovoltaics and vacuum-coating industries as well as for the industrial and research sector.

These consolidated interim financial statements were authorized for issue by the Group's Board of Directors on August 7, 2019.

2. Basis of accounting of half-year report

The consolidated interim financial statements of the Group are presented in a condensed form and have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended December 31, 2018. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and translations that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in note 3.

In general, the sales of the Group are not subject to significant seasonal variations during the current financial year.

In preparing these condensed consolidated interim financial statements, management has made judgements, 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 related uncertainties primarily affect intangible assets and goodwill, property, plant and equipment, income taxes, employee benefits and provisions.

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the changes related to leases. This accounting policy has changed as of January 1, 2019, due to the adoption of the new IFRS standard IFRS 16 "Leases." Additionally, a number of standards have been modified on miscellaneous points with effect from January 1, 2019. None of these amendments had a material effect on the Group's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease.' The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

The Group applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term and some leases of low-value assets.

The Group presents right-of-use assets in "Property, plant and equipment," the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below:

In CHF thousand	Buildings	Other equipment	Total
Balance at January 1, 2019	8,909	976	9,884
Balance at June 30, 2019	**7,591**	**872**	**8,463**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.8%.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17 not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

In CHF thousand	January 1, 2019
Operating lease commitment at December 31, 2018, as disclosed in the Group's consolidated financial statements	9,187
Discounted using the incremental borrowing rate at January 1, 2019	8,084
– Recognition exemption for leases of low-value assets	–14
– Recognition exemption for leases with less than 12 months of lease term at transition	–236
– Extension options reasonably certain to be exercised	2,051
Lease liabilities recognized at January 1, 2019	**9,884**

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the six months ended June 30, 2019, the Group recognized CHF 1.4 million of depreciation charges and CHF 0.1 million of interest costs from these leases.

4. Segment information

The Group is divided into and managed on the basis of three reporting segments. The segments are identified based on the products and services provided: Valves, Global Service and Industry. 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) and measured in a manner consistent with that of the financial statements. Sales between segments are carried out at arm's length and are eliminated on consolidation.

Starting January 1, 2019, VAT moved its third-party bellows business from the Industry segment into the Valves segment. The move reflects VAT's ambition to drive growth in the bellows business by better aligning it with its primary markets and the needs of customers in the semiconductor and general vacuum sectors. The prior-period figures have been adjusted accordingly, which includes the following realignments from the segment Industry to the segment Valves: Net sales CHF 10.3 million, segment net assets CHF 46.0 million of which net trade working capital CHF 9.3 million. In addition, the Inter-segment sales of the segment Industry were reduced by CHF 8.1 million. In the first six months of the year 2019, the segment Valves achieved net sales of CHF 7.8 million with the bellows business.

Information about reportable segments

January 1–June 30, 2019 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	197,645	56,439	8,929	263,013		263,013
Inter-segment sales	25,243		4,436	29,679	–29,679	0
Segment net sales	**222,888**	**56,439**	**13,366**	**292,692**	**–29,679**	**263,013**
Segment EBITDA	**56,517**	**24,960**	**1,219**	**82,695**	**–16,785**	**65,910**

January 1–June 30, 2018 In CHF thousand Adjusted	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	323,305	50,746	12,575	386,626		386,626
Inter-segment sales	21,141		5,019	26,160	–26,160	0
Segment net sales	**344,446**	**50,746**	**17,594**	**412,786**	**–26,160**	**386,626**
Segment EBITDA	**118,905**	**24,258**	**2,665**	**145,828**	**–23,765**	**122,063**

As of June 30, 2019 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	680,198	126,251	36,458	842,908	1,848	844,756
Segment liabilities	24,617	4,676	2,452	31,746	168	31,913
Segment net operating assets	**655,581**	**121,575**	**34,006**	**811,162**	**1,681**	**812,843**
of which net trade working capital	116,331	20,101	10,301	146,734	–168	146,566

As of December 31, 2018 In CHF thousand Adjusted	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	703,170	121,597	39,291	864,059	1,873	865,932
Segment liabilities	25,951	2,720	2,156	30,828	84	30,912
Segment net operating assets	**677,219**	**118,877**	**37,135**	**833,231**	**1,789**	**835,020**
of which net trade working capital	131,138	15,187	10,767	157,093	–84	157,009

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–June 30 In CHF thousand	2019	2018
Segment EBITDA	82,695	145,828
Corporate and eliminations	–16,785	–23,765
Depreciation and amortization	–22,951	–17,044
Finance costs net	–4,571	–5,170
Earnings before income taxes	**38,387**	**99,849**

Assets

In CHF thousand	30.06.2019	31.12.2018
Segment assets	842,908	864,059
Corporate and eliminations	1,848	1,873
Cash and cash equivalents	93,615	79,063
Other assets[1]	35,859	23,192
Assets	**974,230**	**968,187**

Liabilities

In CHF thousand	30.06.2019	31.12.2018
Segment liabilities	31,746	30,828
Corporate and eliminations	168	84
Loans and borrowings	330,280	226,686
Other liabilities[2] and provisions	145,621	146,419
Liabilities	**507,815**	**404,017**

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

5. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers and 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.

Disaggregation of order intake and net sales

January 1–June 30, 2019 In CHF thousand	Valves	Global Service	Industry	Total
Order intake	199,251	55,055	7,281	261,586
Net sales by region				
Asia	94,463	25,770	2,291	122,517
Americas	64,308	23,853	865	89,030
EMEA	38,874	6,817	5,773	51,466
Segment net sales	**197,645**	**56,439**	**8,929**	**263,013**

January 1–June 30, 2018 In CHF thousand Adjusted	Valves	Global Service	Industry	Total
Order intake	311,369	53,585	15,966	380,921
Net sales by region				
Asia	172,195	26,045	2,661	200,901
Americas	103,842	16,817	0,860	121,519
EMEA	47,268	7,884	9,054	64,206
Segment net sales	**323,305**	**50,746**	**12,575**	**386,626**

6. Profit and loss information

Profit for the half-year includes the following significant items that reflect a major change compared to the previous year:

Due to a reduction in demand, net sales and raw materials and consumables used decreased substantially. In that respect, other expenses decreased due to lower distribution, maintenance, energy and consulting expenses. Furthermore, VAT reduced its number of employees by 213 full-time equivalents compared to June 30, 2018, which led to lower personnel costs.

Income tax expenses are recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six-month period ended June 30, 2019, is 16.7%, compared to 17.4% for the six-month period ended June 30, 2018.

The higher effective tax rate in 2019 mainly results from a one-time effect due to the tax reform in Switzerland. The abolishment of the privileged tax regimes led to a substantially higher tax rate in the Swiss holding companies, whereas the tax rate for the Swiss operating companies decreased. Deferred tax liabilities relating to intangible assets (technology, brands and trademarks) within the holding company increased in the amount of CHF 8.8 million, whereas deferred tax liabilities in the operating companies decreased in the amount of CHF 2.1 million.

7. Dividend

In CHF thousand	2019	2018
Dividends paid	119,941	119,932

The Board of Directors proposed a dividend in the amount of CHF 4.00 per share for the financial year 2018 (prior year: CHF 4.00 per share). The dividend was approved and paid out in May 2019.

8. Share-based payments

Members of the Board receive 30% of total compensation in restricted shares. VAT Group granted 1,852 shares with a fair value of CHF 108.15 per share for the period 2018/19 (prior period: 1,478 shares). The shares will be transferred in July 2019. For the period 2019/20, the Group allocated 382 shares (prior year: 347 shares).

Long-term incentive plans (LTIP) are in place for the Group's senior management. As of June 30, 2019, the number of outstanding performance share units (PSU) under the plan are 30,251 (prior year: 15,224).

These programs are accounted for as equity-settled share-based payment compensation. A total amount of CHF 0.3 million (prior period: CHF 0.3 million) was recognized directly in equity.

9. Intangible assets and goodwill

Following the reorganization described in note 4, intangible assets and goodwill in the amount of CHF 21.9 million has been reclassified from segment Industry to segment Valves.

10. Loans and borrowings

VAT Group AG maintains a syndicated Revolving Credit Facility (RCF) of USD 300.0 million, maturing in September 23, 2023. The outstanding loan as of June 30, 2019, amounts to CHF 122.6 million. The movement of the outstanding loan in financial year 2019 was mainly driven by raising of CHF 110.0 million and a repayment of CHF 15.0 million. The RCF is subject to the financial covenant "net senior debt/EBITDA" ratio, with which the Group complied with for the six-month period 2019. The carrying amount as of June 30, 2019, includes financing costs of CHF 1.8 million (prior year: CHF 2.2 million), which will be recognized in profit and loss over the remaining duration of the credit facility.

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). The bond carries a coupon rate of 1.5% and has a term of five years with a final maturity on May 23, 2023. On June 30, 2019, the market value of the bond was CHF 205.9 million.

11. Retirement benefit obligation

An actuarial loss, net of tax, of CHF 5.1 million (June 30, 2018, gain: CHF 3.1 million) was recognized through comprehensive income in the six-month period ended June 30, 2019. The 2019 actuarial loss mainly arises from a lower discount rate.

12. Derivative financial instruments

The following table shows the carrying amounts of the derivatives, which are the only financial instruments measured at fair value material to VAT Group.

Derivative financial instruments

In CHF thousand	Measurement principle	30.06.2019	31.12.2018
Derivatives held for hedging	FVLP – Level 2[1]	1,374	303
Derivative assets		**1,374**	**303**
Thereof:			
Current derivative assets		1,374	280
Non-current derivative assets		0	23
Derivatives held for hedging	FVLP – Level 2[1]	–382	–1,562
Derivative liabilities		**–382**	**–1,562**
Thereof:			
Current derivative liabilities		–382	–1,539
Non-current derivative liabilities		0	–23

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.

Cash flow hedges on foreign exchange contracts

As of June 30, 2019 In CHF thousand	Fair value	Nominal amount
Cash flow hedges	992	138,550

On June 30, 2019, the cash flow hedge reserve included net unrealized gains of CHF 0.9 million (prior period: unrealized losses of CHF 4.1 million), net of tax, on derivatives designated as cash flow hedges. Net losses of CHF 3.7 million (prior period: net gains of CHF 0.3 million) were reclassified to earnings in 2019. The maturity of derivatives classified as a cash flow hedge was between 6 and 12 months.

13. Principal exchange rates

The following table summarizes the principal exchange rates for translation purposes.

	Average exchange rates in CHF		Closing exchange rates in CHF		
	01.01.–30.06.2019	01.01.–30.06.2018	30.06.2019	31.12.2018	30.06.2018
1 Euro	1.13	1.17	1.11	1.13	1.16
100 Japanese Yen	0.91	0.89	0.91	0.89	0.89
100 Korean Won	0.09	0.09	0.09	0.09	0.09
1 Malaysian Ringgit	0.24	0.25	0.24	0.24	0.25
1 US Dollar	1.00	0.97	0.98	0.98	0.99

14. Events occurring after the end of the reporting period

There are no events occurring after the end of the reporting period that warrant disclosure.

Haag, Switzerland, August 8, 2019

Shareholder Information

Following the decline of VAT's share price in the second half of 2018, primarily the result of the declining business environment in the semiconductor and display sectors, market sentiment began to shift in a positive direction at the end of 2018. Investors gained some confidence that the bottom of the downturn would be reached in the first half of 2019. Supported by a generally positive stock market sentiment, VAT's share price at the end of June 2019 was nearly 40% higher than at the beginning of the year. Compared to the performance of the Swiss Leader Index, this represents an outperformance of over 20%. At about 149,000 shares per day, trading volumes remained at a very healthy level.

While near-term visibility in the company's markets remains limited and international trade frictions are adding market uncertainty, VAT believes that its long-term growth drivers, such as Big Data, device interconnectivity, the Internet of Things and artificial intelligence remain unchallenged. The focus on innovation, operational excellence and further market share gains is expected to generate steady profitability while the management of the net trade working capital together with a disciplined approach to capital expenditures are expected to sustain VAT's strong free cash flow generation capabilities.

VAT's major shareholders

There have been no substantial changes among VAT's top shareholders since the beginning of 2019. As of the publication of this half-year report, there are five shareholders who each own more than 3% of VAT's outstanding shares and whose cumulative shareholding amounts to about 30% of VAT's shares. The free float of VAT shares, as defined by the SIX Swiss Exchange, amounts to approximately 90% at the end of June 2019 and the number of registered shareholders increased from about 13,500 a year ago to over 14,500.

Share price development

Stock exchange listing

Ticker symbol	VACN (SIX); VACN.S (Reuters); VACN SW (Bloomberg)	**Legal Entity Identifier (LEI)**	529900MVFK7NVALR7Y83
Valor number	31 186 490	**Nominal value**	CHF 0.10 per share
ISIN	CH0311864901	**Free float**	Approximately 89%
Market capitalization as of June 30, 2019	CHF 3.61 bn	**Number of shares outstanding**	30,000,000
Exchange	SIX Swiss Exchange (International Reporting Standard)	**Segment**	Mid & Small Cap Swiss shares

Financial calendar

Date	Event
2019	
Thursday, October 24, 2019	Q3 2019 trading update
Monday, November 11, 2019	VAT Capital Markets Day
2020	
Thursday, March 5, 2020	Full-year 2019 results
Thursday, April 23, 2020	Q1 2020 trading update
Thursday, May 14, 2020	Annual General Meeting 2020
Thursday, August 6, 2020	Half-year results 2020
Thursday, October 22, 2020	Q3 2020 trading update

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

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

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OUTLOOK 2019:

VAT's mid-term growth drivers – such as the Internet of Things, cloud computing and artificial intelligence – remain firmly in place. Following several years of record growth, however, VAT expects its 2019 net sales at constant foreign exchange rates, EBITDA and EBITDA margin to be lower compared with 2018.

VAT maintains its mid-term EBITDA margin target of 33% by further improvements of VAT's overall cost structure.

PASSION. PRECISION. PURITY.