

SUMMARY REPORT 2016:

From a small company founded in 1965 to the global leader in one of the most dynamic and technologically demanding markets in the world.

VAT is the world's leading producer of high-end vacuum valves, bellows and modules for ultra-clean and near particle-free manufacturing processes. Our competitive advantages are our single focus on high-end vacuum valves, our No. 1 technology and market position, long-standing relationships with the world's leading customers, large installed base, and highly skilled people working through our global manufacturing and service footprint. This positions us to benefit from long-term growth trends, such as the proliferation of semiconductors and digital displays in consumer and industrial applications and the miniaturization of manufacturing processes. Our financial strength is reflected in a record of profitable growth over the cycle and a commitment to an attractive dividend based on sustainable free cash flow generation.



PASSION. PRECISION. PURITY.

Key Figures

In CHF million	2016	2015	Change
Order intake	561.9	427.8	+31.3%
Order backlog as of December 31	122.1	71.9	+69.8%
Net sales	507.9	411.0	+23.6%
Gross profit	318.0	261.0	+21.8%
Gross profit margin	62.6%	63.5%	
EBITDA	149.6	119.6	+25.0%
Adjusted EBITDA ¹	158.1	126.8	+24.7%
Adjusted EBITDA margin	31.1%	30.8%	
EBIT	118.3	89.4	+32.3%
EBIT margin	23.3%	21.8%	
Net income ²	67.2	7.1	+852.2%
Net income margin	13.2%	1.7%	
Basic earnings per share (in CHF) ²	2.43	0.34	+614.7%
Diluted earnings per share (in CHF) ²	2.42	0.34	+611.8%
Cash flow from operating activities	146.4	117.5	+24.6%
Capex ³	19.2	12.9	+48.8%
Capex margin	3.8%	3.1%	
Free cash flow ⁴	128.1	105.6	+21.3%
Free cash flow margin	25.2%	25.7%	
Free cash flow conversion rate ⁵	85.6%	88.3%	
Free cash flow to equity ⁶	117.5	71.5	+64.3%

As of December 31 In CHF million	2016	2015	
Total assets	883.4	893.5	-1.1%
Total liabilities	372.8	844.3	-55.8%
Equity ⁷	510.6	454.3	+12.4%
Net debt ⁸	133.9	223.5	-40.1%
Net Debt/EBITDA	0.9	1.9	-52.6%
Invested capital ⁹	246.1	279.3	-11.9%
NOPAT ¹⁰	110.1	77.9	41.3%
Return on invested capital (ROIC)	44.7%	27.9%	
Dividend per share ¹¹	4.00	-	
Payout ratio ¹²	102.1%	-	
Number of employees	1,439	1,189	+250

1 Adjusted EBITDA excludes one-off items.

2 2015 includes interest cost on shareholder loan.

3 Capex contain purchases of property, plant equipment and intangible assets.

4 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.

5 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.

6 Free cash flow to equity is calculated as free cash flow less interest paid less current portion of loans.

7 Equity in 2015 includes a shareholder loan of CHF 405.1 million as at December 31, 2015.

8 Net debt in 2015 is calculated excluding the shareholder loan of CHF 405.1 million as at December 31, 2015.

9 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks and deferred income taxes) less current liabilities (excluding loans & borrowings and current income tax liabilities) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities).

10 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization (excluding amortization of acquired technology and customer relationships) plus finance income (including net foreign exchange gains/losses from financing activity and excluding other finance income) less adjusted tax expenses based on the adjusted effective tax rate of 18.9% for 2015 and the average group tax rate of 18.1% in 2016.

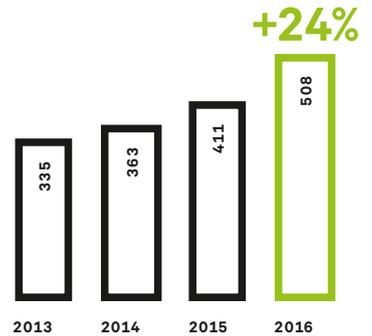
11 Proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2017.

12 Percentage of free cash flow to equity proposed to be paid out as dividend.

Net sales
in CHF million

507.9

**Net sales
development**
in CHF million



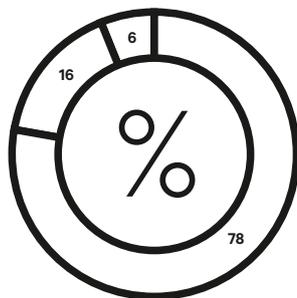
Adjusted EBITDA
in CHF million

158.1

**Adjusted EBITDA
margin**
in %

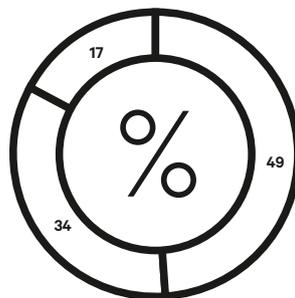
31.1

**Net sales
by segment**



78 VALVES
16 GLOBAL SERVICE
6 INDUSTRY

**Net sales
by region**



49 ASIA
34 AMERICAS
17 EMEA

Free cash flow
in CHF million

128.1

**Dividend
per share**
in CHF

4.00

Dear Shareholders,

2016 was an exciting, eventful and successful year for VAT Group. What company founder Siegfried Schertler started in 1965 as a small business in a corner of Switzerland, has grown into the strong global leader in one of the most dynamic and demanding markets in the world.

Our 2016 results tell part of the story, as demand continued to grow across all of our key end markets, from semiconductors to high-performance displays and other high-technology industries. Net sales reached a record CHF 508 million, up 24 percent compared with 2015. Adjusted EBITDA reached CHF 158 million, up 25 percent, while our adjusted EBITDA margin was 31 percent, slightly higher than the previous year. Net income was CHF 67 million and free cash flow amounted to CHF 128 million. Thanks to this strong result, and in line with our attractive dividend policy, the Board of Directors is proposing a dividend of CHF 4.00 per share.

Record sales were not the only landmark in 2016. It was also the year we went from a privately held company to one whose shares are traded on the SIX Swiss Exchange. The Initial Public Offering (IPO) in April has set a beacon in the development of the company. The transition from private to public company was not trivial. We had to develop new legal and corporate structures and functions that can both support a dynamic and growing business as well as meet the highest standards of corporate governance, to work on new business processes across all functions while managing unprecedented growth at the same time.

The results of the IPO are encouraging so far. The company's share price increased by almost 90 percent, from CHF 45 at the launch to CHF 84.85 at the end of 2016. That is not merely a reflection of a good short-term result in 2016. It also reflects investor confidence in our longer-term market position and strategy. Throughout the year senior management invested considerable effort and time into

keeping shareholders informed of key business developments in a clear and timely manner.

VAT is the world's undisputed No. 1 manufacturer of high-end vacuum valves used in the manufacturing of semiconductors, advanced flat-screen displays, solar panels and a high number of other industrial processes where complex, ultra-clean assembly environments are becoming increasingly important. We are approximately eight times the size of our nearest competitor in terms of market share with more than one million vacuum valves in operation around the world.

That puts us in a strong position to benefit from long-term structural growth trends, such as the proliferation and interconnectivity of personal digital devices, the Internet of Things and Industry 4.0 and the continuing miniaturization of a broad range of electronic devices across a wide range of industries and applications, from automotive and food & beverage to new forms of energy generation and medical devices.

VAT has achieved its leading position through a passion for technology innovation as well as by meeting the requirements, expectations and wishes of the world's most demanding customers over more than 50 years. About 20 percent of our employees are directly involved in the innovation process, including research, product management and development, business units or testing labs, whether searching for solutions to the potential technology challenges of the future, or custom-designing today's most sophisticated vacuum valves. Almost a third of 2016 sales were generated from products that were developed or modified within the previous three years. Innovation will remain a key success factor for VAT.



DR. HORST HEIDSIECK
CHAIRMAN OF THE BOARD OF DIRECTORS

Increasing our global footprint is another important element in our growth strategy. We have production, sales, service and engineering facilities in all our key markets around the world. In 2016, we continued to ramp up our new manufacturing facility in Penang, Malaysia, and we expect to more than double the output from this plant in 2017. Our expansion into Asia allows us to deepen our relationships with many of our largest customers and suppliers in South Korea, Taiwan, Japan and, increasingly, in China. This is a key competitive advantage that we intend to build on in the years to come.

Our solid results in 2016 also reflect the success of our ongoing VATmotion program to drive operational excellence throughout the company. We are working hard to adjust capacity more rapidly to meet quickly changing market demand by shortening production cycles and lead times. We want to benefit more from global economies of scale in the supply chain and continue to improve customer satisfaction. These will definitely be our highest priorities as we move into 2017 and beyond.

Achieving these goals takes passion, commitment, and teamwork – that means great people. On behalf of the Board of Directors, I would like to thank our more than 1,400 employees at all levels of the company for their efforts to make 2016 such a success. Their experience, skill, and commitment to quality and customer satisfaction are another of VAT's most important competitive advantages.

“We have achieved our leading position through our passion for technology innovation and more than 50 years of experience meeting the needs of the world's most demanding customers.”

As they say, staying at the top is as demanding as getting there in the first place. Maintaining our people advantage will be one of our priorities in 2017. The Board of Directors is sharpening its focus on developing talent and leaders from within the company, people with the VAT DNA, who can take the company forward with passion and the commitment to innovation, precision and quality that is VAT's hallmark.

At the same time, we need to attract new people – not only in Switzerland, but also in Asia and the US who can help us meet the demands of growing markets – maintaining high-quality, on-time delivery, and competitive costs under the pressure of growing customer needs. We grew our workforce by some 20 percent in 2016 to adapt to this demand, and this trend is likely to continue into 2017.

It was a strong first year for VAT Group as a public company. This performance is not just about being in the right market with the right product at the right time. It's also about people like Siegfried Schertler. He and his successors had a passion for innovation, precision and quality. They had a vision to create a technology for a young and exciting industry they were convinced had a big future.

They were willing to take risks for what they believed in and they brought together a team of skilled and talented people who shared their vision and passion. They saw the trend towards miniaturization and precision in electronics manufacturing and the increasingly complex and "pure" assembly environments they required. They understood the importance of constant innovation and product quality. They saw the market potential and competitive dynamics far beyond Switzerland and Europe and knew they would have to achieve the highest levels of performance in all areas to be successful.

That history, experience and set of values are the helix of the VAT Group's DNA today, which we are committed to preserve and to develop further.

PASSION. PRECISION. PURITY. These values were the foundation of VAT's success in 2016 and will remain the underlying drivers of success.

Looking ahead, growing demand means we all need to work together to ensure we continue to meet and surpass customer expectations on quality and on-time delivery while delivering improved results and value creation for our shareholders in 2017 and beyond.

Longer term, the outlook is positive. There is no end in sight to the digitalization of society around the world and the miniaturization of electronics and other high-technology products and processes. Semiconductors and high-performance displays will become ubiquitous as interconnectivity between devices increases. They will also become more complex as even more functionality is squeezed into spaces measured on the scale of molecules. The super-clean, near particle-free environments needed to manufacture such products cannot be achieved without the vacuum valves and related products and services that VAT has been successfully providing for more than 50 years.

VAT is looking forward with confidence into 2017 and beyond. We have the technology, people, passion and values to maintain and expand our leading market position, and to continue to deliver value to all of our stakeholders in the years ahead.

Finally, let me express on behalf of the Board our thanks for the confidence shareholders have placed in VAT during this important first year as a listed company. We are committed to build on this strong start and continue the VAT success story.



Sincerely,
Dr. Horst Heidsieck
Chairman of the Board of Directors

VAT successfully starts a new chapter, record 2016 results confirm market leadership

VAT Group AG and its subsidiaries (VAT) reported record results in 2016, driven by strong customer demand and a further expansion of its leading market position. 2016 was also the year when VAT entered a new chapter in its history with the successful initial public offering (IPO) on April 14, 2016, on the SIX Swiss Exchange. The transition from a privately held enterprise with more than 50 years' experience in vacuum valve technology to a publicly listed company marked a major step forward and further enhanced VAT's position as a global market leader in the vacuum Valves segment.

Positive business environment in 2016 results in a continued strong demand for vacuum technology

The pace of growth in VAT's markets accelerated throughout 2016, primarily driven by technology advances, particularly in the display market, and increasing demand for manufacturing equipment in the semiconductor industry. As the global market leader in high-end vacuum valves, VAT was able to benefit from this positive development to outgrow the market.

In the semiconductor market, technological innovations gave rise to ever-more complex production processes, miniaturization and additional production steps, such as 3D NAND solid-state flash memory devices, which consist of stacked chips to improve storage density and power efficiency. Such devices require a very clean production process free of particles and contamination which, in turn, can only be achieved in a reliable high-vacuum environment. Customer investments to meet this increasing demand for high-performance semiconductors drove strong sales growth in VAT's Valves segment in 2016.

VAT's Display & Solar business also experienced a strong 2016. Demand began to accelerate early in the year, driven by investments in new manufacturing capacity due to the changeover from liquid crystal displays (LCDs) to displays featuring organic light-emitting diode (OLED) technology. The production of these next-generation high-resolution displays, with much improved coloration and lower energy consumption, requires more demanding manufacturing processes in high-vacuum environments.

Growth across most business segments

In 2016, VAT's order intake was CHF 561.9 million, up 31.3% from the previous year, while the order backlog increased to CHF 122.1 million at year-end. Net sales of CHF 507.9 million represented an increase of 23.6% compared to a year earlier. This includes a positive impact from foreign exchange movements in 2016 of about 5%.

Net sales increased in the Valves and Global Service segments and were flat in the Industry segment. Net sales in the Valves segment, the largest segment representing 77.7% of VAT's net sales, improved on a year-on-year comparison to CHF 394.6 million. The major growth driver in this business segment was the Display & Solar business which in 2016 more than doubled its revenues, followed by a strong performance in the Semiconductor business, where demand accelerated in the second half of the year. The modules and general vacuum businesses also contributed to the strong performance.

The segment Global Service reported a 17.3% year-on-year increase in net sales to CHF 81.9 million. The business performed particularly well in the second half of the year as the result of strong demand for retrofits.

In the Industry segment, growth in edge-welded bellows continued, mainly related to high demand from the semiconductor market. This was largely offset by slightly weaker business conditions in the mechanical components and assemblies manufacturing business. Overall, Industry posted a steady result with net sales of CHF 31.4 million, 0.5% lower than in 2016.

Strong top line development feeds through to bottom line

As a result of the strong growth in net sales, VAT increased its gross profit by CHF 57.0 million, or 21.8%, to CHF 318.0 million. The decline in the gross margin from 63.5% to 62.6% is mainly the result of the change in the product mix as the Display & Solar business more than doubled its sales in 2016, but has slightly lower gross margins than the Semiconductor business for example.

Adjusted EBITDA for the year improved by 24.7% to CHF 158.1 million. The adjusted EBITDA margin increased to 31.1% compared to 30.8% in the previous year despite investments in future growth and additional costs associated with the strong increase in demand in 2016.

The conversion of the shareholder loan of CHF 414.1 million into equity as part of the IPO in April, the refinancing of the outstanding senior secured credit facility of USD 276 million with a new syndicated five-year revolving credit facility of USD 300 million and further deleveraging of the balance sheet lowered finance costs from CHF 71.4 million to CHF 37.7 million and will have a positive impact on VAT's future cash flows from financing activities.

The effective tax rate in 2016 of 23.5% was higher than the target range of 18% to 20%, due to the non-tax deductibility of certain IPO-related costs.

For the full year 2016, VAT realized a net income attributable to shareholders of CHF 67.2 million. The improvement was the result of higher operating profits coupled with lower net finance costs and a lower tax rate.

On December 31, 2016, VAT's net debt amounted to CHF 133.9 million, representing a leverage ratio expressed as Net Debt to EBITDA of 0.9 times. The equity ratio at year-end amounted to 57.8%.

Free cash flow supported by increased operating performance and tight working capital management

One of VAT's key performance indicators is free cash flow, which improved in 2016 to CHF 128.1 million from CHF 105.6 million in 2015. The improvement was driven by the better operating performance coupled with tight working capital management.

Net trade working capital decreased from 22.9% at the end of 2015 to 20.2% of sales at the end of 2016. In the medium term, VAT expects trade working capital to be around 20% of sales. The free cash flow margin was 25.2% and the free cash flow conversion rate was 85.6% of EBITDA.

At the end of 2016, VAT had 1,439 employees worldwide, an increase of 250, or 21.0%, compared with the end of 2015, reflecting the strong growth of our business.

The Board of Directors of VAT is proposing to its Annual General Meeting on May 17, 2017, a dividend for the business year ending December 31, 2016, of CHF 4.00 per share to be paid out of reserves from capital contributions, representing a total dividend amount of CHF 120 million.

VAT to focus on technology innovation, capacity expansion and initiatives to drive growth and efficiency

Megatrends such as Big Data, the Internet of Things, Industry 4.0, cloud computing and e-mobility are resulting in ever greater demand for advanced manufacturing technologies, including mission-critical vacuum components. Leading digital device and display manufacturers are continuing to invest in fabrication expansion and technology upgrades. As the world market leader for advanced high-vacuum valves, VAT expects to continue to benefit from these developments.

For 2017, VAT expects market demand to remain strong. Ongoing investments in semiconductor manufacturing equipment and the strong investment cycle for high-vacuum equipment for OLED display manufacturing are expected to be the main drivers of continued growth. The Modules, General Vacuum, Global Service and Industry businesses are also expected to contribute to a positive 2017 development.

VAT expects to grow full-year net sales by at least 20% at constant FX rates. The company also expects to maintain its adjusted EBITDA margin compared with the level in 2016. The mid-term EBITDA margin target of 33% remains in place. However, investments to support VAT's ongoing growth, as well as increased costs needed to quickly adapt capacity, are expected to temporarily slow down the rate of margin expansion towards this target.

VAT expects capital expenditures in 2017 and 2018 to be around 5% of sales, above the target level of 4% of sales over the cycle, again as the result of investments to meet the demands of the growing market.

Share price development



Valves

The Valves segment serves mainly original equipment manufacturers (OEMs) and comprises four business units: Semiconductor, serving the semiconductor sector; Display & Solar, serving high-end flat-panel display and solar photovoltaic OEMs; General Vacuum for customers in research and OEMs in various industries; and Modules, delivering customized multi-valve solutions.

In 2016, Valves generated strong sales growth, led by accelerating demand from OEMs in the semiconductor and display sectors. Growth was supported by longer-term structural trends, especially the rapidly growing use and complexity of semiconductors and displays in digital devices, as well as customer investments to improve throughput, uptime and overall productivity of their installed high-vacuum systems and equipment.

Semiconductors: Accelerating growth Net sales growth accelerated in the fourth quarter after stable growth rates in the previous quarters. Sales of the main product groups – control valves and transfer valves – were largely driven by growing demand for etch and deposition wafer fabrication equipment. Demand for smaller, more powerful and more energy-efficient memory storage devices was another key growth driver. Such devices include dynamic random-access memory (DRAM) and NAND solid-state flash memory used in portable wireless devices like smartphones and increasingly in big-data storage and notebook computers.

Display & Solar: Product innovation drives large orders Sales in the Display & Solar business unit more than doubled in 2016, reflecting rapid market and technology developments. In displays, the ongoing shift in mobile devices from liquid crystal displays (LCDs) to organic light-emitting diode (OLED) displays accelerated and drove OEM investment in new production capacity.

General Vacuum: Supporting major research projects Net sales in the General Vacuum business were steady in 2016, reflecting the long-term stability of its diverse customer base across both research and industrial markets. In 2016, VAT delivered specialized high-performance valves to ITER, a collaboration of 35 nations working to build a device at their facility in southern France that will test the feasibility of fusion power as a large-scale and carbon-free source of energy.

Modules: Improved productivity in a smaller manufacturing footprint Sales grew in VAT's Modules business unit, mainly reflecting growth initiatives to position the company as a provider of multi-valve systems that also integrate other high-vacuum components that help OEMs improve yield and throughput while reducing their manufacturing footprint.

Performance review 2016 and outlook

Net sales in the Valves segment grew to CHF 394.6 million in 2016, an increase of 27.5% compared to the previous year. Growth was strongest in the Semiconductor and Display & Solar business units. Sales increased in Modules and were stable in General Vacuum. Segment EBITDA rose 32.0% to CHF 129.3 million, leading to a segment EBITDA margin of 30.3%. The decline in margin was mainly the result of changes in the product mix as the display business carries slightly lower average margins, and by costs associated with growing the business, such as investments to increase production and higher research and development expenses.

The market for valves is expected to grow further in 2017. The increasing use of microchips and integrated circuits in both industrial and consumer applications is forecasted to continue for several years. The global demand for OLED displays is also expected to grow, driven by expansion beyond mobile devices to monitors, televisions and lighting. Further miniaturization in semiconductor and other manufacturing processes is also expected to drive demand.

Global Service

Global Service offers a wide range of service products, from original spare parts and service and maintenance to equipment retrofits and customized upgrades, along with training and around-the-clock support in all key markets.

The segment achieved double-digit sales growth in 2016, driven by several factors. First, the overall market for vacuum valves grew strongly as customers invested in new capacity to meet accelerating demand, especially in semiconductors and displays. This resulted in increased demand for service and spare parts, especially for high-performance components such as gate valves, which must operate reliably at high speeds and under extreme temperature and pressure conditions, and often involving the use of corrosive gases.

Another factor was the technology shift towards smaller and more powerful semiconductor chips and integrated circuits, which in turn increased the number of manufacturing process steps under vacuum. The Global Service business helped customers meet this challenge with customized valve retrofits of their existing equipment.

In a rapidly changing and highly competitive market, customers need to focus continuously on improving uptime and yield from their fixed assets. VAT's Global Service teams work directly with customers to identify areas of operational improvements – often through continuous improvement projects – and then carry out the valve upgrades and retrofits to improve tool uptime and reduce particle contamination. The end result is higher yield and lower total cost of ownership. VAT qualified its retrofit valves with a number of global customers in 2016, which yielded substantial volume orders for complete tool upgrades.

Sales growth in 2016 was also supported by the continued expansion of VAT's service footprint, especially in the US and Asia. In December 2016, the company also launched a new service facility in

the Silicon Valley to better serve US manufacturers and their installed equipment.

Global Service continued to implement growth initiatives aimed at, for example, collaborating with distribution and service partners close to customers. This minimizes production interruptions for end users as the demand for original spare parts, consumables and technical support is fulfilled directly at the customer's site. In 2016, Global Service signed an after-market contract with a leading distributor of vacuum and industry components in the US, and a service contract with a large OEM in Japan, where VAT acts as a subcontractor on behalf of the customer to provide valve overhaul services in all of its Asian facilities.

Performance review 2016 and outlook

Net sales increased 17.3% in 2016 to reach CHF 81.9 million. Growth was strongest for retrofits while spare parts and service sales also increased. Segment EBITDA rose 12.9% to CHF 40.5 million, leading to a segment EBITDA margin of 49.4%. The margin was supported by ongoing performance improvement programs such as the optimization of valve repair turnaround time to increase throughput, while costs associated with growing the business had a slight dampening effect.

The market for vacuum valve service is expected to remain positive in 2017. The need for valve upgrades and retrofit due to aging equipment and new technological developments is expected to drive continued customer investments in the refurbishment and modernization of their installed equipment. VAT plans to continue expanding its service footprint in 2017, with additional resources targeted for China, South Korea and Taiwan. The company also intends to further build its service offering in key markets, such as a service center planned at the refurbishing facility of a major US OEM to help the customer deliver faster retrofits for aging vacuum valve equipment.

Industry

The Industry segment manufactures innovative and technologically advanced edge-welded bellows that act as flexible sealing elements in certain high-vacuum applications. The business also manufactures related mechanical components and assemblies through its Sysmec subsidiary. Edge-welded bellows are highly specialized components manufactured using high-precision laser welding technology, often at microscopic levels. They are used in a variety of applications and industries, the largest being the high-vacuum equipment industry, including semiconductor manufacturing. The business also serves customers in the automotive and medical equipment industries, as well as other sectors.

Sales increased slightly in 2016, led mainly by improved demand from the semiconductor equipment sector. Edge-welded bellows are often used in vacuum manufacturing processes involving the highest levels of purity (ultra-high vacuum, or UHV) or where motion components, such as lifters or pumps, are in operation. Because edge-welded bellows are all-metal components, they eliminate the risk of particle contamination present in other feedthroughs using elastomer sealing.

In the automotive sector, VAT received a large long-term order from a Germany-based OEM in the first half of 2016 to deliver damper capsules used in high-performance fuel injection systems. The supply contract, which extends over several years, was the result of extensive collaboration with the customer to develop a technology solution tailored to their specific needs.

Edge-welded bellows are also used in other products and market segments, including medical applications like implantable drug pumps and in medical imaging technologies. They are also used in industrial actuators, in aerospace applications such as altitude sensors and fluid management devices, and in advanced research, such as experimental physics.

VAT continued to strengthen its competitive position in 2016 with further investments in its manufacturing facilities in Switzerland and Romania. The company introduced an advanced, fully automated bellows welding system in the second quarter of 2016, along with two new end seam welding machines. These investments resulted in reduced leadtimes and increased productivity, while at the same time improving the scalability of production, enabling VAT to better meet customer demands for both high-volume delivery and customized solutions.

The business also introduced and certified a high-purity cleanliness standard for its products that makes it easier for customers to choose the level of cleanliness on edge-welded bellows and valve components that best meets their specific production requirements. This will allow semiconductor OEMs to achieve the required purity level for the latest 3D semiconductors and device architectures at 10 nanometers and below.

Performance review 2016 and outlook

Net sales in the Industry segment were CHF 31.4 million in 2016, a decrease of 0.5% compared with the year before. However, internal sales (not included in the net sales number) to the Valves segment grew, reflecting the positive market for semiconductor manufacturing equipment in 2016. Sales to the automotive sector remained stable, while sales to other markets were steady to slightly lower.

Segment EBITDA rose by 5.8% to CHF 10.3 million, leading to a segment EBITDA margin of 22.1%. The positive margin development was supported by productivity improvements in VAT's facilities in Switzerland and Romania, as well as other operational excellence measures implemented as part of the VATmotion initiative.

The market for edge-welded bellows is expected to see steady growth. The growth of the semiconductor market is expected to continue and the trends in the automotive and medical device fields components are also expected to support growth.

Consolidated financial statements for the financial year from January 1 to December 31, 2016

Consolidated income statement

January 1–December 31 In CHF thousand	2016	2015
Net sales	507,901	410,959
Raw materials and consumables used	-186,293	-150,929
Changes in inventories of finished goods and work in progress	-3,603	985
Personnel expenses	-118,784	-104,334
Other income	3,087	2,192
Other expenses	-52,755	-39,236
Earnings before interest, taxes, depreciation and amortization (EBITDA)¹	149,553	119,637
Depreciation and amortization	-31,287	-30,227
Earnings before interest and taxes (EBIT)¹	118,266	89,410
Finance income	7,291	2,575
Finance costs	-37,674	-71,427
Earnings before income taxes	87,883	20,558
Income tax expenses	-20,651	-13,497
Net income attributable to owners of the Company	67,233	7,061
Earnings per share (in CHF)		
Basic earnings per share	2.43	0.34
Diluted earnings per share	2.42	0.34

¹ Interest includes other items reported in the financial results.

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	2016	2015
Net income attributable to owners of the Company	67,233	7,061
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit obligations	-9,115	2,650
Related tax	1,586	-461
Subtotal	-7,529	2,189
Items that are or may be subsequently reclassified to profit or loss:		
Changes in the fair value of hedging reserves	-4,247	0
Related tax	758	0
Currency translation adjustments	-4,419	4,553
Subtotal	-7,908	4,553
Other comprehensive income for the period (net of tax)	-15,437	6,742
Total comprehensive income for the period attributable to owners of the Company	51,796	13,803

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As of December 31 In CHF thousand	2016	2015
Assets		
Cash and cash equivalents	62,642	80,601
Trade and other receivables	94,353	72,679
Receivables under finance lease	2,483	2,183
Derivative financial instruments	1,485	0
Prepayments and accrued income	651	1,119
Financial assets at fair value through profit and loss	30	27
Inventories	56,587	57,966
Current tax assets	1,148	955
Current assets	219,379	215,530
Property, plant and equipment	116,128	115,002
Investment properties	4,382	4,607
Intangible assets and goodwill	530,500	544,668
Long-term loans	217	283
Trade and other receivables	1,253	1,166
Receivables under finance lease	6,175	8,453
Derivative financial instruments	199	21
Deferred tax assets	5,197	3,745
Non-current assets	664,050	677,945
Total assets	883,429	893,475

As of December 31 In CHF thousand	2016	2015
Liabilities		
Trade and other payables	50,617	28,779
Loans and borrowings	36,505	1,461
Provisions	1,248	846
Derivative financial instruments	6,145	7,102
Accrued expenses and deferred income	18,068	10,144
Liabilities from government grants	444	449
Current tax liabilities	17,540	13,595
Current liabilities	130,566	62,376
Loans and borrowings	160,000	707,763
Derivative financial instruments	995	648
Liabilities from government grants	1,421	1,885
Other non-current liabilities	165	0
Deferred tax liabilities	51,197	50,825
Defined benefit obligations	28,436	20,789
Non-current liabilities	242,214	781,910
Total liabilities	372,780	844,286
Equity		
Share capital	3,000	30
Share premium	493,745	87,530
Remeasurements of defined benefit obligations	-16,839	-9,310
Other reserves	2,455	0
Hedging reserves	-3,595	-106
Translation reserves	-43,111	-38,692
Treasury shares	-4,950	0
Retained earnings	79,943	9,737
Total equity attributable to owners of the Company	510,649	49,189
Total liabilities and equity	883,429	893,475

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Remeasurements of DBO ²	Other reserves	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Holding S.à r.l.									
Equity as of 01.01.2015	30	87,530	-11,499	0	-106	-43,245	0	2,676	35,386
Net income attributable to owners of the Company								7,061	7,061
Total comprehensive income for the period attributable to owners of the Company			2,189			4,553			6,742
Equity as of 31.12.2015	30	87,530	-9,310	0	-106	-38,692	0	9,737	49,189
VAT Group AG									
Equity as of 01.01.2016¹	30	87,530	-9,310	0	-106	-38,692	0	9,737	49,189
Net income attributable to owners of the Company								67,233	67,233
Total comprehensive income for the period attributable to owners of the Company			-7,529		-3,489	-4,419			-15,437
Incorporation of VAT Group AG	100								100
Effect of business restructuring	2,870	411,223							414,093
Own shares acquired							-4,950		-4,950
Reclassification		-2,455		2,455					0
Transaction costs (net of tax)		-2,553							-2,553
Share-based payments (net of tax)								2,973	2,973
Equity as of 31.12.2016	3,000	493,745	-16,839	2,455	-3,595	-43,111	-4,950	79,943	510,649

¹ See note 2

² DBO: Defined benefit obligations

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	2016	2015
Net income attributable to owners of the Company	67,233	7,061
Adjustments for:		
Depreciation and amortization	31,287	30,227
(Profit)/loss from disposal of property, plant and equipment	277	-173
Change in defined benefit liability	-1,501	1,253
Net impact from foreign exchange	-1,808	-1,210
Income tax expenses	20,651	13,497
Net finance costs	27,652	68,852
Transaction costs in connection with the IPO ¹	5,543	0
Other non-cash effective adjustments	-141	-348
Change in trade and other receivables	-19,018	-3,369
Change in prepayments and accrued income	501	-357
Change in inventories	1,436	-792
Change in trade and other payables	20,124	13,129
Change in accrued expenses and deferred income	7,803	2,738
Change in provisions	411	-63
Cash generated from operations	160,450	130,445
Income taxes paid	-14,094	-12,980
Cash flow from operating activities	146,356	117,465
Purchases of property, plant and equipment	-15,852	-9,919
Proceeds from sale of property, plant and equipment	666	954
Purchases of intangible assets	-3,313	-3,021
Loans granted or repaid	72	51
Interest received	100	89
Other finance income received	55	2
Cash flow from investing activities	-18,272	-11,844
Proceeds from the issue of ordinary shares	100	0
Purchase of own shares	-4,950	0
Transaction costs in connection with the IPO ¹	-8,332	0
Proceeds from borrowings	228,821	0
Repayments of borrowings	-350,894	-82,682
Interest paid	-10,588	-15,824
Other finance expenses paid	-363	-306
Cash flow from financing activities	-146,206	-98,812
Net increase/(decrease) in cash and cash equivalents	-18,121	6,809
Cash and cash equivalents at beginning of period	80,601	74,758
Effect of movements in exchange rates on cash held	162	-966
Cash and cash equivalents at end of period	62,642	80,601

¹ Includes stamp tax and consulting fees

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Statutory financial statements

VAT Group AG for the financial year from February 25 to December 31, 2016

Balance sheet

As of December 31 In CHF thousand	2016
Assets	
Cash and cash equivalents	429
Other receivables due from third parties	90
Other receivables from companies in which the entity holds an investment	2,236
Prepayments and accrued income	524
Current assets	3,279
Financial assets	1,737
Loans granted to companies in which the entity holds an investment	653,600
Investments in subsidiaries	87,556
Non-current assets	742,893
Total assets	746,172
Liabilities	
Short-term interest bearing liabilities due to third parties	36,968
Other payables	161
Short-term provisions	1,018
Accrued expenses and deferred income due to third parties	100
Accrued expenses and deferred income due to governing bodies	398
Accrued expenses and deferred income due to companies in which the entity holds an investment	55
Current liabilities	38,700
Long-term interest bearing liabilities due to third parties	161,737
Long-term interest bearing liabilities due to companies in which the entity holds an investment	57,561
Non-current liabilities	219,298
Total liabilities	257,998
Equity	
Share capital	3,000
Legal capital reserves:	
– Reserves from capital contributions	495,109
– Other capital reserves	3,682
Accumulated losses:	
– Loss for the period	–8,665
Treasury shares	–4,950
Total equity attributable to owners of the Company	488,175
Total liabilities and equity	746,172

Income statement

February 25–December 31 In CHF thousand	2016
Interest income	2,221
Total income	2,221
Interest expenses	-1,389
Other financial expenses	-1,020
Personnel expenses	-444
Other operating expenses	-1,746
Extraordinary, non-recurring or prior period expenses	-6,287
Total expenses	-10,886
Loss for the period	-8,665

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	2016
Balance brought forward	0
Loss for the period	-8,665
Total accumulated losses	-8,665

The Board of Directors proposes to the General Meeting, to carry forward accumulated losses of CHF -8,7 million.

Appropriation of reserves from capital contributions

In CHF thousand	2016
Reserves from capital contributions as of 31.12.2016	495,109
Dividend payment out of reserves from capital contributions	-120,000
Reserves from capital contributions carried forward	375,109

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 120 million from the reserves from capital contributions.

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

Financial calendar

Date	Event
2017	
Wednesday, May 17, 2017	Q1 2017 trading update & Annual General Meeting 2017
Tuesday, May 23, 2017	Dividend payment
Thursday, August 24, 2017	Half-year results 2017
Friday, November 10, 2017	Q3 2017 trading update
2018	
Friday, March 9, 2018	Full-year results 2017

Contact

This condensed report is published in both German and English. The English print version of VAT Group AG's annual report is legally binding. VAT Group AG's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

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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 2017:

Megatrends such as Big Data, the Internet of Things, Industry 4.0, cloud computing and e-mobility are resulting in ever greater demand for advanced manufacturing technologies, including mission-critical vacuum components.

VAT expects to grow full-year net sales by at least 20% at constant FX rates. The company also expects to maintain its adjusted EBITDA margin compared with the level in 2016. Investments to support VAT's ongoing growth are expected to temporarily slow down the rate of margin expansion towards our mid-term target of 33%.



PASSION. PRECISION. PURITY.