Financial Statements

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

Consolidated financial statements for the financial year from January 1 to December 31, 2018

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2018	2017
Net sales	**6,7**	**698,136**	**692,415**
Raw materials and consumables used		–257,350	–310,081
Changes in inventories of finished goods and work in progress		–21,248	49,537
Personnel expenses	8	–148,596	–156,917
Other income	9	8,588	5,244
Other expenses	10	–64,291	–67,987
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**215,239**	**212,211**
Depreciation and amortization	18,19,20	–35,558	–33,466
Earnings before interest and taxes (EBIT)[1]		**179,682**	**178,745**
Finance income	11	390	481
Finance costs	11	–13,580	–44,548
Earnings before income taxes		**166,491**	**134,678**
Income tax expenses	12	–30,804	–19,001
Net income attributable to owners of the Company		**135,687**	**115,677**
Earnings per share (in CHF)			
Basic earnings per share	29	4.53	3.86
Diluted earnings per share	29	4.52	3.86

1 Interest includes other items reported in the financial results.

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2018	2017
Net income attributable to owners of the Company		135,687	115,677
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	26	–12,273	1,917
Related tax	12	1,878	–721
Subtotal		**–10,395**	**1,196**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		–283	3,377
Related tax	12	43	–608
Currency translation adjustments		426	46,036
Subtotal		**186**	**48,805**
Other comprehensive income for the period (net of tax)		**–10,209**	**50,001**
Total comprehensive income for the period attributable to owners of the Company		**125,478**	**165,677**

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82ff.

Consolidated balance sheet

As of December 31 In CHF thousand	Note	2018	2017
Assets			
Cash and cash equivalents	13	79,063	72,021
Trade and other receivables	14	94,778	122,590
Derivative financial instruments	15	280	1,150
Prepayments and accrued income	16	3,127	2,717
Financial assets at fair value through profit and loss		34	36
Inventories	17	104,158	110,744
Current tax assets	12	4	491
Current assets		**281,442**	**309,749**
Property, plant and equipment	18	170,524	147,751
Investment properties	19	1,873	1,923
Intangible assets and goodwill	20	505,614	517,213
Trade and other receivables	14	1,965	6,086
Derivative financial instruments	15	23	0
Deferred tax assets	12	6,746	8,411
Non-current assets		**686,745**	**681,384**
Total assets		**968,187**	**991,133**

As of December 31 In CHF thousand	Note	2018	2017
Liabilities			
Trade and other payables	22	44,568	92,820
Loans and borrowings	21	27,608	55,764
Provisions	25	2,577	1,802
Derivative financial instruments	15	1,539	1,836
Accrued expenses and deferred income	23	20,739	21,366
Liabilities from government grants	24	453	471
Current tax liabilities	12	24,094	24,371
Current liabilities		**121,579**	**198,430**
Loans and borrowings	21	199,078	160,000
Derivative financial instruments	15	23	291
Liabilities from government grants	24	545	1,034
Other non-current liabilities		199	201
Deferred tax liabilities	12	42,829	45,845
Defined benefit obligations	26	39,763	27,325
Non-current liabilities		**282,438**	**234,696**
Total liabilities		**404,017**	**433,126**
Equity			
Share capital	28	3,000	3,000
Share premium	28	253,891	373,823
Reserves	28	–21,300	–11,090
Treasury shares	28	–687	–790
Retained earnings		329,266	193,064
Total equity attributable to owners of the Company		**564,170**	**558,007**
Total liabilities and equity		**968,187**	**991,133**

The above consolidated balance sheet should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82ff.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Remeasurements of DBO[1]	Other reserves	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2017	**3,000**	**493,745**	**–16,839**	**2,455**	**–3,595**	**–43,111**	**–4,950**	**79,943**	**510,649**
Net income attributable to owners of the Company								115,677	115,677
Total comprehensive income for the period attributable to owners of the Company			1,196		2,769	46,036			50,001
Dividend payment		–119,923							–119,923
Share-based payments (net of tax)							4,160	–2,556	1,604
Equity as of 31.12.2017	**3,000**	**373,823**	**–15,643**	**2,455**	**–826**	**2,925**	**–790**	**193,064**	**558,007**
VAT Group AG Equity as of 01.01.2018	**3,000**	**373,823**	**–15,643**	**2,455**	**–826**	**2,925**	**–790**	**193,064**	**558,007**
Adjustment on initial application of IFRS 9 (net of tax)[2]								–31	–31
Restated equity as of 01.01.2018								**193,033**	**557,976**
Net income attributable to owners of the Company								135,687	135,687
Total comprehensive income for the period attributable to owners of the Company			–10,395		–241	426			–10,209
Dividend payment		–119,932							–119,932
Share-based payments (net of tax)							103	546	649
Equity as of 31.12.2018	**3,000**	**253,891**	**–26,038**	**2,455**	**–1,067**	**3,351**	**–687**	**329,266**	**564,170**

1 DBO: Defined benefit obligations
2 The Group has initially applied IFRS 9 at 01.01.2018 (see also note 3). Under the transition methods chosen, comparative information is not restated.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2018	2017
Net income attributable to owners of the Company		**135,687**	**115,677**
Adjustments for:			
Depreciation and amortization	18,19,20	35,558	33,466
(Profit)/loss from disposal of property, plant and equipment	9,10	166	168
Change in defined benefit liability		–5	807
Net impact from foreign exchange		–4,410	–3,143
Income tax expenses	12	30,804	19,001
Net finance costs	11	13,190	44,067
Other non-cash-effective adjustments		197	1,138
Change in trade and other receivables		32,459	–24,033
Change in prepayments and accrued income		–446	–1,992
Change in inventories		6,294	–53,200
Change in trade and other payables		–47,198	41,096
Change in accrued expenses and deferred income		–550	3,337
Change in provisions		779	546
Cash generated from operations		202,524	176,934
Income taxes paid		–30,813	–21,342
Cash flow from operating activities		**171,711**	**155,593**
Purchases of property, plant and equipment	18	–41,953	–43,774
Proceeds from sale of property, plant and equipment		230	144
Purchases of intangible assets	20	–6,245	–3,804
Loans granted or repaid		0	214
Interest received	11	122	78
Other finance income received		0	4
Cash flow from investing activities		**–47,845**	**–47,137**
Proceeds from borrowings[1]	21	223,936	115,000
Repayments of borrowings	21	–214,678	–89,847
Dividend paid	28	–119,932	–119,923
Interest paid		–4,308	–4,083
Other finance expenses paid		–1,423	–694
Cash flow from financing activities		**–116,406**	**–99,547**
Net increase/(decrease) in cash and cash equivalents		**7,460**	**8,909**
Cash and cash equivalents at beginning of period		72,021	62,642
Effect of movements in exchange rates on cash held		–418	469
Cash and cash equivalents at end of period		**79,063**	**72,021**

1 Includes financing costs in the amount of CHF 1.1 million (prior year: CHF 0.0 million)

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82ff.

Notes to the consolidated 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, CH-9469 Haag, Switzerland.

The consolidated financial statements as at and for the year ended December 31, 2018 comprise VAT Group AG and all companies under its control (together referred to as "VAT" or "Group").

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

2. Basis of accounting

The consolidated financial statements of the Group have been prepared in accordance with IFRS.

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

The accounting policies adopted are consistent with those of the previous financial year, except for the changes related to revenues from contracts with customers and financial instruments. These accounting policies have changed as of January 1, 2018, due to the adoption of the new IFRS standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers." Additionally, a number of standards have been modified on miscellaneous points with effect from January 1, 2018. None of these amendments had a material effect on the Group's financial statements.

Details to the Group's accounting policies are included in note 37.

3. Changes in accounting policies

The new standard IFRS 9 "Financial Instruments" changes the classification and measurement of financial assets and liabilities as well as the accounting for impairment and hedges. The impairment of financial assets, including trade receivables, is now assessed using an expected credit loss model. The first-time adoption of IFRS 9 reduced equity on January 1, 2018 by CHF 0.03 million (net of tax) due to this new model. The adoption of IRFS 9 has not a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact on the classification and measurement of financial assets and liabilities is set out in the following table.

Financial assets **In CHF thousand**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost	72,021	72,021
Trade and other receivables	Loans and receivables	Amortized cost	116,215	116,178
Accrued income	Loans and receivables	Amortized cost	1,068	1,068
Equity securities	Held-for-trading	FVTPL	36	36
Forward exchange contracts	Fair value – hedging instrument	Fair value – hedging instrument	1,150	1,150

Financial liabilities In CHF thousand	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Trade and other payables	Other financial liabilities	Other financial liabilities	81,189	81,189
Accrued expenses	Other financial liabilities	Other financial liabilities	6,808	6,808
Other non-current liabilities	Other financial liabilities	Other financial liabilities	201	201
Loans and borrowings	Other financial liabilities	Other financial liabilities	215,764	215,764
Forward exchange contracts	Fair value – hedging instrument	Fair value – hedging instrument	2,127	2,127

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with no material impact on the consolidated financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements have not been restated to reflect the requirements of the new standards.

A number of other standards have been modified on miscellaneous points with effect from January 1, 2018. None of these amendments had a material effect on the Group's financial statements.

4. Use of judgments and estimates

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

a) intangible assets and goodwill, see note 20,
b) property, plant and equipment, see note 18,
c) income taxes, see note 12,
d) employee benefits, see note 26,
e) provisions, see note 25.

5. Functional and presentation currency

These consolidated financial statements are presented in Swiss Francs, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

6. Segment information

Background

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

Basis of segmentation

The Group 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.

- **Valves:** The Valves segment is a global developer, manufacturer and supplier of vacuum valves for the semiconductor, displays, photovoltaics and vacuum coating industries as well as for the industrial and research sector.

- **Global Service:** Global Service provides local expert support to customers and offers genuine spare parts, repairs and upgrades.
- **Industry:** The Industry segment combines the activities of Comvat and Sysmec. Comvat is one of the leaders in the production of edge-welded bellows and specialized in automating processes. Sysmec is well situated in the machining ancillary industry and offers manufacturing parts and mechanical components in the medium service range.

Corporate and eliminations

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

While net sales in the segments Valves and Industry only arise from sales of goods, net sales in the segment Global Service of CHF 19.2 million (prior year: CHF 16.2 million) came from sales of services.

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

Information about reportable segments

January 1–December 31, 2018 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	551,051	105,770	41,315	698,136	–	698,136
Inter-segment sales	44,417	–	21,897	66,314	–66,314	–
Segment net sales	**595,468**	**105,770**	**63,212**	**764,450**	**–66,314**	**698,136**
Segment EBITDA	**192,357**	**49,634**	**8,387**	**250,379**	**–35,139**	**215,239**

January 1–December 31, 2017 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	554,236	98,724	39,454	692,415	–	692,415
Inter-segment sales	41,085	–	22,643	63,728	–63,728	–
Segment net sales	**595,322**	**98,724**	**62,097**	**756,143**	**–63,728**	**692,415**
Segment EBITDA	**188,637**	**47,626**	**13,366**	**249,628**	**–37,417**	**212,211**

As of December 31, 2018 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	655,632	121,597	86,829	864,059	1,873	865,932
Segment liabilities	24,412	2,720	3,696	30,828	84	30,912
Segment net operating assets	**631,220**	**118,877**	**83,133**	**833,231**	**1,789**	**835,020**
Of which net trade working capital	121,832	15,187	20,074	157,093	–84	157,009

As of December 31, 2017 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	674,019	128,765	81,604	884,388	1,923	886,311
Segment liabilities	67,174	6,264	6,726	80,164	106	80,270
Segment net operating assets	**606,845**	**122,501**	**74,878**	**804,224**	**1,817**	**806,041**
Of which net trade working capital	108,604	15,834	14,822	139,260	–106	139,154

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

Reconciliation of segment results to income statement and balance sheet

Income statement

January 1–December 31 In CHF thousand	2018	2017
Segment EBITDA	250,379	249,628
Corporate and eliminations	–35,139	–37,417
Depreciation and amortization	–35,558	–33,466
Finance costs net	–13,190	–44,067
Earnings before income taxes	**166,491**	**134,678**

Assets

As of December 31 In CHF thousand	2018	2017
Segment assets	864,059	884,388
Corporate and eliminations	1,873	1,923
Cash and cash equivalents	79,063	72,021
Other assets[1]	23,192	32,800
Assets	**968,187**	**991,133**

Liabilities

As of December 31 In CHF thousand	2018	2017
Segment liabilities	30,828	80,164
Corporate and eliminations	84	106
Loans and borrowings	226,686	215,764
Other liabilities[2] and provisions	146,419	137,092
Liabilities	**404,017**	**433,126**

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

Geographic information

Net sales

January 1–December 31 In CHF thousand	2018	2017
Switzerland	10,043	7,487
Europe excl. Switzerland	98,739	88,686
USA	227,292	228,750
Japan	110,208	103,706
Korea	64,603	96,583
Singapore	73,236	76,876
Asia excl. Japan, Korea and Singapore	100,639	74,771
Other	13,377	15,555
Total	**698,136**	**692,415**

No other individual country represented more than 10% of net sales in 2018 and 2017.

Non-current assets

As of December 31 In CHF thousand	2018	2017
Switzerland	610,942	621,575
Europe excl. Switzerland	8,873	10,285
USA	2,944	3,564
Asia	55,252	31,463
Total	**678,011**	**666,887**

Non-current assets by location include property, plant and equipment, investment properties, intangible assets and goodwill. No other individual country represented more than 10% of non-current assets in 2018 and 2017.

Major customers

Revenues from two customers of the Group's Valves, Global Service and Industry segments represented approximately 19% and 16% (prior year: two customers represented approximately 20% and 18%) of the Group's total revenues.

7. Revenue

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

Disaggregation of order intake and net sales

January 1 – December 31, 2018 In CHF thousand	Valves	Global Service	Industry	Total
Order intake	497,468	108,376	42,184	648,028
Net sales by region				
Asia	286,638	51,660	10,388	348,686
Americas	185,595	39,245	4,830	229,669
EMEA	78,819	14,866	26,096	119,781
Net sales	551,051	105,770	41,315	698,136

8. Personnel expenses

January 1–December 31 In CHF thousand	2018	2017
Wages and salaries	124,444	130,953
Social security costs[1]	19,266	20,217
Other personnel expenses	4,886	5,747
Total personnel expenses	**148,596**	**156,917**
Number of employees (FTE)	**1,712**	**1,946**

1 Pension costs are included within the line item “Social security costs”. In prior year, pensions costs were disclosed separately.

9. Other income

January 1–December 31 In CHF thousand	2018	2017
Net foreign exchange gains on operating and investing activities	2,777	2,301
Work performed by the entity and capitalized	3,919	1,568
Rental income from investment properties	88	91
Change in provision for impairment on trade receivables[1]	167	277
Gains from sale of fixed assets	96	0
Other income	1,540	1,008
Total other income	**8,588**	**5,244**

1 Change in provision for impairment on trade receivables was reclassified from line “other income” to a separate line item.

10. Other expenses

January 1–December 31 In CHF thousand	2018	2017
Marketing and advertising	1,173	1,413
Distribution	7,346	7,434
Office rent	2,543	2,524
Administrative expenses	16,064	13,265
Travel expenses	4,586	6,030
Repair and maintenance	15,737	18,095
Energy and supplies	7,839	7,548
Insurance, duties and other charges	2,126	2,106
Losses from sale of fixed assets	263	168
Research and development expenses[1]	2,035	3,772
Other operating expenses	4,579	5,632
Total other expenses	**64,291**	**67,987**

1 Includes only third-party expenses.

11. Finance income and costs

January 1–December 31 In CHF thousand	2018	2017
Interest income	122	78
Finance lease income	266	390
Other finance income	2	12
Finance income	**390**	**481**
Interest expenses	–5,094	–5,129
Net foreign exchange losses on financing activities[1]	–7,041	–37,141
Fair value losses from derivatives not qualifying as hedges	0	–962
Other finance expenses	–1,445	–1,316
Finance costs	**–13,580**	**–44,548**
Total finance result	**–13,190**	**–44,067**

1 Prior year: including recycling of translation reserves in the amount of CHF 38.3 million due to simplification of legal structure

12. Tax

The Group is subject to income taxes in numerous jurisdictions. As of December 31, 2018, the net current tax liabilities amounted to CHF 24.1 million (prior year: CHF 23.9 million) and the net deferred tax liabilities to CHF 36.1 million (prior year: CHF 37.4 million). Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact income taxes in the period in which such determination is made.

Income tax expenses

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

January 1–December 31 In CHF thousand	2018	2017
Current tax:		
Current tax on earnings for the period	30,012	29,118
Adjustments in respect of prior periods	219	–256
Total current tax	**30,231**	**28,862**
Change in temporary differences	573	–9,860
Total deferred tax	**573**	**–9,860**
Income tax expense	**30,804**	**19,001**

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

January 1–December 31 In CHF thousand	2018	2017
Earnings before income taxes	166,491	134,678
Tax at the average group tax rate of 17.6% (previous year: 18.0%)[1]	**29,245**	**24,296**
Effect of tax rates in foreign jurisdictions[1]	–434	–1,973
Effect in change of tax rate	–1,668	–7,351
Expenses not deductible for tax purposes[2]	2,519	7,706
Income not subject to tax	–124	–3,034
Used tax losses carried forwards	–841	0
Effect of current-year losses for which no deferred tax asset is recognized	1,186	794
Effect of (recognition)/derecognition of loss carry-forwards	298	–1,900
Withholding taxes included in the tax expenses	821	501
Other tax effects	–198	–37
Total tax expenses recorded in consolidated income statement	**30,804**	**19,001**
Effective tax rate	**18.5%**	**14.1%**

1 The applicable tax is determined using the average statutory tax rate applicable to the Group, calculated on a weighted average basis ignoring algebraic signs. Therefore, the effect of tax rates in foreign jurisdictions is disclosed.
2 Prior year: includes CHF 6.9 million tax effect from the recycling of translation reserves

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

January 1–December 31, 2018 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	–12,273	1,878	–10,395
Changes in the fair value of hedging reserves	–283	43	–241

January 1–December 31, 2017 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	1,917	–721	1,196
Changes in the fair value of hedging reserves	3,377	–608	2,769

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

January 1–December 31, 2018 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	602	–56	546

January 1–December 31, 2017 In CHF thousand	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	–2,508	–48	–2,556

Deferred tax balances

The deferred tax assets and liabilities at the end of the period were as follows:

As of December 31, 2018 In CHF thousand	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	102	–334	–232
Inventories	3,562	–3,239	323
Property, plant and equipment	723	–5,763	–5,041
Investment properties		–54	–54
Intangible assets		–36,547	–36,547
Other current liabilities	540	–376	164
Provisions		–1,982	–1,982
Defined benefit obligations	6,121		6,121
Tax losses carried forward	2,091		2,091
Non-refundable withholding taxes on future distributions		–927	–927
Total deferred tax assets/(liabilities) before setoff	**13,139**	**–49,223**	**–36,084**
Setoff of balances within the same tax jurisdiction	–6,393	6,393	0
Net deferred tax assets/(liabilities)	**6,746**	**–42,829**	**–36,084**

The deferred tax assets and liabilities at the end of the previous period were as follows:

As of December 31, 2017 In CHF thousand	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	48	–467	–419
Inventories	6,192	–2,968	3,224
Property, plant and equipment	22	–5,767	–5,745
Investment properties		–52	–52
Intangible assets		–38,404	–38,404
Other current liabilities	405	–35	370
Other non-current liabilities	50		50
Provisions		–1,769	–1,769
Defined benefit obligations	4,202		4,202
Tax losses carried forward	1,900		1,900
Non-refundable withholding taxes on future distributions		–792	–792
Total deferred tax assets/(liabilities) before setoff	**12,819**	**–50,254**	**–37,434**
Setoff of balances within the same tax jurisdiction	–4,408	4,408	0
Net deferred tax assets/(liabilities)	**8,411**	**–45,845**	**–37,434**

The movement in deferred tax balances is as follows:

In CHF thousand	2018	2017
Net tax liabilities as of January 1	**–37,434**	**–46,000**
Recognized in income statement	–573	9,860
Recognized in OCI	1,921	–1,329
Translation differences	2	35
Net tax liabilities as of December 31	**–36,084**	**–37,434**

For some Group companies, dividend payments are subject to a withholding tax which cannot be fully recovered in Switzerland. Deferred tax liabilities in the amount of the non-recoverable withholding tax credits are recorded in profit and loss. The balance of these deferred tax liabilities was CHF 0.9 million (prior year: CHF 0.8 million).

Tax losses

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

As of December 31 In CHF thousand	2018	2017
Opening balance	**67,017**	**161,516**
Tax losses for which no deferred tax assets were recognized	4,943	0
Recognition of tax loss carry-forward	0	–9,139
Used tax losses carried forwards	–8,506	0
Expired due to reorganization[1]	–58,496	–82,972
Exchange differences	–5	–2,388
Closing balance	**4,953**	**67,017**

1 Expired due to reorganization of legal structure in Luxembourg

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

As of December 31 In CHF thousand	2018	2017
2020	0	0
2021	0	0
After 2021	4,953	67,017
Total	**4,953**	**67,017**

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

13. Cash and cash equivalents

Cash and cash equivalents fully consist of cash at bank and on hand. The total of cash and cash equivalents includes amounts of CHF 0.3 million (prior year: CHF 0.3 million) which has a restriction of use.

14. Trade and other receivables

As of December 31 In CHF thousand	2018	2017
Trade receivables – gross	84,105	109,151
Less provision for impairment of trade receivables	–342	–471
Trade receivables – net	**83,763**	**108,680**
Recoverable VAT and withholding tax	5,256	9,877
Deposits	834	801
Receivables from social security	1,816	1,271
Receivables under finance lease	3,798	6,321
Other	1,276	1,727
Total trade and other receivables	**96,743**	**128,676**
Thereof:		
Current trade and other receivables	94,778	122,590
Non-current other receivables	1,965	6,086

Deposits for office rent have no fixed due date and are considered to be non-current.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Loss rates are based on actual credit loss experience over the past years and current conditions. Current conditions are reflected in the development of the country risk premium of the Group's sales region. The allowance matrix is reviewed periodically to determine an adequate impairment provision. Losses on trade and other receivables are not material. Therefore, the provision matrix is not disclosed separately. Individual impairment provisions are recorded for accounts where collection cannot be expected. The effect of initially applying IFRS 9 is described in note 3. Movements on the Group provision for impairment of trade and other receivables are as follows:

January 1–December 31 In CHF thousand	2018	2017
Opening balance under IAS 39	**471**	**748**
Adjustment on initial application of IFRS 9	36	
Opening balance under IFRS 9	**507**	
Provision for receivables impairment	27	89
Receivables written off during the year as uncollectible	–74	–137
Unused amounts reversed	–115	–236
Exchange differences	–3	7
Closing balance	**342**	**471**
Thereof impairment of trade receivables	342	471

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Receivables under finance lease

Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of the discounted future lease receipts. These receivables primarily relate to the lease of machinery and amount to CHF 3.8 million as of December 31, 2018 (prior year: CHF 6.3 million) and will bear interest income until their maturity dates of CHF 0.1 million (prior year: CHF 0.4 million).

The payment dates of the receivables under finance lease are as follows:

In CHF thousand	Unearned interest income	Present value	Total future minimum lease receipts
No later than 1 year	136	3,798	3,934
Total at 31.12.2018	**136**	**3,798**	**3,934**
No later than 1 year	266	2,591	2,856
Between 1 and 5 years	136	3,730	3,866
Total at 31.12.2017	**402**	**6,321**	**6,722**

15. Derivative financial instruments

The following table shows the carrying amounts of the derivatives.

As of December 31 In CHF thousand	Measurement principle	2018	2017
Derivatives held for hedging	Level 2[1]	303	1,150
Derivative assets		**303**	**1,150**
Thereof:			
Current derivative assets		280	1,150
Non-current derivative assets		23	0
Derivatives held for hedging	Level 2[1]	–1,562	–2,127
Derivative liabilities		**–1,562**	**–2,127**
Thereof:			
Current derivative liabilities		–1,539	–1,836
Non-current derivative liabilities		–23	–291

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.

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2018 were USD 115.0 million (prior year: USD 197.0 million) and JPY 5,640.0 million (prior year: JPY 3,000.0 million). The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 18 months.

Hedge accounting

VAT Group apply hedge accounting for all foreign currency contracts in line with IFRS 9. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income in the hedging reserves, while any ineffective portion is recognized immediately in the income statement. The cumulated unrealized gain or loss that had been recorded in equity is subsequently reclassified into earnings in the same period during which the hedged item affects net profit or loss. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income is transferred to the income statement. VAT Group uses cash flow hedges to reduce and manage the economic impact of its main currency risks. As of December 31, 2018 and 2017, the Group held currency forwards as hedging instruments. The forward contracts were denominated in the same currency as the highly probable future transactions; therefore the hedge ratio on all hedges conducted by VAT Group was 1:1 as of December 31, 2018. The hedging reserves included net unrealized losses of CHF 1.1 million, net of tax, on derivatives designated as cash flow hedges (prior year: CHF 0.8 million). Net losses of CHF 2.1 million (prior year: CHF 0.8 million) were reclassified to earnings in 2018. The maturity of derivatives classified as a cash flow hedge was between 6 to 18 months.

16. Prepayments and accrued income

As of December 31 In CHF thousand	2018	2017
Prepaid purchases	466	492
Other prepaid expenses	2,590	1,156
Accrued income	71	1,068
Total prepayments and accrued income	**3,127**	**2,717**

17. Inventories

As of December 31 In CHF thousand	2018	2017
Raw materials and consumables	42,618	35,403
Work in progress	12,389	16,731
Semi-finished goods	23,132	19,047
Finished goods	26,019	39,564
Total inventories	**104,158**	**110,744**

In the financial year 2018, inventories of CHF 1.0 million (previous year: CHF 0.7 million) were scrapped and recognized as expense.

18. Property, plant and equipment

As of December 31, 2018, the Group had CHF 170.5 million (prior year: CHF 147.8 million) in property, plant and equipment. Property, plant and equipment are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists, estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment or closure of facilities, the presence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairments.

January 1–December 31, 2018 In CHF thousand	Land	Buildings	Machinery	Furniture/ fixtures	Other equipment	Assets under construction	Total
Balance at 01.01.2018	**8,065**	**73,202**	**70,602**	**5,935**	**15,423**	**28,227**	**201,456**
Additions		307	13'942	1,820	1,162	24,721	41,953
Additions non-cash							
Disposals			–222	–40	–543		–805
Transfer		3,893	15,012	1,084	2,263	–22,252	0
Exchange differences	–23	–136	–1,077	–68	–77	–323	–1,705
Balance at 31.12.2018	**8,042**	**77,265**	**98,257**	**8,731**	**18,228**	**30,373**	**240,898**
Accumulated depreciation and impairment							
Balance at 01.01.2018	**–129**	**–12,652**	**–30,537**	**–2,885**	**–7,500**	**0**	**–53,704**
Depreciation charge	–34	–3,912	–9,941	–948	–2,782		–17,619
Impairment loss			–2	–43			–45
Disposals			123	12	274		409
Transfer		–1					–1
Exchange differences	3	28	482	27	46		586
Balance at 31.12.2018	**–161**	**–16,537**	**–39,875**	**–3,838**	**–9,963**	**0**	**–70,374**
Net book amount 31.12.2018	**7,881**	**60,729**	**58,383**	**4,893**	**8,266**	**30,373**	**170,524**

January 1–December 31, 2017 In CHF thousand	Land	Buildings	Machinery	Furniture/ fixtures	Other equipment	Assets under construction	Total
Balance at 01.01.2017	**5,894**	**68,887**	**52,401**	**5,029**	**13,091**	**7,940**	**153,243**
Additions		344	4,197	319	951	37,962	43,774
Additions non-cash					75		75
Disposals			–447	–192	–820		–1,459
Transfer	2,058	3,434	12,892	689	2,088	–18,240	2,921
Exchange differences	114	537	1,558	90	38	564	2,902
Balance at 31.12.2017	**8,065**	**73,202**	**70,602**	**5,935**	**15,423**	**28,227**	**201,456**
Accumulated depreciation and impairment							
Balance at 01.01.2017	**–88**	**–8,396**	**–20,816**	**–2,061**	**–5,753**	**0**	**–37,115**
Depreciation charge	–32	–3,572	–7,969	–816	–2,343		–14,732
Impairment loss			–1,519				–1,519
Disposals			437	43	689		1,169
Transfer		–614					–614
Exchange differences	–9	–70	–669	–52	–93		–893
Balance at 31.12.2017	**–129**	**–12,652**	**–30,537**	**–2,885**	**–7,500**	**0**	**–53,704**
Net book amount 31.12.2017	**7,936**	**60,550**	**40,065**	**3,050**	**7,923**	**28,227**	**147,751**

19. Investment properties

The carrying amounts of the investment properties measured using the cost model are reasonably approximate of their fair values.

January 1–December 31, 2018 In CHF thousand	Land	Buildings	Total
Balance at 01.01.2018	**869**	**1,249**	**2,118**
Additions			0
Disposals			0
Transfer			0
Balance at 31.12.2018	**869**	**1,249**	**2,118**
Accumulated depreciation and impairment			
Balance at 01.01.2018	**0**	**–195**	**–195**
Depreciation charge		–51	–51
Disposals			0
Transfer		1	1
Balance at 31.12.2018	**0**	**–245**	**–245**
Net book amount at 31.12.2018	**869**	**1,004**	**1,873**

January 1–December 31, 2017 In CHF thousand	Land	Buildings	Total
Balance at 01.01.2017	**2,927**	**2,112**	**5,039**
Additions			0
Disposals			0
Transfer	–2,058	–863	–2,921
Balance at 31.12.2017	**869**	**1,249**	**2,118**
Accumulated depreciation and impairment			
Balance at 01.01.2017	**0**	**–657**	**–657**
Depreciation charge		–152	–152
Disposals			0
Transfer		614	614
Balance at 31.12.2017	**0**	**–195**	**–195**
Net book amount at 31.12.2017	**869**	**1,053**	**1,923**

20. Intangible assets and goodwill

Intangible assets amounting to CHF 321.9 million (prior year: CHF 333.5 million) are identifiable non-monetary assets without physical substance from which future economic benefits are expected to flow to the Group. Intangible assets are amortized on a straight-line basis over their useful lives, where this can be clearly determined. For intangible assets with indefinite useful lives such as brands and trademarks, an impairment test of the asset value is conducted annually at the balance sheet date, or earlier on the occurrence of a triggering event. Goodwill amounting to CHF 183.7 million as of December 31, 2018, and December 31, 2017, is not amortized, but instead tested annually for impairment. The recoverable amount of cash-generating units is measured on the basis of value in use, estimated using discounted cash flows.

January 1–December 31, 2018 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2018	**183,717**	**8,178**	**263,600**	**120,900**	**1,338**	**4,079**	**581,812**
Additions		34				6,211	6,245
Disposals		–19			–178		–197
Transfer		3,766			1,971	–5,737	0
Exchange differences		–12					–12
Balance at 31.12.2018	**183,717**	**11,947**	**263,600**	**120,900**	**3,131**	**4,553**	**587,848**
Accumulated amortization and impairment							
Balance at 01.01.2018	**0**	**–4,148**	**–59,957**	**0**	**–494**	**0**	**–64,599**
Amortization charge		–1,995	–15,308		–365		–17,668
Impairment loss					–175		–175
Disposals		19			178		197
Exchange differences		11					11
Balance at 31.12.2018	**0**	**–6,113**	**–75,265**	**0**	**–856**	**0**	**–82,234**
Net book value 31.12.2018	**183,717**	**5,834**	**188,335**	**120,900**	**2,275**	**4,553**	**505,614**

January 1–December 31, 2017 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2017	**183,717**	**6,080**	**263,600**	**120,900**	**1,451**	**2,569**	**578,317**
Additions		17				3,786	3,804
Disposals		–36			–302		–338
Transfer		2,088			189	–2,277	0
Exchange differences		29				1	30
Balance at 31.12.2017	**183,717**	**8,178**	**263,600**	**120,900**	**1,338**	**4,079**	**581,812**
Accumulated amortization and impairment							
Balance at 01.01.2017	**0**	**–2,817**	**–44,649**	**0**	**–351**	**0**	**–47,817**
Amortization charge		–1,309	–15,308		–253		–16,870
Impairment loss					–193		–193
Disposals		13			302		315
Exchange differences		–35					–35
Balance at 31.12.2017	**0**	**–4,148**	**–59,957**	**0**	**–494**	**0**	**–64,599**
Net book value 31.12.2017	**183,717**	**4,030**	**203,643**	**120,900**	**843**	**4,079**	**517,213**

Research and development costs

In 2018, research and development expenses amounting to CHF 34.1 million (previous year: CHF 34.0 million) were included in the items "Personnel expenses," "Other operating expenses" and "Depreciation and amortization." For 25 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 3.3 million (previous year: CHF 1.1 million) were capitalized.

Impairment testing for goodwill and intangible assets with indefinite useful lives

The intangible assets and goodwill to be tested were allocated to and measured on cash-generating units (CGUs) at the segment levels as follows. The allocation remains unchanged for December 31, 2018, from December 31, 2017.

In CHF thousand	Valves	Global Service	Industry	Total
Goodwill	128,673	35,742	19,302	183,717
Brand and trademarks	94,618	26,282	0	120,900
Total carrying amount 31.12.2018	**223,291**	**62,024**	**19,302**	**304,617**

Goodwill and intangible assets with indefinite useful lives have been allocated to the CGUs by using the relative fair value approach based on the financial performance of those CGUs as well as management best estimate. The allocation corresponds with the lowest level at which those assets are monitored by management.

Recoverable amounts used in the impairment testing are based on the value in use and on the latest forecasts approved by management, discounting the future cash flows to be generated from the continuing use. The forecast period used for future cash flows covers the years 2019 to 2021. The discount rates used are based on the weighted average cost of capital (WACC) derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the capital asset pricing model (CAPM). The annual impairment tests carried out supported the carrying amounts and, therefore, no need for impairment was identified.

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

As of December 31, 2018	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.8%	10.7%	10.4%
Terminal value growth rate	1.7%	1.7%	1.7%

As of December 31, 2017	Valves	Global Service	Industry
Discount rate (WACC) before tax	9.4%	9.3%	9.3%
Terminal value growth rate	1.6%	1.6%	1.6%

Management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be less than the carrying amount.

21. Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2018 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR +0.95%	2023	22,945
Revolving credit facility (RCF)	CHF	CHF LIBOR +0.95%	2023	4,664
Fixed-rate bond	CHF	1.50%	2023	199,078
Total loans and borrowings				**226,686**
Thereof:				
Current				27,608
Non-current				199,078

As of December 31, 2017 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR +1.55%	2021	100,764
Revolving credit facility (RCF)	CHF	CHF LIBOR +1.45%	2021	115,000
Total loans and borrowings				**215,764**
Thereof:				
Current				55,764
Non-current				160,000

VAT Group AG maintains a syndicated five-year revolving credit facility (RCF) of USD 300.0 million. On April 5, 2018, the RCF was amended and the final maturity date extended from September 23, 2021 to September 23, 2023. The movement of the outstanding loan in financial year 2018 was mainly driven by a repayment of CHF 214.7 million, raising of CHF 25.0 million as well as foreign exchange effects in the amount of CHF 1.8 million.

The RCF is subject to the financial covenant "net senior debt/EBITDA" ratio, with which the Group complied with for the financial year 2018.

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). The bond carries a coupon rate of 1.5% and has a term of five years with a final maturity on May 23, 2023. On December 31, 2018, the market value of the bond was CHF 194.5 million.

The carrying amounts as of December 31, 2018 include financing costs of CHF 2.9 million (prior year CHF 1.7 million), which will be recognized in profit and loss over the remaining duration of the credit facility.

Reconciliation of movements of liabilities to cash flows from financing activities

As of December 31 In CHF thousand	2018	Cash-effective adjustment		Non-cash-effective adjustment		2017
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	226,686	223,936	–214,678	–113	1,778	215,764
Total liabilities from financing activities	**226,686**	**223,936**	**–214,678**	**–113**	**1,778**	**215,764**

As of December 31 In CHF thousand	2017	Cash-effective adjustment		Non-cash-effective adjustment		2016
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	215,764	115,000	–89,847	463	–6,357	196,505
Total liabilities from financing activities	**215,764**	**115,000**	**–89,847**	**463**	**–6,357**	**196,505**

22. Trade and other payables

As of December 31 In CHF thousand	2018	2017
Trade payables	30,912	80,270
Sales tax and other non-income tax payables	4,829	6,158
Social security payables	2,813	1,863
Salaries and employee expenses	451	426
Prepayments received from customers	4,249	3,184
Other liabilities	1,314	919
Total trade and other payables	**44,568**	**92,820**

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

As of December 31 In CHF thousand	2018	2017
Swiss Franc	22,382	41,906
Euro	7,811	20,684
US Dollar	4,338	21,415
Malaysian Ringgit	2,771	3,899
Romanian Leu	1,289	2,173
Chinese Yuan	3,185	1,040
Other currencies	2,791	1,701
Total trade and other payables	**44,568**	**92,820**

23. Accrued expenses and deferred income

As of December 31 In CHF thousand	2018	2017
Accrued expenses – personnel related	10,288	14,552
Accrued expenses – other	10,434	6,808
Deferred income	17	6
Total accrued expenses and deferred income	**20,739**	**21,366**

24. Liabilities from government grants

As of December 31 In CHF thousand	2018	2017
Liabilities from government grants	998	1,505
Total	**998**	**1,505**
Thereof:		
Current	453	471
Non-current	545	1,034

In 2012, the Romanian manufacturing plant was granted EU subsidies in the amount of CHF 3.7 million to support an extension and modernization of the existing plant. Construction was completed in August 2014. The plant must be in use for the following consecutive five years. There are further performance conditions, such as number of employees, revenues and amount of export, which must be met during that entire period. A refund is not requested if the performance conditions are met. The liability from government grants is recorded in the income statement on a straight-line basis over the useful life of the asset, being eight years. During the period an amount of CHF 0.5 million (prior year: CHF 0.4 million) was recorded in other income.

25. Provisions

January 1–December 31, 2018 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at 01.01.2018	**1,652**	**150**	**1,802**
Additions	2,284	166	2,450
Used	–1,453	–219	–1,672
Translation differences	0	–3	–3
Balance at 31.12.2018	**2,483**	**94**	**2,577**
Thereof:			
Current provisions	2,483	94	2,577

Warranties

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

No other significant provisions were deemed required at the reporting date.

26. Employee benefits

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

Throughout the world, the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue. The aggregate cost of these plans in the period presented amounted to CHF 1.0 million (prior year: CHF 1.0 million).

There are three defined benefit plans in place: the members of the Board of Directors of the Japanese subsidiary as well as all French employees are covered by a non-funded defined benefit plan and all Swiss entities have a funded contributory defined benefit pension plan covering their employees with the following amounts recognized in balance sheet and income statement:

Balance sheet

As of December 31 In CHF thousand	2018	2017
Japan	146	88
France	83	0
Switzerland	39,534	27,237
Net defined benefit liability in the balance sheet	**39,763**	**27,325**

Income statement

January 1–December 31 In CHF thousand	2018	2017
Japan	48	61
France	85	0
Switzerland	6,346	5,964
Pension costs – defined benefit plans	**6,479**	**6,025**

Swiss plan

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

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

Plan participants, their spouse and children are insured against the financial consequences of old age, disability and death. Their benefits are defined in pension plan rules compliant with the BVG, which is specifying the minimum benefits that are to be provided. Retirement benefits are based on the accumulated retirement capital which can either be drawn as a lifelong annuity or as a lump sum payment. The annuity is calculated by multiplying the retirement capital with the currently applicable conversion rate. The accumulated retirement capital is made of the yearly contributions towards the old-age risk by both employer and employee and the interest thereon until retirement. Contributions towards the old-age risk are based on the rules defined by the Board of Trustees of the semi-autonomous foundation. Minimum contributions and interest are defined by the BVG and the Swiss Parliament. In 2018, the minimum interest was 1.00% (prior year: 1.00%).

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

All other actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries and the return on plan assets) and are regularly assessed by the Board of Trustees. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The employer can also make additional restructuring contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings.

The foundation decided in 2018 to increase the annual old-age credits, starting from January 1, 2019. This resulted in a plan amendment, which was recognized as part of the service costs in the financial year 2018. The amounts recognized in the balance sheet are determined as follows:

As of December 31 In CHF thousand	2018	2017
Present value of defined benefit obligation	191,097	180,831
Fair value of plan assets	151,563	153,594
Net defined benefit liability	**39,534**	**27,237**

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

January 1–December 31 In CHF thousand	2018	2017
Opening defined benefit obligation	**180,831**	**157,642**
Service costs	6,550	5,889
Plan participants contributions	6,510	5,951
Interest expense	1,147	964
Remeasurement (gains)/losses	5,139	4,390
Plan amendment	–253	0
Benefits paid through pension assets	–8,827	5,995
Closing defined benefit obligation	**191,097**	**180,831**

January 1–December 31 In CHF thousand	2018	2017
Opening fair value of plan assets	**153,594**	**129,267**
Interest income	1,012	805
Return on plan assets (excl. amounts in net interest)	–7,134	6,307
Plan participants contributions	6,510	5,951
Employer contributions	6,510	5,344
Benefits received/(paid) through pension assets net	–8,827	5,995
Administration expense	–102	–75
Closing fair value of plan assets	**151,563**	**153,594**

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

As of December 31 In CHF thousand	2018	2017
Defined benefit obligation for active employees	151,527	143,966
Defined benefit obligation for pensioners	39,570	36,865
Total defined benefit obligation	**191,097**	**180,831**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2018	2017
Current service costs	6,550	5,889
Interest expense on defined benefit obligation	1,147	964
Interest income on plan assets	–1,012	–805
Plan amendment	–253	0
Administration expense	102	75
Total defined benefit cost/(income) recognized in income statement	**6,534**	**6,123**
Thereof:		
Employee benefit expenses	6,399	5,964
Finance expenses	135	159
Actuarial (gain)/loss arising from financial assumptions	5,226	–1,534
Actuarial (gain)/loss arising from experience adjustment	–87	5,924
Return on plan assets (excl. amounts included in net interest)	7,134	–6,307
Total defined benefit cost/(income) recognized in OCI	**12,273**	**–1,917**

The major asset categories are as follows:

As of December 31 In CHF thousand	2018	2017
Equity instruments (quoted market prices)	45,056	45,781
Debt instruments (quoted market prices)	35,608	46,543
Real estate (quoted market prices)	28,899	24,622
Alternative investments (quoted market prices)	27,433	23,497
Cash	14,083	10,001
Others	484	3,150
Total	**151,563**	**153,594**

Equity instruments contain shares from VAT Group AG with a fair value in the amount of CHF 1.7 million (prior year: CHF 2.9 million).

The significant actuarial assumptions were as follows:

As of December 31	2018	2017
Discount rate	0.70%	0.65%
Inflation	1.00%	0.75%
Salary growth rate	1.25%	1.00%
Pension growth rate	0.00%	0.00%

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

As of December 31	2018	2017
Retiring at the end of the reporting period:		
Male	22.50	22.38
Female	24.54	24.43
Retiring 20 years after the end of the reporting period:		
Male	24.33	24.26
Female	26.37	26.29

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

	Impact on defined benefit obligation 2018		Impact on defined benefit obligation 2017	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–7,889	8,459	–7,357	7,895
Salary growth rate (+/– 0.25%)	1,050	–1,031	1,042	–1,018

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

Expected contributions to defined benefit plans for the year ending December 31, 2019 amount to CHF 6.5 million.

The weighted average duration of the defined benefit obligation is 16.2 years (prior year: 16.5 years).

Japanese plan

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

January 1–December 31 In CHF thousand	2018	2017
Opening defined benefit obligation	**88**	**61**
Service costs	48	61
Retirements	0	–34
Exchange differences	10	0
Closing defined benefit obligation	**146**	**88**

Board of Directors of the Japanese Group company is covered by a company-funded pension benefit scheme. The amounts allocated to the employees are calculated based on the past service period using a multiple, taking the average salary for the previous three years into consideration. Amounts are calculated and recorded on an annual basis when the service period has vested.

French plan

Group employees in France are entitled to a length-of-service award when they retire, determined in accordance with the law and the applicable collective bargaining agreement. The award is measured as a multiple of the individual's monthly salary for the last 12 months before retirement, determined by reference to his or her years of service. This plan was recognized in financial year 2018 for the first time. The accumulated service costs amount to CHF 0.1 million.

27. Share-based payments

At December 31, 2018, the Group had the following share-based payment arrangements.

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

Members of the Board receive 30% of the total compensation in restricted shares. The restricted shares are subject to a three-year blocking period during which they cannot be transferred, sold, pledged or otherwise disposed of. VAT Group granted 1,478 shares (prior period 1,390 shares) with a fair value of CHF 152.5 per share for the period 2017/18. For the period 2018/19, the Group allocated 2,132 shares (prior period 1,247 shares).

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

	Share price at grant date	TSR fair value at grant date (50%)	Sales growth fair value at grant date (50%)	Volatility	Risk-free rate	Dividend yield
Long-term incentive plan 2017	CHF 128.28	CHF 104.94	CHF 105.15	25.3%	0.5%	3.3%
Long-term incentive plan 2018	CHF 139.18	CHF 101.19	CHF 109.16	26.7%	0.5%	3.8%

As of December 31, 2018, the number of outstanding performance share units (PSU) under the plan are 12,982 (prior year: 5,929).

Expenses recognized in profit or loss
For all these share-based payments, a total amount of CHF 0.7 million (prior year: CHF 2.9 million) was recognized as personnel expenses in the consolidated income statement for the financial year 2018.

28. Equity

Share capital
As of December 31, 2018, the total authorized and issued number of ordinary shares comprises 30,000,000 shares with a nominal value of CHF 0.10 each. A conditional capital increase of up to 1,500,000 shares, which is included in the articles of association of VAT Group AG, was not drawn as of December 31, 2018.

Share premium
Shares were issued in exchange for investments in VAT Holding S.à r.l. and VAT Management S.à r.l. as well as a shareholder loan from VAT Holding S.à r.l. in the financial year 2016.

Treasury shares
VAT Group AG initially purchased own shares to be held as treasury shares at the offer price of CHF 45 pursuant to the share-based payment plans as shown in note 27. As of December 31, 2018, the Group held 15,264 own shares (prior year: 17,547).

Nature and purpose of reserves

The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

The hedging reserves comprise the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in the income statement as the hedged cash flows or items affect profit or loss.

Remeasurements of the net defined benefit liabilities are charged or credited to other comprehensive income in the period in which they arise.

Other reserves represent stamp duty from the issue of new shares in the financial year 2016.

Dividends

VAT declared and paid following dividend from the reserves from capital contributions:

In CHF thousand	2018	2017
Dividends paid	**119,932**	**119,923**

The Board of Directors proposed a dividend in the amount of CHF 4.00 per share for the financial year 2017 (prior year: CHF 4.00 per share). The dividend was approved and paid out in May 2018.

29. Earnings per share

Basic earnings per share are calculated by dividing net income attributable to owners of the Company by the weighted number of ordinary shares outstanding during the period. Treasury shares are not considered as outstanding shares. The following reflects the income and share data used in the basic and diluted EPS calculation:

In CHF thousand	2018	2017
Basic earnings per share (in CHF)	**4.53**	**3.86**
Net profit	135,687	115,677
Weighted average number of shares outstanding (in thousands of units)	29,984	29,956

Diluted earnings per share is calculated by dividing net income attributable to owners of the Company by the weighted average number of shares adjusted for all potentially dilutive shares. Dilutive shares arise from the share-based payments as shown in note 27.

In CHF thousand	2018	2017
Diluted earnings per share (in CHF)	**4.52**	**3.86**
Net profit	135,687	115,677
Weighted average number of shares outstanding (in thousands of units)	29,992	29,959

30. Financial instruments

Categories of financial instruments

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

As of December 31 In CHF thousand	2018	2017
Financial assets measured at amortized cost		
Cash and cash equivalents	79,063	72,021
Trade and other receivables	88,657	116,215
Accrued income	71	1,068
Total financial assets recorded at amortized cost	**167,791**	**189,304**
Financial assets measured at fair value		
Equity shares	34	36
Forward exchange contracts	303	1,150
Total financial assets measured at fair value	**337**	**1,187**
Financial liabilities recorded at amortized cost		
Trade and other payables	32,226	81,189
Accrued expenses	10,434	6,808
Other non-current liabilities	199	201
Loans and borrowings	226,686	215,764
Total financial liabilities recorded at amortized cost	**269,545**	**303,962**
Financial liabilities measured at fair value		
Forward exchange contracts	1,562	2,127
Total financial liabilities measured at fair value	**1,562**	**2,127**

Fair value estimation

Financial instruments carried at fair value are analyzed by valuation method. The different levels have been defined as follows:

– quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
– observable prices for the asset or liability, either directly or indirectly (Level 2),
– inputs for the asset or liability are not based on observable market data (Level 3).

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

The Group recorded foreign exchange contracts (derivative financial assets/liabilities) at fair value, which are Level 2 financial instruments. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. The fair values are based on market/broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

There were no transfers in either direction between Level 1 and Level 2 in 2018 and 2017. No financial instruments were measured at Level 3.

31. Financial risk management

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

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

Market risk

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

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

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

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

As of December 31, 2018 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	193,049	159,521	33,528
EUR/CHF	58,156	46,836	11,320
JPY/CHF	51,687	22,992	28,695

As of December 31, 2017 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	210,792	250,625	–39,834
EUR/CHF	46,813	42,849	3,964
JPY/CHF	71,758	38,009	33,749

The management's assessment for a reasonably possible change in the foreign exchange rates could be a 5% shift in the major currencies against the Swiss Franc with all the other variables held constant. In case of net financial assets/liabilities, as of December 31, 2018, the cumulated impact on net financial assets/liabilities would be CHF 3.7 million (CHF 1.7 million in USD/CHF, 0.6 million in EUR/CHF, 1.4 million in JPY/CHF) (prior year: CHF –0.1 million [CHF –2.0 million in USD/CHF, 0.2 million in EUR/CHF, 1.7 million in JPY/CHF]). An increase in major currency rates would have a positive (prior year: negative) impact and a decrease would have an equal negative (prior year: positive) impact on profit or loss and equity.

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

Fair value sensitivity analysis for fixed-rate instruments
The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments
As in prior year, a reasonably possible change of 50 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss by a material amount. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. We expect the USD-LIBOR to increase in the next 12 months.

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

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

Further information about trade receivables and the provision for impairment of trade receivables is provided in note 14.

With respect to trade receivables, the Group has two main customers representing 35% (prior year: 38%) of the Group's total revenues. This concentration of credit risk is considered low due to the strong market position of these two customers. Country risk is mitigated by the broad geographic spread of the Group's customer base.

Liquidity risk

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

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

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

At 31.12.2018 **In CHF thousand**		Contractual cash flows					
	Carrying amount	**Total**	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	32,226	–32,226	–27,850	–4,376			
Accrued expenses	10,434	–10,434	–9,342	–1,092			
Other non-current liabilities	199	–199					–199
Loans and borrowings	226,686	–240,371	–28,556	–2,248	–3,031	–206,536	
Non-derivative financial liabilities	**269,545**	**–283,230**	**–65,748**	**–7,716**	**–3,031**	**–206,536**	**–199**
Forward exchange contracts used for hedging:							
– Outflow	1,562	–119,723	–52,078	–64,428	–3,217		
– Inflow		118,160	51,099	63,867	3,194		
Derivative financial liabilities	**1,562**	**–1,562**	**–979**	**–561**	**–23**		

At 31.12.2017 **In CHF thousand**		Contractual cash flows					
	Carrying amount	**Total**	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	81,189	–81,189	–79,240	–1,949			
Accrued expenses	6,808	–6,808	–6,308	–500			
Other non-current liabilities	201	–201					–201
Loans and borrowings	215,764	–239,853	–1,147	–59,227	–4,699	–174,779	
Non-derivative financial liabilities	**303,962**	**–328,051**	**–86,695**	**–61,676**	**–4,699**	**–174,779**	**–201**
Forward exchange contracts used for hedging:							
– Outflow	2,127	–152,541	–35,334	–95,731	–21,476		
– Inflow		150,414	34,709	94,520	21,186		
Derivative financial liabilities	**2,127**	**–2,127**	**–624**	**–1,211**	**–291**		

Capital risk management

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

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

The equity ratio was as follows:

As of December 31 In CHF thousand	2018	2017
Total equity	564,170	558,007
Total balance sheet	968,187	991,133
Equity ratio	**58.3%**	**56.3%**

32. Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities. As of December 31, 2018 and 2017, no assets were pledged.

Capital expenditure contracted for at the end of the reporting period, but not yet incurred was as follows:

As of December 31 In CHF thousand	2018	2017
Property, plant and equipment	15,619	13,858
Intangible assets	748	1,261
Total	**16,367**	**15,119**

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one and ten years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to the income statement during the period amounted to CHF 2.5 million (prior year: CHF 2.5 million).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

As of December 31 In CHF thousand	2018	2017
No later than 1 year	2,675	1,865
Later than 1 year and no later than 5 years	6,421	4,234
Later than 5 years	91	385
Total	**9,187**	**6,483**

33. Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2018	2017
Contribution to Swiss pension plan	6,510	5,951

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

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

January 1–December 31 In CHF thousand	2018	2017
Short-term employee benefits	2,135	1,399
Post-employment benefits	179	169
Share-based payments	226	125
Total	**2,540**	**1,693**

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

January 1–December 31 In CHF thousand	2018	2017
Other payables due to Swiss autonomous employee benefit plan	947	0
Other payables due to governing bodies	120	**0**
Accrued expenses and deferred income due to governing bodies	201	269
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	39,534	27,237

Shares held by the Board of Directors and the Group Executive Committee are disclosed in note 4.3. of the statutory financial statements of VAT Group AG.

34. Subsequent events

The Company has evaluated subsequent events through March 7, 2019, which represents the date when the consolidated financial statements were approved.

35. List of subsidiaries

The subsidiaries of the Company as of December 31, 2018 are the following:

Country	Company	Function	Currency	Capital in thousands	Share
China	VAT Vacuum Valves Shanghai Company Ltd., Shanghai	D	CNY	1,618	100%
France	VAT SARL, Verrières-le-Buisson	D	EUR	50	100%
Germany	VAT Deutschland GmbH, Dresden	D	EUR	26	100%
Japan	VAT Ltd., Yokohama	D	JPY	96,470	100%
Korea	VAT Korea Ltd., Pyeongtaek City	D	KRW	300,000	100%
Luxembourg	VAT Management S.à r.l., Luxembourg	H	CHF	30	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	1,000	100%
Romania	Sysmec S.R.L., Arad	D/P	RON	6,771	100%
Singapore	VAT Singapore Pte. Ltd., Singapore	D	SGD	500	100%
Switzerland	VAT Vakuumventile AG, Sennwald	D/P	CHF	100	100%
	Comvat AG, Sennwald	D/P	CHF	275	100%
	VAT Holding AG, Sennwald	H	CHF	300	100%
Taiwan	VAT Taiwan Co. Ltd., Hsin-Chu City	D/P	TWD	12,000	100%
United Kingdom	VAT Vacuum Products Ltd, Warwickshire	D	GBP	1	100%
USA	VAT Inc., Delaware	D	USD	1	100%

D: Distribution, H: Holding, P: Production

36. Changes in accounting policies

A number of standards have been modified on miscellaneous points with effect from January 1, 2018. None of these amendments had a material effect on the Group's financial statements.

37. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated in these notes to the financial statements.

Basis of consolidation

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

Loss of control When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests (NCI) and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Foreign currency translation

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

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

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

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

	Average exchange rates in CHF		Closing exchange rates in CHF	
	01.01.–31.12.2018	01.01.–31.12.2017	31.12.2018	31.12.2017
1 Euro	1.15	1.11	1.13	1.17
100 Japanese Yen	0.89	0.88	0.89	0.87
100 Korean Won	0.09	0.09	0.09	0.09
1 Malaysian Ringgit	0.24	0.23	0.24	0.24
1 US Dollar	0.98	0.98	0.98	0.98

Revenue recognition

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

Interest income

Interest income or expense is recognized using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate.

Group as a lessor

Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets are classified as finance lease. Receivables from finance leases in which the Group as lessor transfers substantially all the risks and rewards in connection with ownership to the lessee are recognized at an amount equal to the discounted future minimum lease payments. Finance lease income – reported under "Finance income" – is subsequently recognized based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest method.

Government grants
Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to property, plant and equipment are split into current and non-current liabilities as deferred government grants and are credited to the income statement within “Other income” on a straight-line basis over the expected lives of the related assets.

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

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

Cash and cash equivalents
In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

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

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

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

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

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

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise.

Impairment

The Group recognizes loss allowances for ECLs on financial assets measured at amortized cost and measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. At each reporting date, the Group assesses whether financial assets are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Offsetting Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are initially recorded at fair value and subsequently adjusted for fair value changes. The measurement of derivatives in the Group's balance sheet is based on internal valuations or on the valuation of the respective financial institution. VAT applies hedge accounting in accordance with IFRS 9 to hedge balance sheet items and future cash flows, thus reducing income statement volatility. Changes in the value of instruments designated as fair value hedges are recorded together with the change in fair value of the underlying item directly in the income statement, net. The effective portion of instruments designated as cash flow hedges is recognized in other comprehensive income. The ineffective portion of such instruments is recorded in financial result, net. Changes in value resulting from cash flow hedges recognized in equity through the consolidated statement of comprehensive income are reclassified in the income statement in the period in which the cash flow from the hedged transaction is recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated using the straight-line method based on the following useful lives: long-leased land (60 years), buildings (20–40 years), machinery (5–8 years), furniture/fixtures (3–8 years), other equipment (3–12 years). Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

Investment properties

The Group owns undeveloped land, commercial and residential properties that are held to earn long-term rental income and for capital appreciation. The properties are not occupied by the Group. Investment property is carried at cost less depreciation. Depreciation on commercial and residential property is calculated using the straight-line method to allocate its costs to its residual values over its estimated useful life of 20 to 40 years for commercial property and 50 years for residential property. Any gain or loss on disposal of investment property is recognized in the consolidated income statement. Rental income from investment property leased to a third party under operating lease is recognized in "Other income" in the income statement.

Goodwill and intangible assets

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the level of the segments as laid out in note 20. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Intangible assets, including technology and customer relationships that are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses. For intangible assets with indefinite useful lives, such as brands and trademarks, an impairment test is conducted annually at the balance sheet date, or on the occurrence of a triggering event. The Group considers that the acquired brands and trademark have an indefinite useful life as they are well established in the respective markets and have a history of strong performance.

Acquired computer software licenses are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred. Amortization is calculated using the straight-line method over the estimated useful lives and is generally recognized in the consolidated income statement. The estimated useful lives are as follows: acquired technology & customer relationships (13.5–20 years), brands and trademarks (indefinite useful life), software (3–5 years), other intangible assets (3–5 years). Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

Impairment of non-financial assets

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

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are subsequently measured at amortized cost using the effective interest method.

Loans and borrowings

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

Current and deferred income tax

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

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

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial purposes and the amounts used for taxation purposes. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions

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

Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

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

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

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

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

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

Equity

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12.

When shares recognized as equity are repurchased (treasury shares), the amount of the consideration paid, which includes directly attributable costs is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

Earnings per share

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

38. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2019, and earlier application is permitted; however, the Group has not early applied the following, for the Group relevant, new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for almost all leases and will therefore result in an increase of total assets and total liabilities. Under the new standard higher trading operating profit would be partially or entirely offset by higher interest expenses. This standard is mandatory for the accounting period beginning on January 1, 2019. The Group applies IFRS 16 initially on January 1, 2019, using the modified retrospective approach. The corresponding right-of-use assets will be recognized in the amount of the leasing liabilities. As of January 1, 2019, right-of-use assets and leasing liabilities aggregating some CHF 10.1 million will be recognized from the initial adoption of IFRS 16. The comparative prior-year's figures will not be restated. The adoption of IFRS 16 has no impact on equity as of January 1, 2019. With regard to the 2019 financial year, the application of IFRS 16 will lead to an increase in operating income before depreciation, amortization and impairment losses (EBITDA) of some CHF 2.9 million and to higher depreciation and amortization as well as interest expense of a combined aggregate amount of some CHF 3.0 million. The actual impact will depend on future economic conditions, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Improvements and other amendments to IFRS

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

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VAT Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 76 to 124) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Revenue Recognition

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

Revenue Recognition

Key Audit Matter

Revenues are an important metric considered by external and internal stakeholders. Revenues recognized for the year ended 31 December 2018 amounted to CHF 698m (2017: CHF 692m) and are primarily related to the sale of vacuum valves, bellows and service support.

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

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

In 2018, IFRS 15 was applicable for the first time. The Group implemented the new standard using the cumulative effect method (without practical expedients), comparative figures have not been restated. A comprehensive impact analysis has been performed by VAT Group. IFRS 15 predominantly had an impact on disclosure obligations in the consolidated financial statements, but no material impact on B/S or P&L of the Group.

Our response

When performing the audit, we had a focus on the appropriate recognition of revenue transactions, including the Group's implementation of IFRS 15.

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

Furthermore, our procedures included detailed cut-off testing of revenue transactions to either side of the balance sheet date with reference to shipping documentation. In addition, we obtained trade debtors confirmations and performed a gross margin trend analysis to compare revenues with our expectations from past experience and management's forecasts.

In addition to the procedures described above, we considered the risk of management override by analysing delivery volumes and order intake prior to year-end in order to address the risk of an over- or understatement of revenues.

We challenged the group's impact analysis and verified the outcome by sample testing of customer contracts.

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

For further information on revenue recognition refer to the following: Note 37 “Summary of significant accounting policies”

Other Information in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Toni Wattenhofer Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, 7 March 2019

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2018

Balance sheet

As of December 31 In CHF thousand	Note	2018	2017
Assets			
Cash and cash equivalents		439	212
Other receivables	3.2	55	4,443
Prepayments and accrued income		707	541
Current assets		**1,201**	**5,196**
Financial assets	3.3	2,282	1,274
Loans granted to companies in which the entity holds an investment		39,950	97,604
Investments in subsidiaries	3.1	502,850	502,850
Non-current assets		**545,082**	**601,728**
Total assets		**546,284**	**606,924**
Liabilities			
Short-term interest-bearing liabilities due to third parties		29,600	55,764
Other payables	3.4	477	54
Accrued expenses and deferred income	3.5	2,852	1,970
Current liabilities		**32,929**	**57,788**
Long-term interest-bearing liabilities	3.3	200,000	175,408
Non-current liabilities		**200,000**	**175,408**
Total liabilities		**232,929**	**233,196**
Equity	3.6		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		255,254	375,186
– Other capital reserves		3,682	3,682
Accumulated losses:			
– Loss brought forward		–7,351	–8,665
– Gain for the period		59,457	1,314
Treasury shares	3.7	–687	–790
Total equity attributable to owners of the Company		**313,355**	**373,727**
Total liabilities and equity		**546,284**	**606,924**

Income statement

January 1-December 31 In CHF thousand	Note	2018	2017
Dividend income		64,891	0
Interest income		2,527	4,897
Other financial income	3.8	993	6,957
Total income		**68,411**	**11,854**
Interest expenses		–5,065	–5,163
Other financial expenses		–1,167	–2,519
Personnel expenses		–1,010	–780
Other operating expenses	3.9	–1,712	–2,077
Total expenses		**–8,954**	**–10,540**
Gain for the period		**59,457**	**1,314**

Notes to the financial statements VAT Group AG

1. General information

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

2. Basis of preparation

2.1 General

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

2.2 Investments in subsidiaries

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

3. Information on balance sheet and income statement items

3.1 Significant investments in subsidiaries

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

Country	Company	Currency	Capital in thousands		Share in capital and voting rights	
			2018	2017	2018	2017
Luxembourg	VAT Management S.à r.l.	CHF	30	30	100%	100%

The indirect investments are shown in note 35 of the consolidated financial statements of VAT Group.

3.2 Other receivables

As of December 31 In CHF thousand	2018	2017
Other receivables due from third parties	55	17
Other receivables from companies in which the entity holds an investment	0	4,426
Total other receivables	**55**	**4,443**

3.3 Interest-bearing liabilities

As of December 31 In CHF thousand	2018	2017
Short-term interest-bearing liabilities due to third parties	29,600	55,764
Total short-term interest-bearing liabilities	**29,600**	**55,764**
Long-term interest-bearing liabilities due to third parties	200,000	161,737
Long-term interest-bearing liabilities due to companies in which the entity holds an investment	0	13,671
Total long-term interest-bearing liabilities	**200,000**	**175,408**

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

As of December 31, 2018 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR 1m + 0.95%	2023	24,600
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 0.95%	2023	5,000
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at 31.12.2018				**229,600**
Thereof:				
Current				29,600
Non-current				200,000

As of December 31, 2017 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR 1m + 1.55%	2021	102,501
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 1.45%	2021	115,000
Total loans and borrowings at 31.12.2017				**217,501**
Thereof:				
Current				55,764
Non-current				161,737

The carrying amount of the financing expenses in connection with the revolving credit facility (RCF) amounts to CHF 2.0 million as at December 31, 2018. These expenses were capitalized and will be recognized in profit and loss over the remaining duration of the credit facility. As at December 31, 2018, CHF 0.4 million (prior year: CHF 0.5 million) are recognized within “Prepayments and accrued income.” CHF 1.6 million (prior year: CHF 1.3 million) are disclosed as “Financial assets.”

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). In connection with the bond, financing expenses in the amount of CHF 0.2 million are recognized within "Prepayments and accrued income." CHF 0.7 million are disclosed as "Financial assets." On December 31, 2018, the market value of the bond was CHF 194.5 million.

3.4 Other payables

As of December 31 In CHF thousand	2018	2017
Other payables due to third parties	20	27
Other payables due to companies in which the entity holds an investment	338	27
Other payables due to governing bodies	119	0
Total other payables	**477**	**54**

3.5 Accrued expenses and deferred income

As of December 31 In CHF thousand	2018	2017
Accrued expenses and deferred income due to third parties	2,467	1,521
Accrued expenses and deferred income due to governing bodies	385	449
Total accrued expenses	**2,852**	**1,970**

3.6 Equity

As of December 31, 2018, the share capital amounts to CHF 3.0 million and consists of 30,000,000 registered shares at par value of CHF 0.10 each.

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

On March 29, 2016, a conditional capital increase of up to 1,500,000 shares was included in the articles of association of VAT Group AG which was not drawn as of December 31, 2018.

3.7 Treasury shares

	01.01.–31.12.2018		01.01.–31.12.2017	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**17,547**	**CHF 45.00**	**110,000**	**CHF 45.00**
Purchases	0		0	
Sales	0		–91,063	CHF 120.14
Share-based payments	–2,283	CHF 148.12	–1,390	CHF 127.57
Treasury shares as at December 31	**15,264**	**CHF 45.00**	**17,547**	**CHF 45.00**

On December 31, 2018, VAT Group held 15,264 treasury shares with an acquisition price of CHF 0.7 million.

3.8 Other financial income

Other financial income for the year 2018 consists of gains from the disposal of treasury shares and amounts to CHF 0.2 million (prior year: CHF 7.0 million). The remaining CHF 0.8 million result from net foreign exchange gains on financing activities.

3.9 Other operating expenses

January 1–December 31 In CHF thousand	2018	2017
Insurance, duties and other charges	105	95
Rental expenses	5	5
Travel expenses	41	92
Consulting and audit fees	532	756
Administration expenses	1,029	1,129
Total other operating expenses	**1,712**	**2,077**

4. Other information

4.1 Full-time equivalents

VAT Group AG does not have any employees.

4.2 Significant shareholders

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

Shareholder	Voting rights as of December 31, 2018	Voting rights as of December 31, 2017
Rudolf Maag	3,100,570	3,100,570
Partners Group	Below 5%	1,037,486
George Loening	2,752,291	Below 5%
Massachusetts Mutual Life Insurance Company	2,467,789	Below 5%

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

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

As of December 31	2018	2017
Board of Directors		
Martin Komischke, Chairman	492	0
Ulrich Eckhardt (until May 17, 2018)	n/a	2,500
Alfred Gantner (until May 17, 2018)	n/a	0
Hermann Gerlinger	657	0
Heinz Kundert (since May 17, 2018)	34,117	71,456
Urs Leinhäuser	3,963	3,736
Karl Schlegel	35,253	32,536
Libo Zhang (since May 17, 2018)	0	n/a
Group Executive Committee		
Michael Allison, CEO (since March 13, 2018)	508	n/a
Heinz Kundert, CEO (until March 12, 2018)	34,117	71,456
Andreas Leutenegger, CFO	34,117	68,234
Jürgen Krebs, COO	0	0

As of December 31, 2018 and 2017, none of the members of the Board of Directors or the Group Executive Board held conversion rights or options, and no loans or credits were outstanding between the parties and the Company.

4.4 Shares granted to the Board of Directors

Members of the Board of Directors receive 30% of the total compensation in restricted shares. VAT Group granted 1,478 shares with a fair value of CHF 152.5 per share for the period 2017/18 (prior period: 1,390 shares). As of December 31, 2018, VAT Group AG allocated 2,132 shares (prior year: 1,247 shares) amounting to CHF 0.2 million (prior year: CHF 0.2 million) to its Board of Directors, which will be transferred in financial year 2019.

4.5 Significant events after the balance sheet date

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

Proposed appropriation of available earnings

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

Appropriation of available earnings as proposed by the Board of Directors

In CHF thousand	2018
Balance brought forward	**–7,351**
Gain for the period	59,457
Total accumulated gains	**52,106**

The Board of Directors proposes to the General Meeting to carry forward accumulated gains of CHF 52.1 million.

Appropriation of reserves from capital contributions

In CHF thousand	2018
Reserves from capital contributions as of 31.12.2018	**255,254**
Dividend payment out of reserves from capital contributions	–120,000
Reserves from capital contributions carried forward	**135,254**

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.

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VAT Group AG, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 129 to 136) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Toni Wattenhofer Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, 7 March 2019