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, 2020

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2020	2019
Net sales	**2.1,2.2**	**692,427**	**570,376**
Raw materials and consumables used		–282,486	–211,890
Changes in inventories of finished goods and work in progress		20,195	–13,050
Personnel expenses	4.1	–175,732	–141,989
Other income	2.3	17,348	9,252
Other expenses	2.4	–54,586	–58,691
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**217,167**	**154,008**
Depreciation and amortization		–40,897	–46,272
Earnings before interest and taxes (EBIT)[1]		**176,270**	**107,736**
Finance income	5.1	124	108
Finance costs	5.1	–15,708	–8,840
Earnings before income taxes		**160,686**	**99,004**
Income tax expenses	6.1	–27,225	–24,179
Net income attributable to owners of the Company		**133,461**	**74,825**
Earnings per share (in CHF)			
Basic earnings per share	5.4	4.45	2.50
Diluted earnings per share	5.4	4.45	2.49

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

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2020	2019
Net income attributable to owners of the Company		**133,461**	**74,825**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	4.3	19,814	86
Related tax	6.1	–2,873	–12
Subtotal		**16,941**	**74**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		1,715	4,356
Related tax	6.1	–264	–626
Currency translation adjustments		–731	–136
Subtotal		**720**	**3,594**
Other comprehensive income for the period (net of tax)		**17,661**	**3,668**
Total comprehensive income for the period attributable to owners of the Company		**151,122**	**78,493**

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 80 ff.

Consolidated balance sheet

As of December 31 In CHF thousand	Note	2020	2019
Assets			
Cash and cash equivalents		137,871	109,822
Trade and other receivables	3.1	94,679	97,409
Other investments, including derivatives		6,871	3,184
Prepayments and accrued income		1,773	4,417
Inventories	3.2	104,749	84,231
Current tax assets		233	747
Current assets		**346,176**	**299,809**
Property, plant and equipment	3.3	146,468	162,125
Investment properties		1,773	1,823
Intangible assets and goodwill	3.4	498,600	498,564
Trade and other receivables	3.1	1,825	2,631
Other investments		846	831
Deferred tax assets	6.1	5,930	6,893
Non-current assets		**655,442**	**672,866**
Total assets		**1,001,619**	**972,675**

As of December 31 In CHF thousand	Note	2020	2019
Liabilities			
Trade and other payables	3.5	48,981	66,387
Loans and borrowings	5.3	61,522	50,221
Provisions	3.7	2,615	2,242
Derivative financial instruments		26	53
Accrued expenses and deferred income	3.6	32,105	20,158
Current tax liabilities		22,793	17,747
Current liabilities		**168,042**	**156,809**
Loans and borrowings	5.3	204,817	203,867
Other non-current liabilities		265	377
Deferred tax liabilities	6.1	47,591	45,934
Defined benefit obligations	4.3	25,552	42,252
Non-current liabilities		**278,225**	**292,430**
Total liabilities		**446,266**	**449,239**
Equity			
Share capital	5.4	3,000	3,000
Share premium	5.4	73,969	133,950
Reserves		6,598	5,878
Treasury shares	5.4	–414	–571
Retained earnings[1]		472,199	381,179
Total equity attributable to owners of the Company		**555,352**	**523,436**
Total liabilities and equity		**1,001,619**	**972,675**

1 Includes remeasurements of DBO and other reserves

The above consolidated balance sheet should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 80 ff.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2019	**3,000**	**253,891**	**–1,067**	**3,351**	**–687**	**305,683**	**564,170**
Net income attributable to owners of the Company						74,825	74,825
Total comprehensive income for the period attributable to owners of the Company			3,730	–136		74	3,668
Dividend payment		–119,941					–119,941
Share-based payments (net of tax)					116	598	714
Equity as of 31.12.2019	**3,000**	**133,950**	**2,663**	**3,215**	**–571**	**381,179**	**523,436**

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of 01.01.2020	**3,000**	**133,950**	**2,663**	**3,215**	**–571**	**381,179**	**523,436**
Net income attributable to owners of the Company						133,461	133,461
Total comprehensive income for the period attributable to owners of the Company			1,451	–731		16,941	17,661
Treasury shares acquired					–55		–55
Dividend payment		–59,981				–59,981	–119,961
Share-based payments (net of tax)					211	599	810
Equity as of 31.12.2020	**3,000**	**73,969**	**4,114**	**2,485**	**–414**	**472,199**	**555,352**

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 80 ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2020	2019
Net income attributable to owners of the Company		**133,461**	**74,825**
Adjustments for:			
Depreciation and amortization		40,897	46,272
(Profit)/loss from disposal of property, plant and equipment		12	–17
Change in defined benefit liability		3,091	2,552
Net impact from foreign exchange		–350	763
Income tax expenses	6.1	27,225	24,179
Net finance costs	5.1	15,584	8,732
Other non-cash-effective adjustments		111	328
Change in trade and other receivables		–596	–8,403
Change in prepayments and accrued income		2,475	–1,330
Change in inventories		–23,540	18,260
Change in trade and other payables		–16,339	21,752
Change in accrued expenses and deferred income		12,293	–880
Change in provisions		377	–243
Cash generated from operations		194,701	186,791
Income taxes paid		–21,892	–29,052
Cash flow from operating activities		**172,809**	**157,739**
Purchases of property, plant and equipment	3.3	–7,811	–6,645
Proceeds from sale of property, plant and equipment		68	186
Purchases of intangible assets	3.4	–18,132	–11,497
Interest received		108	101
Cash flow from investing activities		**–25,767**	**–17,857**
Proceeds from borrowings	5.3	120,000	110,000
Repayments of borrowings	5.3	–109,094	–90,000
Repayments of lease liabilities	5.3	–2,636	–2,692
Purchase of own shares		–55	0
Dividend paid	5.4	–119,961	–119,941
Interest paid		–3,998	–4,502
Other finance expenses paid		–1,182	–951
Cash flow from financing activities		**–116,925**	**–108,086**
Net increase/(decrease) in cash and cash equivalents		**30,117**	**31,796**
Cash and cash equivalents at beginning of period		109,822	79,063
Effect of movements in exchange rates on cash held		–2,068	–1,036
Cash and cash equivalents at end of period		**137,871**	**109,822**

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 80 ff.

Notes to the consolidated financial statements

1. General information and accounting policies

General information

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

The consolidated financial statements as at and for the year ended December 31, 2020, 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 3, 2021.

Basis of accounting

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

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. A number of standards have been modified on miscellaneous points with effect from January 1, 2020. None of these amendments had a material effect on the Group's financial statements.

Use of judgments and estimates

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

a) intangible assets and goodwill, see note 3.4,
b) property, plant and equipment, see note 3.3,
c) income taxes, see note 6.1,
d) employee benefits, see note 4.3,
e) provisions, see note 3.7.

2. Operating Performance

2.1 Segment Information

Background

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

Basis of segmentation

The Group 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 VAT Romania and non bellow related businesses of Comvat. VAT Romania is well situated in the machining ancillary industry and offers manufacturing parts and mechanical components in the medium service range. Comvat is one of the leaders in the production of edge-welded bellows and specialized in automating processes.

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 19.8 million (prior year: CHF 19.0 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 intersegment 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, 2020 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	550,355	127,302	14,771	692,427	–	692,427
Inter-segment sales	59,891	–	9,955	69,846	–69,846	–
Segment net sales	**610,246**	**127,302**	**24,726**	**762,273**	**–69,846**	**692,427**
Segment EBITDA	**196,892**	**53,204**	**4,050**	**254,146**	**–36,979**	**217,167**

January 1–December 31, 2019 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Net sales	440,855	111,759	17,762	570,376	–	570,376
Inter-segment sales	51,621	–	8,941	60,562	–60,562	–
Segment net sales	**492,476**	**111,759**	**26,703**	**630,938**	**–60,562**	**570,376**
Segment EBITDA	**136,335**	**46,325**	**2,844**	**185,503**	**–31,495**	**154,008**

As of December 31, 2020 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	680,897	122,581	36,311	839,789	1,773	841,562
Segment liabilities	26,732	3,166	2,430	32,328	97	32,425
Segment net operating assets	**654,165**	**119,415**	**33,881**	**807,461**	**1,676**	**809,137**
Of which net trade working capital	126,160	23,658	12,575	162,393	–97	162,296

As of December 31, 2019 In CHF thousand	Valves	Global Service	Industry	Total segments	Corporate and eliminations	Total
Segment assets	676,966	120,331	34,670	831,967	1,823	833,790
Segment liabilities	38,062	6,175	5,139	49,377	545	49,922
Segment net operating assets	**638,904**	**114,156**	**29,531**	**782,591**	**1,278**	**783,868**
Of which net trade working capital	102,985	13,801	5,115	121,902	–545	121,356

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	2020	2019
Segment EBITDA	254,146	185,503
Corporate and eliminations	–36,979	–31,495
Depreciation and amortization	–40,897	–46,272
Finance costs net	–15,584	–8,732
Earnings before income taxes	**160,686**	**99,004**

Assets

As of December 31 In CHF thousand	2020	2019
Segment assets	839,789	831,967
Corporate and eliminations	1,773	1,823
Cash and cash equivalents	137,871	109,822
Other assets[1]	22,186	29,063
Assets	**1,001,619**	**972,675**

Liabilities

As of December 31 In CHF thousand	2020	2019
Segment liabilities	32,328	49,377
Corporate and eliminations	97	545
Loans and borrowings	266,339	254,088
Other liabilities[2] and provisions	147,502	145,229
Liabilities	**446,266**	**449,239**

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	2020	2019
Switzerland	5,996	5,075
Europe excl. Switzerland	87,625	88,222
USA	224,321	190,262
Japan	103,912	91,560
Korea	79,824	59,410
Singapore	74,016	48,444
China	73,159	49,637
Asia excl. Japan, Korea, Singapore and China	36,419	28,610
Other	7,156	9,155
Total	**692,427**	**570,376**

No other individual country represented more than 10% of net sales in 2020 and 2019.

Non-current assets

As of December 31 In CHF thousand	2020	2019
Switzerland	590,221	596,244
Europe excl. Switzerland	5,816	7,613
USA	3,351	4,645
Asia	47,453	54,010
Total	**646,842**	**662,512**

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 2020 and 2019.

Major customers

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

2.2 Revenue

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

Disaggregation of order intake and net sales

January 1 – December 31, 2020 In CHF thousand	Valves	Global Service	Industry	Total
Order intake	577,829	132,157	14,524	724,511
Net sales by region				
Asia	297,603	62,657	6,751	367,011
Americas	177,908	48,393	1,643	227,944
EMEA	74,845	16,252	6,376	97,473
Net sales	**550,355**	**127,302**	**14,771**	**692,427**

January 1 – December 31, 2019 In CHF thousand	Valves	Global Service	Industry	Total
Order intake	463,039	106,446	15,530	585,015
Net sales by region				
Asia	220,321	51,759	5,582	277,662
Americas	143,402	46,245	1,824	191,471
EMEA	77,132	13,755	10,356	101,244
Net sales	**440,855**	**111,759**	**17,762**	**570,376**

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

2.3 Other income

January 1–December 31 In CHF thousand	2020	2019
Net foreign exchange gains on operating and investing activities	2,085	0
Work performed by the entity and capitalized	13,848	8,272
Rental income from investment properties	77	74
Change in provision for impairment on trade receivables	182	0
Gains from sale of fixed assets	10	56
Other income	1,146	851
Total other income	**17,348**	**9,252**

2.4 Other expenses

January 1–December 31 In CHF thousand	2020	2019
Marketing and advertising	653	990
Distribution	7,943	5,807
Office rent	534	307
Administrative expenses	10,944	13,287
Travel expenses	1,707	3,836
Repair and maintenance	15,575	13,065
Energy and supplies	9,847	6,992
Insurance, duties and other charges	2,462	2,317
Losses from sale of fixed assets	22	39
Net foreign exchange losses on operating and investing activities	0	7,248
Research and development expenses[1]	1,932	1,559
Other operating expenses	2,966	3,246
Total other expenses	**54,586**	**58,691**

1 Includes only third-party expenses.

3. Operating assets and liabilities

3.1 Trade and other receivables

As of December 31 In CHF thousand	2020	2019
Trade receivables – gross	90,706	87,975
Less provision for impairment of trade receivables	–735	–928
Trade receivables – net	**89,971**	**87,048**
Recoverable VAT and withholding tax	2,587	6,301
Deposits	1,779	2,235
Receivables from social security	1,533	3,608
Other	633	848
Total trade and other receivables	**96,503**	**100,039**
Thereof:		
Current trade and other receivables	94,679	97,409
Non-current other receivables	1,825	2,631

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

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

3.2 Inventories

As of December 31 In CHF thousand	2020	2019
Raw materials and consumables	29,847	35,969
Work in progress	13,195	12,176
Semi-finished goods	34,115	17,616
Finished goods	27,591	18,471
Total inventories	**104,749**	**84,231**

In the financial year 2020, inventories of CHF 1.7 million (previous year: CHF 4.7 million) were scrapped and recognized as expense.

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

3.3 Property, plant and equipment

January 1–December 31, 2020 In CHF thousand	Land	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under con-struction	Total
Balance at 01.01.2020	**8,027**	**96,926**	**8,802**	**105,354**	**9,217**	**19,870**	**1,043**	**9,145**	**258,383**
Additions		9		435	452	1,460		5,455	7,811
Movement non-cash			3,412				–23		3,389
Disposals				–141	–18	–254			–414
Transfer		928		2,866	1,042	1,675		–6,511	0
Exchange differences	–149	–2,132	–392	–2,546	–287	–600	–6	–130	–6,241
Balance at 31.12.2020	**7,879**	**95,731**	**11,821**	**105,968**	**10,406**	**22,150**	**1,014**	**7,958**	**262,928**
Accumulated depreciation and impairment									
Balance at 01.01.2020	**–193**	**–20,756**	**–2,380**	**–54,463**	**–4,859**	**–13,254**	**–352**	**0**	**–96,259**
Depreciation charge	–32	–4,184	–2,349	–10,632	–1,677	–3,536	–341		–22,751
Impairment loss									0
Movement non-cash			328				25		353
Disposals				111	13	210			334
Exchange differences	18	164	127	1,095	119	339	1		1,863
Balance at 31.12.2020	**–207**	**–24,776**	**–4,273**	**–63,889**	**–6,404**	**–16,242**	**–668**	**0**	**–116,460**
Net book amount 31.12.2020	**7,671**	**70,955**	**7,548**	**42,079**	**4,002**	**5,908**	**346**	**7,958**	**146,468**

January 1–December 31, 2019 In CHF thousand	Land	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under con-struction	Total
Balance at 01.01.2019	**8,042**	**77,265**	**8,909**	**98,257**	**8,731**	**18,228**	**976**	**30,373**	**250,781**
Additions		44		60	226	407		5,908	6,645
Additions non-cash			65	3,798			72		3,935
Disposals		–18		–213	–136	–519			–885
Transfer		20,034		4,825	461	1,922		–27,242	0
Exchange differences	–15	–400	–173	–1,373	–65	–169	–6	105	–2,095
Balance at 31.12.2019	**8,027**	**96,926**	**8,802**	**105,354**	**9,217**	**19,870**	**1,043**	**9,145**	**258,383**
Accumulated depreciation and impairment									
Balance at 01.01.2019	**–161**	**–16,537**	**0**	**–39,875**	**–3,838**	**–9,963**	**0**	**0**	**–70,374**
Depreciation charge	–34	–4,270	–2,428	–16,071	–1,186	–3,334	–354		–27,677
Impairment loss									0
Disposals		11		131	98	476			716
Transfer				512	26	–538			0
Exchange differences	2	39	48	839	41	105	2		1,076
Balance at 31.12.2019	**–193**	**–20,756**	**–2,380**	**–54,463**	**–4,859**	**–13,254**	**–352**	**0**	**–96,259**
Net book amount 31.12.2019	**7,834**	**76,169**	**6,422**	**50,891**	**4,359**	**6,615**	**691**	**9,145**	**162,125**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in property, plant and equipment as of December 31, 2020, aggregated CHF 12.3 million (prior year: CHF 9.0 million).

Accounting policies

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

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

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

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

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

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

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

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

Leases – as a lessee

The Group leases warehouses, factory facilities and offices. Lease payments are determined in corresponding contracts. Most of these leases were entered into many years ago as combined leases of land and buildings. In addition the Group leases vehicles and IT equipment.

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

During the period ended December 31, 2020, the Group recognized CHF 2.7 million (prior year: 2.8 million) of depreciation charges and CHF 0.1 million (prior year: 0.2 million) of interest costs from these leases.

In 2020, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.5 million (prior year: 0.3 million). Total cash outflows for leases amount to CHF 2.8 million (prior year: 2.9 million).

Accounting policies

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

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

3.4 Intangible assets and goodwill

January 1–December 31, 2020 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2020	**183,717**	**11,992**	**263,600**	**120,900**	**3,334**	**15,407**	**598,950**
Additions						18,132	18,132
Disposals		–5			–364		–369
Transfer		83			2,579	–2,662	0
Exchange differences		–30				1	–28
Balance at 31.12.2020	**183,717**	**12,040**	**263,600**	**120,900**	**5,550**	**30,878**	**616,685**
Accumulated amortization and impairment							
Balance at 01.01.2020	**0**	**–8,324**	**–90,573**	**0**	**–1,489**	**0**	**–100,386**
Amortization charge		–1,656	–15,308		–841		–17,805
Impairment loss					–291		–291
Disposals		5			364		369
Transfer		181			–181		0
Exchange differences		30			–1		29
Balance at 31.12.2020	**0**	**–9,765**	**–105,881**	**0**	**–2,439**	**0**	**–118,085**
Net book value 31.12.2020	**183,717**	**2,275**	**157,719**	**120,900**	**3,111**	**30,878**	**498,600**

January 1–December 31, 2019 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at 01.01.2019	**183,717**	**11,947**	**263,600**	**120,900**	**3,131**	**4,553**	**587,848**
Additions		9				11,488	11,497
Disposals		–99			–270		–369
Transfer		160			473	–633	0
Exchange differences		–25				–1	–26
Balance at 31.12.2019	**183,717**	**11,992**	**263,600**	**120,900**	**3,334**	**15,407**	**598,950**
Accumulated amortization and impairment							
Balance at 01.01.2019	**0**	**–6,113**	**–75,265**	**0**	**–856**	**0**	**–82,234**
Amortization charge		–2,269	–15,308		–633		–18,210
Impairment loss		–65			–270		–335
Disposals		99			270		369
Exchange differences		24					24
Balance at 31.12.2019	**0**	**–8,324**	**–90,573**	**0**	**–1,489**	**0**	**–100,386**
Net book value 31.12.2019	**183,717**	**3,668**	**173,027**	**120,900**	**1,845**	**15,407**	**498,564**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in intangible assets as of December 31, 2020, aggregated CHF 0.7 million (prior year: CHF 1.0 million).

Research and development costs

In 2020, research and development expenses amounting to CHF 41.5 million (previous year: CHF 33.4 million) were included in the items "Personnel expenses," "Other operating expenses" and "Depreciation and amortization." For 87 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 9.7 million (previous year: CHF 5.5 million) were capitalized.

Impairment testing for goodwill and intangible assets with indefinite useful lives

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

As of December 31 In CHF thousand				2020				2019
	Valves	Global Service	Industry	Total	Valves	Global Service	Industry	Total
Goodwill	139,886	35,742	8,089	183,717	139,886	35,742	8,089	183,717
Brand and trademarks	94,618	26,282	0	120,900	94,618	26,282	0	120,900
Total carrying amount	**234,504**	**62,024**	**8,089**	**304,617**	**234,504**	**62,024**	**8,089**	**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 2021 to 2023. 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, 2020	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.8%	10.8%	10.9%
Terminal value growth rate	1.7%	1.7%	1.7%

As of December 31, 2019	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.4%	10.4%	10.5%
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.

Accounting policies

Goodwill and intangible assets
Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized.
Intangible assets, including technology and customer relationships that are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives, such as brands and trademarks are measured at cost less accumulated impairment losses. The Group considers that 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:

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

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

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

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

3.5 Trade and other payables

As of December 31 In CHF thousand	2020	2019
Trade payables	32,425	49,922
Sales tax and other non-income tax payables	4,847	3,856
Employee benefit liabilities	6,005	8,041
Prepayments received from customers	5,253	3,487
Other liabilities	452	1,081
Total trade and other payables	**48,981**	**66,387**

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

As of December 31 In CHF thousand	2020	2019
Swiss Franc	20,395	29,333
Euro	8,376	12,423
US Dollar	12,435	14,899
Malaysian Ringgit	3,160	3,215
Romanian Leu	1,289	2,379
Chinese Yuan	978	2,580
Other currencies	2,348	1,558
Total trade and other payables	**48,981**	**66,387**

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

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2020	2019
Accrued expenses – personnel related	20,923	10,122
Accrued expenses – other	10,546	10,037
Deferred income	636	0
Total accrued expenses and deferred income	**32,105**	**20,158**

3.7 Provisions

January 1–December 31, 2020 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at 01.01.2020	**2,127**	**201**	**2,329**
Additions	1,563	311	1,874
Used	–1,282	–215	–1,497
Exchange differences	–1	–4	–6
Balance at 31.12.2020	**2,407**	**293**	**2,700**
Thereof:			
Current provisions	2,407	208	2,615
Non-current provisions[1]	0	85	85

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

Warranties

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

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

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

4. Employees

4.1 Employee FTE and personnel expenses

January 1–December 31 In CHF thousand	2020	2019
Wages and salaries	144,657	114,766
Share based payment	569	783
Social security costs	14,116	11,524
Pension costs – defined contribution plans	871	838
Pension costs – defined benefit plans	10,203	8,814
Other personnel expenses	5,315	5,264
Total personnel expenses	**175,732**	**141,989**
Number of employees (FTE)	2,041	1,810

4.2 Share-based payments

At December 31, 2020, 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 1,421 shares (prior period 1,852 shares) with a fair value of CHF 173.20 per share for the period 2019/20. For the period 2020/21, the Group allocated 911 shares (prior period 1,125 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 performance conditions. The number of shares allocated to each PSU ranges between zero and two shares. The allocation is dependent upon achievement of the performance targets of VAT compared to a predefined peer group on the 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 2018	CHF 139.18	CHF 101.19	CHF 109.16	26.7%	0.5%	3.8%
Long-term incentive plan 2019	CHF 86.30	CHF 53.55	CHF 58.08	32.1%	0.5%	7.1%
Long-term incentive plan 2020	CHF 163.55	CHF 116.57	CHF 125.62	32.2%	0.5%	2.8%

As of December 31, 2020, the number of outstanding Performance Share Units (PSUs) under the plan are 27,976 (prior year: 26,578).

Accounting policies

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.

4.3 Post-employment benefits

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

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

There are 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	2020	2019
Japan	18	177
France	74	63
Switzerland	25,461	42,012
Net defined benefit liability in the balance sheet	**25,552**	**42,252**

Income statement

January 1–December 31 In CHF thousand	2020	2019
Japan	47	32
France	10	–17
Switzerland	10,146	8,800
Pension costs – defined benefit plans	**10,203**	**8,814**

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 2020, the minimum interest was 1.00% (prior year: 1.00%).

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

All other actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries and the return on plan assets) and are regularly assessed by the Board of Trustees. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings. Since 2020, a sharing of the funding gap between employer and employee (risk sharing) is taken into account. The net liability recognized in the balance sheet was reduced by CHF 5.8 million due to the first-time application of risk sharing. The restructuring contributions for the employer must, at a minimum, be equal to the sum of employee contributions. Under the formal regulatory framework of the pension plan, the employer has no legal obligation to pay additional contributions to eliminate more than 60% of a funding deficit or of a structural funding shortfall. In the case of the actuarial valuation, the legal obligation is regarded as the upper limit of the employer's share of the costs of future benefits within the meaning of IAS 19.87(c).

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

As of December 31 In CHF thousand	2020	2019
Present value of defined benefit obligation	214,375	210,188
Fair value of plan assets	188,914	168,176
Net defined benefit liability	**25,461**	**42,012**

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

January 1–December 31 In CHF thousand	2020	2019
Opening defined benefit obligation	**210,188**	**191,097**
Service costs	10,040	8,673
Plan participants contributions	6,975	6,456
Interest expense	524	1,307
Remeasurement (gains)/losses	–11,826	11,535
Benefits paid through pension assets	–1,526	–8,880
Closing defined benefit obligation	**214,375**	**210,188**

January 1–December 31 In CHF thousand	2020	2019
Opening fair value of plan assets	**168,176**	**151,563**
Interest income	436	1,075
Return on plan assets (excl. amounts in net interest)	7,988	11,621
Plan participants contributions	6,975	6,456
Employer contributions	6,975	6,456
Benefits received/(paid) through pension assets net	–1,526	–8,880
Administration expense	–110	–115
Closing fair value of plan assets	**188,914**	**168,176**

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

As of December 31 In CHF thousand	2020	2019
Defined benefit obligation for active employees	169,652	165,196
Defined benefit obligation for pensioners	44,723	44,992
Total defined benefit obligation	**214,375**	**210,188**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2020	2019
Current service costs	10,040	8,673
Interest expense on defined benefit obligation	524	1,307
Interest income on plan assets	–436	–1,075
Administration expense	110	115
Total defined benefit cost/(income) recognized in income statement	**10,238**	**9,020**
Thereof:		
Employee benefit expenses	10,150	8,788
Finance expenses	88	232
Actuarial (gain)/loss arising from financial assumptions	–10,908	10,734
Actuarial (gain)/loss arising from demographic assumptions	–203	0
Actuarial (gain)/loss arising from experience adjustment	–715	801
Return on plan assets (excl. amounts included in net interest)	–7,988	–11,621
Total defined benefit cost/(income) recognized in OCI	**–19,814**	**–86**

The major asset categories are as follows:

As of December 31 In CHF thousand	2020	2019
Equity instruments (quoted market prices)	50,039	52,889
Debt instruments (quoted market prices)	55,871	44,200
Real estate (quoted market prices)	34,285	32,462
Alternative investments (quoted market prices)	21,671	30,330
Cash	24,268	7,840
Others	2,780	455
Total	**188,914**	**168,176**

Equity instruments contain shares from VAT Group AG with a fair value in the amount of CHF 0.0 million (prior year: CHF 3.3 million). The significant actuarial assumptions were as follows:

As of December 31	2020	2019
Discount rate	0.19%	0.25%
Inflation	0.40%	0.40%
Salary growth rate	1.25%	1.25%
Pension growth rate	0.00%	0.00%

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

As of December 31	2020	2019
Retiring at the end of the reporting period:		
Male	22.72	22.61
Female	24.76	24.65
Retiring 20 years after the end of the reporting period:		
Male	24.48	24.40
Female	26.51	26.44

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 2020		Impact on defined benefit obligation 2019	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–5,798	6,034	–8,970	9,648
Salary growth rate (+/– 0.25%)	1,003	–983	1,273	–1,251

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, 2021, amount to CHF 7.3 million.

The weighted average duration of the defined benefit obligation is 15.9 years (prior year: 17.3 years).

Accounting policies

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Concerning the Swiss pension plans, the formal regulations include the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein referring to funding and measures to be taken to eliminate pension-fund deficits. In fiscal year 2020, risk-sharing features were considered in the formal rules when determining financial assumptions, which will limit the employer's share of the cost of future benefits and also include employees in the obligations to pay possible additional contributions in case of an underfunding.

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

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

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

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

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

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

4.4 Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2020	2019
Contribution to Swiss pension plan	6,975	6,456

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	2020	2019
Short-term employee benefits	1,962	1,502
Post-employment benefits	104	182
Share-based payments	153	351
Total	**2,219**	**2,035**

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

January 1–December 31 In CHF thousand	2020	2019
Other payables due to Swiss autonomous employee benefit plan	177	2,179
Accrued expenses and deferred income due to governing bodies	182	168
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	25,461	42,012

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.

5. Capital and financial risk management

5.1 Finance income and costs

January 1–December 31 In CHF thousand	2020	2019
Interest income	123	101
Other finance income	1	7
Finance income	**124**	**108**
Interest expenses	–4,083	–4,707
Net foreign exchange losses on financing activities	–9,652	–2,317
Other finance expenses	–1,973	–1,817
Finance costs	**–15,708**	**–8,840**
Total finance result	**–15,584**	**–8,732**

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

5.2 Derivative financial instruments

The following table shows the carrying amounts of the derivatives.

As of December 31 In CHF thousand	Measurement principle	Contract Value		Fair Value	
		2020	2019	2020	2019
Derivatives held for hedging (USD)	Level 2[1]	160,452	109,485	5,830	2,240
Derivatives held for hedging (JPY)	Level 2[1]	47,051	33,590	1,010	910
Derivative assets		**207,503**	**143,075**	**6,840**	**3,150**
Thereof:					
Current derivative assets		207,503	143,075	6,840	3,150
Derivatives held for hedging (USD)	Level 2[1]	2,275	8,631	–2	–45
Derivatives held for hedging (JPY)	Level 2[1]	9,004	3,194	–24	–8
Derivative liabilities		**11,280**	**11,825**	**–26**	**–53**
Thereof:					
Current derivative liabilities		11,280	11,825	–26	–53

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.

The Group recorded foreign exchange contracts (derivative financial assets/liabilities) at fair value, which are Level 2 financial instruments. There were no transfers in either direction between Level 1 and Level 2 in 2020 and 2019. No financial instruments were measured at Level 3.

Forward foreign exchange contracts

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

Hedge accounting

VAT Group uses cash flow hedges to reduce and manage the economic impact of its main currency risks. As of December 31, 2020 and 2019, 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, 2020. The hedging reserves included net unrealized gains of CHF 4.1 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 2.7 million). Net gains of CHF 9.1 million (prior year: net losses of CHF 5.6 million) were reclassified to earnings in 2020. The maturity of derivatives classified as a cash flow hedge was up to 12 months.

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

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

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

5.3 Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2020 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	CHF Libor + 0.95%	2023	58,847
Fixed-rate bond	CHF	1.50%	2023	199,503
Finance lease liability				7,988
Total loans and borrowings				**266,338**
Thereof:				
Current				61,522
Non-current				204,817

As of December 31, 2019 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD Libor +1.15%	2023	23,414
Revolving credit facility (RCF)	CHF	CHF Libor +1.15%	2023	24,201
Fixed-rate bond	CHF	1.50%	2023	199,291
Finance lease liability				7,182
Total loans and borrowings				**254,088**
Thereof:				
Current				50,221
Non-current				203,867

VAT Group AG maintains a syndicated five-year revolving credit facility (RCF) of USD 300.0 million.

The RCF is subject to the financial covenant “net senior debt/EBITDA” ratio, with which the Group complied with for the financial year 2020.

Additionally, VAT Group AG has entered into a Credit Facility Agreement with a total facility of USD 95.0 million, maturing on April 30, 2021. As of December 31, 2020, no loan was drawn from this facility. This credit facility is subject to the financial covenant “Equity Capital Ratio”, with which the Group complied with for the period from the inception date of the agreement to December 31, 2020.

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, 2020, the market value of the bond was CHF 203.6 million.

The carrying amounts as of December 31, 2020, include financing costs of CHF 1.6 million (prior year CHF 2.3 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	2020	Cash-effective adjustment		Non-cash-effective adjustment		2019
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	266,338	120,000	–111,729	4,346	–367	254,088
Total liabilities from financing activities	**266,338**	**120,000**	**–111,729**	**4,346**	**–367**	**254,088**

As of December 31 In CHF thousand	2019	Cash-effective adjustment		Non-cash-effective adjustment		2018
		Addition	Repayment	Addition	Foreign exchange	
Loans and borrowings	254,088	110,000	–92,692	10,638	–544	226,686
Total liabilities from financing activities	**254,088**	**110,000**	**–92,692**	**10,638**	**–544**	**226,686**

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

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

5.4 Equity

Share capital

As of December 31, 2020, 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, 2020.

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 purchased own shares held as treasury shares at a weighted average purchase price of CHF 49.75 pursuant to the share-based payment plans as shown in note 4.2. As of December 31, 2020, the Group held 8,327 own shares (prior year: 12,683).

Dividends

VAT declared and paid following dividend half from the reserves from capital contributions and half from retained earnings.

In CHF thousand	2020	2019
Dividends paid	**119,961**	**119,941**

The Board of Directors proposed a dividend in the amount of CHF 4.00 per share for the financial year 2019 (prior year: CHF 4.00 per share). The dividend was approved and paid out in May 2020.

Earnings per share

In CHF thousand	2020	2019
Basic earnings per share (in CHF)	**4.45**	**2.50**
Net profit	133,461	74,825
Weighted average number of shares outstanding (in thousands of units)	29,990	29,986

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

In CHF thousand	2020	2019
Diluted earnings per share (in CHF)	**4.45**	**2.49**
Net profit	133,461	74,825
Weighted average number of shares outstanding (in thousands of units)	30,006	29,999

Accounting policies

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

5.5 Financial instruments

Categories of financial instruments

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

As of December 31 In CHF thousand	2020	2019
Financial assets measured at amortized cost		
Cash and cash equivalents	137,871	109,822
Trade and other receivables	91,827	88,784
Accrued income	36	63
Long-term loans	846	831
Total financial assets recorded at amortized cost	**230,580**	**199,500**
Financial assets measured at fair value		
Equity shares	31	34
Forward exchange contracts	6,840	3,150
Total financial assets measured at fair value	**6,871**	**3,184**
Financial liabilities recorded at amortized cost		
Trade and other payables	32,877	51,003
Accrued expenses	10,546	10,037
Other non-current liabilities	180	195
Loans and borrowings	258,350	246,906
Finance lease liability	7,988	7,183
Total financial liabilities recorded at amortized cost	**309,942**	**315,323**
Financial liabilities measured at fair value		
Forward exchange contracts	26	53
Total financial liabilities measured at fair value	**26**	**53**

Accounting policies

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

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

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

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

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

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

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Loss rates are based on actual credit loss experience over the past years and current 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. Individual impairment provisions are recorded for accounts where collection cannot be expected.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise.

5.6 Financial risk management

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

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

Market risk

Foreign exchange risk The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, EUR, JPY and KRW. 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, 2020 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	236,123	155,706	80,417
EUR/CHF	31,481	21,180	10,300
JPY/CHF	58,744	27,122	31,622
KRW/CHF	13,037	1,378	11,658

As of December 31, 2019 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	272,508	215,781	56,727
EUR/CHF	26,000	17,477	8,523
JPY/CHF	67,300	32,297	35,002
KRW/CHF	10,414	953	9,461

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, 2020, the cumulated impact on net financial assets/liabilities would be as follows:

As of December 31 In CHF thousand	2020	2019
USD/CHF	3,337	2,387
EUR/CHF	427	359
JPY/CHF	1,312	1,473
KRW/CHF	484	398
Total	**5,560**	**4,617**

An increase in major currency rates would have a positive (prior year: positive) impact and a decrease would have an equal negative (prior year: negative) impact on profit or loss and equity.

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

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

Credit risk

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

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

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

With respect to trade receivables, the Group has two main customers representing 37% (prior year: 35%) 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 31.12.2020 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	32,877	–32,877	–32,857	–20			
Accrued expenses	10,546	–10,546	–2,565	–7,981			
Other non-current liabilities	180	–180			–180		
Loans and borrowings	258,350	–267,268	–60,826	–2,250	–3,000	–201,192	
Lease liabilities	7,988	–8,642	–657	–2,443	–2,318	–982	–2,242
Non-derivative financial liabilities	**309,942**	**–319,513**	**–96,904**	**–12,695**	**–5,498**	**–202,174**	**–2,242**
Forward exchange contracts used for hedging:							
– Outflow	26	–11,306	–3,319	–7,987			
– Inflow		11,280	3,309	7,971			
Derivative financial liabilities	**26**	**–26**	**–10**	**–16**			

At 31.12.2019 In CHF thousand		Contractual cash flows					
	Carrying amount	Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	51,003	–51,003	–45,079	–5,924			
Accrued expenses	10,037	–10,037	–4,526	–5,511			
Other non-current liabilities	195	–195					–195
Loans and borrowings	246,906	–262,638	–50,196	–2,250	–3,000	–207,192	
Lease liabilities	7,183	–7,459	–694	–2,020	–2,180	–2,267	–298
Non-derivative financial liabilities	**315,323**	**–331,332**	**–100,495**	**–15,704**	**–5,180**	**–209,459**	**–493**
Forward exchange contracts used for hedging:							
– Outflow	53	–11,878	11,878				
– Inflow		11,825	11,825				
Derivative financial liabilities	**53**	**–53**	**–53**				

Capital risk management

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

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

The equity ratio was as follows:

As of December 31 In CHF thousand	2020	2019
Total equity	555,352	523,436
Total balance sheet	1,001,619	972,675
Equity ratio	**55.4%**	**53.8%**

6. Other disclosures

6.1 Income Tax

Income tax expenses

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

January 1–December 31 In CHF thousand	2020	2019
Current tax:		
Current tax on earnings for the period	27,327	20,890
Adjustments in respect of prior periods	–115	580
Total current tax expense	**27,212**	**21,469**
Change in deferred tax	13	2,709
Total deferred tax expense	**13**	**2,709**
Income tax expense	**27,225**	**24,179**

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	2020	2019
Earnings before income taxes	160,686	99,004
Tax at the average group tax rate of 17.02% (previous year: 15.84%)[1]	**27,349**	**15,682**
Effect of tax rates in foreign jurisdictions[1]	304	487
Effect in change of tax rate	–1,341	5,873
Expenses not deductible for tax purposes	3,950	1,690
Income not subject to tax	–4,497	–526
Effect of current-year losses for which no deferred tax asset is recognized	470	20
Withholding taxes included in the tax expenses	811	705
Other tax effects	180	246
Total tax expenses recorded in consolidated income statement	**27,225**	**24,179**
Effective tax rate	**16.9%**	**24.4%**

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.

The tax rate in 2020 is lower than in 2019. This is mainly due to a one-time effect in 2019, when the tax reform in Switzerland abolished the privileged tax regimes.

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

January 1–December 31 In CHF thousand			2020			2019
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	19,814	–2,873	16,941	86	–12	74
Changes in the fair value of hedging reserves	1,715	–264	1,451	4,356	–626	3,730

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

January 1–December 31 In CHF thousand			2020			2019
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	356	243	599	658	–59	598

Deferred tax balances

The deferred tax assets and liabilities were as follows:

As of December 31 In CHF thousand			2020			2019
	Deferred tax assets	Deferred tax liabilities	Net closing balance	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	52	–205	–153	2	–596	–594
Inventories	2,984	–3,191	–207	2,996	–2,571	426
Property, plant and equipment	251	–5,969	–5,718	1,434	–5,097	–3,663
Investment properties		–46	–46		–50	–50
Intangible assets		–40,207	–40,207		–41,463	–41,463
Other non-current assets		–62	–62		–90	–90
Other current liabilities	1,656	–252	1,403	624	–128	496
Provisions	1	–1,555	–1,553		–1,552	–1,552
Other non-current liabilities	269	–1	268	37		37
Defined benefit obligations	3,718		3,718	6,047		6,047
Tax losses carried forward	1,904		1,904	2,058		2,058
Non-refundable withholding taxes on future distributions		–1,007	–1,007		–694	–694
Total deferred tax assets/(liabilities) before set-off	**10,835**	**–52,496**	**–41,660**	**13,200**	**–52,241**	**–39,041**
Set-off of balances within the same tax jurisdiction	-4,905	4,905	0	–6,307	6,307	0
Net deferred tax assets/(liabilities)	**5,930**	**-47,591**	**-41,660**	**6,893**	**–45,934**	**–39,041**

The movement in deferred tax balances is as follows:

In CHF thousand	2020	2019
Net tax liabilities as of January 1	**–39,041**	**–36,084**
Recognized in income statement	–13	–2,709
Recognized in OCI	–2,873	–638
Exchange differences	267	390
Net tax liabilities as of December 31	**–41,660**	**–39,041**

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 1.0 million (prior year: CHF 0.7 million).

Tax losses

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

As of December 31 In CHF thousand	2020	2019
Opening balance	**5,735**	**4,953**
Tax losses for which no deferred tax assets were recognized	2,936	87
Recognition of previous tax loss carry-forward	0	–196
Adjustment prior year	0	940
Tax loss carry-forward expired	–303	0
Exchange differences	–7	–49
Closing balance	**8,362**	**5,735**

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

As of December 31 In CHF thousand	2020	2019
Expiry in 0–3 years	0	309
Expiry after 3 years	8,362	5,426
Total	**8,362**	**5,735**

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.

Accouting policies

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

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

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

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

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

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

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

6.2 Foreign currency translation

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

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

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

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

	Average exchange rates in CHF		Closing exchange rates in CHF	
	01.01.–31.12.2020	01.01.–31.12.2019	31.12.2020	31.12.2019
1 Euro	1.07	1.11	1.08	1.09
100 Japanese Yen	0.88	0.91	0.86	0.89
100 Korean Won	0.08	0.09	0.08	0.08
1 Malaysian Ringgit	0.22	0.24	0.22	0.24
1 US Dollar	0.94	0.99	0.88	0.97

6.3 Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities. As of December 31, 2020, assets in the amount of CHF 0.7 million were pledged (prior year: no assets were pledged).

6.4 List of subsidiaries

The subsidiaries of the Company as of December 31, 2020, 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, Grenoble	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%
Netherlands	VAT Netherlands B.V., Utrecht	D	EUR	0	100%
Romania	VAT Romania S.R.L., Arad	D/P	RON	7,787	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	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

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

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

6.5 Subsequent events

The Company has evaluated subsequent events through March 3, 2021, which represents the date when the consolidated financial statements were approved.

6.6 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020, and earlier application is permitted; however, the Group has not early applied the new or amended standards in preparing these consolidated financial statements.

Improvements and other amendments to IFRS

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

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VAT Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020 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 74 to 115) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Revenue Recognition

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

Revenue Recognition

Key Audit Matter

Revenues are an important metric considered by external and internal stakeholders. Revenues recognized for the year ended 31 December 2020 amounted to CHF 692 m (2019: CHF 570 m) 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 recognizes revenues related to the sale of goods when risks, rewards and control are transferred to the counterparty. In general, contractual agreements with customers define when risks and rewards are transferred, as specific terms and conditions are mentioned in the contracts or order confirmations. There is a risk that revenues may be recognized in the wrong accounting period.

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

Our response

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

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

Furthermore, our procedures included detailed cut-off testing of revenue transactions with reference to shipping documentation to either side of the balance sheet date with focus on revenues recognized in December 2020. Moreover, we obtained trade debtors confirmations and if required performed alternative procedures, such as subsequent cash-receipts or traced our samples taken to invoices and delivery notes.

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

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

For further information on revenue recognition refer to the following: Note 2.2 "Summary of significant accounting policies"

Other Information 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and 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	Jan Bellinger
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

St. Gallen, 3 March 2021

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2020

Income statement

January 1–December 31 In CHF thousand	Note	2020	2019
Dividend income		160,000	179,800
Interest income		1,915	2,299
Other financial income	3.1	627	573
Total income		**162,541**	**182,672**
Interest expenses		–3,934	–4,355
Other financial expenses		–1,720	–1,456
Personnel expenses		–902	–995
Other operating expenses	3.2	–1,449	–1,454
Total expenses		**–8,005**	**–8,259**
Direct tax		–127	–140
Gain for the period		**154,409**	**174,274**

Balance sheet

As of December 31 In CHF thousand	Note	2020	2019
Assets			
Cash and cash equivalents		190	306
Other receivables due from third parties		42	81
Prepayments and accrued income		722	687
Current assets		**954**	**1,074**
Financial assets	3.4	1,018	1,650
Loans granted to companies in which the entity holds an investment		161,306	115,153
Investments in subsidiaries	3.3	502,850	502,850
Non-current assets		**665,174**	**619,653**
Total assets		**666,128**	**620,727**
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	60,000	49,188
Other payables	3.5	383	616
Short-term provisions		150	140
Accrued expenses and deferred income	3.6	3,187	2,980
Current liabilities		**63,720**	**52,923**
Long-term interest-bearing liabilities	3.4	200,000	200,000
Non-current liabilities		**200,000**	**200,000**
Total liabilities		**263,720**	**252,923**
Equity	3.7		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		75,333	135,313
– Other capital reserves		3,682	3,682
Accumulated gains:			
– Profit/loss brought forward		166,398	52,105
– Gain for the period		154,409	174,274
Treasury shares	3.8	–414	–571
Total equity attributable to owners of the Company		**402,408**	**367,804**
Total liabilities and equity		**666,128**	**620,727**

Notes to the financial statements VAT Group AG

1. General information

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

2. Basis of preparation

2.1 General

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

2.2 Investments in subsidiaries

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

3. Information on income statement and balance sheet items

3.1 Other financial income

Other financial income for the year 2020 consists of gains from the disposal of treasury shares and amounts to CHF 0.5 million (prior year: CHF 0.2 million). The remaining amount results from net foreign exchange gains on financing activities.

3.2 Other operating expenses

As of December 31 In CHF thousand	2020	2019
Insurance, duties and other charges	118	89
Rental expenses	5	5
Travel expenses	13	16
Consulting and audit fees	539	397
Administration expenses	774	947
Total other operating expenses	**1,449**	**1,454**

3.3 Significant investments in subsidiaries

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

Country	Company	Currency	Capital in thousands		Share in capital and voting rights	
			2020	2019	2020	2019
Luxembourg	VAT Management S.à r.l.	CHF	30	30	100%	100%

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

3.4 Interest-bearing liabilities

As of December 31 In CHF thousand	2020	2019
Short-term interest-bearing liabilities due to third parties	60,000	49,188
Total short-term interest-bearing liabilities	**60,000**	**49,188**
Long-term interest-bearing liabilities due to third parties	200,000	200,000
Total long-term interest-bearing liabilities	**200,000**	**200,000**

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

As of December 31, 2020 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 0.95%	2023	60,000
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at 31.12.2020				**260,000**
Thereof:				
Current				60,000
Non-current				200,000

As of December 31, 2019 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	USD	USD LIBOR 1m + 1.15%	2023	24,188
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 1.15%	2023	25,000
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at 31.12.2019				**249,188**
Thereof:				
Current				49,188
Non-current				200,000

The carrying amount of the financing expenses in connection with the Revolving Credit Facility (RCF) amounts to CHF 1.2 million as at December 31, 2020. These expenses were capitalized and will be recognized in profit and loss over the remaining duration of the credit facility. As at December 31, 2020, CHF 0.4 million (prior year: CHF 0.4 million) are recognized within "Prepayments and accrued income." CHF 0.7 million (prior year: CHF 1.2 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 (prior year: 0.2 million) are recognized within "Prepayments and accrued income." CHF 0.3 million (prior year: 0.5 million) are disclosed as "Financial assets." On December 31, 2020, the market value of the bond was CHF 203.6 million.

3.5 Other payables

As of December 31 In CHF thousand	2020	2019
Other payables due to third parties	45	278
Other payables due to companies in which the entity holds an investment	338	338
Total other payables	**383**	**616**

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2020	2019
Accrued expenses and deferred income due to third parties	2,803	2,628
Accrued expenses and deferred income due to governing bodies	384	352
Total accrued expenses	**3,187**	**2,980**

3.7 Equity

As of December 31, 2020, 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, 2020.

3.8 Treasury shares

	01.01.–31.12.2020		01.01.–31.12.2019	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**12,683**	**CHF 45.00**	**15,264**	**CHF 45.00**
Purchase of treasury shares	342	CHF 160.60		
Share-based payments	–4,698	CHF 159.09	–2,581	CHF 108.63
Treasury shares as at December 31	**8,327**	**CHF 49.75**	**12,683**	**CHF 45.00**

On December 31, 2020, VAT Group held 8,327 treasury shares with an acquisition price of CHF 0.4 million.

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, 2020	Voting rights as of December 31, 2019
Rudolf Maag	3,000,570	3,000,570
BlackRock Inc.	1,852,490	below 5%
Capital Group Companies Inc.	1,540,280	below 5%
Invesco Ltd.	below 5%	1,988,203

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	2020	2019
Board of Directors		
Martin Komischke, Chairman	1,582	1,109
Hermann Gerlinger	1,155	916
Heinz Kundert	30,161	34,327
Urs Leinhäuser	4,465	4,247
Daniel Lippuner (since May 14, 2020)	700	n/a
Karl Schlegel	38,184	37,225
Libo Zhang	371	210
Group Executive Committee		
Michael Allison, CEO	508	508
Stephan Bergamin, CFO	243	0
Thomas Berden, COO (since October 1, 2020)	0	n/a
Jürgen Krebs, COO (until January 31, 2020)	n/a	0

As of December 31, 2020 and 2019, 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 1,421 shares with a fair value of CHF 173.20 per share for the period 2019/20 (prior period: 1,852 shares, amounting to CHF 0.2 million). As of December 31, 2020, VAT Group AG allocated 911 shares (prior year: 1,125 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 2021.

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	2020
Balance brought forward	**166,398**
Gain for the period	154,409
Total accumulated gains	**320,808**

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

In CHF thousand	2020
Dividend payment	–67,500
Total accumulated gains to be carried forward	**253,308**

Appropriation of reserves from capital contributions

In CHF thousand	2020
Reserves from capital contributions as of 31.12.2020	**75,333**
Dividend payment out of reserves from capital contributions	–67,500
Reserves from capital contributions carried forward	**7,833**

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 135 million, half from accumulated gains and half 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 2020, 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 120 to 127) for the year ended 31 December 2020 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and 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, 3 March 2021

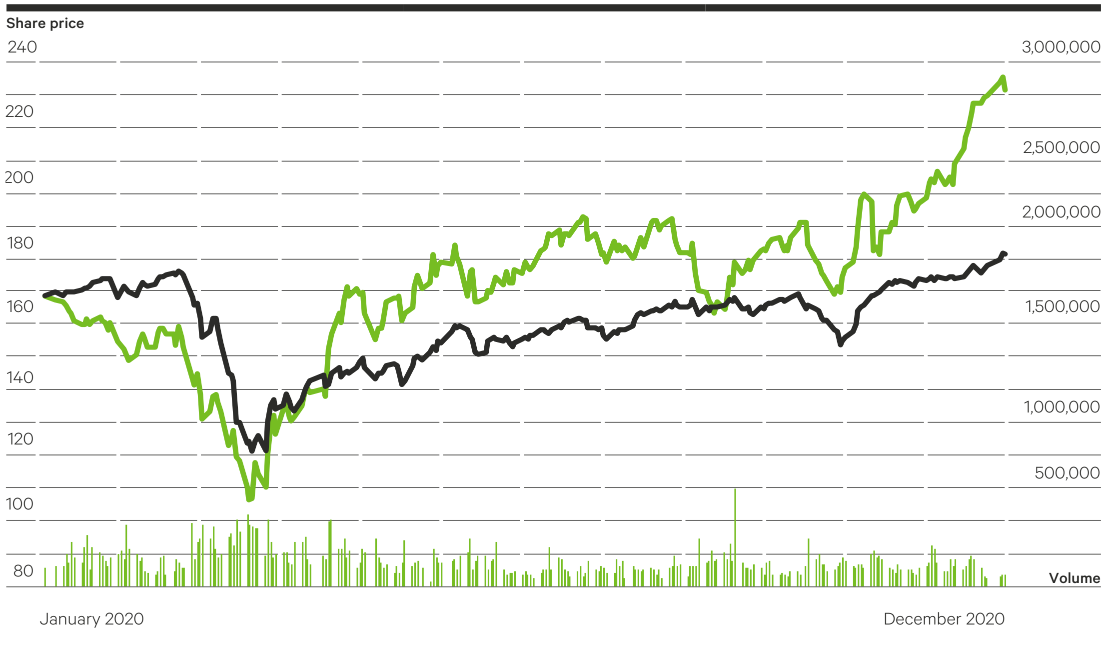
Shareholder Information

Despite the COVID-19 pandemic and the associated market uncertainty, VAT's share price developed positively during 2020. Demand remained healthy in the semiconductor sector, the company's most important market, due in large part to its designation as system relevant during the pandemic. The widespread shift to home office and other remote work activities also accelerated some of VAT's long-term growth drivers, such as Big Data, device interconnectivity, the Internet of Things and artificial intelligence. As a result, VAT again extended its No. 1 market position in 2020. Higher revenues and ongoing internal improvement measures allowed VAT to increase its EBITDA margin by over 4 percentage points compared with 2019, reaching a record 31.4%. Free cash flow also reached an all-time high, allowing VAT to propose to its shareholders a dividend increase to CHF 4.50 per share from CHF 4.00 a year earlier.

Stable shareholder base

VAT's core shareholder base remained largely unchanged compared with 2019, with the exception of Invesco Ltd., a US institutional investment firm, who reduced their position from 6.6% at the end of 2019 to just below 3% at the end of 2020. BlackRock Inc. in turn increased its position in VAT to about 6% in early 2021. As of the publication of this annual report, there are five shareholders who each own more than 3% of VAT's outstanding shares and whose cumulative shareholding amounts to about 28% of VAT's shares. The free float of VAT shares, as defined by the SIX Swiss Exchange, was approximately 89% at the end of 2020. The number of registered shareholders decreased from about 11,500 at the end of 2019 to about 10,500 at the end of 2020.

Share price development



In 2020, the price of VAT shares increased by about 35% from CHF 163.55 to CHF 220.80. During the same period, the Swiss stock market as measured by the SPI ex SLI® TR Index increased by 7%. On May 20, 2020, shareholders received a dividend of CHF 4.00 per share, half of the amount paid from capital contribution reserves, the other half from accumulated gains.

Stock exchange listing

Ticker symbol	VACN (SIX); VACN.S (Reuters); VACN SW (Bloomberg)	**Legal Entity Identifier (LEI)**	529900MVFK7NVALR7Y83
Valor number	31 186 490	**Nominal value**	CHF 0.10 per share
ISIN	CH0311864901	**Free Float**	Approximately 89%
Market capitalization as of December 31, 2019	CHF 6.6 bn	**Number of shares outstanding**	30,000,000
Exchange	SIX Swiss Exchange (International Reporting Standard)	**Segment**	Mid & Small Cap Swiss shares

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

Switzerland	39%
Other countries	18%
Shares in transit	43%

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

Number of shares held	
1–100 shares	4,655
101–1,000 shares	4,978
1,001–10,000 shares	659
10,001–100,000 shares	116
100,001–1,000,000	17
More than 1,000,000 shares	2
Total number of shareholders	**10,427**

Market Capitalization
in CHF bn as of December 31, 2020

6.6

Disclosure of shareholdings

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

Significant shareholders

Information on significant shareholders is disclosed on page 43 of this report.

Dividend policy

VAT Group AG is committed to an attractive dividend policy that reflects the company's strong free cash flow generation and solid balance sheet. In line with this policy, VAT Group intends to distribute to its share-holders up to 100% of free cash flow to equity (FCFE) so long as the Group's net debt does not significantly exceed 1x EBITDA.

For the fiscal year 2020, VAT's Board of Directors is proposing to pay out a dividend of CHF 4.50 per registered share out of reserves from capital contributions.

Disclosure policy

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

Dividend Payout Ratio
in % of Free Cash Flow to Equity

94.4

Investor Relations
VAT's Investor Relations team manages the company's interaction with the financial community, including attendance at key investor conferences and providing institutional investors and analysts with various opportunities to learn more about VAT Group's strategy, business operations and governance. Investor Relations is based at the Group's headquarters in Haag, Switzerland.

More information is available on the VAT Group website: http://www.vatvalve.com/InvestorRelations/investor-relations.

Key data on VAT registered shares

		2020	2019
Share capital	CHF	3,000,000	3,000,000
Number of shares on December 31		30,000,000	30,000,000
Nominal value per share	CHF	0.10	0.10
Shares outstanding		30,000,000	30,000,000
EBITDA per share	CHF	7.24	5.13
Free cash flow per share	CHF	4.90	4.66
Book value per share	CHF	18.59	17.45
Dividend per share[1]	CHF	4.50	4.00
Share price high	CHF	224.20	164.30
Share price low	CHF	107.65	82.15
Closing share price on December 31	CHF	220.80	163.55
Average daily trading volume	Shares	149,347	160,00

1 Proposed by the Board of Directors

Financial Calendar

Date	Event
2020	
Thursday, April 15, 2021	Q1 2021 trading update
Friday, May 7, 2021	Closing of share register, 5.00 pm CEST
Tuesday, May 18, 2021	Annual General Meeting
Thursday, May 20, 2021	Ex-date
Tuesday, May 25, 2021	Dividend payment
Thursday, August 5, 2021	Half-year 2021 results
Friday, October 15, 2021	Q3 2021 trading update

5-year key figures

In CHF million	2020	2019	2018	2017	2016	CAGR 2016–2020
Order intake	724.5	585.0	648.0	736.2	561.9	6.6%
Order backlog as of December 31	145.3	114.5	113.6	165.6	122.1	4.4%
Net sales	692.4	570.4	698.1	692.4	507.9	8.1%
Gross profit	430.1	345.4	419.5	431.9	318.0	7.8%
Gross profit margin	62.1%	60.6%	60.1%	62.4%	62.6%	–
EBITDA adjusted[1]		–	–	215.1	158.1	–
EBITDA margin adjusted[1]		–	–	31.1%	31.1%	–
EBITDA	217.2	154.0	215.2	212.2	149.6	9.8%
EBITDA margin	31.4%	27.0%	30.8%	30.6%	29.5%	–
EBIT	176.3	107.7	179.7	178.7	118.3	10.5%
EBIT margin	25.5%	18.9%	25.7%	25.8%	23.3%	–
Net income[2]	133.5	74.8	135.7	115.7	67.2	18.7%
Net income margin	19.3%	13.1%	19.4%	16.7%	13.2%	–
Basic earnings per share (in CHF)	4.45	2.50	4.53	3.86	2.43	16.3%
Diluted earnings per share (in CHF)	4.45	2.49	4.52	3.86	2.42	16.4%
Cash flow from operating activities	172.8	157.7	171.7	155.6	146.4	4.2%
Capex[3]	25.9	18.0	48.0	47.6	19.2	7.7%
Capex margin	3.7%	3.2%	6.9%	6.9%	3.8%	–
Free cash flow[4]	147.0	139.9	123.9	108.5	128.1	3.5%
Free cash flow margin	21.2%	24.5%	17.7%	15.7%	25.2%	–
Free cash flow conversion rate[5]	67.7%	90.8%	57.5%	51.1%	85.6%	–
Free cash flow to equity[6]	143.0	135.4	119.6	104.4	117.5	5.0%

As of December 31 In CHF million	2020	2019	2018	2017	2016	CAGR 2015–2019
Total assets	1,001.6	972.7	968.2	991.1	883.4	3.2%
Total liabilities	446.3	449.2	404.0	433.1	972.8	–17.7%
Equity	555.4	523.4	564.2	558.0	510.6	2.1%
Net debt	128.5	144.3	147.6	143.7	133.9	–1.0%
Net debt/EBITDA	0.6	0.9	0.7	0.7	0.9	–9.8%
Invested capital[7]	423.8	356.1	358.3	327.0	246.1	14.6%
NOPAT[8]	161.0	103.4	155.2	159.6	110.1	10.0%
Return on invested capital (ROIC)	41.3%	28.6%	43.3%	48.8%	44.7%	–
Dividend per share[9] (in CHF)	4.50	4.00	4.00	4.00	4.00	–
Payout ratio[10]	94.4%	88.6%	100.4%	115.0%	102.1%	–
Number of employees[11]	2,041	1,810	1,712	1,946	1,439	9.1%

1 Adjusted EBITDA in 2015, 2016 and 2017 excludes one-off items related to the IPO in April 2016.
2 2015 includes interest cost on shareholder loan.
3 Capex comprises purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
4 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
5 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
6 Free cash flow to equity is calculated as cash flow from operating activities less cash flow from investing activities less interest paid and the current portion of loan and borrowings due at the end of the period.
7 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks and deferred income taxes) (current income tax liabilities) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities). less current liabilities (excluding loans & borrowings and and deferred income tax liabilities).
8 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization (excluding amortization of acquired technology and customer relationships) plus finance income (excluding foreign exchange gains/losses from financing activity) less taxes at the average Group rate of 16% (previous year: 16%).
9 2020 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 18, 2021.
10 Percentage of free cash flow to equity proposed to be paid out as dividend
11 Number of employees expressed as full time equivalents (FTE).