

Compensation Report

The Compensation Report describes the compensation principles and programs as well as the governance framework related to the compensation of the Board of Directors (Board) and the members of the Group Executive Committee (GEC) of VAT Group AG (VAT Group). The report also provides details on the compensation awarded to members of the Board in the 2021 financial year.

The Compensation Report is written in accordance with the Swiss Ordinance against Excessive Compensation with respect to Listed Stock Corporations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the principles of the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*.

1. Letter from the Nomination and Compensation Committee (NCC)

Dear Shareholders,

On behalf of the Board, we are pleased to present VAT Group's compensation report.

VAT Group reported another set of record results in 2021. Strong demand, especially in the semiconductor industry, coupled with further market share gains and operational measures to boost capacity and productivity drove record orders, net sales, EBITDA, EBITDA margin, net income and free cash flow. This was achieved despite persistent challenges posed by the global COVID-19 pandemic and some significant supply constraints. Net sales in 2021 increased 30% to CHF 901 million, with an EBITDA margin of 34.2%.

The Board is convinced that VAT Group's compensation system is key to attracting, motivating and retaining talented people who can strengthen the Company's leading global position in high-end vacuum valve technology. Our aim is to balance fixed and variable compensation and short- and long-term incentives so that management's interests are aligned with those of other stakeholders. In short, we want to create a culture of sustainable value creation.

In 2021, the NCC conducted the review of the equal pay analysis in Switzerland, as required by the newly introduced Swiss Federal Act on Gender Equality. Our compensation principles and commitment to pay fairly is demonstrated by the successful completion of the equal pay analysis and certification in Switzerland.

The NCC performed its regular annual activities throughout the year, such as setting the performance goals and assessing the performance of GEC members, determining the level of compensation of the Board and the GEC, as well as preparing the Compensation Report 2021 and the say-on-pay vote for the 2022 Annual General Meeting (AGM). In particular, the NCC slightly revised the peer group of companies for the compensation benchmarking in order to reflect the size of the Company and conducted a review of the compensation of the Board of Directors. You will find further information on the NCC activities and on VAT Group's compensation system and governance on the following pages.

This Compensation Report will be submitted to a non-binding, consultative shareholders' vote at the upcoming AGM. You will also be asked to vote on the maximum aggregate compensation amount of the Board for the term of office from the 2022 until the 2023 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2021, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2023, and on the maximum aggregate amount of the long-term incentive plan of the GEC for financial year 2023.

In the future, we will continue to review our compensation programs to ensure that they support the achievement of our business goals, are aligned with the interests of shareholders and fully comply with the various regulations applying to a Swiss listed company. We trust that you will find this report interesting and informative.

2. Compensation at a glance

Summary of current remuneration system

Board of Directors

The members of the Board of Directors only receive a fixed compensation in the form of cash and shares, in order to ensure their independence in the performance of their supervisory function; shares are blocked for three years. The compensation system does not contain any performance-related components.

In CHF per year (gross)	Chair of the Board	Member of the Board
Fixed basic fee	230,000	86,250

In CHF per year (gross)	Committee chair	Committee member
Audit Committee	25,000	11,500
Nomination and Compensation Committee	25,000	11,500
Technology Committee	25,000	11,500
VATmotion Committee	25,000	11,500

Changes to Board compensation as of AGM 2022

Shareholders will be asked to approve an overall increase of compensation levels to align closer to market median. For the Board chair, the eligibility to committee fees will be discontinued and reflected in the overall chair retainer. Compensation for the Board vice-chair and Board members will be increased and compensation for additional tasks for all members will be discontinued.

Summary of current compensation system

Group Executive Committee

The compensation of the Group Executive Committee consists of fixed and variable elements.

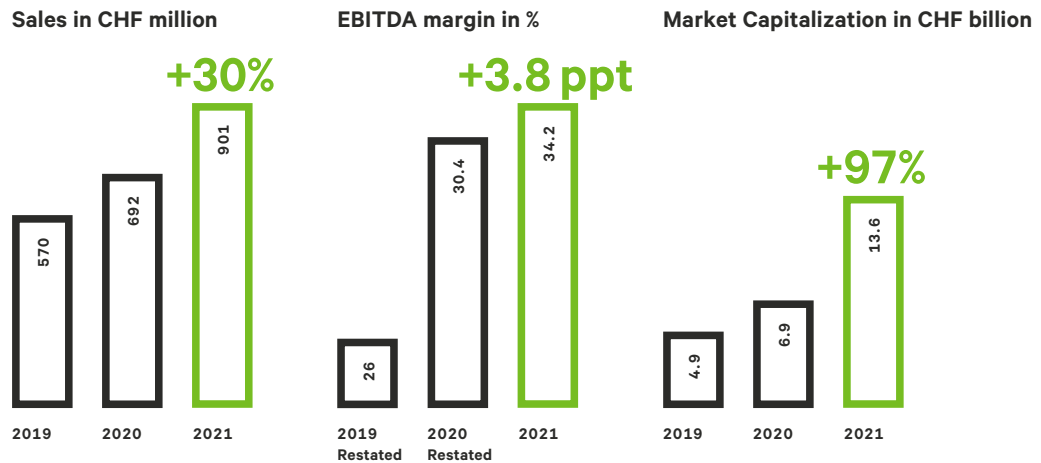
- Base salary and benefits form the fixed compensation.
- Variable compensation drives and rewards best-in-class performance based on ambitious and stretched targets.
- It consists of short-term and long-term elements.

Base salary	Pay for the function	Continuous
Short-Term Incentive (STI)	Reward annual financial and individual performance; attract & retain	1-year cash
Long-Term Incentive (LTI)	Reward long-term performance Align to shareholders' interests	3-year vesting period of PSU, subject to performance conditions
Benefits	Cover retirement, death and disability risks	Continuous
Non-tangible rewards such as work environment and culture, personal development and career opportunities.		

Remuneration policy and principles applicable to the GEC

VAT Group's compensation principles support the Company's business strategy and foster the commitment of all employees to the Company's long-term goals. The compensation principles are:

- Internal fairness
- Reward for performance
- Focus on sustainable long-term value creation
- Alignment to shareholders' interest
- Market competitiveness
- Simplicity and transparency



VAT financial performance

Over the past three years, VAT has steadily improved its financial performance, resulting in substantially increased market capitalization.

Compensation awarded for the Board for 2020/2021

The compensation paid to the Board for the term AGM 2020 to AGM 2021 is within the maximum aggregate amount approved by the shareholders.

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2020–AGM 2021	1,006,000	889,183

Short-term performance achievement for 2021

The STI payout increased significantly compared to previous year, predominantly driven by the overall higher performance in 2021 compared to 2020. All financial objectives were overachieved, reflecting a record business performance in 2021.

Fixed compensation awarded for the GEC for 2021

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2021	1,990,000	1,844,973

Compensation governance

- Authority for decisions related to remuneration are governed by the Articles of Association of VAT Group.
- The maximum aggregate amounts of remuneration of the members of the Board of Directors and of the Executive Committee are subject to binding votes at the Annual General Meeting.
- In addition, the Compensation Report for the preceding period is subject to a consultative vote at the Annual General Meeting.
- The Board of Directors is supported by the NCC in preparing all compensation-related decisions regarding the Board of Directors and the Executive Committee.

3 Compensation governance

3.1 Articles of Association

The Articles of Association of VAT Group can be found on the corporate website <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters> and are summarized below in Table 1. The provisions on compensation in the Articles of Association include the principles of compensation applicable to the Board and the GEC, the structure of the shareholders' vote on compensation, the additional compensation amount for GEC members appointed after the approval of the maximum aggregate compensation amount by the shareholders and provisions on credit and loans.

Table 1: Articles of Association

Compensation principles (Board) – Article 25	Members of the Board shall receive a fixed basic fee and fixed fees for memberships in committees of the Board, as well as lump sum compensation for expenses. The compensation may be awarded in cash and in shares.
Compensation principles (GEC) – Article 26	The compensation of the GEC members consists of a fixed compensation and of variable compensation components, which comprise short-term and long-term compensation elements. The short-term variable compensation is paid in cash and depends on the level of achievement of specific predefined targets for a one-year performance period. The long-term variable compensation is awarded in shares or rights to receive shares. The Board determines the terms and conditions of the long-term variable compensation.
Compensation vote – Article 12	Shareholders approve the maximum aggregate compensation amount for the Board for the upcoming term until the next ordinary AGM. Shareholders approve the short-term variable compensation of the GEC for the preceding business year, the maximum fixed compensation of the GEC to be paid in the subsequent business year and the maximum long-term variable compensation of the GEC to be granted in the subsequent business year.
Additional compensation amount – Article 29	For each GEC member newly appointed after the approval by shareholders of the maximum aggregate compensation amount, the Company may pay an aggregate compensation of up to 50% of the last aggregate compensation amount approved by the AGM.
Credit and loans – Article 28	The Company shall not grant loans, credits, pension benefits other than from occupational pension funds to the members of the Board or GEC.

3.2 Nomination and Compensation Committee

In accordance with the NCC charter¹, the NCC consists of at least three members of the Board who are elected annually by the shareholders for a term of one year until the next Annual General Meeting. At the AGM 2021, Martin Komischke (Chair), Heinz Kundert and Karl Schlegel have been re-elected as members of the NCC.

It is the responsibility of the Nomination and Compensation Committee to:

- periodically review the Company's compensation policy and principles applicable to the Board and the GEC,
- annually review and propose to the Board the total compensation of the CEO and other members of the GEC, subject to shareholders' approval,
- prepare all relevant Board proposals and recommendations related to the nomination and compensation of the members of the Board and of the GEC.

Additional information on the responsibilities of the NCC is provided in section 3.9 of the Corporate Governance Report on page 50.

¹ The NCC charter of VAT Group AG is published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

The NCC acts in a preparatory capacity while the Board retains the decision authority on compensation matters, except for the maximum aggregate compensation amounts of the Board and of the GEC, which are subject to shareholders' approval at the AGM. The approval and authority levels of the different bodies on compensation matters are detailed in Table 2.

Table 2: Decision authorities in compensation matters

	CEO	NCC	Board	AGM
Maximum aggregate compensation amount Board		Proposes	Reviews	Approves
Individual compensation of Board members		Proposes	Approves	
Group compensation policy and principles		Proposes	Approves	
Maximum aggregate compensation amount GEC		Proposes	Reviews	Approves
Performance target setting and assessment of CEO		Proposes	Approves	
Performance target setting and assessment of other GEC members	Proposes	Reviews	Approves	
CEO compensation		Proposes	Approves	
Individual compensation of other GEC members	Proposes	Reviews	Approves	
Compensation report		Proposes	Approves	Consultative vote

The NCC meets as often as business requires, but at least three times a year. In 2021, the NCC held three formal meetings. Details on meeting attendance of the individual NCC members are provided in section 3.12 of the Corporate Governance Report on page 52.

The Chair of the NCC reports to the Board on the activities of the Committee after each meeting. The minutes of the NCC meetings are available to all members of the Board. The Chair of the NCC may decide to invite executives to attend the meetings as appropriate. Executives do not attend the meeting when their own compensation and/or performance are being discussed.

The NCC may decide to consult external advisors for specific compensation matters. In 2021, Agnès Blust Consulting was mandated to provide consulting services related to executive and Board compensation matters. The company has no other mandate with VAT Group.

4. Compensation for the Board of Directors

4.1 Compensation principles

In order to ensure their independence in exercising their supervisory duties, members of the Board receive a fixed compensation only. The compensation is delivered partially in cash and partially in shares, blocked for a period of three years, to strengthen the alignment to shareholders' interests.

4.2 Compensation structure

The compensation for the members of the Board is fixed and does not contain any performance-related component. The annual compensation for each member of the Board depends on the functions and tasks carried out in the year under review. It consists of an annual fixed basic fee for the chair of the Board, a fixed basic fee for the members of the Board, plus additional fees for assignments to the committees of the Board, either as chair or member.

The compensation period relates to the term of office, which starts with the election at the ordinary AGM and ends at the next ordinary AGM. The amount of the fixed basic fee and the fixed committee fees reflect the responsibility and time requirement inherent to the function, as illustrated in Table 3. For 2021/2022 a first increase of the fixed basic fees for the members and the chair since the IPO was deemed appropriate. The Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of VAT Group.

Table 3: Structure and levels of Board compensation AGM 2021 until AGM 2022

In CHF per year (gross)	Chair of the Board	Member of the Board
Fixed basic fee	230,000	86,250

	Chair of the Committee	Member of the Committee
Audit Committee (AC)	25,000	11,500
Nomination and Compensation Committee (NCC)	25,000	11,500
Technology Committee	25,000	11,500
VATmotion Committee	25,000	11,500

70% of total compensation is awarded in cash and 30% is awarded in restricted shares. The restricted shares are subject to a three-year blocking period during which they cannot be transferred, sold, pledged or otherwise disposed of. The blocking period of the restricted shares can only lapse prior to the predefined date of unblocking (and will do so automatically) in case of deaths or due to a successful takeover bid or the delisting of the Company. Shares remain blocked in any other cases, including if the Board member leaves the office during the blocking period.

In exceptional circumstances, members of the Board may be asked to perform special tasks or projects that go beyond their function and normal duties of their mandate. Such additional work may be compensated at a daily rate of maximum CHF 3,500 (gross) in cash. Further, Board members receive a lump sum expense reimbursement of CHF 1,500 (gross) per annum in cash to cover all expenses that occur in relation to meetings of the Board or its committees, as well as shareholder meetings.

The cash compensation is paid out on a quarterly basis and the restricted shares are allocated and transferred to each Board member's depository account within one month after the end of the compensation period. The number of restricted shares is determined by dividing 30% of each Board member's compensation by the average closing share price over the last 20 trading days prior to the AGM preceding the payment and rounded up to the next whole number of shares.

The compensation of the Board is periodically benchmarked against the compensation of non-executive Board members of publicly traded companies in Switzerland that are comparable to VAT Group in terms of size and complexity. In 2021, a thorough review has been conducted in order to determine the competitiveness of the Board compensation in terms of structure and overall level. For this purpose, a peer group of Swiss multinational industrial companies listed on the Swiss Stock Exchange (SIX) was selected and includes Bachem, Bobst Group, Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis + Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. This peer group is balanced in terms of market capitalization, revenue size and headcount. The analysis concluded that while the compensation structure is in line with market practice, the compensation levels are below market median. The NCC proposed to the Board to increase the Board compensation levels closer to market median from AGM 2022 onwards. For the Board chair, it was further decided to discontinue the eligibility to committee fees. His contribution to the committees will be reflected in the overall Board chair retainer. The compensation for the vice-chair will be significantly increased to differentiate between vice-chair and Board members (as they are currently paid the same levels). For all members of the Board, the compensation for additional tasks will be discontinued. Such compensation was not utilized in the past and it is not considered good practice.

The overall changes to the structure and levels will require that the maximum aggregate compensation amount of the Board for the period from 2022 to 2023 will be increased by 23% and proposed to the AGM 2022 for approval. With this increase, it is intended to keep the levels stable over a period of time.

5. Compensation for the GEC

5.1 Compensation principles

VAT Group's compensation principles for the GEC support the Company's business strategy and foster the commitment of all employees to the Company's long-term goals. The compensation principles are:

- internal fairness,
- reward for performance,
- focus on sustainable long-term value creation,
- alignment to shareholders' interest,
- market competitiveness,
- simplicity and transparency.

5.2 Compensation structure

The compensation structure of GEC members consists of several elements: a fixed remuneration comprising an ABS and benefits, a variable component consisting of an STI and a long-term share-based compensation (LTI) as illustrated in Table 4.

Table 4: Structure of compensation for GEC

	Program	Purpose	Plan period
ABS	Monthly cash salary	Attract and retain	Continuous
STI	Annual bonus in cash	Reward annual financial and individual performance	1 year
LTI	Equity-based plan	Reward long-term performance Align to shareholders' interests	3 years
Benefits	Pension and insurances	Protect against risks Attract and retain	Continuous

Non-tangible rewards such as work environment and culture, personal development and career opportunities

To ensure competitiveness with the market, the compensation of the GEC is regularly benchmarked. In 2021, a benchmarking of the GEC compensation has been conducted by Willis Towers Watson on the basis of the same peer group of Swiss multinational industrial companies as for the benchmarking of the compensation of the Board: Bachem, Bobst Group, Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis+Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. The results of this benchmark analysis served as basis to assess the compensation level competitiveness of the GEC members for 2021 and 2022.

5.3 Annual base salary (ABS)

The ABS is a fixed component of compensation paid in cash, typically monthly. It reflects the scope and key responsibilities of the role as well as the qualification and skills required to perform the role, along with the employee's skill set and experience.

The ABS is reviewed annually on the basis of the following factors:

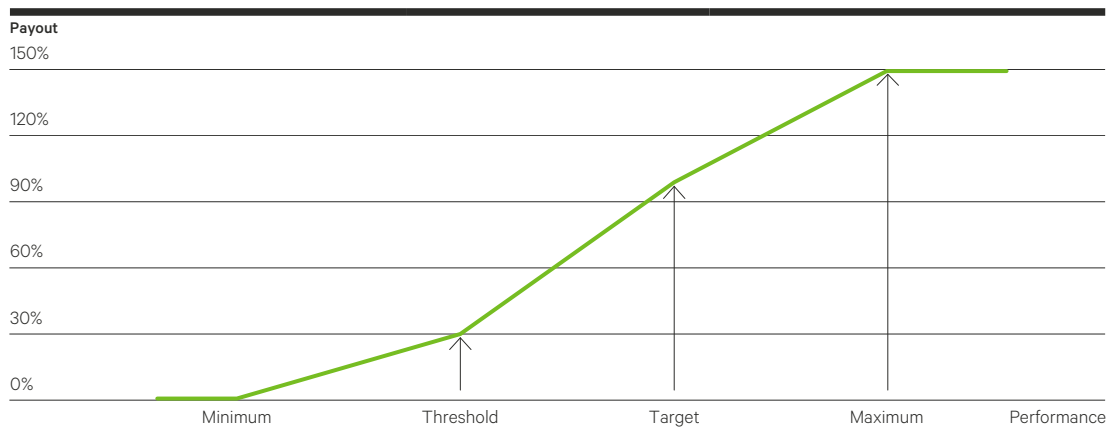
- external benchmark: market value of the role,
- internal benchmark: internal pay structure and internal peer comparison,
- individual profile and past performance of the employee,
- financial considerations such as budget and affordability.

5.4 Variable Cash Compensation (STI)

The STI is designed to drive outstanding performance throughout the organization by closely aligning compensation with the achievement of annual financial and non-financial objectives.

The individual variable target compensation amounts for the GEC are annually reviewed in the context of total compensation. The target STI nominal value translates to a percentage of ABS of 62% for the CEO and between 46% and 49% for the other GEC members for 2021 on a full-year basis, assuming an average performance achievement of 100%. The plan also includes a minimum performance threshold below which the STI payout is zero, and a maximum level of performance above which the payout factor is capped at 150% of the target STI value. An additional threshold target for 30% payout level is also defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

Table 5: STI payout curve for 2021



For all GEC members, company performance accounts for 70% of the STI, while individual performance accounts for 30%. The Company performance conditions are proposed annually by the NCC and approved by the Board. They are directly derived from the business strategy of profitable growth and are illustrated in Table 6.

After year-end, the NCC assesses the achievement of those performance measures and calculates the corresponding payout factor, which is subject to Board approval. For the individual performance component, the NCC conducts an assessment of the individual contributions of each GEC member at the end of the year based on a predetermined grid of criteria related to operational performance and to environment, social and governance aspects (as illustrated in Table 7) and proposes the corresponding performance achievement percentage to the Board for approval.

Table 6: STI key performance indicators for the CEO and other GEC members in 2021

Focus in 2021	Performance objectives	Weighting
Profitability	EBITDA margin	23.3%
	Free cash flow	23.3%
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	23.3%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see Table 7	30%
Total		100%

Table 7: STI evaluation grid for individual performance of the CEO and other GEC members in 2021

Operational results		
Growth	Entry in new markets, opening of new subsidiaries, development of new projects & products, M&A transactions, key strategic projects to support growth	29%
Profitability	Process efficiencies, cost-saving initiatives, pricing, supply chain management, projects to support profitability	29%
Environment, Social and Governance (ESG)		
Environment	GHG emission, energy efficiency, mobility programs (business travel), waste reduction, water consumption, etc.	14%
Social	Employees: health & safety, accident rate, diversity & non-discrimination, working conditions, training & development, employee satisfaction & engagement, turnover, labor rights Customers: customer satisfaction, data privacy, product safety, product quality Society: human rights, philanthropy, impact on local communities Supply chain monitoring	14%
Governance	Bribery & corruption, risk management, conflicts of interest	14%
Total		100%

The STI is paid out in cash, at the latest by June 30 of the following year, subject to shareholder approval.

5.5 Long-term share-based compensation (LTI)

GEC members are also eligible to participate in a LTI plan, designed to motivate executives to create value for the Company and its shareholders in a sustainable manner. The LTI is awarded in the form of performance share units (PSUs), subject to a three-year cliff vesting period depending on the achievement of the following performance conditions:

- relative net sales growth, with a 33 1/3% weight,
- relative total shareholder return (TSR), with a 33 1/3% weight,
- relative Return on Invested Capital (ROIC), with a 33 1/3% weight.

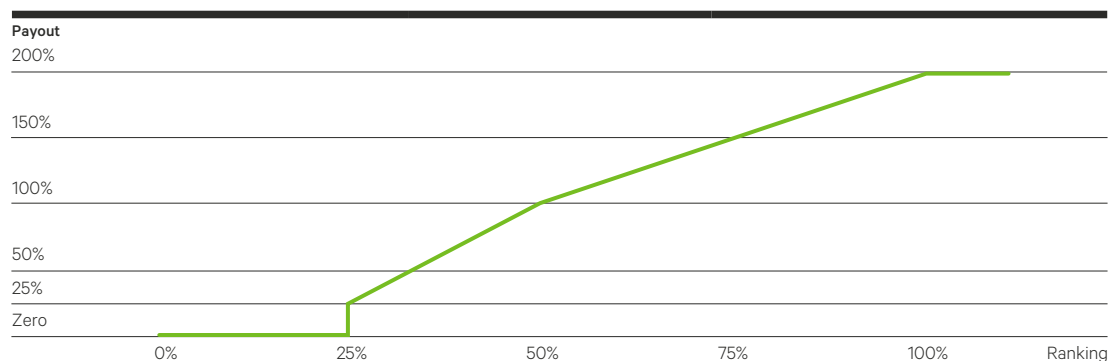
The relative Return on Invested Capital (ROIC) as an additional third performance condition was approved for the LTI grants 2021. The measure was chosen as an additional performance indicator to express how well the Company is generating profit relative to the capital it has invested in its business. All three performance conditions are equally weighted with one third each. Relative ROIC is a robust and meaningful measure for the Company and balances well with the two existing indicators relative net sales growth and relative TSR.

In 2021, the LTI nominal value amounts represent 77% of ABS for the CEO and between 46% and 47% of ABS for the other GEC members on a full-year basis. To determine the number of PSU granted, the LTI nominal value is divided by the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date.

At vesting, relative net sales growth, relative ROIC and relative TSR performance will be compared to peer companies and expressed as a percentile rank, which determines a payout factor between 0% and 200% as follows:

- ranking below the lower quartile of the peer group (threshold): 0% payout,
- ranking at the lower quartile of the peer group: 25% payout,
- ranking at the median of the peer group: 100% payout,
- ranking at the upper quartile of the peer group: 150% payout,
- ranking as best of the peer group (cap): 200% payout,
- linear interpolation between those points.

Table 8: Vesting schedule of the LTI



The weighted average of the three payout factors (relative sales growth, relative ROIC and relative TSR) provides for the overall vesting level of the LTI award.

This LTI plan is specifically designed for rewarding the performance of VAT Group relative to a selected peer group of companies. The intention is to reward the relative performance of the Company rather than its absolute performance because absolute performance may be strongly impacted by market factors that are outside the control of senior management. The relative performance is measured based on an evaluation provided by an independent Swiss consulting firm, Obermatt AG.

The peer group is confirmed by the Board prior to the annual grant of PSU and may be adjusted if required due to corporate events such as merger, acquisition, business combination transaction, delisting or bankruptcy of peer companies. In 2021, the Board approved a revised peer group for the future LTI grants to intensify the performance benchmarking with sector peers. Further, the Board accepted the deletion of a peer due to its delisting with no substitution for current outstanding grants. The peer group is illustrated in Table 9.

Table 9: Peer group for the 2021 LTI grant

Advanced Energy Industries	Advantest	Applied Materials	ASM international	ASML
Axelis Technologies	Brooks Automation	Centrotherm International	CKD Corporation	Comet
Ferrotec Holdings	Horiba	Ichor Holdings	Inficon	KLA-Tencor
LAM Research	Manz	MKS	Pfeiffer Vacuum Technology	Pivotal Systems
Sensirion Holding	SMC		Tokyo Electron	Ulvac

Given that the LTI plan is part of total compensation and designed to create sustainable value, a sound and fair vesting formula was determined at the time of introduction. The LTI plan is based on relative performance measures, i.e., performance compared to peer companies that are subject to similar market cycles as VAT Group. The intention is to neutralize market effects and to assess the “raw” performance of the Company. The vesting formula under the plan limits both the upside potential as well as the downside risk in order to create the right culture and a balanced pay-for-performance alignment. There is no vesting below the threshold performance (25th percentile) and the vesting level is capped at 200% for the best performance in the peer universe. In exceptional circumstances (e.g., negative profit), the Board has discretion to determine appropriate measures such as reducing the performance factor of vesting PSUs.

In case of termination of employment, the PSUs forfeit without any compensation, except in the situation of retirement or disability, in which case the PSUs are subject to a pro rata vesting at regular vesting date or in the situation of death or of change of control with termination of employment or cessation of the LTI plan, in which case the PSUs are subject to an immediate pro rata vesting.

5.6 Benefits

GEC members participate in the benefit plan available in the country of their employment contract. Benefits consist mainly of retirement, insurance and health care plans that are designed to provide a reasonable level of protection for the employees and their dependents with respect to retirement, risk of disability, death and illness/accident. The current members of the GEC are all employed under a Swiss employment contract. They participate in VAT Group's pension plan offered to all employees in Switzerland, in which a base salary and the STI are insured up to the maximum amount permitted by law. VAT Group's pension benefits exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) and are in line with what other international industrial companies offer.

In addition, GEC members are eligible for standard benefits, such as a representation allowance and other benefits in kind, according to competitive market practice. The monetary value of these other elements of compensation is evaluated at fair value and is disclosed in the compensation tables.

5.7 Employment contracts

GEC members are employed under employment contracts of unlimited duration with a notice period of six months and twelve months for the CEO. GEC members are not contractually entitled to sign-on payments, termination payments, change-of-control provisions (except the accelerated vesting under the LTI plan) or non-competition compensation.

5.8 Clawback and malus provisions

Clawback and malus provisions apply on STI and LTI awards for GEC members and other executives: if VAT Group (or one of its companies) is required to prepare an accounting/financial restatement, the Board will determine the amount of variable compensation that would have been due under the restated financial results. VAT Group will have the right to forfeit (malus provision) and/or to obtain reimbursement (clawback provision) of any parts of the variable compensation that were paid or granted in excess of the amount determined. This forfeiture or clawback is limited to accounting/financial restatements of the previous three financial years and to variable compensation whose amount is determined, exclusively or in combination with other performance metrics, on the basis of the financial results and performance of VAT Group as reported in its financial statements.

6. Compensation awarded to the Board and to GEC in 2021

6.1 Compensation awarded to the Board in 2021

For 2021, the members of the Board received a total compensation of CHF 1.0 million (2020: CHF 0.9 million) in the form of fixed basic fees of CHF 0.7 million (2020: CHF 0.6 million), committee fees and other expenses of CHF 0.2 million (2020: CHF 0.2 million) and social security contributions of CHF 0.1 million (2020: CHF 0.1 million). Out of the total compensation of CHF 1.0 million (2020: CHF 0.9 million), CHF 0.3 million (2020: CHF 0.2 million) are awarded in form of restricted shares. The increase of 12% compared to previous year results from the increase of fixed basic fees and committee membership fees since the AGM 2021 and increased social security contributions.

Table 10: Compensation of the Board in 2021 and 2020

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2021	217,500	50,000	1,500	22,086	291,086	82,236
	2020	200,000	50,000	1,500	20,645	272,145	75,009
Heinz Kundert, Vice-Chair	2021	81,563	10,875	1,500	5,693	99,631	28,491
	2020	75,000	10,000	1,500	5,126	91,626	25,515
Herman Gerlinger	2021	81,563	35,875	1,500	7,538	126,476	36,086
	2020	75,000	32,917	1,500	6,812	116,229	32,401
Urs Leinhäuser	2021	81,563	35,875	1,500	10,086	129,024	36,086
	2020	75,000	37,083	1,500	9,603	123,186	33,657
Daniel Lippuner ¹	2021	81,563	6,709	1,500	7,613	97,385	26,481
	2020	43,750	-	875	3,773	48,398	13,125
Karl Schlegel	2021	81,563	32,625	1,500	7,298	122,986	35,161
	2020	75,000	32,083	1,500	6,751	115,334	32,187
Libo Zhang	2021	81,563	10,875	1,500	7,498	101,436	28,492
	2020	75,000	10,000	1,500	7,314	93,814	25,515
Total	2021	706,878	182,834	10,500	67,812	968,024	273,033
	2020	618,750	172,083	9,875	60,024	860,732	237,409

¹ Since AGM of 14 May 2020.

At the AGM on May 14, 2020, shareholders approved a maximum aggregate compensation amount of CHF 1,006,000 for the Board for the compensation period from the AGM 2020 until the AGM 2021. The remuneration paid to the Board for this term was CHF 889,183 and is therefore within the approved limits.

At the AGM of May 18, 2021, shareholders approved a maximum aggregate compensation amount of CHF 1,101,000 for the Board for the term from the AGM 2021 until the AGM 2022. The remuneration paid to the Board for this term is anticipated to be approximately CHF 1,020,000. The final amount will be disclosed in the 2022 Compensation Report.

In the year under review, no compensation was paid to former members of the Board or to closely related parties to members or former members of the Board.

No member, former member, or closely related parties of the Board were granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

6.2 Compensation awarded to the GEC for 2021

In 2021, the members of the GEC received a total compensation of CHF 3.27 million (2020: CHF 2.63 million). This amount comprises annual base salaries of CHF 1.31 million (2020: CHF 0.95 million), STI of CHF 0.93 million (2020: CHF 0.65 million), other expenses of CHF 0.07 million (2020: CHF 0.16 million), contributions to social security and post-employment benefits of CHF 0.47 million (2020: CHF 0.36 million) and an LTI grant value of CHF 0.5 million (2020: CHF 0.52 million). The variable compensation amounts to 103% (2020: 100%) of the fixed compensation for the CEO and 61% (2020: 62%) on average for all the other GEC members.

Table 11: Compensation of the GEC in 2021 and 2020

(CHF, gross)	Year	ABS	Other payments ²	Pension & social security (fixed)	Total fixed compensation	STI payout ³	LTI grant ⁴	Total compensation ⁵
Michael Allison	2021	520,000	0	211,423	731,423	451,765	300,606	1,483,794
	2020	500,000	0	191,461	691,461	389,625	301,969	1,383,055
Other GEC	2021	786,243	69,483	257,823	1,113,549	475,190	201,960	1,790,699
	2020	445,000	156,962	167,530	769,492	260,515	215,096	1,245,103
Total GEC¹	2021	1,306,243	69,483	469,246	1,844,972	926,955	502,566	3,274,493
	2020	945,000	156,962	358,991	1,460,953	650,140	517,065	2,628,158

1 Three GEC members were in office on December 31, 2021, including nine months in office for the new CFO. It also includes contractual payments during the notice period for one GEC member who stepped down in January 2021. Three GEC members were in office on December 31, 2020.

2 Includes payments related to the relocation of new GEC members in 2021 and 2020 as well as payments of remaining vacation days for the GEC member who left the Company in 2021.

3 STI for 2021 to be paid out until June 30, 2022; it includes the pro rata STI for the GEC member who left the Company in 2021; STI for 2020 was paid out until June 30, 2021.

4 Grant value of the LTI awarded is based on the Monte Carlo evaluation of the PSU. The total number of PSU granted in 2021 amounted to 1,932 for the CEO and 1,298 for the other GEC members, based on the average daily closing share price of the VAT shares during the 20 trading days preceding the grant date. It includes a replacement award to the new CFO granted under the Long-term Incentive program in PSUs (LTI), which was forfeited by his previous employer as a result of joining VAT Group. For 2020, it includes the 2020 LTI grant value for the former CFO, despite the fact, that all outstanding PSUs granted are forfeited due to his leaving in 2021.

5 All compensation amounts are disclosed gross.

The total aggregate annual base salaries of the GEC increased by 38% overall (2020: -22%). This is due to contractual payments in relation to the notice period for one GEC member who left the Company in 2021 and the lower cost for the GEC in 2020 due to the COO role being vacant and covered ad interim by the CEO for 9 months without additional compensation.

The STI payout increased by 43% compared to previous year. The overall performance achievement under the STI was higher than in the previous year. However, the STI value for 2020 was lower due to the change in GEC composition in 2020. The overall financial and individual performance achievement of the GEC of 133% (2020: 123%) was marked by outperformance of the Group financials. Net sales for the year increased by 30% to CHF 901 million. Reflecting the strong business performance, VAT posted an all-time record EBITDA margin of 34.2%. The EBITDA, free cash flow and specification wins targets outperformed, and the individual performance achievements ranged from 111% to 124% of target for the GEC members in office. There was no discretion applied by the Board when determining the final payout for 2021.

Table 12: summary of 2021 performance for the STI

		Threshold	Target	Ceiling
Profitability	EBITDA margin			
	Free cash flow			
	Specification wins			
Individual performance assessment	Operational results & ESG			

The LTI grant value amounted to CHF 0.5 million (compared to CHF 0.5 million in previous year). Overall a higher fair value of the grant in 2021 (LTI grant value per PSU 2021: CHF 155.593, 2020: CHF 115.83) balanced off the lower number of PSUs granted in 2021. The PSU numbers were determined by dividing the LTI nominal target value by the market value of shares prior to the grant date. This was significantly higher for the 2021 grant than for the prior year.

In line with the overall increase of the total compensation in 2021 for the GEC, the social security and pension contributions increased compared to the previous year.

The total fixed compensation of CHF 1.84 million (including pension and social security contributions) awarded for the financial year 2021 is within the maximum aggregate compensation amount of CHF 1.99 million approved by the shareholders.

The aggregate grant value of CHF 0.5 million awarded under the LTIP at target is within the maximum amount of CHF 1.70 million approved by the shareholders.

The STI of CHF 0.93 million will be submitted to shareholders' vote at the 2022 AGM.

In the year under review, no compensation was paid to former members of the GEC or to closely related parties to members or former members of the GEC.

No member or former member of the GEC was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

7. Shareholdings and vesting of outstanding LTI award

7.1 Shareholdings as of December 31, 2021

At the end of 2021, members of the Board held a total of 77,608 (2020: 76,618) registered shares of VAT Group². GEC members held a total of 468 (2020: 751) registered shares of VAT Group and a total of 10,793 (2020: 13,865) performance share units.

The details on shareholdings of the members of the Board and the GEC is included in note 4.3 of the statutory financial statements of VAT Group on page 130 of the Annual Report.

At the end of 2021, members of the Board and the GEC did not hold any stock options.

7.2 Vesting of outstanding LTI award

The vesting level for the 2018 LTI award which was due to vest by end of 2020 (LTI performance period 2018–2020), considering the performance of the relative sales growth and the relative TSR against the peer group, was 79%.

The PSU grant under the LTI plan in 2019 vested at the end of 2021. The final vesting level will be available in May 2022, after the annual results of the peers for 2021 have been published, and will be reported in the 2022 Compensation Report.

Table 13: Vesting level of PSUs

Grant year	Vesting year	Overall vesting % ¹
2017	2019	76%
2018	2020	79%
2019	2021	vested, performance evaluation pending
2020	2022	pending ²
2021	2023	pending ²

¹ Vesting level of the Performance Share Units. Current GEC members have joined after 2017 grant and are no beneficiaries of the 2017 LTI grant.

² Performance periods are still ongoing. Numbers will be available after the end of the respective performance period.

² In addition, Heinz Kundert owns 120 performance share units from the LTI plan that were awarded to him in his previous function as CEO.

Report of the Statutory Auditor

To the General Meeting of Shareholders of VAT Group AG, Sennwald

We have audited the accompanying remuneration report of VAT Group AG for the year ended December 31, 2021.

The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in table 10 “Compensation of the Board in 2021 and 2020” on page 70 and table 11 “Compensation of the GEC in 2021 and 2020” on page 71 of section 6 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report for the year ended December 31, 2021 of VAT Group AG complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Simon Niklaus
Licensed Audit Expert
Auditor in Charge

Jan Bellinger
Licensed Audit Expert

St. Gallen, March 2, 2022