

ANNUAL REPORT 2021:

VAT's leading technology, global footprint and strong operational performance drove record sales, EBITDA, EBITDA margin, free cash flow and further market share gains in 2021.

VAT is the leading supplier of high-vacuum valves and related equipment used to manufacture semiconductors, displays, solar cells and many other digital devices. The company reported record results in 2021 in a market characterized by strong semiconductor demand, significant supply constraints and uncertainties surrounding the global coronavirus pandemic. This achievement reflects the successful execution of the company's profitable growth strategy and the engagement of its more than 2,000 employees worldwide. VAT expects to continue to outgrow the market and create more value for all of its stakeholders in 2022 and beyond.



PASSION. PRECISION. PURITY.

Our ambition is to outgrow the market in our core valves business, build our service offering and expand into profitable adjacent businesses, while fully tapping the operational advantages of our flexible global footprint. We believe this is the road to sustainable value creation for our customers and employees, shareholders and suppliers, and for the communities in which we operate.

Key figures

In CHF million	2021	2020 restated ¹	Change
Order intake	1,227.9	724.5	69.5%
Order backlog as of December 31	461.2	145.3	217.3%
Net sales	901.2	692.4	30.1%
Gross profit	570.5	430.1	32.6%
Gross profit margin	63.3%	62.1%	-
EBITDA	307.9	210.5	46.3%
EBITDA margin	34.2%	30.4%	-
EBIT	264.9	169.8	56.0%
EBIT margin	29.4%	24.5%	-
Net income	217.4	127.9	70.0%
Net income margin	24.1%	18.5%	-
Basic earnings per share (in CHF)	7.25	4.27	69.9%
Diluted earnings per share (in CHF)	7.24	4.26	69.9%
Cash flow from operating activities	239.8	166.2	44.3%
Capex ²	44.1	19.2	121.8%
Capex margin	4.9%	2.8%	-
Free cash flow ³	195.7	147.0	33.1%
Free cash flow margin	21.7%	21.2%	-
Free cash flow conversion rate ⁴	63.6%	69.8%	-
Free cash flow to equity ⁵	192.0	143.0	34.3%
As of December 31	2021	2020 restated	
In CHF million			
Total assets	1,064.9	989.1	7.7%
Total liabilities	430.5	444.5	-3.1%
Equity	634.4	544.6	16.5%
Net debt	79.7	128.5	-37.9%
Net debt/EBITDA	0.3	0.6	-57.6%
Invested capital ⁶	463.9	411.1	12.8%
NOPAT ⁷	235.5	155.6	51.3%
Return on invested capital (ROIC)	53.8%	40.6%	-
Dividend per share ⁸ (in CHF)	5.50	4.50	22.2%
Payout ratio ⁹	85.9%	94.4%	-
Number of employees ¹⁰	2,540	2,041	24.5%

1 Prior-period financial statements have been restated in line with a clarification in 2021 by the IFRS Interpretations Committee that costs for cloud-based services, such as VAT's new ERP system, are to be expensed through the income statement when they occur, rather than capitalized.

2 Capex comprises acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.

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

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

5 Free cash flow to equity is calculated as cash flow from operating activities less cash flow from investing activities less interest paid.

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

7 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 net foreign exchange gains/losses from financing activity and excluding other finance income) less taxes at the average Group rate of 16.0% (previous year 16.0%).

8 2021 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2022; CHF 5.25 per share to be paid from accumulated gains, CHF 0.25 to be paid from reserves from capital contributions

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

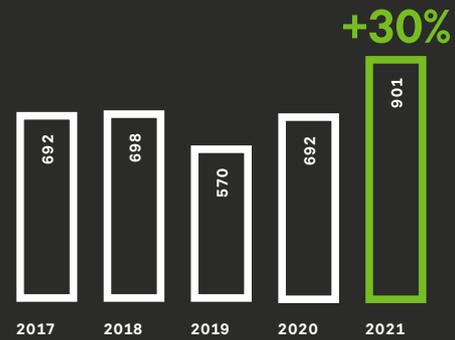
10 Number of employees expressed as full-time equivalents (FTE)

Net sales
in CHF million

901.2

2020: 692.4

Net sales
development
in CHF million



EBITDA
in CHF million

307.9

2020: 210.5

EBITDA margin
in %

34.2

2020: 30.4



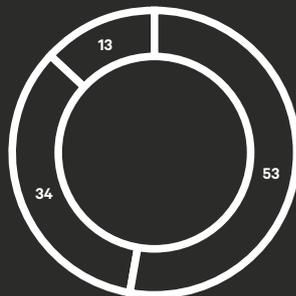
Net sales
by segment
in %



81 VALVES
19 GLOBAL SERVICE

2020:
82 VALVES
18 GLOBAL SERVICE

Net sales
by region
in %



53 ASIA
34 AMERICAS
13 EMEA

2020:
53 ASIA
33 AMERICAS
14 EMEA

Free cash flow
in CHF million

195.7

2020: 147.0

Dividend
per share*
in CHF

5.50

2020: 4.50

* 2021 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2022; CHF 5.25 per share to be paid from accumulated gains, CHF 0.25 to be paid from reserves from capital contributions

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Dear Stakeholders,

Your company again performed strongly in 2021. Record sales, profitability, cash flow and net income, along with further technology innovations, market share gains, operational improvements and footprint adjustments – all of this despite the second year of a global pandemic that has challenged all of us, both personally and professionally.

With that in mind and on behalf of the entire Board of Directors, I'd first like to thank our more than 2,500 employees who made this performance possible. Their dedication to our customers, their passion for technology and innovation, and their adaptability in the face of rapidly changing markets were the keys to our success last year. This includes another year of disciplined implementation of all the measures needed to reduce the impact of the COVID-19 pandemic and to keep themselves, our customers and our suppliers safe. As I've said before, our people really are a significant competitive advantage.

From a market perspective, 2021 was another year of strong demand. Our high-end vacuum valves are mission-critical components in the manufacture of semiconductors, the driving force behind global digitalization. With our technology and market leadership, VAT continues to benefit from megatrends such as cloud computing, smart devices, the Internet of Things and artificial intelligence. These trends were augmented in 2021 by a global semiconductor shortage that prompted a number of chip makers to accelerate capital investments to boost production.

Against this positive market background, we continued to implement the profitable growth strategy we first presented in 2020. This is based on gaining market share in our core valves business; growing our global service business; expanding into value-adding adjacencies; and continuing to improve our operational performance and optimizing our global footprint. Our 2021 results show that we have made progress in all these areas.

Our cumulative market share is higher across all the sectors in which we operate, and close to 75% in the higher-end semiconductor market, where our technology lead and deep customer relationships are critical differentiators. Net sales in our Global Service segment were up 35% on the year as we help customers get more from their existing assets, and we're on track with our expansion into adjacent products, such as motion components and advanced valve modules.

Furthermore, we continued to implement operational excellence initiatives to optimize our global footprint, make the organization faster and more flexible, and secure sustainable profitable growth. For example, in December we announced a CHF 160 million capital expenditure plan that includes the further expansion of our production capabilities in Malaysia. This will yield supply chain benefits as well as make us more responsive to customer needs in the increasingly important Asia market. We will also build an innovation center at our head office location in Haag, Switzerland, to further strengthen our technology lead and bring together all of our research and development capabilities into a single, more powerful and cost-effective unit.

We continue to develop meaningful ways to create value that is sustainable over the long term, for our customers and shareholders, but also for our people and the communities in which they work and live. These include extensive training, international talent development and know-how transfer across borders. Promoting diversity of experience fuels innovation and makes VAT a more attractive employer. We also continue to reduce our environmental footprint in areas such as renewable energy and packaging and to establish metrics on our sustainability performance to drive further improvements.

“The business environment looks positive, and we have both the market position and the people to capture the growth opportunities ahead.”



DR. MARTIN KOMISCHKE
CHAIRMAN OF THE BOARD OF DIRECTORS

Since VAT was listed on the SIX Swiss Exchange in 2016, the company has come a long way. Net sales have more than doubled since then, to CHF 900 million in 2021, and our EBITDA margin has increased from 30% to 34%, all despite the cyclical downturn we had to weather in 2019.

I believe this demonstrates the incredible strength of our company and gives us confidence to view 2022 and beyond with optimism. We expect the impact of the COVID-19 pandemic to continue to wane over the course of the year. The business environment looks positive, and we have the market position, operational flexibility and the people to capture the growth opportunities ahead and continue our successful track record of value creation. Consequently, we plan to recommend a 22% higher dividend of CHF 5.50 per share at our Annual General Meeting in May.

Finally, the Board and I would like to thank you for your continued support. I look forward to a fruitful collaboration with you in the years ahead.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Komischke', written in a cursive style.

Dr. Martin Komischke

CEO Interview

How would you summarize VAT's results in 2021?

Thanks to a strong market, continued operational improvements, and a strong team of engaged employees, we delivered record orders, net sales, EBITDA, EBITDA margin and free cash flow. And we achieved that despite significant supply constraints and the ongoing COVID-19 pandemic. We're very proud of this performance and our ability to support our customers during such difficult times.

What drove the strong market demand?

The recent global semiconductor shortage prompted many chip makers to accelerate investments both in new capacity and equipment upgrades. Underlying this are ongoing megatrends, such as the Internet of Things and cloud computing, which require the development of ever-more complex chips and, in turn, more innovative vacuum valves.

How did supply constraints impact the business?

Some key raw materials, aluminum for example, were in very short supply in 2021, which drove up input costs. Some electronic components were also hard to come by. But our suppliers were very supportive, and by working together we were able to find solutions to most of our challenges. In addition, our supply management teams were able to qualify additional suppliers and secure the materials we need. I believe we're in good shape for 2022.

What impact did these pressures have on your customer relationships?

VAT places the customer at the center of everything we do. During the COVID-19 pandemic and recent supply constraints, we worked extremely hard on communications with our customers and adapting our operations to minimize the impact of any bottlenecks. Making sure we can always deliver to our customers on time and with the technology solutions they need, even when market conditions are changing quickly, has been a key management priority in recent years. In 2021, for example, in addition to securing our supply chains to meet short-term customer needs, we also added application engineering resources to help them implement their ambitious technology roadmaps, such as new valve solutions for the next generation of semiconductors. They are among the most demanding customers in the world, pioneers in their fields, and they need suppliers who can keep pace.

And now that we have two major production sites and a global supply chain, we're in a much stronger position to support our customers going forward. This is a significant competitive advantage, and I'm convinced the mutual trust we have developed will support future growth.

How were you able to grow your EBITDA margin?

We are always striving to improve operational efficiency and optimize costs, and that continued in 2021. We took further steps to speed up product development and realize the benefits of our flexible global footprint, for example, by sourcing more from best-cost countries. Our margin also benefited from the volume effects of higher revenues and the introduction of great new products.

What role did your Malaysia plant play in your 2021 results?

Our strategy to build capacity at Penang has been very successful. Not only has it brought us closer to our key customers in Asia, but it also provides us with a more balanced global production and supply base. That gives us a lot more flexibility in a market that can change very quickly. We increased our factory output in Malaysia in 2021 by some 70% versus 2020, to around CHF 170 million, and significantly increased supply volumes from the region. Our engineering and product management capabilities in Malaysia are also much stronger, which means we can respond faster to meet our customers' needs in Asia.

What progress have you made on the strategy you announced in 2020?

We again outgrew the market in 2021. Our market share across all industries in 2021 was up three percentage points compared with 2020, and five percentage points higher in our core semiconductor business, where our technology lead is a significant competitive advantage. We also launched new service products to take advantage of our large installed base of valves and achieved record sales in that business.

We refocused our Advanced Industrials business to tap growth opportunities in areas such as high-end industrial coatings and metrology. We're moving into promising adjacencies, with products such as motion components and multi-valve modules. And our 2021



MICHAEL ALLISON, CEO

“Technology and our markets are moving fast, but VAT will move faster.”

EBITDA margin above 34% confirms our ability to improve operational performance.

Can you maintain growth and profitability at today's level?

We're still in the early stages of global digitalization and we think chip makers will continue to increase capacity in the near term. We see some rebound in displays and further growth in industrials and solar in 2022, so the overall market environment looks positive. Supply constraints will remain a short-term challenge, but operational improvements will continue to mitigate those impacts.

Is this why you updated your mid-term guidance for 2025?

Yes, we saw unprecedented market growth in 2021 and most analysts think the total market for wafer fab equipment will reach CHF 110 billion by 2025, compared with the CHF 80 billion they forecast when we first released our targets in 2020. Add to that the growth we aim to achieve through our strategic initiatives – higher market share, service growth and expansion into adjacencies related to our core valve business – and we now expect 2025 sales of about CHF 1.5 billion with an EBITDA margin of 32–37% over the cycle. This compares with the CHF 1.1 billion in sales and 30–35% EBITDA margin we communicated in 2020.

Where do social and environmental issues fit into your strategy?

Our business results, our ability to attract and retain people, and our position in the communities where we operate all depend on how well we integrate social and environmental performance into our day-to-day operations. For example, we continue to shift to renewable energy and cut raw material waste. We're building our skills development programs, especially in Malaysia, including apprenticeship programs with local schools to become a more attractive employer. We're expanding not only our production footprint there but also our engineering capabilities, establishing a base for long-term value creation in the region. There's certainly more to do but I think we're headed in the right direction.

What are your priorities for 2022?

Striking the right balance between capturing growth in a very strong market while keeping a close eye on operational performance and costs will remain a management priority. Further ramping up our capabilities in Malaysia and securing the benefits from our capital investment plans is also key. We'll keep executing on our strategy to outgrow the market while maintaining an attractive EBITDA margin and cash flows. We'll continue to invest heavily in our core valves technology but also in new products and adjacencies to broaden our high-value solutions for our customers. Technology and our markets are moving fast, but VAT will move faster.

A history of competitive success

VAT has been designing and manufacturing vacuum valves since its founding in 1965 in Flawil, Switzerland. In the pre-digital era, vacuum valves were used primarily in scientific research. However, as the benefits of high-vacuum environments in precision manufacturing became evident, the need for valves expanded into new areas, such as thin-film industrial coatings and optics.

The 1980s saw the development of integrated circuits containing millions of transistors on a single silicon chip, a technology that allowed a quantum leap in information processing. Manufacturing such chips also required a near-pure vacuum environment to prevent microscopic levels of contamination. This opened an entirely new and fast-growing market for VAT's high-end vacuum valves.

As the use of semiconductors spread into other industries, VAT broadened its product range to serve markets with similar high-vacuum production processes, such as flat-panel displays and solar panels. The company expanded beyond Europe, into the US and Asia, and added to its product portfolio with small acquisitions in 2008 and 2012.

In 2012, VAT made the key decision to build a new manufacturing facility in Penang, Malaysia, to better serve its rapidly growing Asia market. The facility was completed in 2018 and annual output in 2021 amounted to about CHF 170 million. In early 2022, VAT announced a CHF 70 million expansion of its Malaysia facilities to support its long-term strategy for profitable growth.

VAT has steadily increased its technology and market leadership over the years and currently holds an overall market share more than seven times larger than its closest competitor.

In early 2016, VAT Group was taken public on the SIX Swiss Exchange. In 2017, the company paid its first dividend as a public company of CHF 4.00 per share. The dividend remained steady until the 2020 fiscal year, when it was increased to CHF 4.50 per share. The Board of Directors has proposed a dividend for 2021 of CHF 5.50 per share.

Milestones



Our strategy for sustainable profitable growth

Digitalization is perhaps the most important trend shaping the modern world. The ability to embed unimaginable computing power into increasingly smaller devices, and to share and analyze vast amounts of data in real time around the globe has opened up tremendous new opportunities to improve the quality of life for people everywhere.

And although we've used digital information for decades – including an IBM data storage unit developed in 1956 with a capacity of five megabytes that weighed about a ton – the Digital Revolution is still in its early days. In 2015, the volume of digital data generated around the world amounted to some 100 million terabytes.* In 2021, it was estimated to be almost 14 billion terabytes. By 2025, it is expected to reach close to 160 billion terabytes.

The technology underlying this development is the semiconductor. Silicon semiconductor chips can contain millions of transistors in a tiny space, allowing data to be stored and processed quickly and efficiently. The more transistors you can build into a chip – that is, the smaller you can make the transistor – the more powerful the chip is.

In many of the latest chips, transistors are 10 nanometers or smaller, roughly equivalent to a protein molecule in size. Manufacturing such a chip requires a near-pure vacuum. Even the smallest molecule-sized contaminant could significantly reduce a chip's performance. And as demand grows for evermore powerful semiconductors – used in data centers, smart factories, electric and self-driving vehicles, 5G telecoms networks – transistor sizes decrease even further, requiring even cleaner vacuum process chambers.

This is where VAT plays its mission-critical role in the Digital Revolution. VAT is the world's leading manufacturer of vacuum valves, mechanical components that open and close the various process chambers used in chip fabrication – such as cleaning, etching, film deposition – while ensuring a consistently pure vacuum environment through the entire process.

Similar processes are used to manufacture high-resolution displays, such as LED (light-emitting diode) and OLED (organic light-emitting diode) screens used in smart phones and televisions. Photovoltaic energy cells are also manufactured in a high-vacuum environment. Other industries are also turning to high-vacuum manufacturing processes where extreme precision is required, such as industrial coatings, medical devices and pharmaceutical manufacture. VAT serves all of these markets with the most advanced valve technologies, a flexible global footprint, and long-standing relationships with some of the world's most demanding customers.

VAT serves an attractive, fast-growing market

The semiconductor industry is VAT's largest end market, accounting for some 75% of net sales in 2021. VAT typically sells its valves to OEMs (original equipment manufacturers) who build the valves into larger products, generally referred to as wafer fabrication equipment (WFE). OEMs then sell these to the ultimate end user, the chip fabricators.

As a result, VAT's primary demand driver is investment from semiconductor manufacturers into large fabrication facilities, both new capacity and the retrofit and upgrade of existing equipment. In 2021, global WFE spending grew by 40% from its previous record level in 2020, reaching almost USD 90 billion, and is expected to grow by another USD 10 billion or more by 2025.

* Source: Applied Materials, September 2021

VAT benefits from this in two ways. The first is simply the growing volume of semiconductors needed as chips are used in more and more devices. Increasing chip fabrication requires more vacuum valves. The second factor is the development of new chip designs that are more powerful and more energy-efficient. These newer chips typically pack more transistors into the same or a smaller space, which in turn often requires more process steps (and more valves) and higher manufacturing purity (through more advanced valve designs).

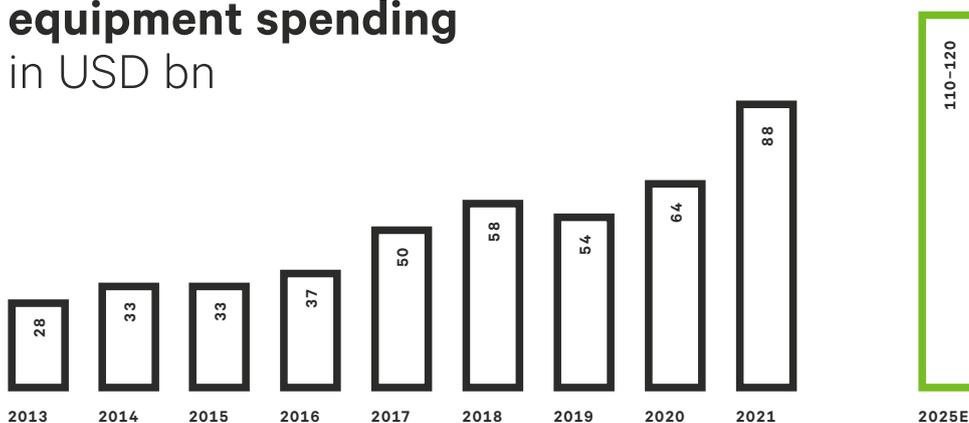
Similar trends are taking place in the displays and solar photovoltaic industries. Growth is being driven by both volume requirements as well as new technologies that significantly improve product performance, whether it's screen resolution in displays or energy-conversion efficiency in solar panels. Both require more and better vacuum valves.

VAT also supplies vacuum valve solutions to other industries, such as specialized industrial coatings that must be applied in an ultra-clean environment, or the crystal pulling process used to produce silicon wafers or substrates for the semiconductor industry. VAT valves are used in scientific equipment, such as particle accelerators and electron microscopes, and in nuclear fusion reactors, such as the ITER magnetic fusion device being developed in a 35-country, multi-decade collaboration.

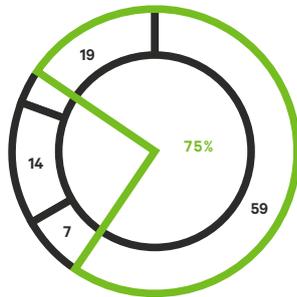
Like many capital-intensive industries, semiconductor, display and solar panel manufacturing has historically tended to be cyclical. Very large investments were made in new capacity, which was then absorbed over several years before a new cycle of investment begins. While this remains true today, cyclicality has decreased in recent years as the market for semiconductors and the use of high-vacuum manufacturing processes has diversified from its roots in the computing industry into other areas, such as mobile devices, aerospace and automotive, coatings, medical applications, and others. In addition, as the installed base of vacuum equipment has grown, so too has the need for service, retrofits and upgrades, a low-capital business which provides a more reliable stream of revenues.

Geographically, many of VAT's largest customers in the semiconductor, display and solar industries have their major production centers in Asia, although Europe and the US remain key locations, especially for chip technologies such as extreme ultraviolet lithography (EUV). Being close to customers, especially in times of rapid market and technology changes, is becoming increasingly important to maintain and build technology leadership, customer relationships and market share.

Wafer fabrication equipment spending in USD bn



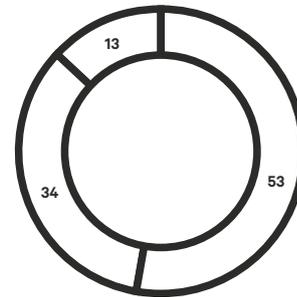
Sales Breakdown by Market Segment 2021 in %



59 SEMICONDUCTOR
7 DISPLAY & SOLAR
14 ADVANCED INDUSTRIALS
19 GLOBAL SERVICES

75% OF VAT'S GROUP
SALES ARE
SEMICONDUCTOR
RELATED

Regional Sales Breakdown 2021 in %



53 ASIA
34 AMERICAS
13 EMEA

VAT's set-up optimizes its competitive advantages

VAT is clearly and simply organized so that its businesses are positioned to best meet the needs of its customers and to gain the greatest benefit from their competitive advantages.

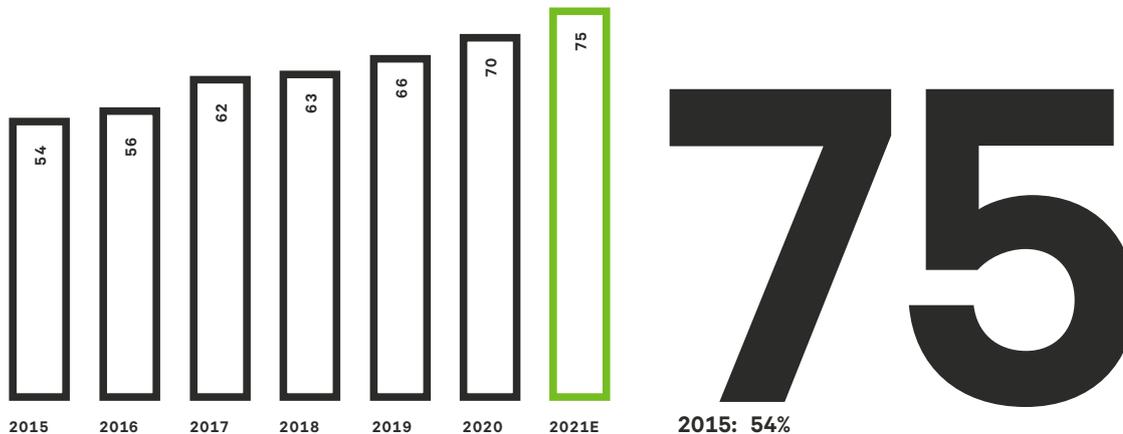
The company has two segments. The Valves segment is focused on VAT's core vacuum valves technology and consists of three business units aligned with its biggest markets: Semiconductors, Display & Solar, and Advanced Industrials. The second segment, Global Service, supplies a growing range of service products and solutions to help customers improve their competitiveness through increased productivity and uptime.

VAT is headquartered in Haag, Switzerland, close to where it was founded in 1965. This remains the company's primary production facility and the site of most of its research and development activities, along with the industry's only particle measurement lab, in the US. In 2012, VAT built a second manufacturing plant in Penang, Malaysia, to support its growing customer base in Asia. In 2021, the plant accounted for sales of about CHF 170 million, 70% higher than the previous year. With the announcement in December 2021 of a further expansion of capacity in Malaysia, the company expects the plant to eventually take over the major share of total global valve production.

This global footprint has enabled a step change in VAT's ability to collaborate closely with customers to develop precisely the solutions they need and to deliver them faster. It has also increased operational flexibility, allowing the company to quickly shift production and supply to meet these changing needs and to optimize productivity and cost. And by diversifying the talent pool, this expansion fosters innovation, broadens the company's base of expertise and offers people new opportunities to grow, both personally and professionally, making VAT a more attractive employer.

VAT's market share in the high-end semiconductor market*

in %



* Semiconductors includes LED displays.

Innovation is a key differentiator

In the technologically demanding markets that VAT serves, the ability to innovate quickly in close collaboration with customers is a key competitive advantage. VAT has a long history of investment in R&D, typically spending about 5% of revenues on technology innovation every year. This is roughly equal to the total annual revenues of its closest competitor. In December of 2021, VAT took another step to secure its technology leadership with the announcement of a CHF 40-million investment in a new innovation center at its head office location in Switzerland. The center will bring all of the company's Switzerland-based R&D staff under a single roof to enhance product development and improve collaboration with VAT's US-based particle lab and its growing engineering capabilities in Malaysia.

The company assesses the return on this investment partly through the number of specification wins, agreements with customers on new product designs to address specific customer requirements for upcoming generations of new equipment. Spec wins translate into revenues as the customer rolls out its new equipment for the semiconductor, display and solar markets. VAT achieved more than 110 spec wins in 2021, a new record. The company also places a high priority on intellectual property protection and currently owns more than 400 active patents worldwide, more than all of its competitors combined.

Based on this combination of technology leadership, deep customer relationships, global production and service footprint and highly-qualified and engaged people, VAT has been able to steadily outgrow the overall market on a regular basis. The more technologically challenging the market, the greater VAT's market share.

Profitable growth strategy to 2025

VAT aims to continue this strong performance and capture the many growth opportunities emerging from global digitalization megatrends, and is implementing a simple and clear strategy to achieve this goal.

The first element is to continue to gain market share in its core valves business. Success in this area depends to a large extent on continuing to build its technology lead as the size of semiconductor nodes continues to shrink and chip architectures become more complex. These developments require more process steps and higher process purity. VAT technology that reduces the release of particles during valve opening and closing, for example, gives the company a significant advantage in this rapidly growing market.

Another focus is to grow VAT's service business. Our growth over the years has created an installed base of more than a million valves around the world. Maintaining their operation at peak performance is vital for semi manufacturers to maximize yield, uptime and productivity. To address these needs, VAT is developing new service products, such as customized upgrades and retrofits that can be easily installed with minimal production disruptions. The company is improving its service delivery footprint with upgraded service centers close to key customers.

A third lever for driving growth is to expand into profitable adjacent markets that build on VAT's existing technology strengths. These include specialized valve modules that can be integrated into process chambers to provide additional functionality. Motion components, such as lifters and positioners, represent another attractive adjacency along the wafer path.

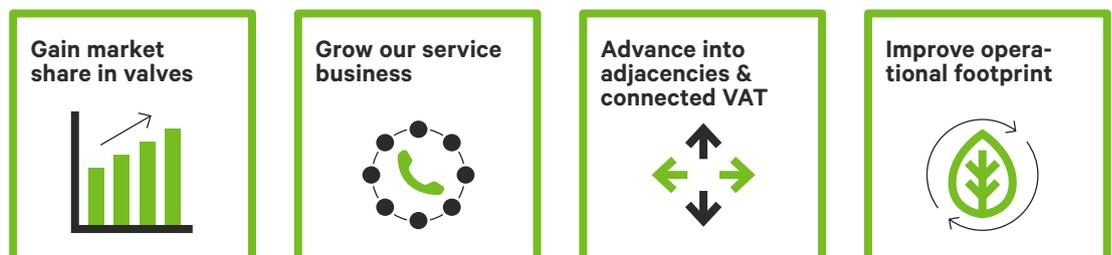
Finally, making valves and related components smarter by integrating sensors, analytics and device-to-device communications and control systems will allow future valve systems to be self-monitoring, self-tuning, self-learning and self-maintaining. This will contribute to lower customer operating costs and significant productivity improvements.

Securing both growth and profitability

To ensure that VAT's growth remains profitable, the company will continue to focus on operational performance in three primary areas.

The first is to become more cost competitive by taking full advantage of the company's flexible global footprint. This means, for example, developing suppliers in best-cost countries who can reliably meet VAT's global quality and manufacturing requirements. VAT also aims to keep investing in manufacturing and engineering resources that are close to its customers. This allows the company to respond faster and more cost-effectively to changing customer needs. The recently announced CHF 70 million expansion of production in Malaysia is an important step in this strategy. This investment is expected to more than double VAT's output from Malaysia to over CHF 1 billion once the plant is running at full capacity.

Four strategic priorities



Another lever is to create seamlessly integrated business processes across the entire value chain. This drives faster time-to-market and lower operational costs while freeing up employees to focus on delivering more value to customers – more innovation, greater reliability, higher product and service quality.

The third element in VAT's operational strategy is ultimately to create a robust and high-performance organization that can adapt faster than the competition to changing market circumstances. This will be a company that has developed flexible and resilient supply chains, that uses innovative and differentiating manufacturing processes, and that can attract and retain highly-trained and motivated people across all of its markets.

New mid-term targets

VAT believes that its market and technology leadership, its flexible global footprint, and its steadily improving operational performance give it significant competitive advantages that will allow it to continue to outgrow the market while sustaining attractive profitability.

Based on this ambition, the company regularly publishes a set of short- and medium-term financial targets against which its performance can be measured. Since the last set of mid-term targets (2020–25) was announced in December of 2020, market conditions have changed significantly. WFE in 2021 alone amounted to some USD 90 billion, already well above the level of USD 80 billion originally expected for 2025. Leading market research firms now expect 2025 WFE to reach USD 110-120 billion, about 45% above the December 2020 forecast.

As a result of these changes, VAT has revised its mid-term targets for the period 2020–2025.

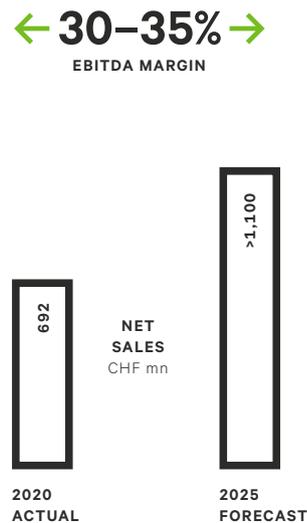
The key changes from a sales and profitability perspective are that the company now expects net sales in 2025 of approximately CHF 1.5 billion, an increase of 36% compared with the previous target of CHF 1.1 billion. Also, the EBITDA margin target has increased to 32–37% of net sales, up from 30–35%.

VAT also understands that financial and economic targets are not the only way to measure success and value creation. We have many stakeholders with diverse perspectives on what constitutes value. These include our obligations to the communities in which we operate, a commitment to reduce our impact on the environment, and the creation of a welcoming and motivating work environment for all our employees.

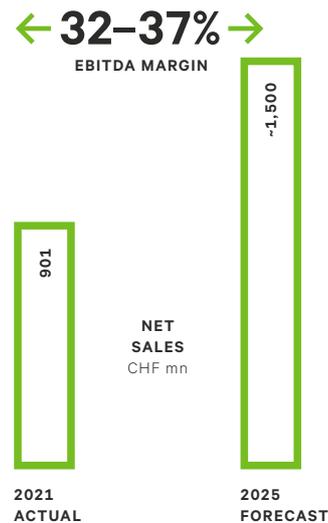
We believe that these values are mutually reinforcing. VAT will not be able to achieve its business goals unless it also meets its social and environmental responsibilities. Environmental stewardship is not only directly linked to production efficiency and costs, but is also a prerequisite for attracting and retaining the best people. Similarly, creating an inclusive and motivating workplace sets the foundation for high employee performance, especially in fast-changing markets. VAT is committed to continuous improvement in this important area.

Mid-term targets realigned to more positive market outlook

Targets
at December 2020



Targets
at March 2022



Looking ahead with confidence

VAT is the market and technology leader in an attractive market with a positive long-term growth outlook. We've reached this position by building a number of competitive advantages over many years: deep relationships with our customers and a commitment to our mutual success; a dedication to technology innovation with a sharp focus on high-performance vacuum valves, mission-critical to the Digital Revolution; a global footprint that brings us closer to our customers and provides operational flexibility; and an engaged and highly-skilled workforce dedicated to delivering value to our customers. Together, these have contributed to a financial profile characterized by consistent long-term growth, profitability and cash flow across the business cycle.

At the same time, markets are changing. New technologies are constantly emerging. The global economy is subject to unforeseen developments, as the COVID-19 pandemic has made all too clear. Competitors work hard to outperform and gain market share.

We believe that VAT is in a strong position to meet these challenges and to thrive. Our consistently strong performance since VAT was listed on the SIX Swiss Exchange in 2016 demonstrates our company's resilience and adaptability and the success of our strategy and business model. We aim to continue this performance well into the future, driven by our conviction that we have the potential to create even more value for all of our stakeholders and that we have an important role to play in the creation of a more prosperous interconnected world.

Creating value sustainably

VAT believes long-term business success is not just a matter of economic value creation. Business success can only be sustained by integrating a broad range of values into strategic and operational planning. These go beyond strictly economic measures and include other factors, such as providing employees with opportunities to grow and develop, playing a positive role in the communities in which we operate, and reducing our impacts on the environment.

VAT established the basic tools needed to assess its performance in 2016 when it joined the Responsible Business Alliance (RBA) and adopted the RBA Code of Conduct. This sets standards on social, environmental and ethical issues especially aimed at the electronics industry. These include the Universal Declaration of Human Rights, ILO International Labor Standards, OECD Guidelines for Multinational Enterprises, ISO Standards and the UN's Sustainable Development Goals.

Within this framework, VAT has implemented a number of programs to address specific environmental issues, such as energy use, waste and recycling, as well as initiatives to promote employee engagement and workplace safety and diversity.

Recycling and logistics

Our recycling efforts are focused not only on increasing the amount of material for recycling, but also redesigning the way we work in order to reduce the amount of non-recyclable materials used in the first place.

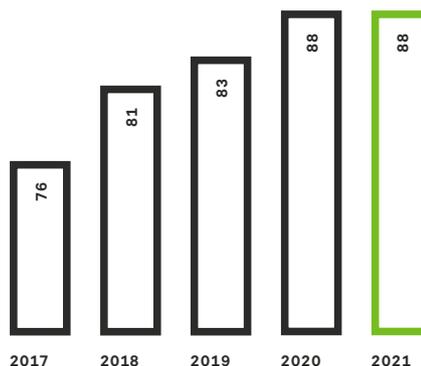
As part of a recent environmental audit, VAT published the results of its recycling efforts in both Switzerland and Malaysia. In 2020, for example, VAT recycled more than 1,800 tons of metal – such as stainless steel, aluminum, and copper – some 550 tons of electronic and hazardous chemical waste, approximately 20 tons of paper and cardboard, and more than 350 tons of residual waste and office materials.

At the same time, VAT has redesigned much of its packaging to reduce the amount of non-recyclable material used, primarily foam. The challenge is to reduce packaging volume while still ensuring that our high-precision and often custom-built products arrive at the customer's facility in exactly the same condition in which they left the factory. Where once only about 20% of VAT's packaging materials were recyclable, today that share is more than 90%. Most foam has been replaced by reinforced pressed cardboard and wood.

Employee Engagement Survey Participation in %

88

2017 (first survey): 76%



VAT's CO₂ reduction in 2021 in tons

~5,000

We have also designed a system of standardized and re-usable shipping trays for suppliers to further reduce packaging disposal or recycling while improving supply chain efficiency.

Through this measure and others like it, VAT strives to integrate its suppliers into its environmental efforts and to ensure that suppliers follow the environmental and safety principles defined by the ISO 14001 guidelines.

Energy

VAT has actively pursued a low-carbon energy policy for many years. This includes switching to more sustainable energy sources, such as hydro, solar and geothermal, as well as improving the energy efficiency of its operations.

For example, VAT has installed solar photovoltaic panels on its manufacturing facilities in both Switzerland and Malaysia. The installation in Malaysia generates more than 1,700 megawatt-hours of electricity per year. By feeding some of the power into the local grid, the solar panels contribute to a CO₂ reduction of more than 1,300 tons a year.

In addition, starting in 2021, all of the electricity that VAT draws from the grid in Switzerland is generated using renewable hydro resources. By doing so, the total electricity consumption of about 15 million kilowatt-hours has been converted to CO₂ neutral.

The company has also installed groundwater heat-exchanger systems in all of its production facilities in Switzerland and plans to roll out the same solution at its plants in Romania and Malaysia. In the new system, cold groundwater is circulated through a heat exchanger and pumped to the production area. There it is piped directly to cool the machines and has replaced air conditioning to create more stable ambient temperatures for production employees and nearby office workers. It has made working conditions in the plant safer as fewer aerosols are released. Energy costs related to cooling have been cut by 75%.

In total, VAT's efforts to reduce its carbon footprint led to an absolute CO₂ reduction in 2021 of approximately 5,000 tons in a year where VAT grew its business volume by 30%.

Employee engagement

VAT encourages open communication among employees across all levels and measures employee engagement through surveys carried out by an external advisor. These encourage employees to provide general feedback on overall levels of satisfaction as well as specific inputs on topics such as communication of the company's goals, the level of support from managers and the company's commitment to quality.

The results are used to steer employee engagement policies and improve communication. In 2021, the survey response rate remained at a healthy 88%. A number of improvement areas were identified which will help the company keep its people better informed about VAT's business goals and their roles in the company's success.

VAT also recognizes the value of employee diversity. It contributes to innovation, makes us a more attractive employer, and improves customer orientation and employee satisfaction. One step in this direction is to ensure that people are recognized and compensated for their contributions to the company, regardless of gender. In 2021 VAT received the Fair ON Pay+ certificate from SGS Société Générale de Surveillance for being compliant with the equal pay provisions of the Swiss Federal Act on Gender Equality. The Fair ON Pay+ certificate recognizes VAT as a fair employer and underlines its ongoing commitment to equal pay.

In addition, we aim to provide our people with career and personal development opportunities. In Malaysia, for example, VAT collaborates with local institutions like the Penang Skills Development Centre and the Malaysian German Chamber of Commerce & Industry to sponsor students in a mechatronics program. VAT is also setting up a new apprentice training center in Malaysia to encourage skills development with local vocational institutes by offering both on-the-job training as well as employment after training, and operates a similar center at its head office in Switzerland.

Positive impact of VAT products

VAT's business success has other positive impacts on society. VAT valves are key components in the high-vacuum processes used to make the high-performance semiconductors that drive the Digital Revolution. This, in turn, is enabling society to get far more from our natural resources.

One example is the development of solar photovoltaic power that is efficient enough to be commercially viable. The power electronics behind smart power grids that can utilize these energy sources is another. The Internet of Things brings enormous productivity and efficiency improvements to a wide variety of industries, while semiconductors – and the vacuum valves used to manufacture them – are key to the roll-out of e-vehicles and the promise of better urban air quality around the world.

VAT's investments to grow its production capabilities also result in benefits to the communities in which we operate. They open up new opportunities for local suppliers to join in VAT's business success, to share technology, broaden employee skills and lift the competitiveness of the regions where we do business.

Creating a sustainability culture

Ultimately, our aim is to create a culture in the company in which all of our employees understand that long-term business success can only be built on a commitment to social responsibility and environmental stewardship as well. This is a long journey, and we have many more milestones to pass. But we are convinced that this approach, by making us a preferred partner for our employees, customers, suppliers, local communities and shareholders, is the key to sustainable value creation for all of our stakeholders.

MAPS:

VAT's technology and market lead creates new growth opportunities in the Digital Revolution.

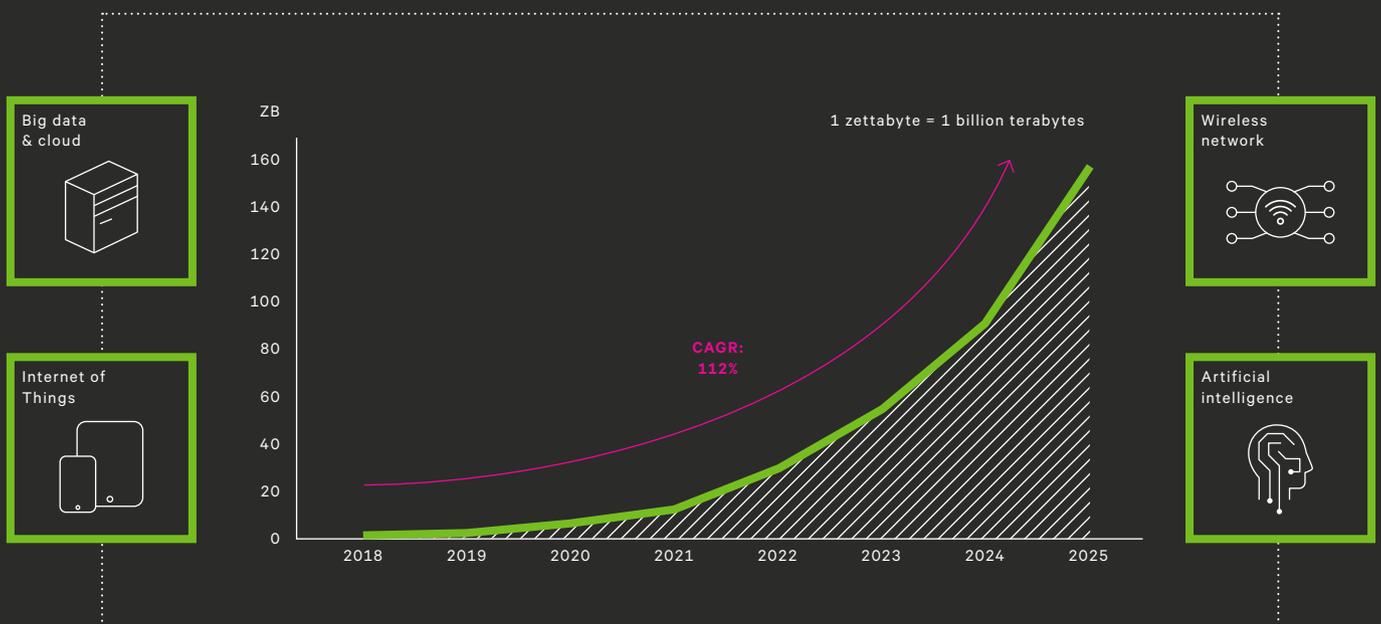
Megatrends like artificial intelligence, the Internet of Things and cloud computing continue to gain momentum, driving demand for semiconductors, digital displays and other devices. VAT's advanced vacuum valves are mission-critical in the manufacture of these products. The following pages show some of these technologies and how VAT is creating value today and what it plans for the future.

MEGATRENDS DRIVE GROWTH

The role of digitalization in our lives continues to grow rapidly. Every second of every day, unimaginable amounts of data are being generated, collected, transmitted, analyzed and stored. It's an impossible task without increasingly sophisticated semiconductors and the VAT vacuum valves needed to fabricate these technologically demanding products.

The world is on the verge of explosive growth in data generation

Actual and forecast amount of data created worldwide 2010–2025 (in zettabytes) ¹



Semiconductors play an increasingly important role in everything from renewable power grids and data centers to cars, homes and medical devices.

Key megatrends expected to drive sustainable growth

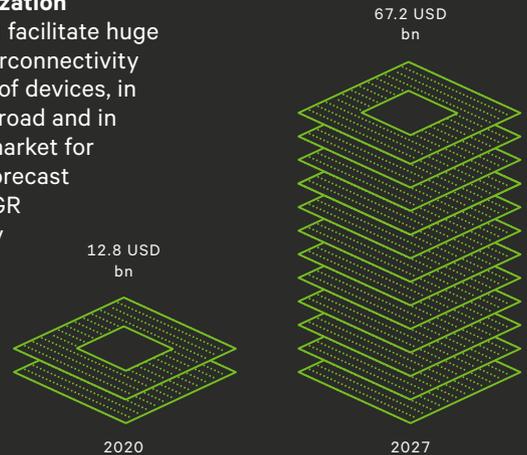
Forecast growth in semiconductor content 2020–2025 ¹



The Digital Revolution is just beginning and will radically transform many industries

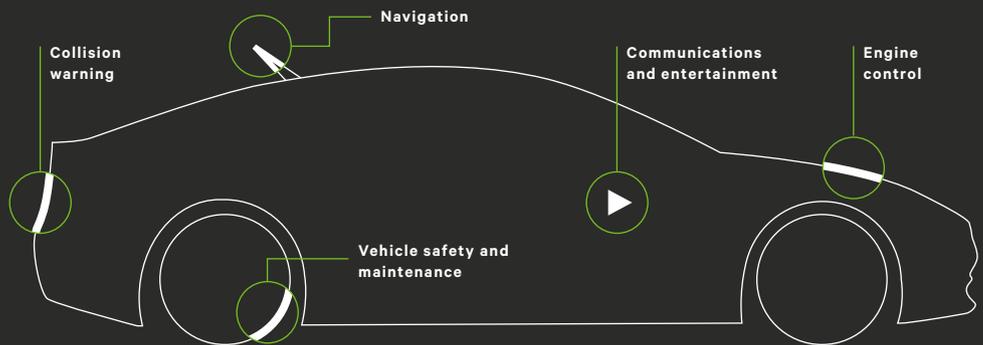
5G mobile networks key to growing digitalization

5G networks will facilitate huge increases in interconnectivity among all kinds of devices, in industry, on the road and in the home. The market for 5G chipsets is forecast to grow at a CAGR of approximately 27% from 2020 to 2027.



E-VEHICLES AND AUTONOMOUS DRIVING

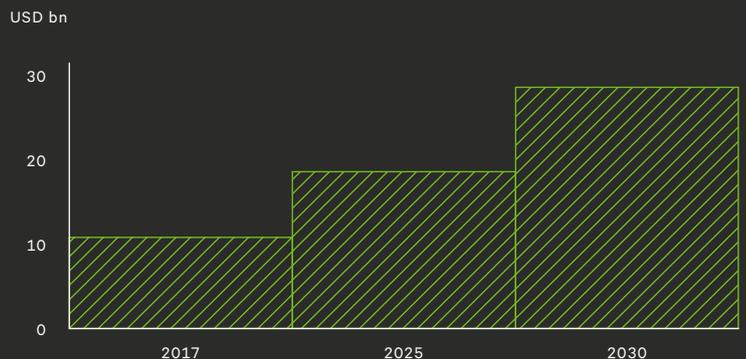
The amount of communications and computing power in both personal and commercial vehicles continues to grow quickly. This will drive semiconductor and vacuum valve demand well into the future.



High-vacuum in e-vehicle production

- High-precision coatings on moving parts to reduce friction, electrical flux
- Safer environment for battery production and testing

Forecast autonomous vehicle semiconductor sales 2017–2030 ²

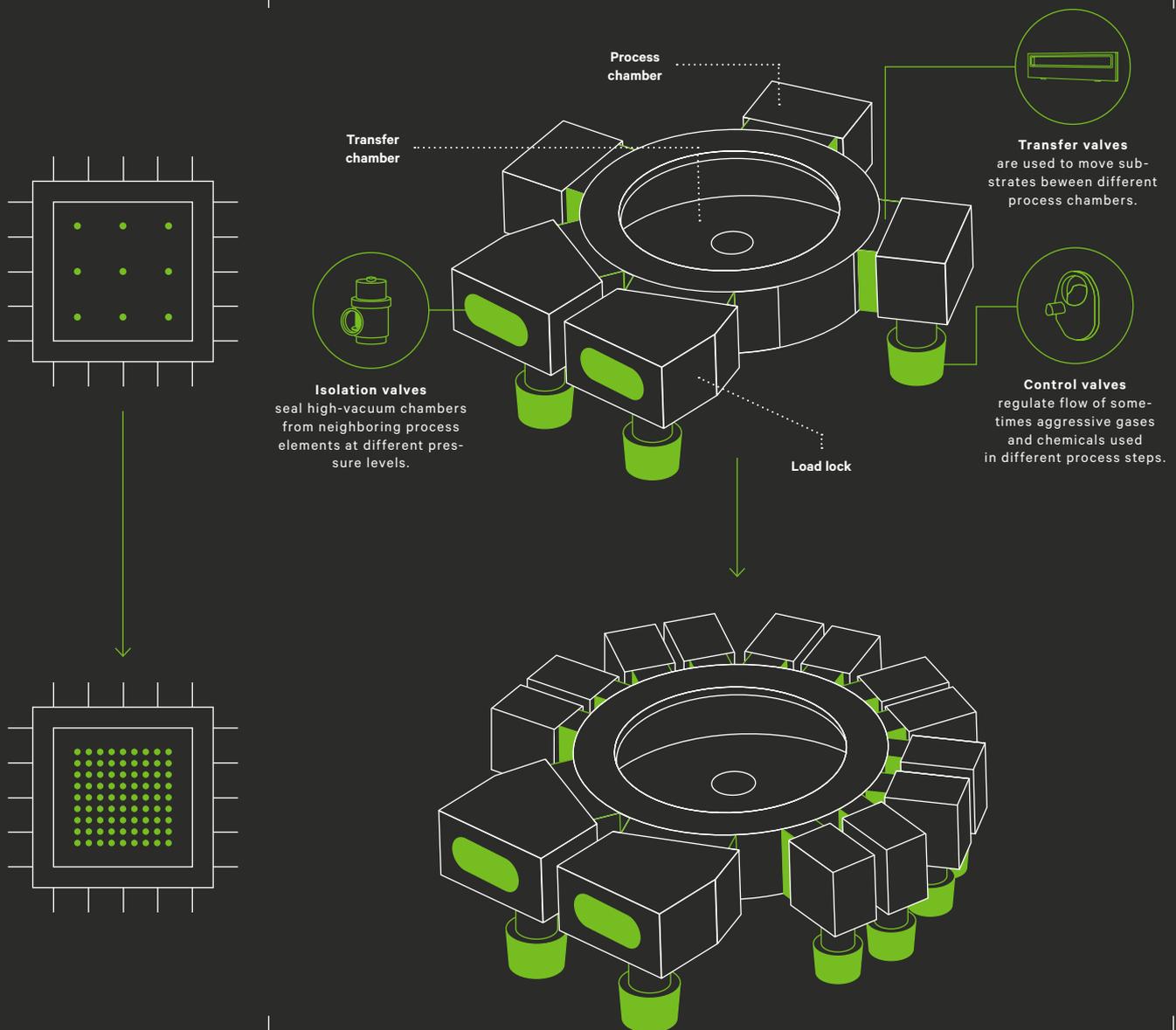


MISSION-CRITICAL TECHNOLOGY

The global digital revolution would not be possible without the pure vacuums enabled by VAT valves. Manufacturing at the molecular scale is being adopted by more and more industries, which plays to VAT's competitive advantage in high-end vacuum valves.

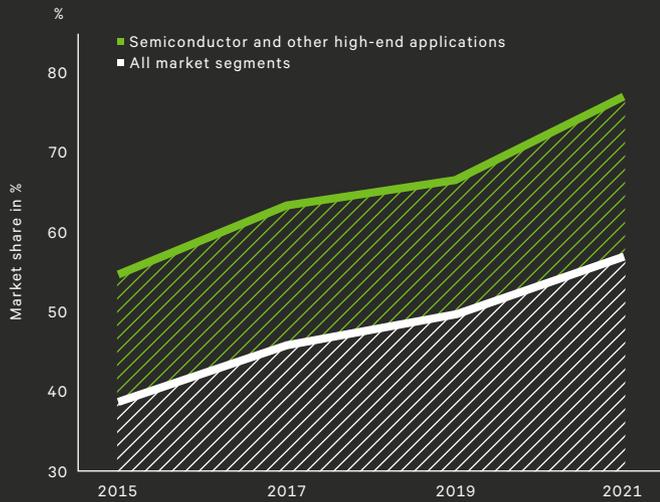
Smaller chip nodes require a longer wafer path

As the density of transistors on a chip increases, so does the number of process steps. This, in turn, requires more, and more advanced, vacuum valves.



High-end market share

VAT has the largest share in the fast-growing semiconductor market ¹



VAT with a proven track record in R&D

Active patents and applications in 2020

>400

New specification wins in 2021

>110

Budget focused on disruptive technologies

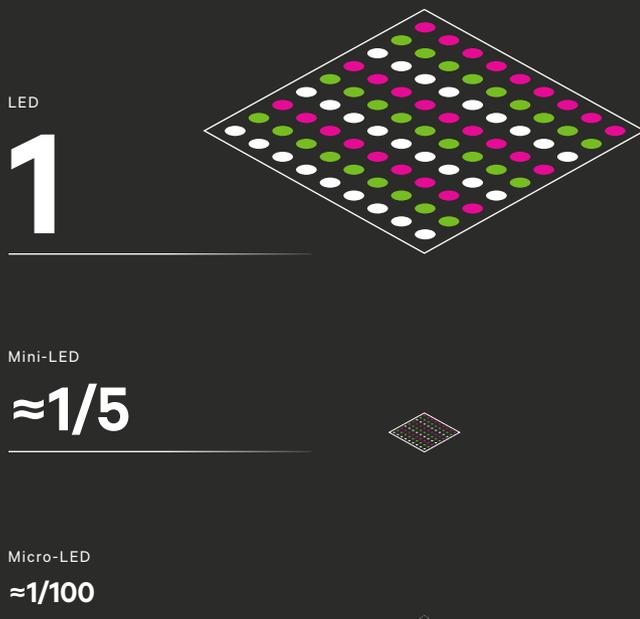
>10%

Investment in R&D as share of revenue

5-6%

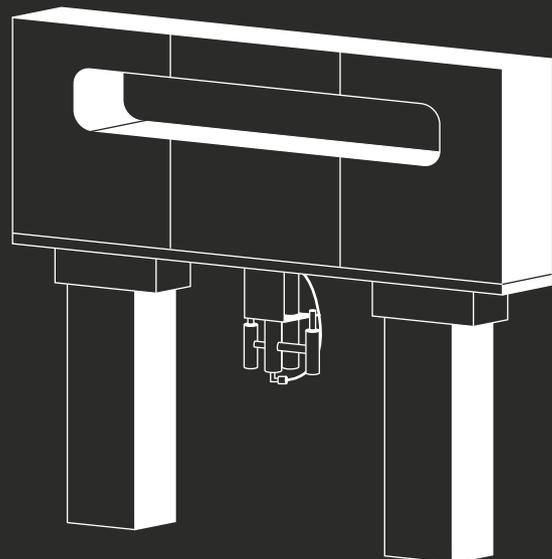
Ever-smaller display technologies

LEDs (light-emitting diodes) are widely used in TV screens, but the technology is changing rapidly. LEDs are getting smaller, brighter and more energy efficient.



VAT transfer valve for display manufacturing

Every pixel in a micro-LED display is self-luminous, dimmable and can be switched off. A 4K screen may need more than 24 million LEDs. These delicate components can only be made under high-vacuum conditions, where VAT valves play a key role.



FLEXIBLE GLOBAL FOOTPRINT

VAT's approximately 2,500 employees worldwide design and produce 250,000 valves a year in three locations, serving customers quickly, efficiently and reliably through the business cycle.



Global value chain

We continue to strengthen our global footprint, a competitive advantage in cost, flexibility and customer service.



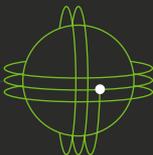
Integrated footprint

Seamlessly linking all of our business processes improves time to market, quality and reliability.



Future VAT

A high-performance global operation with motivated and empowered people delivering maximum customer satisfaction.



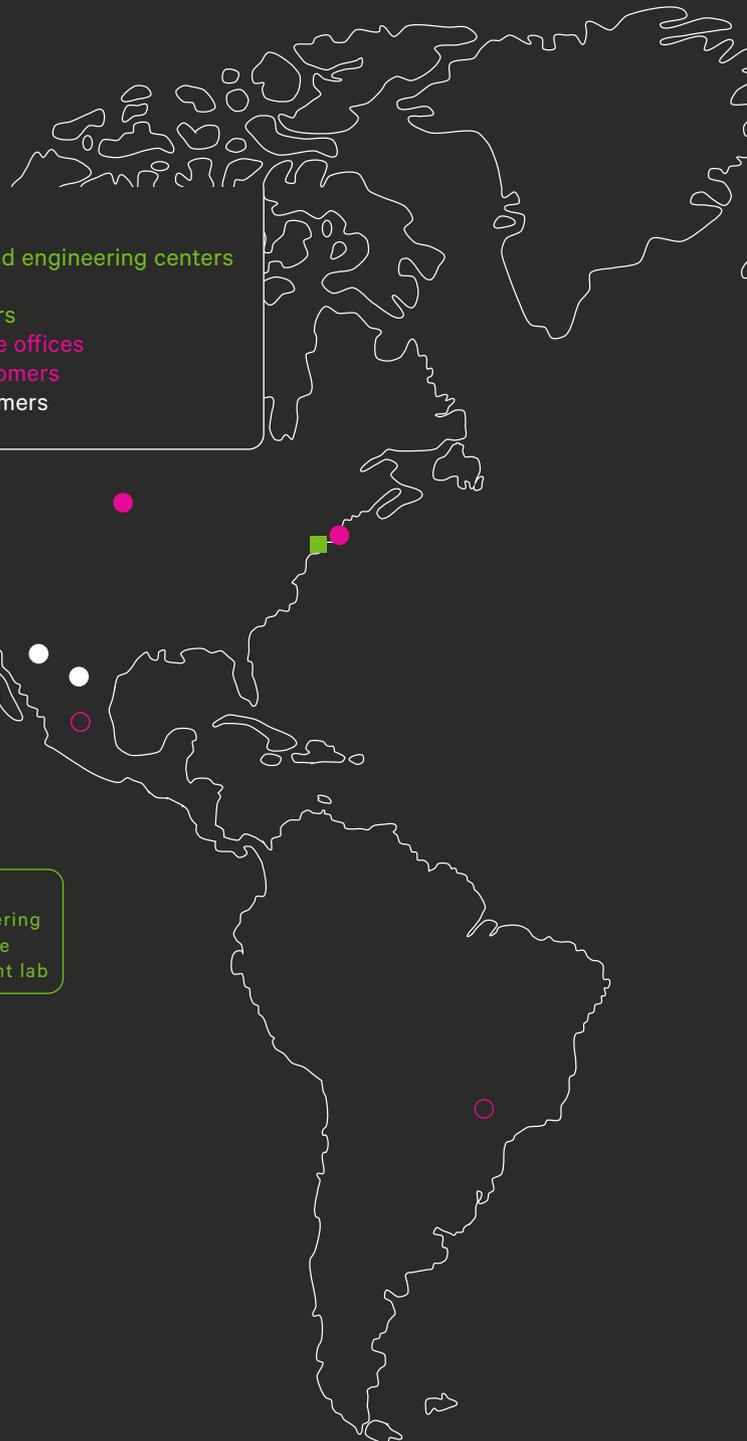
Sustainable value creation 2020–2025:

- Net sales of CHF 1.5 bn by 2025
- 32–37% EBITDA margin band
- 60–70% free cash flow conversion

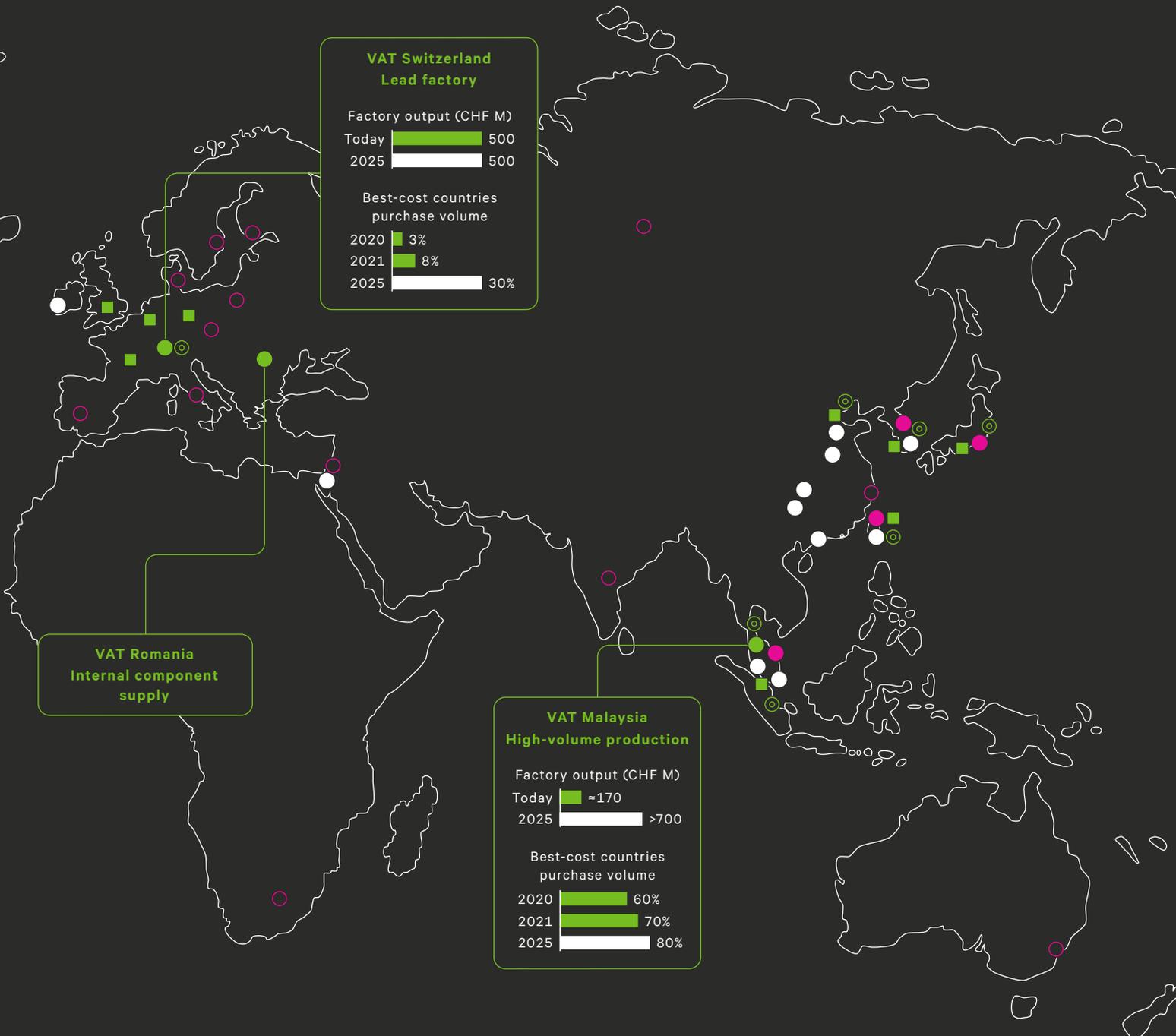
Close to customers

- VAT production and engineering centers
- VAT locations
- ⊙ VAT service centers
- VAT representative offices
- Largest OEM customers
- Largest end customers

VAT USA
Application engineering
Customer service
Particle measurement lab



Close to customers, cost efficient, flexible, resilient: making VAT more competitive, generating more value



GLOBAL SERVICE

DRIVES GROWTH AND PROFITABILITY

The enormous demand for semiconductors is expected to drive strong growth in VAT's service business as customers look for ways to get more from their existing assets.

Share of VAT Global Service net sales by business



VAT has the largest service network in the industry, close to customers

Fast, highest-quality service through our global service network



VAT Global Services Quick Facts

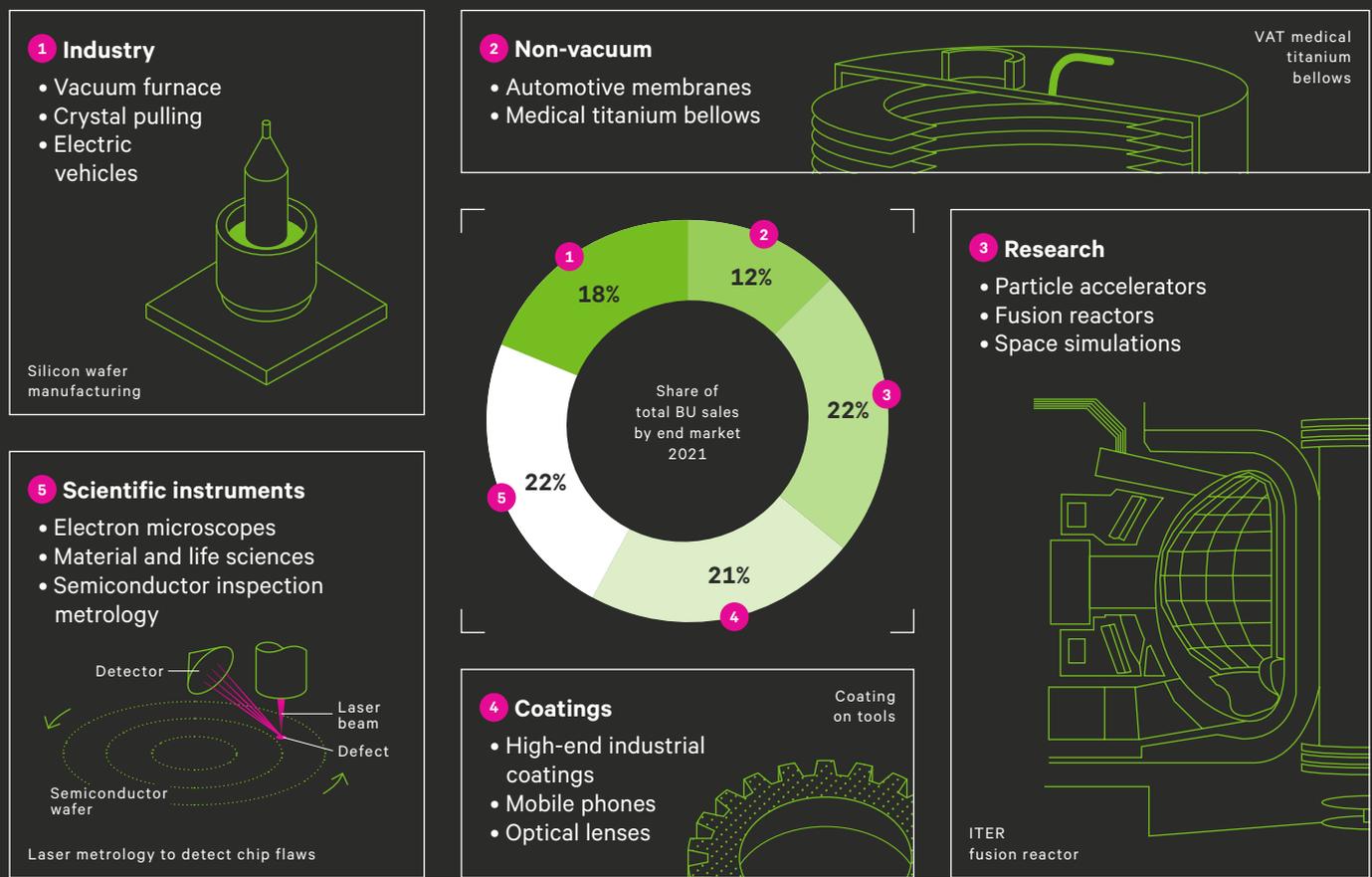
* CAGR 2000–2020



ADVANCED INDUSTRIALS:

WELL-POSITIONED FOR SUSTAINABLE GROWTH IN HIGH-PRECISION INDUSTRIES

Targeting key industries with VAT's premium vacuum valve technology



Serving more than 1,600 customers in 50 countries

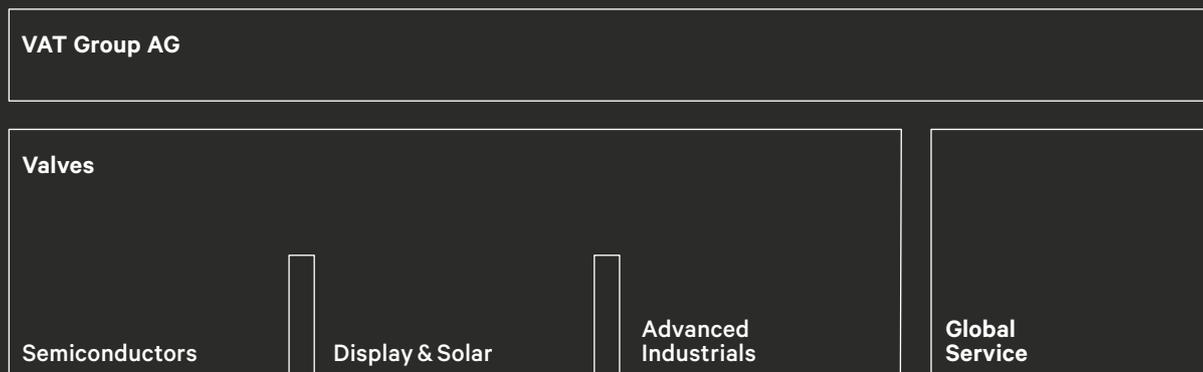
14%

Advanced Industrials

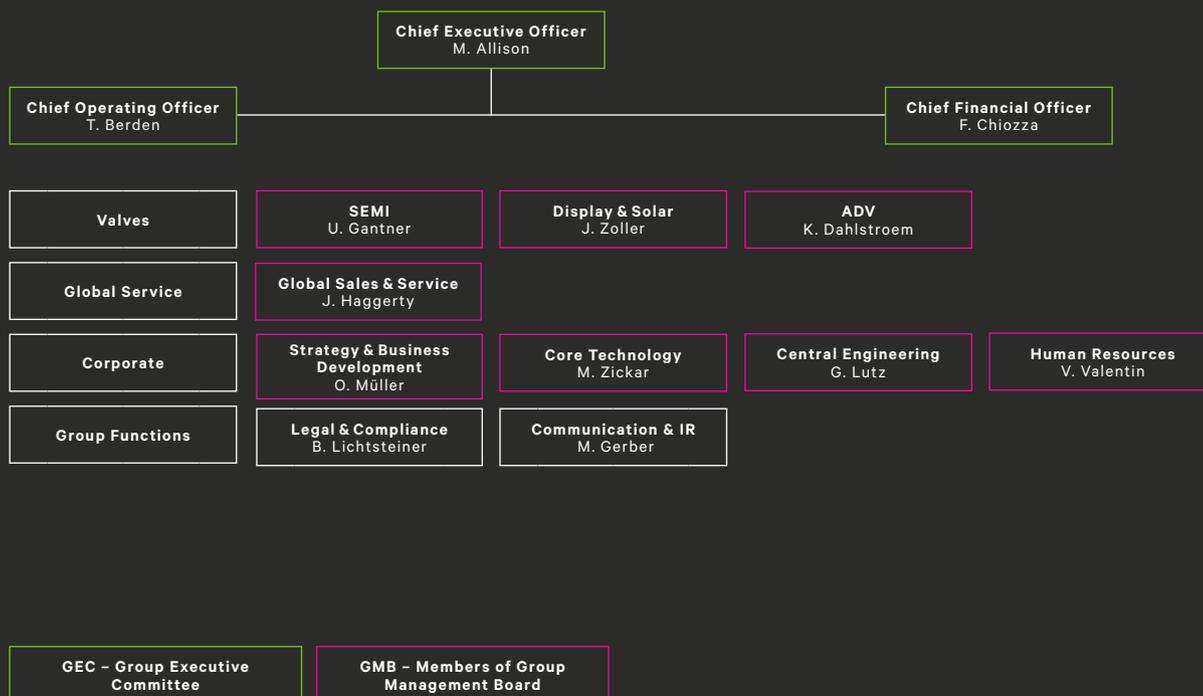
Share of total VAT sales 2021

ORGANIZATION

VAT Group is organized and managed in three segments: Valves, Global Service, and Industry. The Valves segment comprises the three business units Semiconductors, Display & Solar, and General Vacuum.



The VAT Group is led by the Group Executive Committee (GEC) consisting of the CEO, CFO, and COO. The GEC is supported by the Group Management Board and Group Functions.



VAT achieves record 2021 results driven by strong markets, improved business execution and further market share gains

The global semiconductor industry – VAT’s largest market – again grew strongly in 2021. Long-term demand drivers for semiconductors continued, such as the Internet of Things, cloud computing and developments in artificial intelligence. Shorter term, the dramatic shift to remote work and the sharp increase in e-commerce that resulted from the COVID-19 pandemic generated a significant increase in the need for data storage and processing. At the same time, the demand for chips in the automotive industry also continued to grow, driven by the adoption of technologies such as driver assistance systems, autonomous driving and ongoing fleet electrification. Finally, lockdowns and other restrictions imposed during the COVID-19 pandemic created significant bottlenecks in the global semiconductor supply chain.

Record investment levels in the semiconductors industry

All of these factors led the global semiconductor industry to accelerate investments in additional capacity in both leading edge chip technologies as well as legacy platforms in 2021. Overall, global wafer fab equipment (WFE) spending grew by 40% from its previous record level in 2020, reaching almost USD 90 billion. Demand was further supported by technology advances in semiconductor design, such as the continued increase in the number of transistors that can be fit onto a chip. These new production platforms require purer vacuum conditions in combination with more process steps performed under vacuum.

Demand remained steady in the solar photovoltaic sector, where VAT provides vacuum solutions for solar panel manufacturing. Market demand in the display market was soft especially for LCD panels, whereas the bottom of the business cycle was reached in mid-2021 as orders started to grow again, especially driven by increased penetration of OLED screens.

Strong performance supported by growth strategy and flexible footprint

On the back of these strong market fundamentals, VAT benefitted from its leading market and technology position to again outgrow the market, increasing its valve market share across all industries from 55% in 2020 to about 58% in 2021. In the more technologically demanding semiconductor segment, VAT’s market share reached 75%.

This was achieved through a number of targeted growth initiatives, including the launch of new service products and solutions to help customers increase the productivity of their current installed base of vacuum valve equipment. VAT also refocused its industrial business through its new Advanced Industrials business unit (formerly General Vacuum) to capture growth opportunities in areas such as specialized coatings, batteries for electric vehicles and scientific instruments.

VAT also continued to invest heavily in innovation. In 2021, R&D investments amounted to CHF 45 million, or 5% of net sales. This contributed to a record number of specification wins for new manufacturing platforms, securing a strong basis for future revenue growth.

The company also continued to reap the benefits of its flexible global footprint and the continued implementation of operational improvement measures to mitigate ongoing supply chain constraints and further reduce costs.

As a result, VAT reported record net sales, EBITDA, EBITDA margin, free cash flow and net income in 2021.

Results higher across all key performance indicators

Total order intake in 2021 amounted to CHF 1,228 million, up 69% from the previous year. The order backlog at year-end stood at CHF 461 million or 217% higher than at the end of 2020. This unusual order level partially reflects some pre-ordering by customers in the fourth quarter ahead of price increases planned for 2022. In addition, some smaller OEMs placed orders early in anticipation of further supply bottlenecks in the coming months.

Net sales in 2021 rose 30% to CHF 901 million. Net sales grew 29% in the Valves segment to CHF 729 million and Global Service sales rose 35% to CHF 172 million. Foreign exchange movements, especially in the US dollar against the Swiss franc, had a negative impact of about 3 percentage points on the 2021 net sales.

Gross profit* increased 33% compared with 2020 to CHF 571 million. The gross profit margin improved to 63% compared with 62% a year earlier despite ongoing pricing pressure in certain raw materials and components. Personnel costs reflect a 25% increase in the number of employees (measured as full-time equivalents, FTEs) to 2,540 from 2,041 a year earlier to support the strong volume growth in 2021 and the growth expectations going into 2022. Personnel costs as a percentage of sales decreased significantly from 25.4% in 2020 to 22.3% in 2021 confirming VATs operational leverage and productivity improvements.

EBITDA for the year increased by 46% to CHF 308 million, reflecting strong sales growth and execution of operational improvements. As a result, the full-year EBITDA margin improved from 30.4% in 2020 to a record 34.2%. The EBITDA margin includes a 0.6-percentage point negative impact from a change in the accounting treatment of cloud-based computing arrangements announced by the IFRS Interpretations Committee in 2021. In consequence, such costs as those for VAT's new ERP system, can no longer be capitalized but have to be expensed through the income statement as they occur and formerly capitalized costs have to be restated. In this regard, VAT's restated 2020 EBITDA margin amounts to 30.4%, -1.0 percentage points lower than originally reported. Foreign exchange movements, especially in the US dollar against the Swiss franc, had no material on the 2021 EBITDA margin.

VAT's EBIT amounted to CHF 265 million, an increase of CHF 95 million, or 56%, compared with the year before. Compared with 2020, the EBIT margin increased by about 5 percentage points to 29%. Below the EBIT line, VAT incurred substantially lower financing costs of CHF 7 million, down about 55% compared with CHF 16 million a year earlier. This is mainly the consequence of lower non-realized net foreign exchange losses on financing activities.

* Gross profit = net sales minus cost of materials plus/minus changes in inventories of finished goods and work in progress

Net sales
in CHF million

901.2

2020: 692.4

Record number of spec wins

> 110

2020: 106

Earnings before taxes (EBT) increased to CHF 258 million from CHF 154 million. The effective tax rate for 2021 was 16%, slightly down from 17% in 2020. VAT expects the effective tax rate to remain in the 18–20% range going forward.

As a result of these factors, and as indicated by company management during the year, realized net income attributable to shareholders substantially increased in 2021, amounting to CHF 217.4 million, an improvement of 70% compared with 2020.

On December 31, 2021, VAT's net debt amounted to CHF 80 million, representing a leverage ratio expressed as net debt to EBITDA of around 0.3 times. The average leverage over the course of 2021 was around 0.5 times net debt to EBITDA as steady free cash flow generation continuously reduced net debt after the seasonal peak at the end of May when VAT paid its dividend. The equity ratio at year-end amounted to 60% compared to 55% a year earlier.

Record EBITDA and free cash flow support increased dividend proposal

One of VAT's key performance indicators and the basis for our dividend consideration is free cash flow, which in 2021 again reached a new record of CHF 196 million compared with CHF 147 million the previous year. Higher EBITDA not only offset the increase in trade working capital of about CHF 56 and higher taxes paid but also the increased capital expenditure (capex), which amounted to CHF 43 million in 2021 compared with CHF 19 million in 2020. Capex amounted to 5% of net sales

in 2021, within the company's guidance of between 4–5% of sales.

At year-end 2021, net trade working capital of CHF 219 million was approximately 35% higher than the same time in 2020, but unchanged at 24% of net sales. This is above VAT's long-term target of 20% and reflects the company's growth expectations for 2022 and the current supply chain challenges which require a higher safety stock of certain materials and components.

As a result, free cash flow as a percentage of net sales was 22% and the free cash flow conversion rate was at 64% of EBITDA. Free cash flow to equity amounted to CHF 192 million compared to CHF 143 million in 2020.

At its Annual General Meeting on May 17, 2022, VAT's Board of Directors will propose a dividend for the fiscal year ending December 31, 2021, of CHF 5.50 per registered share, an increase of CHF 1.00, or 22%. CHF 5.25 of this amount will be paid from the company's accumulated gains and CHF 0.25 per registered share from the company's remaining CHF 7.8 million of reserves from capital contributions. The proposal amounts to a total dividend amount of CHF 165 million, or 86% of VAT's free cash flow to equity.

Updated 2025 financial guidance

New VAT mid-term targets – growth expected to continue

In December 2020, VAT issued mid-term targets for the period 2020–2025. At that time, VAT forecast a compound annual growth rate in its primary wafer fabrication equipment (WFE) market of about 9%, increasing from USD 58 billion in 2020 to around USD 80 billion in 2025. Based on this forecast, along with expected market share gains, higher service sales, growth in adjacent businesses and contributions from the Advanced Industrials and Display & Solar business units, VAT expected net sales in 2025 to exceed CHF 1.1 billion, with an EBITDA margin over the 2020–2025 period of 30–35%.

Since then, markets have developed at a much faster pace than expected. WFE in 2021 alone amounted to some USD 90 billion, already substantially above the level of USD 80 billion originally expected for 2025. Leading market research firms now expect 2025 WFE to reach USD 110–120 billion, about 45% above the December 2020 forecast. The main drivers of this increase are higher capital investments in new logic chips with node sizes of 5 nanometers and smaller plus exponential growth expected in data generation and storage as megatrends in global digitalization continue, such as the Internet of Things, Big Data, artificial intelligence, autonomous vehicles and the roll-out of 5G wireless networks and the Metaverse.

As a result of these changes, VAT has increased its expected mid-term sales target 2025 to around CHF 1.5 billion from previously CHF 1.1 billion. In addition, VAT now expects its EBITDA margin for the period 2020–2025 to be between 32–37% (previously 30–35%). As communicated in December 2020, the company continues to expect market share gains in all of its activities, led by semiconductors and service, as well as adjacencies such as motion components, advanced modules and upstream valves.

2022 expected to be another year of strong growth

VAT expects the trend of accelerated investments in semiconductor manufacturing equipment to continue in 2022 and expects to further capitalize on its leading market position.

In displays, investments in OLED screens are expected to grow while investments in LCDs are forecast to remain flat. However, based on display orders received for delivery in 2022, VAT expects overall display sales to grow compared with 2021. In solar PV, the market is expected to grow in the low teens.

Forecasts for general vacuum equipment sales in industrial markets point to continued growth, especially in molecular diagnostics related to the COVID pandemic. In addition, demand from the industrial coatings, automotive and the tooling businesses is expected to grow further in 2022.

VAT expects the market for its Global Service business to continue to grow in 2022 as semiconductor manufacturers continue to invest in both new capacity and in upgrading their existing vacuum equipment assets.

On this basis, VAT expects net sales in 2022 to be

higher than in 2021. VAT will also continue to build its flexible global footprint and strengthen its natural hedge against foreign exchange impacts by further ramping up its production facility in Malaysia, increasing sourcing from best-cost countries, gaining greater economies of scale in global supply chains and driving further operational excellence measures. At the same time, VAT remains dedicated to technology innovation. Investments in research, development and productivity improvements will therefore remain at the heart of VAT's strategy in 2022.

Furthermore, the company expects its EBITDA and EBITDA margin to increase, driven by higher volumes and better cost absorption as well as the ongoing focus on costs. Because of expected higher sales, EBITDA, and EBITDA margin, VAT also expects 2022 net income to increase compared with 2021.

The stronger operational performance is expected to again drive higher free cash flow in 2022, despite the investments in Malaysia, the innovation center in Switzerland and ongoing production improvements in VAT's production hub in Switzerland. For 2022, capex is expected to be CHF 65–70 million.

Sales guidance 2025 in CHF million

~1,500

2021: 901

Valves

VAT's Valves segment provides the industry's broadest range of high-precision vacuum valves and sells mainly to original equipment manufacturers (OEMs). The segment comprises three business units: Semiconductors, serving the semiconductor sector; Display & Solar, serving the high-end flat-panel display and solar photovoltaic markets; and Advanced Industrials for customers in a variety of industries and in scientific research. The Valves segment operates manufacturing facilities in Switzerland, Malaysia and Romania, with sales, product development and engineering support in all major markets*.

Demand in 2021 was substantially stronger than the previous year, mainly reflecting a 40% increase in investments into new wafer fabrication equipment (WFE) in the semiconductor sector compared with the previous year, to a record USD 85–90 million. This was driven in part by long-term growth trends, such as cloud computing, the Internet of Things and 5G wireless communications. Additionally, semiconductor manufacturers continue to develop new chips with smaller node sizes for coming generations of digital devices, which drives investment in new production platforms. WFE investments grew further in response to a supply shortage in 2021 that resulted from pandemic-related logistical bottlenecks and sharp increases in data generation reflecting the shift to home office and increased e-commerce activities.

The segment's other markets also developed positively in 2021. Vacuum process technologies continued to expand into more industries, such as precision coatings and metrology, while demand in the solar photovoltaic sector grew strongly on the back of new and more efficient solar cell technologies. The displays market reached a cyclical low in 2021 but began to recover towards the end of the year.

Semiconductor demand at record levels

The Semiconductor business unit accounts for some 70% of VAT's total sales and reported record orders and net sales in 2021. Orders increased by 86% to CHF 772 million, partly reflecting additional orders placed in 2021 in anticipation of continued supply bottlenecks in 2022. Net sales grew 40% to CHF 535 million. Demand growth was driven primarily by investment in data centers and the production of logic and memory chips, both current generations and new chip generations with smaller node sizes and more complex chip architectures. The expansion of new technologies, such as EUV (extreme ultraviolet) lithography, and particularly new capital investments in China to build local semiconductor manufacturing capabilities, also drove higher orders and sales.

VAT's technology lead in the manufacture of the most advanced chips was reflected in a record year for specification wins in 2021. This allowed VAT to increase its share of the global semiconductor valve market in 2021 to 75%. Specification wins are agreements between VAT and its customers on product designs for upcoming generations of new equipment. They lay the foundation for sales growth over the following two to five years, and include a growing share of adjacent products, such as motion components and advanced modules.

VAT continued to bring new products to market in 2021, including control valves used in leading edge applications and transfer valves that allow particle-free movement of wafers in the entire wafer path. Both product families help chip manufacturers increase yield and productivity. New advanced modules, which comprise multiple valves and other components, such as lifters, shutters, and heating and cooling components were launched for selected customers on latest WFE architectures, increasing throughput by up to four times in critical applications. VAT continued to develop connected valve solutions that integrate control, computing and communication capabilities, allowing them to be used in new generations of process automation and smart factories.

* As of January 2021, VAT integrated the former Industry segment into the Valves segment and created a new business unit within the segment called Advanced Industrials (formerly General Vacuum). The change better aligns VAT's valves offering with the needs of its industrial customers. As a result, VAT now reports in two segments, Valves and Global Service.

Key figures Valves

In CHF million	2021	2020 restated ¹	Change
Order intake	1028.8	592.4	73.7%
– Semiconductor	772.2	414.3	86.4%
– Display & Solar	93.3	67.3	38.6%
– Advanced Industrials	163.3	110.8	47.4%
Net sales	729.2	565.1	29.0%
– Semiconductor	534.7	383	39.6%
– Display & Solar	65.6	77.9	-15.8%
– Advanced Industrials	128.9	104.3	23.6%
Inter-segment sales	75.0	57.0	31.6%
Segment net sales	804.2	622.1	29.3%
Segment EBITDA	269.7	198.7	35.2%
Segment EBITDA margin	33.5%	31.9%	
Segment net operating assets	737.7	675.2	9.3%
of which net trade working capital	191.0	138.7	37.7%

¹ The restated figures reflect the integration of the former Industry segment into the Valves segment, and the creation of the Advanced Industrial business unit within the segment, effective January 1, 2021. All reported segment figures have been restated accordingly.

The semiconductor business unit also continued to qualify its latest valves and high-volume modules for production at VAT's plant in Penang, Malaysia, which increased factory output by more than 70% compared with 2020, to around CHF 170 million. This included the introduction of new manufacturing technologies in the plant as well as the expansion of engineering and product management resources. This is part of VAT's strategy to better support its strong customer base in the region and to improve the overall flexibility and efficiency of its global manufacturing and supply footprint.

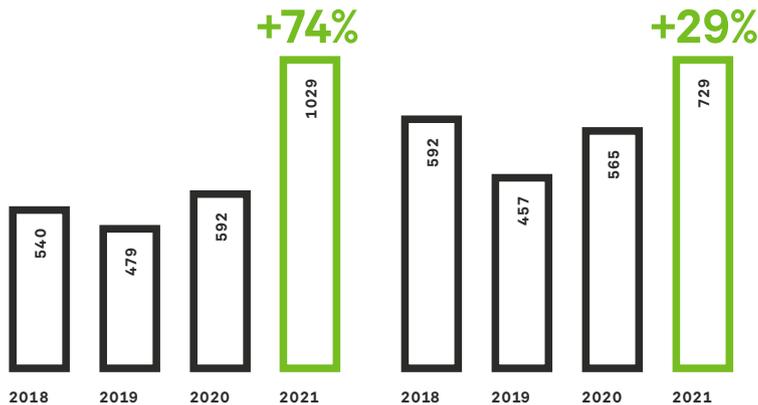
Strong solar demand, displays show signs of recovery

In 2021, the Display & Solar business unit witnessed two very different halves. While orders in the first six months remained flat, a sharp acceleration in the second half led to a full-year order intake of CHF 93 million, up 39% over 2020. As the display and solar markets are driven mainly by large projects, orders typically take longer to translate into revenues. As a result, sales declined by 16% compared to a year earlier.

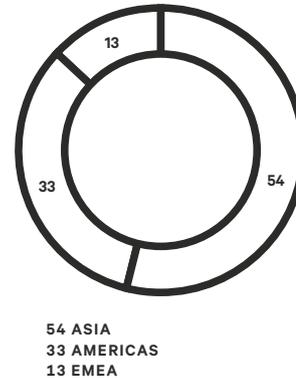
The display market remained in a cyclical low for most of 2021 but started to show signs of recovery in the second half of the year. LCD (liquid crystal display) remains the dominant technology, followed by OLED, which continues to expand its share in premium applications for phones and TVs. VAT also won initial valve orders for manufacturers of mini-LED displays, a new backlight technology that enhances the performance of traditional LCD screens. VAT also launched a new generation of control valves from VAT's Malaysia plant for major display customers in Japan, South Korea and China.

The solar photovoltaic business had a strong 2021, with growth again largely driven by the implementation of PERC (Passivated Emitter and Rear Cell) technology that produces more energy than conventional solar cells. A number of other solar energy conversion technologies that promise even higher efficiencies – and require high-vacuum manufacturing – are also under development but face some ongoing cost challenges.

Order intake & net sales in CHF million



Net sales by region %



Advanced Industrials expands VAT's market

The Advanced Industrials business unit (formerly General Vacuum) achieved record order intake in 2021 of CHF 163 million, up 47% compared with the previous year, while net sales increased 24% to CHF 129 million. Demand was strong across several markets, especially high-end coating applications, electron beam-related scientific instruments and the research segment, where VAT supplied valves for major upgrades of particle accelerators in both the US and Asia.

Demand was highest in Asia, with volumes doubling in China as the result of targeted growth initiatives and improved distribution channels. Orders reached a record level in the core European market, led by the scientific instruments sector. Growth was also driven by demand for silicon carbide crystal production equipment used in the manufacture of wide bandgap semiconductors. This technology is expected to open significant new opportunities for high-efficiency power electronics used to integrate renewable energy sources into existing power grids, as well as in trains and electrical vehicles – all essential steps to lowering carbon emissions.

Performance review 2021

Net sales in the Valves segment in 2021 amounted to CHF 729 million, 29% higher than the year before, as strong growth in the Semiconductor and Advanced Industrials business units more than offset the sales decline in Display & Solar. The segment EBITDA increased by 35% to CHF 269 million and the EBITDA margin was 33%, one percentage point above the level achieved in 2020 as positive volume effects, operational improvements and the ongoing shift in demand towards more advanced products offset higher costs incurred to support volume growth.

Market outlook 2022

For 2022, VAT expects its semiconductor-related markets to continue to grow across all segments – logic, foundry and memory. While the markets for VAT's Display & Solar business unit are forecast to remain mixed, the strong order intake in the second half of 2021 is expected to drive higher net sales in 2022. VAT also expects higher sales in its Advanced Industrials business unit in 2022, as growth initiatives targeted at specific industries – where VAT can tap its advantages in its core valves business – gain further traction.

Global Service

VAT's Global Service segment supplies customers with original spare parts, valve maintenance and service, and technical support and training. In addition, the business helps customers improve equipment performance with customized product upgrades and retrofits. Demand is driven primarily by customers' needs to improve the performance of their existing installed base of equipment. With more than one million serviceable VAT valves installed worldwide, the company's service business contributes to stronger customer relationships and is an important sales channel for VAT products.

The Global Service segment had a record year in 2021, with significant growth in all major activities: spare parts, upgrades & retrofits, and repair. This was the result of record levels of factory utilization as the industry struggled with a global chip shortage and supply constraints in some areas. This in turn drove heavy demand for spares parts, repairs and consumables. Capital investments into new semiconductor fabs drove demand for the subfab valve portion of the service business. Subfab systems protect the process vacuum chambers from the pumping and abatement systems operating in harsh conditions below the fabrication floor.

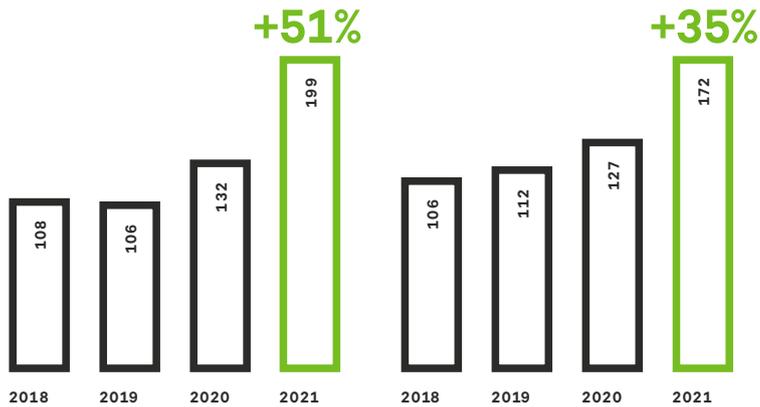
New product development in 2021 centered on the upgrade and retrofit portfolio. In particular, VAT expanded its product offering from the traditional focus on transfer valves to new control valve upgrades that allow for faster and smoother valve reaction times and improved gas flow uniformity. These are critical improvements for customers aiming to improve cycle times and yield from their existing manufacturing assets.

VAT also implemented improvements to its global service footprint with the opening of a new and larger repair center in Japan. This is to be followed by improvements to its service and repair facilities in South Korea and Taiwan. These steps, including supply and process improvements to speed up response times, are expected to significantly increase VAT's repair capabilities for many of its largest customers in Asia.

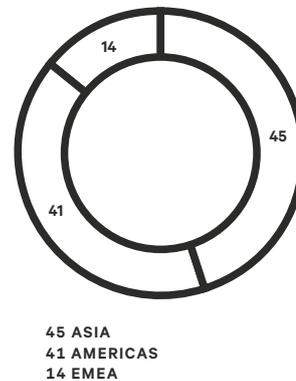
Key figures Global Service

In CHF million	2021	2020	Change
Order intake	199.1	132.2	50.6%
Net sales	172.0	127.3	35.1%
Inter-segment sales	-	-	-
Segment net sales	172.0	127.3	35.1%
Segment EBITDA	77.8	53.2	48.1%
Segment EBITDA margin	45.3%	41.8%	
Segment net operating assets	122.3	119.4	2.4%
of which net trade working capital	27.6	23.7	16.5%

Order intake & net sales in CHF million



Net sales by region %



Performance review 2021

Orders in the Global Service segment increased 50% year-on-year to a record CHF 199 million and sales grew 35% to a record CHF 172 million. Growth was reported in all businesses and was strongest in upgrades and retrofits, capturing the opportunities opened by the new product offering in control valve upgrades. EBITDA grew 48% versus the year before to CHF 79 million. The EBITDA margin increased to 46%, mainly reflecting differences in product introduction costs between the two years.

Market outlook 2022

VAT expects the market for its Global Service business to continue to grow in 2022 as semiconductor manufacturers continue to invest in both new capacity and in upgrading their existing vacuum equipment assets. In addition, VAT expects higher sales as its installed base increases, including some specific products that are entering their first larger repair cycle. The company expects its service footprint expansions and the roll-out of new control valve upgrades to further support sales growth in 2022.



**Michael Allison,
CEO**
serves as CEO of VAT Group since March 2018.



**Fabian Chiozza,
CFO**
serves as VAT Group's Chief Financial Officer
since April 2021.



**Thomas Berden,
COO**
serves as VAT Group's Chief Operating Officer
since October 2020.



Martin Komischke,
Chairman of the Board of Directors
was elected chairman of VAT's Board of Directors
in May 2017.



Heinz Kundert,
Vice-Chairman of the Board of Directors
was elected to the Board in March 2018 following
three years as CEO of VAT Group.



Libo Zhang,
Member of the Board of Directors
was elected to the Board of VAT Group in
March 2018.



Urs Leinhäuser,
Member of the Board of Directors
was elected to the Board in March 2016.



Hermann Gerlinger,
Member of the Board of Directors
was elected to the Board in May 2017.



Karl Schlegel,
Member of the Board of Directors
was elected to the Board in March 2016.



Daniel Lippuner,
Member of the Board of Directors
was elected to the Board in May 2020.

Corporate Governance Report

VAT Group AG is committed to the highest principles of good corporate governance, aimed at ensuring transparency, achieving a balanced relationship between management and control, and safeguarding shareholder interests. VAT Group AG regularly reviews its corporate governance framework and discloses information on Corporate Governance in accordance with the SIX Swiss Exchange Directive on Information relating to Corporate Governance, the Swiss Ordinance against Excessive Compensation with respect to Listed Stock Corporations, and the Swiss Code of Best Practice for Corporate Governance. In addition, VAT Group has implemented a Code of Conduct, setting out VAT Group's key principles.

To avoid duplication, some sections contain cross-references, in particular to the Articles of Association of VAT Group AG, published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>, Committee Charters published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters> and the Organizational Regulations of VAT Group AG published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

For those disclosures under the SIX Swiss Exchange Directive on Information relating to Corporate Governance that are included in the notes to the consolidated financial statements, please consult the Consolidated Financial Statements 2021 of VAT Group AG within this document. The financial year of VAT Group AG ends on December 31 of each calendar year.

1. Group structure and shareholders

1.1 Group structure

VAT Group AG, a stock corporation, was founded on February 25, 2016 (registration number CHE- 202.223.983, LEI: 529900MVFK7NVALR7Y83) and its registered seat is at Seelistrasse 1, 9469 Haag, Switzerland. VAT Group consists of VAT Group AG (the ultimate holding company) and its subsidiaries in Switzerland and abroad: four production companies that can also hold a distribution function in Switzerland, Romania, and Malaysia; ten distribution companies in Europe, North America and Asia; and three holding and financing companies. An overview of this structure, with company names, place of incorporation, share capital and VAT Group AG's participation is provided in the Consolidated Financial Statements 2021 of VAT Group AG on page 118.

VAT Group's operational structure is organized into two business segments aimed at delivering maximum value to customers: Valves and Global Service. This structure is described in more detail in the segment information in the notes to the financial statements on pages 85 to 88.

1.2 Significant shareholders

As of December 31, 2021, 13,408 shareholders were registered in VAT Group AG's share register, holding 15,727,401 shares (as defined below under 2.1).

Disclosure notifications of significant shareholdings in VAT Group AG that were filed in 2021 with VAT Group AG and the SIX Swiss Exchange are available from the online publication platform of the SIX Swiss Exchange: <http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

As of December 31, 2021 (or as per the date indicated), VAT Group AG was notified of the following shareholders, representing 3% or more of the share capital of VAT Group AG:

Name of shareholder

	In % of total share capital
Rudolf Maag, Switzerland	10.00%
BlackRock, Inc. ¹	5.72%
Capital Group Companies, Inc. ²	5.02%
Allianz SE ³ , Germany	3.01%

¹ Position for BlackRock, Inc. as per filing dated April 28, 2021

² Position for Capital Group Companies, Inc. as per filing dated June 19, 2021

³ Position for Allianz SE as per filing dated June 22, 2021

VAT was informed by Ameriprise Financial, Inc. on July 7, 2021, that it had reduced its position in VAT shares to below the threshold of 3%. On February 7, 2022, VAT was informed by Allianz SE, Germany that it had reduced its position in VAT shares to below the threshold of 3%. Further details are available from the online publication platform of the SIX Swiss Exchange: <http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

VAT Group AG is not aware of any other person or institution holding, at the date of this report, directly or indirectly, on its own account or in concert with third parties, 3% or more of VAT Group AG's share capital.

1.3 Cross-shareholdings

VAT Group AG does not have any cross-shareholdings exceeding 5% of capital holdings or voting rights.

2. Capital structure

2.1 Company's share capital

The share capital of VAT Group AG amounts to CHF 3,000,000 divided into 30,000,000 registered shares with a nominal value of CHF 0.10 each. The shares are fully paid in. The shares have been listed on the SIX Swiss Exchange since the company's Initial Public Offering on April 14, 2016. The VAT Group AG's International Securities Identification Number (ISIN) is CH0311864901, its market capitalization as of December 31, 2021, was CHF 13.6 billion with a free float as defined by SIX Swiss Exchange of approximately 90%. During 2021, the free float remained unchanged compared to a year ago.

VAT Group AG issues its registered shares only as uncertificated securities and registers them as book-entry securities. Shareholders have no right to request conversion of the form in which the registered shares are issued into another form. Shareholders may, however, at any time require from VAT Group AG the delivery of an attestation certifying their current shareholdings. Uncertificated securities may only be transferred by way of assignment, provided that they are not registered as book-entry securities. The transfer of book-entry securities and grants of security rights on book-entry securities have to be compliant with the Book Entry Securities Act. The transfer of book-entry securities or grants of security rights on book-entry securities by way of assignment are excluded.

2.2 Conditional and authorized capital

According to art. 3a of the Articles of Association¹, VAT Group AG's share capital of CHF 3,000,000 may be increased by a conditional capital of up to CHF 150,000, i.e. up to 5% of the share capital, by issuing up to 1,500,000 fully paid-in registered shares with a nominal value of CHF 0.10 each, upon the exercise of option rights or in connection with similar rights regarding shares (including restricted stock units) granted to officers and employees at all levels of the company. The preemptive rights and the advance subscription rights of the shareholders are excluded. The acquisition and subsequent transfer of registered shares is limited under art. 5 of the Articles of Association. The conditions for the allocation and exercise of the option rights and similar rights are determined by the Board of Directors. The shares may be issued at a price below the market price.

VAT Group AG does not have any authorized share capital.

2.3 Changes in share capital

There have been no changes in the share capital during the reporting year.

2.4 Participation certificates, profit-sharing certificates, preference shares and modified voting rights

As of December 31, 2021, VAT Group AG has not issued any participation certificates or profit-sharing certificates, nor has it issued any preference shares or shares with increased, limited, privileged or restricted voting rights.

2.5 Own shares

As of December 31, 2021, VAT Group AG held 14,383 of its own shares. None of its subsidiaries held any shares in VAT Group AG.

2.6 Transfer restrictions and nominee registrations

Persons acquiring registered shares will on application be entered in the share register without limitation as shareholders with voting rights, provided they expressly declare themselves to have acquired the shares in their own name and for their own account and comply with the disclosure requirement stipulated by the Swiss Financial Market Infrastructure Act (FMIA). Entry in the share register as shareholder with voting rights is subject to the approval of VAT Group AG and may be refused if the applicant fails to declare expressly that he/she has acquired and will hold the shares on his/her own behalf and for his/her own account.

A resolution of the shareholders' meeting passed by at least two thirds of the represented share votes and the absolute majority of the represented shares par value is required for the easement or abolition of the restriction of the transferability of the registered shares.

Persons not expressly declaring themselves to be holding shares for their own account (nominees) will be entered in the share register with voting rights without further inquiry up to a maximum of 3% of the share capital outstanding at that time. Above this limit, registered shares held by nominees will be entered in the share register with voting rights only if the nominee in question makes known the names, addresses and shareholdings of the persons for whose account he is holding 0.5% or more of the share capital outstanding at that time and provided that the disclosure requirement stipulated by the FMIA is complied with. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements. Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with the intent to circumvent the entry restriction are considered as one shareholder or nominee. VAT Group AG may in special cases approve exceptions to these restrictions. No such cases were approved in 2021.

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

2.7 Convertible bonds and options

VAT Group AG has neither convertible bonds nor options regarding its shares outstanding.

3. Board of Directors

3.1 Members of the Board of Directors

The Articles of Association² provide that the Board of Directors shall consist of a minimum of three members, including the Chairman of the Board of Directors who is appointed by the meeting of shareholders. The Board of Directors currently consists of seven non-executive members (including the Chairman).

Only Heinz Kundert (Vice-Chairman of the Board of Directors) has held executive functions in VAT Group AG and its Group companies during the last three business years prior to December 31, 2021. Namely, Heinz Kundert was CEO of VAT Group AG from June 2015 to March 2018 and registered in affiliated VAT Group companies during this period.

Other than as disclosed above, none of the members of the Board of Directors has or had any significant business connection with VAT Group AG or any of its Group companies during the three years prior to December 31, 2021.

Board of Directors

Name	Age	Position	Year of 1 st election
Martin Komischke	64	Chairman	2017
Heinz Kundert	69	Vice Chairman	2018
Hermann Gerlinger	68	Member	2017
Urs Leinhäuser	62	Member	2016
Karl Schlegel	68	Member	2016
Libo Zhang	51	Member	2018
Daniel Lippuner	52	Member	2020

3.2 Background, other activities and functions

As of December 31, 2021, the members of the Board of Directors were:

Dr. Martin Komischke, Chairman, was born in 1957 and is a German citizen. Martin Komischke became the Chairman of the Board of Directors of VAT Group AG in May 2017 and was re-elected as Chairman of the Board of Directors at the Annual General Meeting (AGM) in May 2018 and since then annually.

From 2004 to 2016, Martin Komischke served as CEO of HOERBIGER Holding AG, following his function as Head of the Strategic Business Unit Drive Technology and member of the Executive Board from 1996 to 2003. Before that, he held various functions at Kolbenschmidt AG and Mannesmann-Sachs AG.

In 2021, Martin Komischke served as Chairman of the Board of HOERBIGER Holding AG (since 2016). He was also a member of the Board of Directors of Stäubli Holding AG (since 2016), Aixtron SE (2013 until May 2019) and the Vice President of the Board of Trustees of HOERBIGER Foundation (since 2016).

Martin Komischke holds a degree and a doctorate in electrotechnics and mechanical engineering from the University of Aachen.

² The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

Heinz Kundert, Vice Chairman, was born in 1952 and is a Swiss citizen. Heinz Kundert became the Vice Chairman of the Board of Directors of VAT Group AG in May 2018 and was since then re-elected annually. From June 2015 to March 13, 2018, he was CEO of VAT Group AG.

Heinz Kundert has extensive experience in the semiconductor industry. Starting 1981, Mr. Kundert served in various management positions for Balzers AG, Balzers & Leybold, Oerlikon-Bührle AG and Unaxis Holding AG. From 1999 to 2004, Heinz Kundert served as COO and then CEO of Unaxis Holding AG (later renamed OC Oerlikon AG). Thereafter, Heinz Kundert worked as a strategy consultant until 2015. Heinz Kundert was CEO of VAT Group AG from June 2015 to March 2018.

Between 2002 and 2015, Heinz Kundert served on the Board of Directors of SEMI International, a global semiconductor industry association serving the manufacturing supply chain for the micro- and nano-electronics industries, in San Jose, CA, USA, and was elected Vice President in 2005. In 2005, he was also appointed President of SEMI Europe in Berlin.

Currently, Heinz Kundert is the Chairman of the Board of Directors of Comet Group AG (since June 2019). He is also a Board member of Variosystems AG (since January 2019) and on the Advisory Board of the Fraunhofer Society in Germany (since 2010). He further serves as Chairman of VT5 Acquisition Company AG (since March 2021).

Heinz Kundert holds a federal certificate in mechanical engineering and a degree in industry management from the Institute of Technology (ITA) Switzerland as well as a degree in business management from the FAH I University of St. Gallen.

Dr. Hermann Gerlinger was born in 1953 and is a German citizen. Hermann Gerlinger became a member of the Board of Directors of VAT in May 2017 and was since then re-elected annually.

Between 2001 and 2016, Hermann Gerlinger was CEO of Carl Zeiss SMT GmbH and from 2006 to 2016 also member of the Executive Board of Carl Zeiss AG. Before that, he held various functions for ZEISS AG. Hermann Gerlinger served as member of the Advisory Board of the German National Metrology Institute (PTB) (2015 until May 2020) and is a member of the Supervisory Board of Siltronic AG since 2011.

Hermann Gerlinger holds a degree and a doctorate in physics and astronomy from the University of Würzburg.

Urs Leinhäuser was born in 1959 and is a Swiss citizen. Urs Leinhäuser became a member of the Board of Directors of VAT Group AG in March 2016 and was since then re-elected annually.

From 1995 to 1999, Urs Leinhäuser was Head of Corporate Controlling at Georg Fischer AG and later CFO of Georg Fischer's Piping Systems Division. Between 1999 and 2003, he was CFO of Mövenpick Holding AG. From 2003 until 2011, he was CFO and Head Corporate Center at Rieter Holding AG. After the spin-off of Autoneum Holding AG from Rieter Holding AG in 2011, Urs Leinhäuser was CFO and Deputy CEO of Autoneum Holding AG until 2014.

Since 2014, Urs Leinhäuser is self-employed and since 2016 he is managing partner at ADULCO GmbH.

Currently, Urs Leinhäuser serves on the Board of Directors of Ammann Group Holding AG (since 2013), Burckhardt Compression Holding AG (since 2007) and Liechtensteinische Landesbank AG (since 2014). Since 2017, he is Chairman of the Board of Directors of Avesco AG and since 2019 he is also member of the Board of Directors of PENSADOR Partner AG.

Urs Leinhäuser holds a degree in business administration from the University of Applied Sciences Zurich.

Karl Schlegel was born in 1953 and is a Swiss citizen. He became a member of the Board of Directors of VAT Group AG in March 2016 and was since then re-elected annually.

Karl Schlegel served as CEO of Hamilton Medical AG between 1997 and 2003. Between 2004 and 2013, he was the CEO of VAT Group. From 2014 to 2016, he was a member of the Board of Directors of VAT Holding AG.

Karl Schlegel was a member of the Foundation Board of Stiftung Arwole (a charity for individuals with disabilities from 2014 to 2018)

Karl Schlegel holds a Bachelor of Science degree from the medical engineering department of the University of Applied Sciences and Technology Buchs (NTB) and an Executive MBA from the University of St. Gallen.

Dr. Libo Zhang was born in 1970 and is a German citizen. She became a member of the Board of Directors of VAT Group AG in May 2018 and was since then re-elected annually.

Libo Zhang is an independent senior consultant of finance, controlling and corporate structuring. She has been the CFO of FFG Europa & Americas, MAG IAS GmbH, a German machine manufacturer, and Borgward Group AG, a German auto manufacturer. From 2010 to 2015, she held various senior financial management positions in Germany and Asia at SGL Group, a leading global manufacturer of carbon-based products, including regional CFO and senior manager of corporate development, mergers and acquisitions. Prior to that, for more than ten years, she held senior positions in finance and commercial operations in the German engineering and aerospace sector.

Currently, Libo Zhang serves on the Scientific Advisory Board of CIC Controlling GmbH in Dortmund, Germany, and on the SPT Roth AG Advisory Board in Lyss, Switzerland.

Libo Zhang holds a degree and a doctorate in economics and an MBA from Georg-August University in Göttingen, Germany.

Daniel Lippuner was born in 1969 and is a Swiss citizen. He became a member of the Board of Directors of VAT Group AG in May 2020.

From 2017 to 2019, Mr. Lippuner was the Chief Operating Officer at Meyer Burger Group, a global technology leader in the solar photovoltaic industry. Prior to that, he was CEO of Saurer AG, and over the course of more than 25 years has held senior management positions at a number of other international companies, including OC Oerlikon, Hilti Group and Rieter Automotive.

Daniel Lippuner is currently Managing Director of Liquidtool Systems AG in Hasle-Rüegsau, Switzerland. He further serves as a member of the Boards of Directors for the Remnex Foundation, 3S Solar Plus AG, Juice Services AG and Cargopack Tägi AG. Daniel Lippuner holds a degree in economics and business administration from the University of Applied Sciences, St. Gallen, Switzerland.

3.3 Mandates and other permitted activities

According to art. 23 of the Articles of Association³, the members of the Board of Directors may have, as a member of the Board of Directors or any other superior management or administrative body, up to six mandates in publicly traded companies, up to ten mandates in private companies and up to 20 mandates in other commercial legal entities. Mandates are activities in the superior management or administrative bodies in legal entities that are obliged to register themselves in a Swiss commercial register or a foreign equivalent and which are not controlled by VAT Group AG, do not control VAT Group AG or do not constitute pension funds insuring employees of the VAT Group. Board members may also exercise up to ten mandates of any function in associations, charity foundations and employee assistance foundations.

Mandates in companies that are under uniform control or the same beneficial ownership are deemed one mandate.

3.4 Election and term of office

Each member of the Board of Directors, including the Chairman, has to be elected, and may only be removed by a shareholders' resolution. The maximum term of office for a member of the Board of Directors is one year. In this context, a year means the time period between one ordinary shareholders' meeting and the next or, if a member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next ordinary shareholders' meeting. Re-election is allowed as long as the relevant member has not completed the age of 72 at the time of re-election and has not served on the Board of Directors for more than nine years. The Board of Directors appoints the secretary who does not need to be a member of the Board of Directors.

³ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

3.5 Powers and duties

The Board of Directors is entrusted with the ultimate direction of VAT Group AG's business and the supervision of the persons entrusted with VAT Group AG's management. It represents VAT Group AG towards third parties and manages all matters, which have not been delegated to another body of VAT Group AG by law, the Articles of Association³ or by other regulations.

The Board of Directors has the following non-transferable and irrevocable duties:

- ultimately directing VAT Group AG and issuing the necessary directives,
- determining the organization,
- organizing the accounting, the Internal Control System (ICS), the financial control and the financial planning as well as performing a risk assessment,
- appointing and recalling the persons entrusted with the management and representation of VAT Group AG and granting signatory power, ultimately supervising the persons entrusted with the management, in particular with respect to compliance with the law, the Articles of Association, regulations and directives,
- preparing the annual report, as well as the shareholders' meeting and implementing the latter's resolutions,
- preparing the compensation report,
- informing the judge in the event of overindebtedness,
- passing resolutions regarding the subsequent payment of capital with respect to non-fully paid-in shares and regarding the amendments to the Articles of Association entailed thereby,
- passing resolutions confirming increases in share capital regarding the preparation of the capital increase report and regarding the amendments to the Articles of Association entailed thereby,
- examining compliance with the legal requirements regarding the appointment, election and the professional qualifications of the auditors,
- executing the agreements pursuant to Articles 12, 36 and 70 of the Swiss Merger Act.

If the office of the Chairman of the Board of Directors is vacant, the Board of Directors shall appoint, for the time period until the conclusion of the next ordinary General Meeting, a substitute who must be a member of the Board of Directors.

3.6 Meetings of the Board of Directors

According to the Organizational Regulations⁴, the Board of Directors meets at the invitation of the Chairman as often as required to fulfill its duties and responsibilities, but at least quarterly, or whenever a member or the CEO indicating the reasons requests so in writing. If the Chairman of the Board of Directors does not comply with such a request within ten working days, the Vice-Chairman of the Board of Directors will be entitled to convene such meetings.

Resolutions of the Board of Directors are passed with the majority of the votes cast. In the case of a tie, the Chairman has a casting vote. To validly pass a resolution, at least the majority of the members of the Board of Directors must attend the meeting or be present by telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Absent members cannot be represented. A resolution in writing is permitted, provided that no member of the Board of Directors requests oral deliberation. No quorum is required for confirmation resolutions and amendments of the Articles of Association⁵ in connection with capital increases or measures related thereto pursuant to Articles 651a, 652e, 652g and 653g of the Swiss Code of Obligations. If a conflict of interest is believed to exist, a member of the Board of Directors shall abstain from voting upon all matters involving the interest at stake.

The three members of the Group Executive Committee attended all meetings of the Board of Directors in an advisory capacity. The members of the Group Management Board can attend the meetings of the Board of Directors at which the strategy of VAT Group or other specific topics related to their responsibilities are on the agenda.

⁴ The Organizational Regulations of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

⁵ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

3.7 Committees of the Board of Directors

In compliance with the Articles of Association⁵, the Board of Directors issued Organizational Regulations⁴ that govern tasks and areas of responsibility of the Board of Directors and its Committees as described in this section 3. They are regularly reviewed and updated.

The Board of Directors established the Audit Committee (AC) and the Nomination and Compensation Committee (NCC) which aim to strengthen and support VAT Group AG's corporate governance structure. In addition, the VATmotion Committee and the Technology Committee (TC) were introduced in 2017.

The Committees may conduct or authorize investigations within their areas of responsibility; if necessary, they may involve external experts. The table below outlines the Committee memberships of the current members of the Board of Directors as of December 31, 2021.

Board of Directors

	Audit Committee (AC)	Nomination and Compensation Committee (NCC)	VATmotion Committee	Technology Committee
Martin Komischke	–	Chairman	Chairman	–
Heinz Kundert	–	Member	–	–
Libo Zhang	Member	–	–	–
Hermann Gerlinger	–	–	Member	Chairman
Urs Leinhäuser	Chairman	–	Member	–
Karl Schlegel	–	Member	Member	Member
Daniel Lippuner	–	–	Member	–

3.8 Audit Committee (AC)

In accordance with the AC charter⁶, the AC consists of at least two members of the Board of Directors. The members of the AC and the AC Chairman are appointed by the Board of Directors. The term of office of the members of the AC is one year. Re-appointment is possible.

The AC is currently chaired by Urs Leinhäuser who is supported by Libo Zhang.

The AC assists the Board of Directors in fulfilling its duties to supervise management. In particular, the AC has the following duties:

- Assessing the statutory and consolidated annual and interim financial statements.
- Proposing to the Board of Directors changes or amendments of accounting principles (e.g., the implementation of new accounting standards) at the request of the CFO.
- Discussing the results of the audits pro-actively with the external auditor and the CFO and issuing proposals or recommendations to the Board of Directors.
- Evaluating the external auditors and submitting a proposal to the Board of Directors for the election of the auditors at the Annual General Meeting.
- (I) Approving the audit plan as well as the respective budgets and fees of the external auditors; approving any non-audit services provided by the external auditor if the fee on an individual basis is equivalent to more than 10% of the total annual audit fees, or if all non-audit service fees taken together amount to more than 40% of the total annual audit fees; assessing the performance and effectiveness of the external auditors during the year.
- (II) Approving the audit plan as well as the respective budgets and fees of the internal auditors; assessing the performance and effectiveness of the internal auditors during the year.
- Assessing the Internal Control System (ICS).
- Assessing the Enterprise Risk Management System and Report (ERM).

⁶ The AC charter of VAT Group AG is published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

- Assessing compliance with statutory and regulatory provisions, organizational rules and corporate governance within the Group (compliance).
- Overseeing the Group's whistleblower process.
- Ensuring and monitoring that the Group is properly funded and financed.
- Assessing the annual business expenses incurred by the members of the Group Executive Committee.
- Reviewing talent development in the finance and corporate organizations.
- Periodically checking the performance and effectiveness of the AC and submitting proposals to the Board of Directors regarding any changes that may be needed.

3.9 Nomination and Compensation Committee (NCC)

In accordance with the NCC charter⁷, the NCC consists of at least three members of the Board of Directors. The members of the NCC are each elected by the shareholders' meeting. The term of office of the members of the NCC is one year. In this context, a year means the time period between one ordinary shareholders' meeting and the next or, if a member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next ordinary shareholders' meeting. Re-election is possible. If there are vacancies on the NCC, the Board of Directors shall appoint substitutes from amongst its members for the remaining term of office.

The NCC is currently chaired by Martin Komischke who is supported by Heinz Kundert and Karl Schlegel.

The function of the NCC is to support the Board of Directors in establishing and reviewing a compensation strategy as well as in preparing the proposals to the shareholders' meeting regarding the compensation of the Board of Directors and the Group Executive Committee.

The NCC is responsible for preparing proposals to the full Board of Directors regarding:

- the compensation of the executive management,
- the compensation scheme of the VAT Group pursuant to the principles of art. 25 and 26 of the Articles of Association⁸,
- the determination of compensation-related targets for the executive management,
- the approval of the individual compensation of the Chairman of the Board of Directors, the other members of the Board of Directors as well as the maximum individual aggregate compensation of the CEO,
- the individual compensation (fixed and variable compensation) of the members of the executive management as well as their further terms of employment and titles,
- amendments to the Articles of Association with respect to the compensation scheme for members of the executive management,
- mandates pursuant to art. 23 of the Articles of Association and further additional occupation of the members of the executive management.

Further duties and responsibilities may be provided in the Articles of Association, the Organizational Regulations⁹ such as the NCC charter⁷ or law.

Further information about the NCC and its duties is provided in the Compensation Report on pages 62 to 63.

⁷ The NCC charter of VAT Group AG is published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

⁸ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

⁹ The Organizational Regulations of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

3.10 VATmotion Committee and Technology Committee

In accordance with the Organizational Regulations⁹, the Board of Directors can appoint committees to prepare and execute its resolutions and to supervise the company. In 2017, the Board of Directors established the VATmotion Committee and the Technology Committee (TC).

In accordance with the VATmotion Committee Charter, the VATmotion Committee consist of at least two members of the Board of Directors and supports the full Board of Directors with regard to the global orientation and strategic developments of VAT to optimize the value chain in terms of capacity, delivery reliability and costs. The VATmotion Committee is chaired by Martin Komischke who is supported by Hermann Gerlinger, Urs Leinhäuser, Karl Schlegel and Daniel Lippuner.

In accordance with the TC Charter¹⁰, the TC consists of at least two members of the Board of Directors. It provides advice to the full Board of Directors in technological terms. It supports the management team in the development of the technology strategy and the evaluation of the company's research, development and product portfolio. The TC is currently chaired by Hermann Gerlinger who is supported by Karl Schlegel.

3.11 Meetings of the Committees of the Board of Directors

According to the Organizational Regulations¹¹, the meetings of the Committees are convened by their Chairman, usually ahead of each ordinary Board of Directors meeting, and are held as often as required but in general at least three times a year.

In order to perform their duties, at least half of the Committee members have to be present in person or participate in electronic communications. In any case, a minimum attendance of two is required. Resolutions or motions to the Board of Directors must be passed by a majority of the votes cast. Abstentions from voting are regarded as non-delivered votes.

Resolutions and motions to the Board of Directors may also be made in writing, unless a member requires oral deliberation. Upon the invitation of its Chairman and in consultation with the Chairman of the Board of Directors and, if applicable, the CEO, other representatives of the Group Executive Committee and other persons may participate in the Committee's meetings. If a conflict of interest is believed to exist, a member of the Committee shall abstain from voting upon all matters involving the interest at stake.

The Committees inform the Board of Directors about the essential parts of discussion, decisions and proposals at the following regular meeting of the Board of Directors, in case of urgency also immediately.

¹⁰ The TC charter of VAT Group AG is published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

¹¹ The Organizational Regulations of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

3.12 Overview of meetings in 2021

During 2021, the Board of Directors and the Committees conducted regular formal meetings and conference calls.

Formal meetings and conference calls

	BoD	AC	NCC	VATmotion	Technology Committee
Total number of meetings/calls in 2021	6/9	4/4	3/0	3/0	5/0
Usual average duration, approx. (in hours)	4/1	2/1	2/0	2/0	2/0
Martin Komischke	6/9	–	3/0	3/0	–
Heinz Kundert	6/9	–	3/0	–	–
Libo Zhang	6/9	4/4	–	–	–
Hermann Gerlinger	6/9	–	–	3/0	5/0
Urs Leinhäuser	6/9	4/4	–	3/0	–
Karl Schlegel	6/9	–	3/0	3/0	5/0
Daniel Lippuner	6/9	–	–	3/0	–
Internal Audit, PwC	–	4/0	–	–	–
External Audit, KPMG	–	4/2	–	–	–
External Advisors	2/0	–	3/0	–	–

The members of the Group Executive Committee attended all meetings and calls of the Board of Directors and the meetings of the Committees if necessary. The CFO joined all meetings of the AC. The Head Legal and Compliance joined all BoD, AC and NCC meetings to act as secretary. VAT employees were invited to the respective meetings and calls occasionally as required.

In addition, the Board of Directors and the Committees held several informal meetings and calls (with and without VAT management and/or guests to discuss current subjects between formal meetings and calls).

3.13 Determination of areas of responsibility of Board of Directors and Group Executive Committee

The Board of Directors is responsible for the ultimate direction of VAT Group AG as well as the supervision of the Group Executive Committee. The Board of Directors attends to all matters which are not delegated to or reserved for another corporate body of VAT Group AG by applicable laws, the Articles of Association¹² or the Organizational Regulations¹³. The Board of Directors is regularly informed about developments of VAT Group AG and the VAT Group and decides upon proposals and reports provided by the Committees or the Group Executive Committee.

The Board of Directors delegated the executive management of VAT Group AG and of the VAT Group to the Group Executive Committee acting under the leadership of the CEO, subject to applicable laws and the Articles of Association¹². Further, the Board of Directors may delegate the preparation, proposal and execution of its resolutions or the supervision of certain projects and topics to one or several members of the Board of Directors, to a Committee, to the CEO, or to one of the members of the Group Executive Committee.

3.14 Information and control instruments vis-à-vis the Group Executive Committee

Each Member of the Board of Directors can anytime require any information on each and all matters relating to VAT Group AG and its Group companies.

Meetings of the Board of Directors are attended by the CEO, COO and the CFO. At each meeting, the Board of Directors is to be informed by the attending members of the Group Executive Committee on the current course of business and significant business transactions. This includes, but is not limited to, a consolidat-

¹² The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

¹³ The Organizational Regulations of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

ed annual budget, monthly financial reporting, quarterly financial projections, profit and loss forecasts, monthly KPI reports and strategic risk management reports. Extraordinary events have to be reported immediately to the members of the Board of Directors by means of a circular, if necessary after prior information by phone or e-mail. Any member of the Board of Directors may, anytime, require information or disclosure of business documents. Such requests are to be addressed in writing to the Chairman of the Board of Directors. As far as necessary for the completion of a task, each member of the Board of Directors may request the Chairman to provide him/her with accounts and files. Financial reports are submitted to the Board of Directors on a monthly basis. Full financial consolidation, including the cash flow statement, is performed on a monthly basis.

Based on the Organizational Regulations¹³ of the Board of Directors, the AC has implemented a comprehensive system for monitoring and controlling the risks linked to the company's business activities. This includes risk identification, analysis, control and periodical reporting to the AC. Operationally, the Group Executive Committee is responsible for controlling risk management. In addition, responsible persons are designated in the company for significant individual risks and control activities, such as periodic internal audits of internal control systems (more details can be found in Section 8.1 herein).

4. Group Executive Committee

Subject to those affairs, which lie within the responsibility of the Board of Directors according to Swiss law, the Articles of Association¹⁴ and the Organizational Regulations¹⁵, the Board of Directors has delegated the executive management of VAT Group AG to the Group Executive Committee acting under the leadership of the CEO. The Group Executive Committee is mainly responsible for the financial and operational management and for the efficiency of the corporate structure and organization of the VAT Group AG.

4.1 Members of the Group Executive Committee

In 2021, the Group Executive Committee (GEC) consisted of three members, the CEO, CFO and COO, headed by the CEO. Fabian Chiozza (CFO) was appointed on April 1, 2021, with the CEO acting as interim CFO up until Fabian Chiozza's appointment.

The CEO is appointed and dismissed by the Board of Directors upon recommendation of the NCC. The other Group Executive Committee members are appointed and dismissed by the Board of Directors upon recommendation of the CEO and the NCC.

As of December 31, 2021, the members of the Group Executive Committee were:

Michael (Mike) Allison, CEO, born in 1962, British citizen, joined VAT on January 1, 2018 and succeeded Heinz Kundert as CEO on March 13, 2018.

Mike Allison joined Edwards in 2008 as Vice President of Global Sales & Services and, after the acquisition by Atlas Copco in 2014, became President of the Semiconductor division at Edwards/Atlas Copco. In this role, Mike Allison helped transform Edwards into one of the leading companies in the Semiconductor Vacuum sector. In addition to his responsibilities at Edwards/Atlas Copco, Mike Allison also spent 20 years at KLA-Tencor, where he held many key positions, including Executive Vice President and General Manager of Global Services, based in San Jose, USA.

Other roles included significant positions in business strategy, sales, marketing and technical positions in Germany, UK and the USA.

Mike Allison is a member of the International Board of SEMI, the global industry association for the semiconductor equipment and material suppliers.

He holds a BSc Honors in Electrical & Electronic Engineering from Glasgow University.

¹⁴ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

¹⁵ The Organizational Regulations of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

Dr. Stephan Bergamin, born in 1966, Swiss citizen, was CFO of VAT Group AG from January 2019 until June 2021.

Stephan Bergamin joined VAT Group AG from Gearbulk Group, a specialized global cargo shipping company, where he was CFO from 2015 to 2018. Prior management positions include CFO roles at Goldbach, Cofely, the Steiner Group and companies within Swissair Group. He also worked in the corporate finance department at Credit Suisse as a finance consultant and project leader.

Stephan Bergamin holds a PhD in economics from the University of St. Gallen, specializing in corporate finance, and completed the Advanced Management Program (AMP 177) at Harvard Business School in 2009.

Fabian Chiozza, born in 1981, Swiss citizen, was appointed as CFO of VAT Group AG in April 2021.

Fabian Chiozza joined VAT Group AG from Autoneum Group, the global leader in acoustic and thermal management for the automotive industry, where he was the divisional CFO for the Business Group South America, Middle East and Africa. Before that, Fabian Chiozza held a variety of senior finance positions at Rieter Group, including Group Controller, and established a successful track record in corporate development and mergers and acquisitions.

Fabian Chiozza holds a Master's degree in Accounting and Finance from the University of St. Gallen (HSG), Switzerland.

Dr. Thomas Berden, born in 1971, German citizen, was appointed Chief Operating Officer of VAT Group AG in October 2020.

Thomas Berden joined VAT Group AG from the Swedish bearing and seal manufacturer AB SKF, where he headed the international spherical roller bearings business. Previously, Thomas Berden was Head of Global Manufacturing for the building and construction products company Hilti in Kaufering, Germany. He has also held management positions at BSH Bosch Siemens Hausgeräte and Siemens AG, Germany.

Thomas Berden holds a PhD in mechanical engineering from the Rheinisch-Westfälische Technische Hochschule (RWTH) in Aachen, Germany, and a degree in business economics from the University of Hagen, Germany.

4.2 Mandates and other permitted activities

According to art. 23 of the Articles of Association¹⁶, with the approval of the NCC, the members of the Group Executive Committee may have, as a member of the Board of Directors or any other superior management or administrative body, up to three mandates in publicly listed companies, up to five mandates in companies pursuant to art. 727 para. 1 number 2 of the Swiss Code of Obligations, and up to five mandates in other legal entities. Mandates are activities in the superior management or administrative bodies in legal entities that are obliged to register themselves in a Swiss commercial register or a foreign equivalent and which are not controlled by VAT Group AG, do not control VAT Group AG or do not constitute pension funds insuring employees of the VAT Group.

Mandates in companies that are under uniform control or the same beneficial ownership are deemed to be one mandate.

4.3 Management contracts

There are no management contracts with companies not belonging to the VAT Group.

4.4 Transactions of members of the Board of Directors or the Group Executive Committee

Detailed information regarding related-party transactions with members of the Board of Directors and Group Executive Committee is provided on the website of SIX Swiss Exchange: <http://www.six-exchange-regulation.com/en/home/publications/management-transactions.html>.

¹⁶ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

5. Compensation of the Board of Directors and Group Executive Committee

5.1 Compensation, shareholdings and loans

Information on compensation and shareholdings of the members of the Board of Directors and the Group Executive Committee can be found in the Compensation Report starting on page 59. The provisions regarding the principles of performance-related compensation, the allocation of equity securities, participation plans, the additional amount for payments to members of the Group Executive Committee appointed after the vote on remuneration by the shareholders' meeting, as well as regarding loans, credits and pension benefits are set in art. 25 to 29 of the Articles of Association¹⁷. The rules regarding the approval of the remuneration by the shareholders' meeting are set in art. 12 of the Articles of Association¹⁷.

According to the Articles of Association¹⁷, VAT Group AG may not grant loans, credits, pension benefits other than from occupational pension funds or securities to members of the Board of Directors or the Group Executive Committee; advance payments of fees for lawyers, court fees and similar costs relating to the defense against corporate liability claims up to a maximum of CHF 1,000,000 are not subject to this provision. See also information provided in the Compensation Report on page 62, 63, 64 and 70.

6. Shareholders' participation

6.1 Voting rights restrictions

The identity of the owners or beneficiaries shall be entered in the share register stating first/last name (company name), domicile (registered seat), address and citizenship.

Voting rights may be exercised only after a shareholder has been registered in VAT Group AG's share register as a shareholder with voting rights. In shareholders' meetings, each shareholder has equal rights, including equal voting rights. According to the Articles of Association¹⁷, each share carries one vote. All shares are entitled to dividends. At shareholders' meetings, shareholders may be represented by a proxy appointed in writing, a representative by law or the independent proxy. The proxy need not be a shareholder. Under the Articles of Association¹⁷ and after due consultation with the persons concerned, VAT Group AG is authorized to delete entries in the share register with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information. The person concerned has to be immediately informed about the deletion.

6.2 Independent proxy

The provisions of the Swiss Ordinance against Excessive Compensation provide that the Board of Directors must ensure that the shareholders are able to electronically grant proxies and instruct the independent proxy on (i) agenda items included in the invitation to the shareholders' meeting, and (ii) new motions which were not disclosed in the invitation to the shareholders' meeting. The independent proxy is required to exercise the voting rights granted by shareholders only in accordance with shareholder instructions. Further, absent express voting instructions, the independent proxy is required to abstain from voting. If VAT Group AG does not have an independent proxy, the Board of Directors shall appoint a substitute for the time period until the conclusion of the next ordinary shareholders' meeting.

At the ordinary shareholders' meeting held on May 18, 2021, Mr. Roger Föhn of ADROIT, Kalchbühlstrasse 4, 8038 Zurich, Switzerland, was elected as the independent proxy for the term ending at the conclusion of the next ordinary shareholders' meeting.

¹⁷ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

6.3 Quorums required

No statutory quorums other than those defined by Swiss corporate law and the Swiss Federal Merger Act apply. Any article of the Articles of Association¹⁸ providing for a greater voting requirement than is prescribed by law or the existing Articles of Association must be adopted by a qualified majority of at least two thirds of the represented share votes and the absolute majority of the represented shares par value. The Articles of Association do not prescribe that a quorum of shareholders is required to be present at a shareholders' meeting.

6.4 Convocation of shareholders' meetings

Shareholders may be convened by the Board of Directors or, if necessary, by a company's statutory auditor or liquidator. The Board of Directors is further required to convene an extraordinary shareholders' meeting within two months if resolved at a shareholders' meeting or requested by one or more shareholders representing in aggregate at least 10% of VAT Group AG's nominal share capital registered in the commercial register.

Registered shareholders with voting rights individually or jointly representing at least 5% of the share capital of VAT Group AG may demand that items be put on the agenda. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 calendar days before the date of the shareholders' meeting and shall be in writing, specifying the items and the proposals.

A shareholders' meeting is convened by publishing a notice of such meeting in the Swiss Official Gazette of Commerce at least 20 days before the date of the meeting. To the extent the post or e-mail addresses of the shareholders are known, notice shall be sent simultaneously by post or e-mail. The notice shall state the day, time and place of the meeting, the agenda, the proposals of the Board of Directors and the proposals of the shareholders who have requested the shareholders' meeting or that an item be included on the agenda.

6.5 Entry in the share register

The Articles of Association¹⁸ do not specify the date by when shareholders have to be entered into the share register to participate in the shareholders' meeting. For organizational reasons, no shareholders will be registered 12 calendar days prior to the shareholders' meeting.

7. Change of control provisions

7.1 Duty to make an offer/Opting-out, opting-up

Under the Swiss Financial Market Infrastructure Act (FMIA), if a person acquires shares of a listed Swiss company exceeding more than 33⅓% of the voting rights, that person must make a takeover bid to acquire all of the other listed shares of that company. A company's Articles of Association may either eliminate this provision (opting-out) or may raise the relevant threshold to 49% (opting-up).

Art. 33 of VAT Group AG's Articles of Association¹⁸ provides for a selective "opting-out" for the stated entities of Partners Group¹⁹ and Capvis²⁰, which are, when acting alone or in concert, exempted from the duties pursuant to the FMIA. This opting-out provision expired December 31, 2020, meaning that if following such date any of the exempted persons (alone or acting in concert) newly exceeds the threshold of 33⅓% of the voting rights (whether exercisable or not), art. 135 FMIA will apply to that person as well.

7.2 Change of control

There are no change of control clauses for the members of the Board of Directors, except for the restricted shares, for which the three-year blocking period will be released in case of a successful takeover bid or the delisting of VAT Group AG. Information on the restricted shares is provided in the Compensation Report, page 70.

There are no change of control clauses for the members of VAT Group AG's Group Executive Committee or of senior management.

¹⁸ The Articles of Association of VAT Group AG are published at <https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters>.

¹⁹ Comprising Partners Group Client Access 8, L.P. Inc., Partners Group Barrier Reef, L.P., Partners Group Direct Inv. 2012 (EUR), L.P. Inc., St Peter Port, Guernsey GY1 1BT, Channel Islands, and Partners Group Private Equity (Master Fund), LLC, New York, NY 10036, USA, all of whose ultimate sole shareholder is Partners Group Holding AG, Zugerstrasse 57, CH-6341 Baar.

²⁰ Comprising Capvis Equity III L.P., Capvis III Limmat L.P. (both acting through its general partner Capvis General Partner III Limited), and Capvis Equity IV L.P. (acting through its general partner Capvis General Partner IV Limited), St. Helier, Jersey JE2 3TE, Channel Islands.

8. Audits

8.1 Internal Audit

Internal Audit is an independent function acting on behalf of the Board of Directors under the guidance and oversight of the AC. VAT Group AG chose to co-source with PricewaterhouseCoopers (PwC) in order to execute the individual audits and PwC has the responsibility to plan, execute and report the audits. According to the audit plan approved by the AC, the internal audit function conducts three audits a year and yearly issues a risk report to the Board of Directors. Due to the COVID pandemic and the related restrictions, only two internal audits were conducted in 2021.

8.2 External Audit

The external auditor is elected for a period of one year at the shareholders' meeting. KPMG AG, St. Gallen, was appointed as statutory auditor and group auditor in 2016 (and re-elected since then annually), auditing the consolidated financial statements and the individual financial statements of VAT Group AG. Mr. Simon Niklaus was named lead auditor in 2021. The holder of this office changes every seven years, in accordance with Swiss law.

In 2021, aggregate audit fees for KPMG's audit of VAT Group AG and the VAT Group amounted to about CHF 310,000.

KPMG rendered in 2021 additional services, in respect to compliance, tax returns and tax advice amounting to aggregate fees of about CHF 295,000.

Included in these fees are costs for multi-year projects to optimize the Group's legal and tax structures following the IPO in 2016. VAT expects these projects to be largely concluded and therefore expects future non-audits fees to stay below 50% of the KPMG audit fees.

The Board of Directors is responsible for the supervision and control of the external audit process. Its remit includes reviewing internal and external audit reports; it is assisted by the AC when discharging this duty. The AC discusses the audit report results and evaluates their quality and comprehensiveness. The lead auditor in charge who represents the external auditor attended six meetings and calls (in person or by telephone/video conference) of the AC in the year under review. An overview of meetings and attendance can be found in section 3.12 herein.

Once per year, the Board of Directors verifies the selection of potential auditors, in order to propose the preferred audit firm for election at the annual shareholders' meeting. Evaluating the effectiveness of the auditors, the AC considers in particular the following criteria: independence of both the audit firm and the lead auditor, qualification, including technical and operational competence, focus on significant risk areas, effectiveness and practicability of recommendations, efficiency of collaboration and transparency of communication.

The AC also examines the proportion between the external audit fees for the annual financial statements and the fees for additional non-audit services performed by the auditors quarterly.

9. Blackout Periods

VAT Group AG has adopted an Insider Dealing and Market Manipulation Policy ("Trading Policy"). In addition to the members of the Board of Directors, the Group Executive Board, the Group Management Board, their assistants, secretaries and other personal employees, the Trading Policy applies to all other persons who have access to inside information and for whom the CEO or the CFO declares the Trading Policy to be applicable. This designated group of addressees ("Blocked Persons") must not deal in VAT securities (shares of VAT Group AG, any other securities issued by VAT Group AG and any derivatives and other financial instruments from the afore-mentioned securities) or make recommendations to any other person while in possession of inside information. Inside information is defined as confidential information which, if made public, can have a significant effect on the trading price of VAT securities.

In order to avoid any appearance of improper use of inside information, blackout periods have been defined in the Trading Policy. Blackout periods are specific periods of time before the publication of confidential and potentially price-sensitive information. Regardless of whether a Blocked Person is in the possession of inside information, Blocked Persons are barred from dealing in VAT securities

- from December 31 until the lapse of one SIX trading day following the public release of the annual results;
- from March 31 until the lapse of one SIX trading day following the public release of the Q1 trading up-date;
- from June 30 until the lapse of one SIX trading day following the public release of the semi-annual results;
- from September 30 until lapse of one SIX trading day following the public release of the Q3 trading up-date.

Exceptions from this ban may only be granted upon prior request in the form of written approval by the Board of Directors or the CEO/CFO, as applicable.

10. Information policy

VAT Group AG engages in transparent, timely and regular communication with its shareholders, the capital markets and the general public.

VAT Group AG publishes its annual results, interim reports (semi-annually) and quarterly trading updates on the dates listed in the financial calendar published on the Investor Relations website at <https://ir.vatvalve.com/en/event-calendar>. The financial statements are prepared according to the International Financial Reporting Standards (IFRS). Printed annual reports are available upon request. All interim reports, company press releases and ad hoc publications are also available on the VAT Group AG's website, as are subscription services for all such publications. VAT Group AG convenes media and investor conferences on a regular basis. Press releases and ad hoc publications containing potentially price-sensitive information are published regularly and in accordance with the rules of the SIX Swiss Exchange. The SIX Swiss Exchange regulations can be found at <http://www.six-exchange-regulation.com>.

Information about the share price, annual results and interim reports, financial calendar, minutes of the annual shareholders' meeting, press releases as well as the Articles of Association are available at <https://ir.vatvalve.com>.

All upcoming dates can be found in the financial calendar on page 138 of this annual report.

Contact information:

VAT Group AG

Communications & Investor Relations

Mr. Michel R. Gerber

Seelistrasse 1

CH-9469 Haag

T +41 81 772 42 55

E-mail: investors@vat.ch

VAT Group AG's website: www.vatvalve.com

Ad hoc messages: <https://ir.vatvalve.com/en/news>

Financial reports: <https://ir.vatvalve.com/en/financial-reports>

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Notices to shareholders are validly made by publication in the Swiss Official Gazette of Commerce (Schweizerisches Handelsamtsblatt). The Board of Directors may designate further means for official publications. Notices of VAT Group AG to shareholders are to be made by official publications of VAT Group AG. Notices to shareholders may also be made in writing to the addresses of the shareholders recorded in the share register.

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:

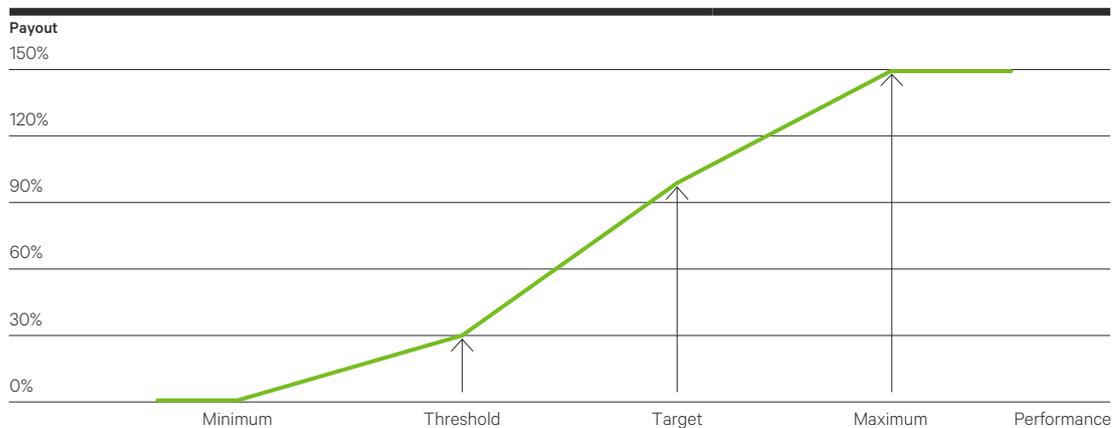
- external benchmark: market value of the role,
- internal benchmark: internal pay structure and internal peer comparison,
- individual profile and past performance of the employee,
- financial considerations such as budget and affordability.

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.

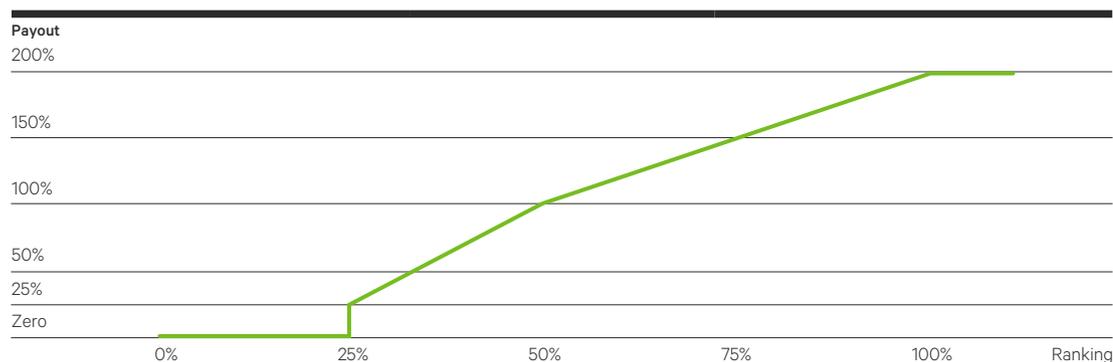
The relative Return on Invested Capital (ROIC) as an additional third performance condition was approved for the LTI grants 2021. The measure was chosen as an additional performance indicator to express how well the Company is generating profit relative to the capital it has invested in its business. 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