

# 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 2022 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 2022, crossing the CHF 1 billion sales mark for the first time in the company's history. Despite persisting supply chain challenges and rising input costs, VAT Group achieved net sales of CHF 1.145 billion. The growth was driven by strong market demand and VAT Group's ability to capture the growth in all its businesses through operational improvements and the pro-active capacity increases. EBITDA, the EBITDA-margin of 35% and the free cash flow, all reached record levels in 2022.

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 the reporting year, the NCC continued to focus on the succession planning for positions on the Board and the GEC. Maria Heriz was elected as a member of the Board at the 2022 Annual General Meeting (AGM) on May 17, 2022, replacing Heinz Kundert, who has decided not to stand for re-election. Maria's in-depth knowledge of the industry and her international experience are important assets to strengthen the Board as VAT Group moves into its next stage of growth. Further, with the promotion of Urs Gantner, as Executive Vice-President Semiconductor Solutions Group, effective August 4, 2022, the GEC has been extended to four members. Under the leadership of Urs, this new Semiconductor Solutions Group integrates the existing Semiconductor business unit with all VAT Group's Research & Development (R&D) activities as well as the creation of a new advance products business development team. By combining these resources into one group, VAT Group will be even more focused on the digitalization of our products as well as the development of new solutions and services for the sub 3nm era.

In 2022, the NCC reviewed the compensation programs and proposed to the Board to introduce a share ownership guideline for the GEC as of 1 January 2024 in line with good governance practice. No changes to the current compensation system for the GEC were implemented in the reporting year.

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 2022 and the say-on-pay vote for the 2023 AGM. You will find further information on the NCC activities and on VAT Group's compensation system and governance on the following pages.

At the 2022 AGM, a consultative vote on the Compensation Report for fiscal year 2021 was conducted for shareholders to express their opinion on the compensation principles and structure of the Board and the GEC. The shareholders approved the Compensation Report as well as the binding votes. VAT Group will continue to revise and improve the compensation systems and further strengthen the engagement with shareholders.

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 2023 until the 2024 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2022, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2024, and on the maximum aggregate amount of the long-term incentive plan of the GEC for financial year 2024.

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.

NCC of VAT Group

Haag, March 1, 2023

## 2. Compensation at a glance

### Summary of current remuneration system

#### Board of Directors

The members of the Board 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.

#### Structure and levels of Board compensation AGM 2022 until AGM 2023

In CHF (gross)	Chair of the Board	Vice-Chair of the Board	Member of the Board
Fixed basic fee	320,000	160,000	110,000

In CHF (gross)	Committee chair	Committee member
Audit Committee	25,000	15,000
Nomination and Compensation Committee	25,000	15,000
Technology Committee	25,000	15,000

### Summary of current compensation system

#### Group Executive Committee

The compensation of the GEC 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.

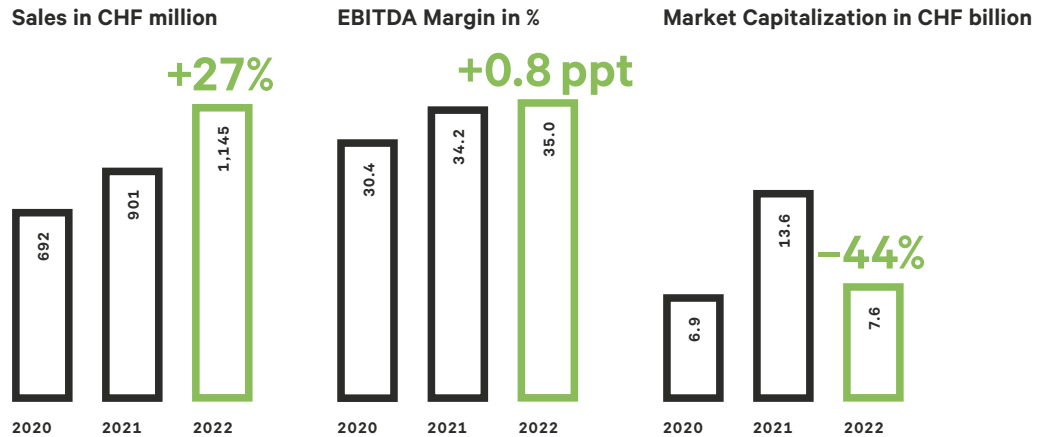
#### Structure of compensation for the GEC

Element	Purpose	Vehicle
Base salary	Pay for the function	Monthly cash
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	Pension and insurances
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 and reached record levels in sales and the EBITDA margin. Market share gains and operational improvements allowed it to outperform the overall market development.

#### Compensation awarded for the Board for 2021/2022

The compensation paid to the Board for the term AGM 2021 to AGM 2022 is within the maximum aggregate amount approved by the shareholders.

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2021-AGM 2022	1,101,000	1,017,783

#### Short-term performance achievement for 2022

While the individual performance results for the GEC were significantly higher for 2022 than for 2021, the level of overall achievement was lower compared to prior year, resulting in a decreased STI payout for 2022 (-6%), given the ambitious financial and spec win performance targets established.

The average STI 2022 payout for the GEC was 111% of target (133% in 2021).

#### Fixed compensation awarded for the GEC for 2022

The total fixed compensation awarded to the GEC for the financial year 2022 is within the maximum aggregate amount approved by the shareholders.

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2022	1,990,000	1,823,369

#### 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 and of the GEC 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 AGM.
- The Board is supported by the NCC in preparing all compensation-related decisions regarding the Board and the GEC.

### 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**

<b>Compensation principles (Board) – Article 25</b>	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.
<b>Compensation principles (GEC) – Article 26</b>	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.
<b>Compensation vote – Article 12</b>	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.
<b>Additional compensation amount – Article 29</b>	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.
<b>Credit and loans – Article 28</b>	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 charter<sup>1</sup>, 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 AGM. At the AGM 2022, Libo Zhang (NCC chair), Hermann Gerlinger, Martin Komischke and Urs Leinhäuser have been elected as members of the NCC.

It is the responsibility of the NCC 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 52.

<sup>1</sup> 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 2022, the NCC held four formal meetings. Details on meeting attendance of the individual NCC members are provided in section 3.12 of the Corporate Governance Report on page 54.

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 2022, Agnès Blust Consulting was mandated to provide consulting services related to executive and Board compensation matters. The company was acquired on April 1, 2022, by PricewaterhouseCoopers (PwC) which provides other services to VAT Group. There are clear rules in place to ensure the independence of PwC consultants.

## 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. 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 2022 until AGM 2023**

In CHF (gross)	Chair of the Board	Vice-Chair of the Board	Member of the Board
Fixed basic fee	320,000	160,000	110,000
	Chair of the Committee		Member of the Committee
Audit Committee (AC)	25,000		15,000
Nomination and Compensation Committee (NCC)	25,000		15,000
Technology Committee	25,000		15,000

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.

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 benchmarked every two to three years 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 overall compensation structure is in line with market practice, the compensation levels are below market median. The Board decided to increase the compensation levels closer to market median for the Board term starting at the AGM 2022. For the Board chair, the eligibility to committee fees was discontinued. His contribution to the committees is reflected in the overall Board chair retainer. The compensation for the vice-chair was significantly increased to differentiate between vice-chair and Board members. For all members of the Board, the compensation for additional tasks or projects that go beyond their function and normal duties of their mandate was discontinued. Such compensation was not utilized in the past and it is not considered good practice.

With this increase from 2022 onwards, it is intended to keep the board retainers stable over a period of time.

For the term starting at the AGM 2022, The Board decided to dissolve the VATmotion committee, as the guidance and oversight at Board level was no longer deemed required given the successful integration into management's responsibility and the operational excellence in processes.

## 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 annual base salary (ABS) and benefits, a variable component consisting of a variable cash compensation (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	Threshold and maximum opportunity
ABS	Monthly cash salary	Attract and retain	Continuous	Fixed
STI	Annual bonus in cash	Reward annual financial and individual performance	1 year	0–150% of target
LTI	Equity-based plan	Reward long-term performance Align to shareholders' interests	3 years	0–200% of Performance Share Units (PSUs) granted, settled in shares following vesting
Benefits	Pension and insurances	Protect against risks Attract and retain	Continuous	Fixed

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 benchmarked every two to three years. In 2022, a benchmarking of the GEC compensation has been conducted by PwC 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.

### 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:

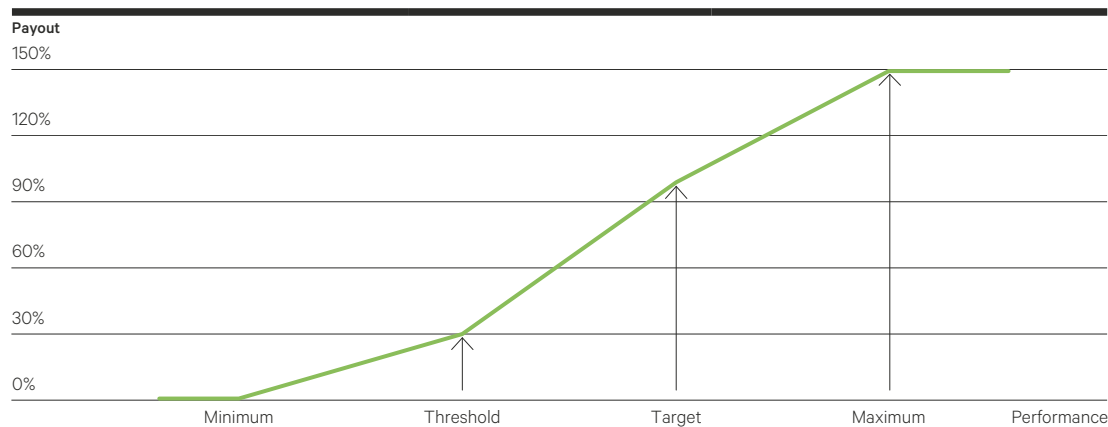
- external benchmark: market value of the role,
- internal benchmark: internal pay structure and internal peer comparison,
- individual profile and past performance of the employee,
- financial considerations such as budget and affordability.

#### 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 2022 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 2022**



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 such as specifications wins which translates into revenues as the customer rolls out its new equipment for semiconductor, display and solar markets. Further, individual performance takes into account the commitment to sustainability, operational excellences and key strategic projects to support growth and profitability. Table 6 illustrates the performance measures including the weightings in detail.

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 measures for the CEO and other GEC members in 2022**

Focus in 2022	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	23.4%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see Table 7	30.0%
<b>Total</b>		<b>100.0%</b>



**Table 7: STI evaluation grid for individual performance of the CEO and other GEC members in 2022**

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%
<b>Total</b>		<b>100%</b>

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 an 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.

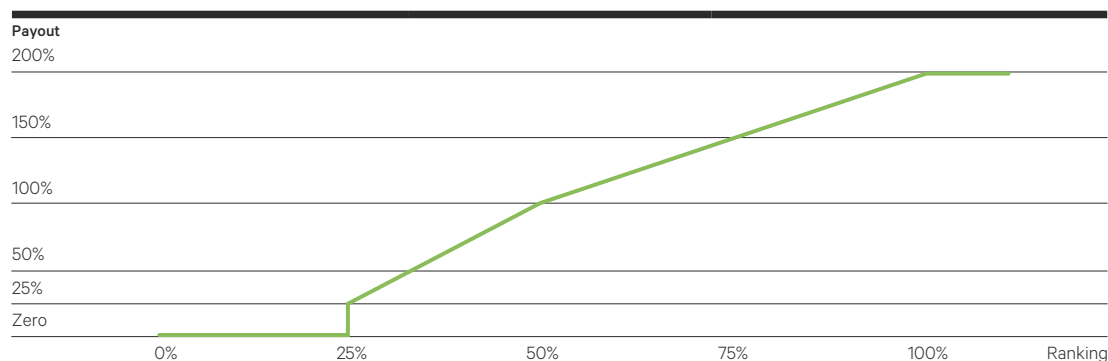
The measures were chosen to reflect the overall business strategy. In particular, relative sales growth represents a top-line measure and is accompanied by relative TSR to provide investors with strong returns and ROIC which expresses how well the company is generating profit relative to the capital it has invested in its business. All three performance conditions are equally weighted with one third and are meaningful and balanced measures for the company.

In 2022, the LTI nominal value amounts represent 73% of the ABS for the CEO and between 46% and 49% of the 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. For 2022 grants, the peer group remained mainly stable compared to 2021 consisting of selected 23 industrial companies with a similar market cycle and thus are comparable in terms of products, technology, customers, suppliers. Unlike a general equity sector index composed of a number of companies primarily involved in the production and sale of semiconductor products, such as for example the PHLX Semiconductor Sector Index (SOX), the selected peers represent high-performing companies in our industry and intensify the performance benchmarking. The Board accepted the deletion of a peer (Brooks Automation) due to its splitting of the company and the semiconductor business going private with no substitution for current outstanding grants. The peer group is illustrated in Table 9.

**Table 9: Peer group for the 2022 LTI grant**

Advanced Energy Industries	Advantest	Aixtron	Applied Materials	ASM international
ASML	Axcelis Technologies	CKD	Comet	Ferrotec
Horiba	Ichor	Inficon	KLA-Tencor	LAM Research
Manz	MKS Instruments	Pfeiffer Vacuum	Pivotal Systems	SMC
Tokyo Electron	Ulvac	Veeco Instruments		

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. Specifically, when determining the final performance factor for the LTI 2019, vesting in 2021, there was no discretion applied.

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 2022

### 6.1 Compensation awarded to the Board in 2022

For 2022, the members of the Board received a total compensation of CHF 1.2 million (2021: CHF 1.0 million) in the form of fixed basic fees of CHF 0.9 million (2021: CHF 0.7 million), committee fees and other expenses of CHF 0.2 million (2021: CHF 0.2 million) and social security contributions of CHF 0.1 million (2021: CHF 0.1 million). Out of the total compensation of CHF 1.2 million (2021: CHF 1.0 million), CHF 0.3 million (2021: CHF 0.3 million) are awarded in form of restricted shares. The increase of 21% compared to previous year mainly results from the increase of fixed basic fees since the AGM 2022.

**Table 10: Compensation of the Board in 2022 and 2021**

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2022	282,500	20,834	1,500	23,636	328,470	87,825
	2021	217,500	50,000	1,500	22,086	291,086	82,236
Urs Leinhäuser <sup>1</sup> , Vice-Chair	2022	129,271	38,542	1,500	13,724	183,037	48,959
	2021	81,563	35,875	1,500	10,086	129,024	36,086
Herman Gerlinger	2022	100,105	38,542	1,500	8,733	148,880	40,209
	2021	81,563	35,875	1,500	7,538	126,476	36,086
Heinz Kundert <sup>2</sup> , Vice-Chair	2022	35,938	4,792	625	1,014	42,369	11,167
	2021	81,563	10,875	1,500	5,693	99,631	28,491
Daniel Lippuner	2022	100,105	22,292	1,500	10,135	134,032	35,667
	2021	81,563	6,709	1,500	7,613	97,385	26,481
Maria Heriz <sup>3</sup>	2022	64,167	–	875	–	65,042	19,250
	2021	–	–	–	–	–	–
Karl Schlegel	2022	100,105	23,125	1,500	7,642	132,372	35,610
	2021	81,563	32,625	1,500	7,298	122,986	35,161
Libo Zhang	2022	100,105	28,125	1,500	10,612	140,342	37,417
	2021	81,563	10,875	1,500	7,498	101,436	28,492
<b>Total</b>	2022	<b>912,296</b>	<b>176,252</b>	<b>10,500</b>	<b>75,496</b>	<b>1,174,544</b>	<b>316,104</b>
	2021	706,878	182,834	10,500	67,812	968,024	273,033

<sup>1</sup> Vice-Chair since AGM May 17, 2022.

<sup>2</sup> Member and Vice-Chair until AGM May 17, 2022.

<sup>3</sup> Member since AGM May 17, 2022.

At the AGM on May 18, 2021, shareholders approved a maximum aggregate compensation amount of CHF 1,101,000 for the Board for the compensation period from the AGM 2021 until the AGM 2022. The remuneration paid to the Board for this term was CHF 1,017,783 and is therefore within the approved limits.

At the AGM of May 17, 2022, shareholders approved a maximum aggregate compensation amount of CHF 1,350,000 for the Board for the term from the AGM 2022 until the AGM 2023. The remuneration paid to the Board for this term is anticipated to be approximately CHF 1,281,881. The final amount will be disclosed in the 2023 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.

In accordance with the Articles of Association, loans to members of the Board are not permitted. Hence, 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 2022

In 2022, the members of the GEC received a total compensation of CHF 3.25 million (2021: CHF 3.27 million). This amount comprises annual base salaries of CHF 1.36 million (2021: CHF 1.31 million), STI of CHF 0.87 million (2021: CHF 0.93 million), other expenses of CHF 0.00 million (2021: CHF 0.07 million), contributions to social security and post-employment benefits of CHF 0.47 million (2021: CHF 0.47 million) and an LTI grant value of CHF 0.56 million (2021: CHF 0.50 million). The variable compensation amounts to 96% (2021: 103%) of the fixed compensation for the CEO and 66% (2021: 61%) on average for all the other GEC members.

**Table 11: Compensation of the GEC for 2022 and 2021**

(CHF, gross)	Year	ABS	Other payments <sup>2</sup>	Pension & social security (fixed)	Total fixed compensation	STI payout <sup>3</sup>	LTI grant <sup>4</sup>	Total compensation <sup>5</sup>
Michael Allison	2022	550,004	0	213,287	763,291	446,400	284,665	1,494,356
	2021	520,000	0	211,423	731,423	451,765	300,606	1,483,794
Other GEC	2022	806,672	0	253,406	1,060,078	422,693	276,405	1,759,176
	2021	786,243	69,483	257,823	1,113,549	475,190	201,960	1,790,699
<b>Total GEC<sup>1</sup></b>	2022	<b>1,356,676</b>	<b>0</b>	<b>466,693</b>	<b>1,823,369</b>	<b>869,093</b>	<b>561,070</b>	<b>3,253,532</b>
	2021	1,306,243	69,483	469,246	1,844,972	926,955	502,566	3,274,493

1 Four GEC members were in office on December 31, 2022, including 5 months in office for the Executive Vice-President Semiconductor Solutions Group. 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.

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

3 STI for 2022 to be paid out until June 30, 2023; STI for 2021 was paid out until June 30, 2022; it included the pro rata STI for the GEC member who left the company in 2021.

4 Grant value of the LTI awarded is based on the Monte Carlo evaluation of the PSU. The total number of PSUs granted in 2022 amounted to 896 (2021: 1,932) for the CEO and 870 (2021: 1,298) for the other GEC members, based on the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date. For 2021, 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.

5 All compensation amounts are disclosed gross.

The total aggregate annual base salaries of the GEC increased by 4% overall (2021: 38%). This increase is due to a moderate increase in base salary for the CEO and the overall expansion in the composition of the GEC by one member in 2022, whereby in 2021 contractual payments for one leaving GEC member during the notice period were due which led to a partial overlap in payments for one function in the prior year.

The overall financial and individual performance achievement of the GEC of 111% on average (2021: 133%) was marked by the strong financial performance of the Group. Net sales for the year increased by 27% to CHF 1.145 billion. Reflecting the strong business performance, VAT Group posted an all – time record EBITDA margin of 35%. The EBITDA, free cash flow and specification wins targets outperformed, and the individual performance achievements ranged from 125% to 132% of target for the GEC members. However, the level of the overall achievement was lower compared to prior year given the ambitious financial and specification win performance targets, resulting in a decreased payout of 6% for 2022 compared to 2021, with an overall average payout for the GEC of 111% of target (133% in 2021). There was no discretion applied by the Board when determining the final payout for 2022.

**Table 12: summary of 2022 performance for the STI**

		Weighting	Performance achievement	Threshold (30%)	Target payout (100%)	Maximum (150%)
Profitability	EBITDA margin	23.3%	35.0%			
	Free cash flow	23.3%	CHF 228 million			
	Specification wins <sup>1</sup>	23.4%	130%			
Individual performance assessment	Operational results & ESG	30.0%	Achievement of individual performance of the GEC ranged between 125% and 132%			
<b>Total</b>		<b>100.0%</b>		<b>The overall average payout of the GEC was 111% (2021: 133%)</b>		

1 Weighted KPI, disclosed as achievement rate.

The LTI grant value amounted to CHF 0.6 million (2021: CHF 0.5 million). Overall, a higher fair value of the grant in 2022 (LTI grant value per PSU 2022: CHF 317.70, 2021: CHF 155.60) balanced off the lower number of PSUs granted in 2022. 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 marginally higher for the 2022 grant than for the prior year.

In line with the overall decrease of the total compensation for 2022 for the GEC, the social security and pension contributions decreased compared to the previous year.

The total fixed compensation of CHF 1.82 million (including pension and social security contributions) awarded for the financial year 2022 is within the maximum aggregate compensation amount of CHF 1.99 million approved by the shareholders.

The aggregate grant value of CHF 0.56 million awarded under the LTIP at target is within the maximum amount of CHF 1.70 million approved by the shareholders for the financial year 2022.

The STI for 2022 of CHF 0.87 million will be submitted to shareholders' vote at the 2023 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.

In accordance with the Articles of Association, loans to members of the GEC are not permitted. Hence, 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, 2022

At the end of 2022, members of the Board held a total of 48,181 (2021: 77,608) registered shares of VAT Group. GEC members held a total of 10,379 (2021: 468) registered shares of VAT Group and a total of 8,319 (2021: 10,793) 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 2022, 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 2019 LTI award which was due to vest by end of 2021 (LTI performance period 2019–2021), considers the performance of the relative sales growth and the relative TSR against the peer group. The performance condition relative sales growth ranked 56.2% against the peer group while the relative TSR ranked 60.1% against the peer group. Therefore, the combined performance led to an overall vesting level of the two equally weighted performance conditions of 118% and the 4,240 units granted to the current members of the GEC have vested into 5,004 shares (4,240 PSUs granted multiplied by the vesting level of 118%) with a vesting value of CHF 1,391,112.

The PSU grant under the LTI plan in 2020 vested at the end of 2022. The final vesting level will be available in May 2023, after the annual results of the peers for 2022 have been published, and will be reported in the 2023 Compensation Report.

**Table 13: Vesting level of PSUs (includes members of the GEC as of December 31, 2022)**

Grant year	Vesting year	Overall vesting % <sup>1</sup>
2017	2019	76%
2018	2020	79%
2019	2021	118%
2020	2022	vested, performance evaluation pending
2021	2023	pending <sup>2</sup>
2022	2024	pending <sup>2</sup>

<sup>1</sup> Vesting level of the Performance Share Units. Current GEC members have joined after 2017 grant and are not beneficiaries of the 2017 LTI grant.

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

# Report of the Statutory Auditor

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

## **Report on the Audit of the Remuneration Report**

### **Opinion**

We have audited the accompanying remuneration report 2022 of VAT Group AG for the year ended 31. December 2022. 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 the table 10 “Compensation of the Board in 2022 and 2021“ and table 11 “Compensation of the GEC in 2022 and 2021“ on pages 72 to 73 of the compensation report.

In our opinion, the information on remuneration, loans and advances in the attached Remuneration Report complies with Swiss law and Art. 14-16 VegüV.

### **Basis for Opinion**

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Remuneration Report” section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### **Other Information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the tables marked “audited” in the Remuneration Report, the consolidated financial statements, the financial statements and our auditor’s reports thereon.

Our opinion on the Remuneration Report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Remuneration Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the audited financial information in the Remuneration Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Board of Directors’ Responsibilities for the Remuneration Report**

The Board of Directors is responsible for the preparation of a Remuneration Report in accordance with the provisions of Swiss law and the Company’s articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of a Remuneration Report that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### **Auditor's Responsibilities for the Audit of the Remuneration Report**

Our objectives are to obtain reasonable assurance about whether the information on remuneration, loans and advances pursuant to Art. 14-16 VegüV is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Remuneration Report.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the Remuneration Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

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

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

KPMG AG

Simon Niklaus  
Licensed Audit Expert  
Auditor in Charge

Simon Hörler  
Licensed Audit Expert

St. Gallen, March 1, 2023