

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 2023 financial year.

The Compensation Report is written in accordance with the revised Code of Obligations, in effect as of January 1, 2023, 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.

In a challenging market environment, VAT Group delivered another set of strong results albeit below the record levels of 2022. VAT Group experienced the anticipated slowdown in investment activities, which had already started during the fourth quarter of 2022. While VAT's long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence remained firmly in place, capital investments into additional manufacturing capacity took a breather after three years of unprecedented growth. The main reasons for this were the short-term market demand slowdown in the consumer sector, coupled with inflationary trends and geopolitical uncertainties. As a result, the company achieved sales of CHF 885 million, and because of the lower volumes coupled with the adverse foreign exchange impacts, a full-year EBITDA margin of 30.6%, which was the result of operational efficiency and a strong focus on cost. Free cash flow amounted to CHF 189 million.

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. Petra Denk was elected as a member of the Board at the 2023 Annual General Meeting (AGM) on May 16, 2023. Petra brings significant expertise to the Board in the area of renewable energies and energy infrastructure, and has more than ten years of experience in the semiconductor equipment sector. The Board will benefit from her expertise as VAT Group further continues to drive growth. Martin Komischke decided not to stand for re-election as a member of the NCC. His decision emphasizes the importance of good corporate governance at VAT Group. Further, the Board has appointed Urs Gantner, Executive Vice President Semiconductor Solutions Group, as the new CEO of VAT Group effective January 1, 2024. Urs Gantner will succeed Mike Allison, who announced in February 2023 that he will retire at the end of the fiscal year 2023. Urs will continue to work closely with all stakeholders around the globe while building strong new collaborations to further shape the market and remain market leader. The Board thanks Mike for his great contribution to the company's success over the past six years and bringing VAT Group into its current position as a world market leader for vacuum valves. Finally, the Board has appointed Finn Felsberg as the new Executive Vice President Semiconductor Solutions Group and as successor to Urs Gantner, effective December 1, 2023.

In the reporting year 2023, the NCC updated the performance objectives of the short-term variable compensation and their weightings to reiterate the commitment to creating a sustainability culture as part of the 2030 long-term sustainability strategy. Sustainability objectives are weighted 25% of the total STI and comprise environment, social and governance objectives and additionally sustainability projects for the CEO and the GEC members.

Further, the NCC conducted a thorough review of the short-term and long-term plans for the GEC based on market practice and shareholders' feedback. The NCC came to the conclusion, that the 2023 compensation system is overall in line with market practice and hence remains unchanged for 2024. As approved in 2022, share ownership guidelines for the GEC were introduced as of January 1, 2024.

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 2023 and the say-on-pay vote for the 2024 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 2023 AGM, a consultative vote on the Compensation Report for fiscal year 2022 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.

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 2024 until the 2025 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2023, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2025, and on the maximum aggregate amount of the long-term incentive plan of the GEC for financial year 2025.

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 4, 2024

2 Compensation at a glance

Summary of current remuneration system

Board of Directors

The members of the Board receive a fixed compensation as an annual fee 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 2023 until AGM 2024

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 pensions and employee 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

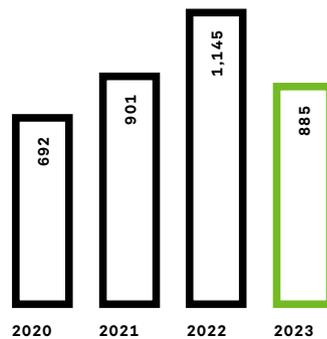
Element	Purpose	Vehicle
Base salary	Pay for the function	Continuous
Short-Term Incentive (STI)	Reward annual financial and individual performance; attract & retain	1-year, performance-based cash
Long-Term Incentive (LTI)	Reward long-term performance Align to shareholders' interests	3-year cliff vesting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

Compensation policy and principles applicable to the GEC

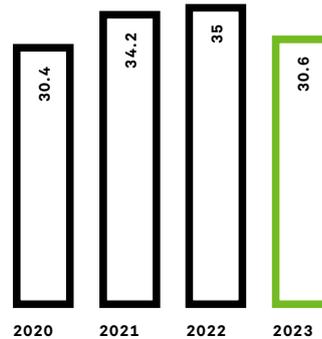
VAT Group's compensation principles support the company's business strategy and foster the commitment of all employees to the company's long-term goals. The compensation principles are:

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

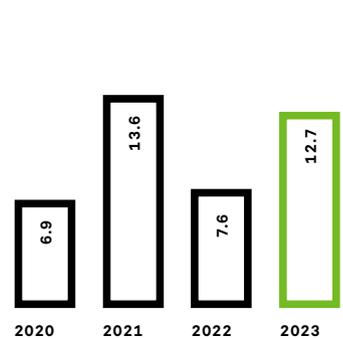
Sales in CHF million



EBITDA Margin in %



Market Capitalization in CHF billion



VAT Group's financial performance

After three years of unprecedented growth, VAT Group suffered a setback in 2023 as the market environment turned substantially negative. The overall level of performance however is still considered to be at a very high level and the recovery of VAT's share price during 2023 indicates the positive sentiment for future growth of VAT Group in the stock markets.

Compensation awarded for the Board for 2022/2023

The compensation paid to the Board for the term AGM 2022 to AGM 2023 is within the maximum aggregate amount approved by the shareholders.

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2022 – AGM 2023	1,350,000	1,279,286

Short-term performance achievement for 2023

The overall performance achievement was marked by strong results resilience and the average payout for the GEC resulted in 109% of target (2022: 111%), which is similar compared to prior year. The significant increase in STI payout compared to 2022 of +15.9% is mainly due to the change in GEC composition compared to 2022.

Fixed compensation awarded for the GEC for 2023

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2023	2,500,000	2,262,290

Compensation governance

- Authority for decisions related to compensation are governed by the Articles of Association of VAT Group.
- The maximum aggregate amounts of compensation 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/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf. The provisions on compensation in the Articles of Association summarized in Table 1 below 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 AGM. At the AGM 2023, Libo Zhang (NCC chair), Hermann Gerlinger and Urs Leinhäuser have been re-elected as members of the NCC. Martin Komischke did not stand for re-election as a member 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 56.

¹ The NCC charter of VAT Group AG is published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/231214_VAT_NCC_Charter_EN.pdf.

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 2023, 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 58.

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 2023, PricewaterhouseCoopers Switzerland (PwC) was mandated to provide independent advice and consulting services related to Board and executive compensation practices. PwC provides also other services to 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 as an annual fee. The compensation is delivered partially in cash and partially in three-year restricted shares, to strengthen the alignment to shareholders' interests. The fees are not subject to the achievement of any specific performance conditions.

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 compensation and do not participate in the occupational pension plans of VAT Group.

Table 3: Structure and levels of Board compensation AGM 2023 until AGM 2024

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 (TC)	25,000		15,000

70% of total compensation is awarded in cash and 30% is awarded in three-year restricted shares. During the three-year restriction period (blocking period), the shares 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 death 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 (delisted in December 2022), 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. In 2022, the Board decided to increase the compensation levels closer to market median for the Board term starting at the AGM 2022 and discontinued the compensation for additional tasks or projects that go beyond their function and normal duties of their mandate. Based on the changes made in 2022, the Board did not apply further changes in 2023 to keep the board retainers stable over a period of time.

5. Compensation for the GEC

5.1 Compensation principles

VAT Group's compensation principles for the GEC support VAT Group'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.

Equal Pay

VAT Group is committed to treat every employee in an inclusive and equal way across all countries the company operates in. To consistently evaluate that pay equality is valid, VAT Group has carried out an analysis in Switzerland as required by the Swiss Federal Act on Gender Equality. Since 2021, VAT Group obtained the Fair-On-Pay certificate which demonstrates that the company is compliant with the Swiss equal pay standards. As of 2024, VAT Group will further expand an equal pay analysis across a broader group.

5.2 Compensation structure

The compensation structure of GEC members consists of several elements: a fixed compensation comprising an annual base salary (ABS), pensions and employee benefits, a variable component consisting of a short-term incentive (STI) and a long-term incentive (LTI) as illustrated in Table 4.

Table 4: Structure of compensation for GEC

	Program	Purpose	Plan period	Threshold and maximum opportunity
ABS	Monthly fixed cash pay for the role performed	Attract and retain	Continuous	Fixed
Pensions and employee benefits	Pension and insurances	Protect against risks Attract and retain	Continuous	Fixed
STI	Annual variable cash compensation	Reward annual financial and individual performance	1 year	0–150% of an individual's target amount
LTI	Equity-based incentive plan	Reward long-term performance Align to shareholders' interests	3 years	0–200% of an individual's target as performance share units (PSUs) granted, settled in shares following vesting
Non-tangible rewards such as work environment and culture, personal development and career opportunities				
Malus and clawback provisions: STI and LTI are subject to forfeiture conditions to reduce or eliminate unvested awards (malus) and clawback provisions to allow for recovery of payments/vested awards				

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 (delisted in December 2022), Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis + Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. Further, in 2023, the compensation system of the GEC was assessed against the same peer group, excluding Bobst Group. The results of the benchmark analysis served as a basis to assess the competitiveness of the compensation system of the GEC members. The NCC came to conclusion that the compensation system of the GEC is in line with market practice and remains broadly unchanged for 2024.

5.3 Fixed Compensation: Annual base salary (ABS)

The ABS is a fixed component of compensation paid in cash, typically monthly, to attract and retain employees. It reflects the scope, complexity 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, professional experience and geographic location.

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 Fixed Compensation: Pensions and Employee Benefits

GEC members participate in the benefits plan available in the country of their employment contract. Benefits consist mainly of pension, 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.

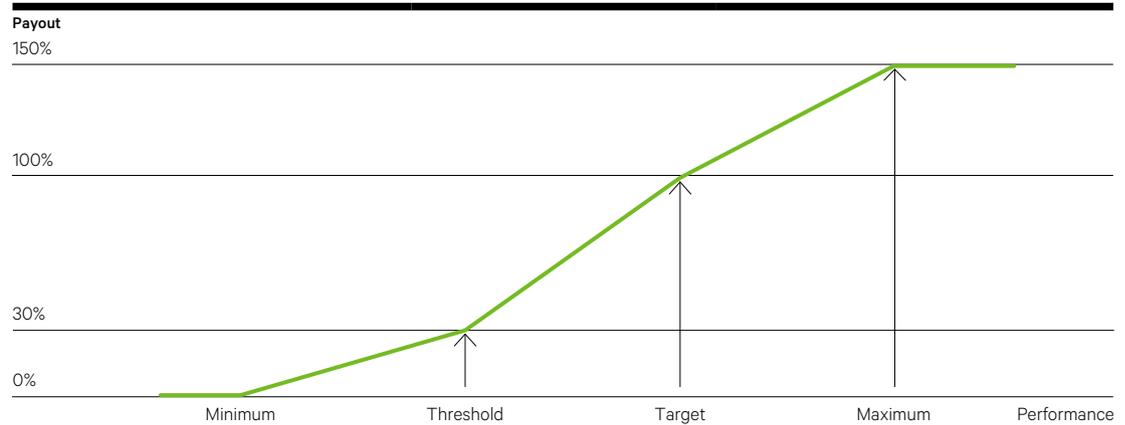
In addition, GEC members are eligible for standard benefits, such as a representation allowance and other benefits in kind, according to competitive market practice. The monetary value of these other elements of compensation is evaluated at fair value and is disclosed in the compensation tables.

5.5 Variable Compensation: Short-Term Incentive (STI)

The short-term (one-year) incentive is designed to drive outstanding performance throughout the organization by closely aligning compensation with the achievement of annual financial and non-financial objectives set at the beginning of the year. As of the reporting year, to reiterate the commitment to creating a sustainability culture, ESG (environment, social and governance) and sustainability objectives for the GEC were specified and defined in alignment with the recently issued sustainability report. The ESG and sustainability objectives replace the individual performance objectives and include ESG targets and sustainability projects. Further, the weightings of the performance objectives were rebalanced with 50% profitability (2022: 46.6%), 25% growth (2022: 23.4%) and 25% ESG and sustainability objectives (2022: 30% individual performance including ESG).

The individual STI target 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 65% for the CEO and between 43% and 50% for the other GEC members for 2023 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 2023



The performance objectives 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, ESG and sustainability performance objectives take into account the commitment to sustainability as part of the 2030 long-term sustainability strategy as well as key strategic projects to support growth and profitability. Table 6 illustrates the performance objectives including the weightings in detail.

After year-end, the NCC assesses the achievement of those performance objectives and calculates the corresponding payout factor, which is subject to Board approval. For the ESG and Sustainability objectives, 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 and proposes the corresponding performance achievement percentage to the Board for approval.

Table 6: STI key performance objectives for the CEO and other GEC members in 2023

Focus in 2023	Performance objectives	Weighting
Profitability	EBITDA margin	25%
	Free cash flow	25%
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	25%
ESG and Sustainability	ESG targets: GHG emissions reduction, accident rate improvement, sustainability report, training and development with a focus on compliance and risk management Sustainability projects: process efficiencies, cost-saving initiatives, program optimization, digitalization	25%
Total		100%

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

5.6 Variable Compensation: Long-Term Incentive (LTI)

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

- 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.

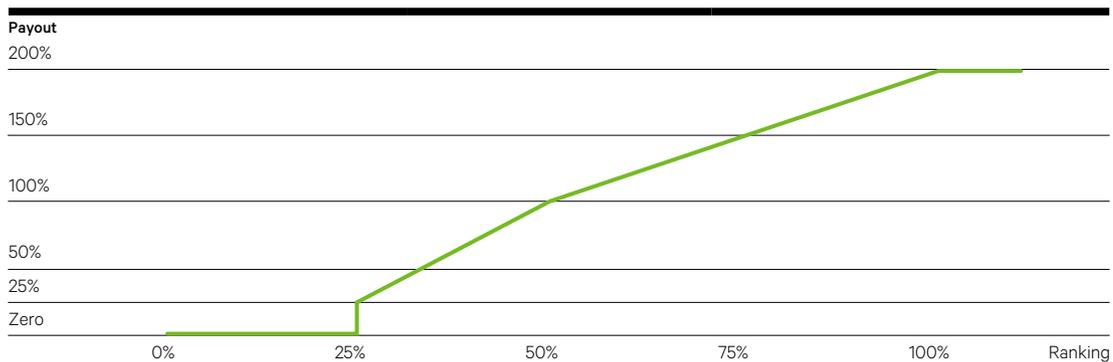
The performance objectives were chosen to ensure alignment with the overall business strategic and financial targets. In particular, relative sales growth represents a top-line objective and is accompanied by relative TSR to provide investors with strong returns and ROIC which expresses how well VAT Group is generating profit relative to the capital it has invested in its business. All three performance objectives are equally weighted with one third and are meaningful and balanced performance objectives for VAT Group.

In 2023, the LTI nominal value amounts represent 65% of the ABS for the CEO and between 46% and 50% 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 7: 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 determined by the Board prior to the annual grant of PSUs and may be adjusted if required. For 2023 grants, the peer group remained mainly stable compared to 2022 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 peer group for the grants made in 2023 is illustrated in Table 8.

Table 8: Peer group for the 2023 LTI grant

Advanced Energy Industries	Advantest	Aixtron	Applied Materials	ASM international
ASML	Axcelis Technologies	CKD	Comet	Ferrotec
Horiba	Ichor	Inficon	KLA Corporation	LAM Research
Manz	MKS Instruments	Pfeiffer Vacuum	Pivotal Systems ¹	SMC
Tokyo Electron	Ulvac	Veeco Instruments		

¹ Company was delisted in 2023.

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 2020, vesting in 2022, 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 the 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.

5.7 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 Malus and clawback provisions

Malus and clawback 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 2023

6.1 Compensation awarded to the Board in 2023

For 2023, the members of the Board received a total compensation of CHF 1.4 million (2022: CHF 1.2 million) in the form of fixed basic fees of CHF 1.1 million (2022: CHF 0.9 million), committee fees and other expenses of CHF 0.2 million (2022: CHF 0.2 million) and social security contributions of CHF 0.1 million (2022: CHF 0.1 million). Out of the total compensation of CHF 1.4 million (2022: CHF 1.2 million), CHF 0.4 million (2022: CHF 0.3 million) are awarded in form of restricted shares. The increase of 15.6% compared to previous year results from the extension of the Board of Directors by one additional member as well as the adjustment of the fees closer to market median since AGM 2022.

Table 9: Compensation of the Board in 2023 and 2022

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2023	320,000	-	1,500	21,573	343,073	98,226
	2022	282,500	20,834	1,500	23,636	328,470	87,825
Urs Leinhäuser ¹ , Vice-Chair	2023	160,000	40,000	1,500	15,896	217,396	61,408
	2022	129,271	38,542	1,500	13,724	183,037	48,959
Petra Denk ²	2023	64,167	8,750	875	-	73,792	21,875
	2022	-	-	-	-	-	-
Hermann Gerlinger	2023	110,000	40,000	1,500	9,537	161,037	46,056
	2022	100,105	38,542	1,500	8,733	148,880	40,209
Heinz Kundert ³ , Vice-Chair	2023	-	-	-	-	-	-
	2022	35,938	4,792	625	1,014	42,369	11,167
Maria Heriz ⁴	2023	110,000	-	1,500	-	111,500	33,830
	2022	64,167	-	875	-	65,042	19,250
Daniel Lippuner	2023	110,000	30,000	1,500	11,649	153,149	42,931
	2022	100,105	22,292	1,500	10,135	134,032	35,667
Karl Schlegel	2023	110,000	15,000	1,500	7,767	134,267	38,380
	2022	100,105	23,125	1,500	7,642	132,372	35,610
Libo Zhang	2023	110,000	40,000	1,500	12,357	163,857	46,056
	2022	100,105	28,125	1,500	10,612	140,342	37,417
Total	2023	1,094,167	173,750	11,375	78,779	1,358,071	388,762
	2022	912,296	176,252	10,500	75,496	1,174,544	316,104

¹ Vice-Chair since AGM of May 17, 2022.

² Member since AGM of May 16, 2023.

³ Member and Vice-Chair until AGM May 17, 2022.

⁴ Member since AGM of May 17, 2022.

At the AGM on May 17, 2022, shareholders approved a maximum aggregate compensation amount of CHF 1,350,000 for the Board for the compensation period from the AGM 2022 until the AGM 2023. The compensation paid to the Board for this term was CHF 1,279,286 and is therefore within the approved limits.

At the AGM of May 16, 2023, shareholders approved a maximum aggregate compensation amount of CHF 1,550,000 for the Board for the term from the AGM 2023 until the AGM 2024. The maximum aggregate amount compared to the prior period was increased due to the extension of the Board of Directors by one additional member to eight members. The compensation paid to the Board for this term is anticipated to be approximately CHF 1,412,442. The final amount will be disclosed in the 2024 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 2023

In 2023, the members of the GEC received a total compensation of CHF 3.87 million (2022: CHF 3.25 million). This amount comprises annual base salaries of CHF 1.69 million (2022: CHF 1.36 million), STI of CHF 1.01 million (2022: CHF 0.87 million), other expenses of CHF 0.01 million (2022: CHF 0.00 million), contributions to social security and post-employment benefits of CHF 0.56 million (2022: CHF 0.47 million) and an LTI grant value of CHF 0.60 million (2022: CHF 0.56 million). The variable compensation amounts to 84% (2022: 96%) of the fixed compensation for the CEO and 63% (2022: 66%) on average for all the other GEC members.

Table 10: Compensation of the GEC in 2023 and 2022

(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	2023	630,000	0	221,520	851,520	449,532	268,779	1,569,831
	2022	550,004	0	213,287	763,291	446,400	284,665	1,494,356
Other GEC	2023	1,064,167	10,000	336,604	1,410,771	557,461	328,025	2,296,257
	2022	806,672	0	253,406	1,060,078	422,693	276,405	1,759,176
Total GEC¹	2023	1,694,167	10,000	558,124	2,262,291	1,006,993	596,804	3,866,088
	2022	1,356,676	0	466,693	1,823,369	869,093	561,070	3,253,532

1 Five GEC members were in office on December 31, 2023, including one month in office for the newly appointed Executive Vice-President Semiconductor Solutions Group.

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

2 Includes payments related to the relocation of the new GEC member in 2023.

3 STI for 2023 to be paid out until June 30, 2024; STI for 2022 was paid out until June 30, 2023.

4 Grant value of the LTI awarded is based on the Monte Carlo evaluation of the PSU.

The total number of PSU granted in 2023 amounted to 1,547 (2022: 896) for the CEO and 1,888 (2022: 870) 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.

5 All compensation amounts are disclosed gross.

The total aggregate annual base salaries of the GEC increased by 25% overall compared to prior year (2022: +4%). This increase is mainly due to the change in GEC composition compared to 2022, and to a lesser extent due to an increase in ABS for some GEC members, as well as the overlap in payments for one function in 2023.

The overall financial and individual performance achievement of the GEC was marked by strong results resilience despite an overall challenging market environment. VAT Group delivered another set of strong results albeit below the record levels of 2022. Management executed the flex cost model very successfully, offsetting to a large extent major adverse factors including the strong headwind due to the strengthening of the Swiss franc against all major trading currencies. As a result, the company achieved sales of CHF 885 million. The lower volumes coupled with the adverse foreign exchange impacts, lead to an EBITDA margin of 30.6%, the result of operational efficiency and a strong focus on cost. Free cash flow amounted to CHF 189 million.

The total aggregate amount of STI payout of CHF 1.01 million is 15.9% higher compared to previous year, mainly due to the change in GEC composition year-on-year (Executive Vice-President Semiconductor Solutions Group in office for 5 months in 2022 only) and to a lesser extent due to a slight increase in STI target for some GEC members. The overall average payout for the GEC resulted in 109% of target (111% for 2022). There was no discretion applied by the Board when determining the final payout for 2023.

Table 11: summary of 2022 performance for the STI

		Weighting	Performance achievement	Threshold (30%)	Target payout (100%)	Maximum (150%)
Profitability	EBITDA margin	25%	30.6%		●	
	Free cash flow	25%	CHF 189 million	●		
	Specification wins ¹	25%	140%			●
ESG and Sustainability	ESG and sustainability projects	25%	Achievement of individual performance of the GEC ranged between 110% and 125%		■	
Total		100.0%		The overall average payout of the GEC was 109% (2022: 111%)		

¹ Weighted performance objectives, disclosed as achievement rate.

The LTI grant value amounted to CHF 0.60 million (2022: CHF 0.56 million). The PSU numbers were determined by dividing the LTI nominal target value by the market value of shares prior to the grant date. Overall, the fair value of the PSU in 2023 was lower compared to prior year (LTI grant value per PSU 2023: CHF 173.75, 2022: CHF 317.70). The higher overall grant value of 6% mainly due to the change in GEC composition year-on-year and a slight increase in target LTI for some GEC members.

In line with the overall increase of the total compensation for 2023 for the GEC, the social security and pension contributions increased compared to the previous year.

The total fixed compensation of CHF 2.26 million (including pension and social security contributions) awarded for the financial year 2023 is within the maximum aggregate compensation amount of CHF 2.50 million approved by the shareholders.

The aggregate grant value of CHF 0.60 million awarded under the LTIP at target is within the maximum amount of CHF 2.00 million approved by the shareholders for the financial year 2023.

The STI for 2023 of CHF 1.01 million will be submitted to shareholders' vote at the 2024 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, 2023

At the end of 2023, members of the Board held a total of 49,222 (2022: 48,181) registered shares of VAT Group. GEC members held a total of 15,940 (2022: 10,379) registered shares of VAT Group and a total of 8,878 (2022: 8,319) performance share units.

The details on shareholdings of the members of the Board and the GEC are included in table 12 "Number of shareholdings".

At the end of 2023, members of the Board and the GEC did not hold any stock options.

Table 12: Numbers of shareholdings¹

Shares held by the Board	December 31, 2023	December 31, 2022
Martin Komischke, Chair	2,463	2,156
Urs Leinhäuser, Vice-Chair	4,909	4,717
Petra Denk (since May 16, 2023)	-	-
Hermann Gerlinger	1,566	1,422
Maria Heriz (since May 17, 2022)	106	0
Daniel Lippuner	1,021	887
Karl Schlegel	38,549	38,429
Libo Zhang	714	570
Total	49,222	48,181

Shares held by the GEC	December 31, 2023	December 31, 2022
Mike Allison, CEO	9,131	5,181
Fabian Chiozza, CFO	0	0
Thomas Berden, COO	1,085	0
Finn Felsberg EVP Semiconductor Solutions Group (since December 1, 2023)	-	-
Urs Gantner, EVP Semiconductor Solutions Group (since August 4, 2022)	5,724	5,198
Total	15,940	10,379

¹ includes shareholding of related parties of the respective members.

7.2 Vesting of outstanding LTI award

The vesting for the 2020 LTI award which was due to vest by end of 2022 (LTI performance period 2020-2022), considers the performance of the relative sales growth and the relative TSR against the peer group. The performance condition relative sales growth ranked 86.5% against the peer group while the relative TSR ranked 72.0% against the peer group. Therefore, the combined performance led to an overall payout factor of the two equally weighted performance conditions of 160%, and the 3,323 units granted to the current members of the GEC in office at the time of grant have vested into 5,318 shares (3,323 PSUs granted multiplied by the payout factor of 160%) with a vesting value of CHF 1,699,633.

The PSU grant under the LTI plan in 2021 vested at the end of 2023. The final payout factor will be available in May 2024, after the annual results of the peers for 2023 have been published and will be reported in the 2024 Compensation Report.

Table 13: Vesting level of PSUs

Grant year	Vesting year	Overall performance factor, in percentage
2018	2020	79%
2019	2021	118%
2020	2022	160%
2021	2023	vested, performance evaluation pending
2022	2024	Pending ¹
2023	2025	Pending ¹

¹ Performance periods are still ongoing. Numbers will be available after the end of the respective performance period.

8. External mandates

Members of the Board and the GEC have the following external mandates according to Article 734e of the Swiss Code of Obligations.

Table 14: External mandates of the Board and the GEC, as of December 31, 2023

Board		
Name	Company	Function
Martin Komischke*	Hoerbiger Holding AG Hoerbiger-Stiftung Stäubli Holding AG	Chairman of the Board of Directors Vice Chairman of the Board of Trustees Member of the Board of Directors
Urs Leinhäuser	Amman Group Holding AG Avesco AG PENSADOR Partner AG ADULCO GmbH	Member of the Board of Directors Chairman of the Board of Directors Member of the Board of Directors Managing Partner
Petra Denk*	Aixtron SE Pfisterer Holding AG BKW AG	Member of the Supervisory Board Member of the Supervisory Board Member of the Board of Directors
Hermann Gerlinger*	Siltronic AG ASML	Member of the Supervisory Board Guest Member of the Technology Committee
Maria Heriz	–	–
Daniel Lippuner*	Heberlein Technology AG Remnex Anlagestiftung 3S Swiss Solar Solutions AG Juice Services AG	Chairman of the Board of Directors Member of the Board of Trustees Member of the Board of Directors Member of the Board of Directors
Karl Schlegel*	–	–
Libo Zhang	SPT Roth AG Deutsche Bank AG	Member of the Advisory Board Member of the Advisory Board
GEC		
Name	Company	Function
Mike Allison	International Board of SEMI	Member of the Board
Thomas Berden	–	–
Fabian Chiozza	Industrie- und Handelskammer St. Gallen-Appenzell	Member of the Board
Finn Felsberg	–	–
Urs Gantner	–	–

* Further mandates include the position of a Managing Director of a private corporation

Report of the Statutory Auditor

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Remuneration Report

Opinion

We have audited the Remuneration Report of VAT Group AG (the Company) for the year ended 31 December 2023. The audit was limited to the information pursuant to Art. 734a-734f of the Swiss Code of Obligations (CO) in the sections 6.1, 6.2, 7.1 and 8 of the Remuneration Report.

In our opinion, the information pursuant to Art. 734a-734f CO in the accompanying Remuneration Report complies with Swiss law and the Company's articles of incorporation.

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 stand-alone 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 pursuant to Art. 734a-734f CO 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 judgement and maintain professional skepticism 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 4, 2024

Enclosure:

- Remuneration Report