

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. The report also provides details on the compensation awarded to members of the Board and GEC in the 2018 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

Dear Shareholders,

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

In the reporting year, we welcomed Michael Allison as our new CEO. Mike Allison joined VAT on January 1, 2018 and succeeded Heinz Kundert, who retired as CEO and joined the Board.

VAT looks back on mixed results during financial year 2018. While the company posted record results during the first half of the year, with 18% net sales growth, the results in the second half of the year were slowed down due to the soft market conditions in the semiconductor industry. Overall, VAT posted full-year results with slightly higher net sales of CHF 698 million and an EBITDA margin of 30.8%.

The Board is convinced that VAT'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 2018, the NCC performed a review of the compensation strategy and programs and established that while no fundamental changes were required, an individual performance component should be introduced in the short-term incentive plan applicable to the members of the GEC. Furthermore, the NCC conducted a benchmarking analysis of the compensation levels of the Board and of the GEC and performed its regular annual activities, 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 and the say-on-pay vote for the 2019 AGM. You will find further information on the NCC activities and on VAT's compensation system and governance on the following pages.

This Compensation Report will be submitted to a non-binding, consultative shareholders' vote at the upcoming AGM. You will also be asked to vote on the maximum aggregate compensation amount of the Board for the term of office from the 2019 until the 2020 AGM, on the variable compensation amount to be paid out to GEC members for the financial year 2018, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2020, and on the maximum grant values for the GEC under the long-term incentive plan for financial year 2020.

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

2. Compensation governance

2.1. Articles of Association

The Articles of Association of VAT can be found on the corporate website <http://www.vatvalve.com/Investor-Relations/investor-relations/corporate-governance/articles-of-association-vat-group-ag> and are summarized below in Table 1. The provisions on compensation in the Articles of Association include the principles of compensation applicable to the Board and the GEC, the structure of the shareholders' vote on compensation, the additional compensation amount for GEC members appointed after the approval of the maximum aggregate compensation amount by the shareholders and provisions on credit and loans.

Table 1: Articles of Association

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

2.2. Nomination and Compensation Committee

In accordance with the NCC charter¹, the NCC consists of at least three members of the Board who are elected annually by the shareholders for a term of one year until the next Annual General Meeting. Since the AGM 2018, Martin Komischke (Chairman), Heinz Kundert and Karl Schlegel are members of the NCC.

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

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

Additional information on the responsibilities of the NCC is provided in section 3.9 of the Corporate Governance Report on page 53.

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.

¹ The NCC charter of VAT Group AG is published at <http://www.vatvalve.com/InvestorRelations/investor-relations/corporate-governance/ncc-charter-of-vat-group-ag>.

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 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 2018, 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 Chairman 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 Chairman 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 2018, Agnès Blust Consulting was mandated to provide services related to executive compensation matters and to conduct a benchmark analysis of the compensation of the Board. Willis Towers Watson was mandated to carry out a benchmarking analysis of the compensation of the GEC. These two companies have no other mandates with VAT Group.

3. Compensation principles

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.

4. Compensation structure: Board of Directors

Members of the Board receive a fixed compensation consisting of both cash and restricted shares, which is aimed at better aligning their economic interests with the long-term interests of shareholders. 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. Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of the VAT Group.

Table 3: Structure and levels of Board compensation

In CHF per year (gross)	Chairman of the Board	Member of the Board
Fixed basic fee	200,000	75,000

	Chairman of the Committee	Member of the Committee
Audit Committee (AC)	25,000	10,000
Nomination and Compensation Committee (NCC)	25,000	10,000
Technology Committee	15,000	10,000
VATmotion 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 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.

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

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

The compensation of the Board is periodically benchmarked against the compensation of non-executive Board members of publicly traded companies in Switzerland that are comparable to VAT in terms of size and complexity. In 2018, a thorough review has been conducted by Agnès Blust Consulting 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) has been selected and includes Bachem, Bobst, Burckhardt Compression, Conzzeta, Dätwyler, Georg Fischer, Inficon, Interroll, Landis+Gyr, LEM, OC Oerlikon, SFS, Siegfried, Sulzer, Tecan and U-Blox. This peer group is well balanced in terms of market capitalization, revenue size and headcount. The analysis concluded that while the compensation structure is in line with market practice, the compensation level is generally below market. Nonetheless, the decision has been taken not to change the compensation structure and levels for the compensation period starting at the 2019 AGM.

5. Compensation structure: GEC

In 2018, a benchmarking of the GEC compensation was conducted by Willis Towers Watson on the basis of the same peer group of Swiss multinational industrial companies as for the benchmarking of the compensation of the Board: Bachem, Bobst, Burckhardt Compression, Conzzeta, Dätwyler, Georg Fischer, Inficon, Interroll, Landis+Gyr, LEM, OC Oerlikon, SFS, Siegfried, Sulzer, Tecan and U-Blox. The results of this benchmark analysis served as basis to determine the compensation level of the GEC for 2019.

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 an annual cash incentive (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
ABS	Monthly cash	Attract and retain	Continuous
STI	Cash bonus	Reward annual financial and individual performance	1 year
LTI	Share plan	Reward long-term performance Align to shareholders' interests	3 years
Benefits	Pension and insurances	Protect against risks	Continuous

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

5.1. Annual base salary

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.

5.2. 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 target STI value is expressed as a percentage of ABS and amounts to 50% for the CEO and between 44% and 56% for the other GEC members, assuming they achieve 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.

For the GEC members, company performance accounts for 70% of the total STI, while individual performance accounts for 30%.

The company performance conditions are proposed annually by the NCC and approved by the Board. They are directly derived from the business strategy of profitable growth and are illustrated in Table 5. 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 6) and proposes the corresponding payout percentage to the Board for approval.

Table 5: STI key performance indicators for the CEO and other GEC members in 2018

Focus in 2018	Performance objectives	Weighting for the CEO	Weighting for the CFO	Weighting for the COO
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	23.3%	17.5%	17.5%
Profitability	EBITDA margin	23.3%	35%	17.5%
Operations	Internationalization of operations footprint and value chain and global sourcing	23.4%	17.5%	35%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see table 6	30%	30%	30%
Total		100%	100%	100%

Table 6: STI evaluation grid for individual performance of the CEO and other GEC members in 2018

Operational results	Environment, Social and Governance (ESG)
Growth: entry in new markets, opening of new subsidiaries, development of new products, M&A transactions, key strategic projects to support growth	Environment: GHG emission, energy efficiency, mobility programs (business travel), waste reduction, water consumption, etc.
Profitability: process efficiencies, cost-saving initiatives, pricing, supply chain management, projects to support profitability	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
	Governance: Bribery & corruption, risk management, conflicts of interest

The STI is paid out in cash, latest by June 30 of the following year.

5.3. Long-term share-based compensation (LTI)

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

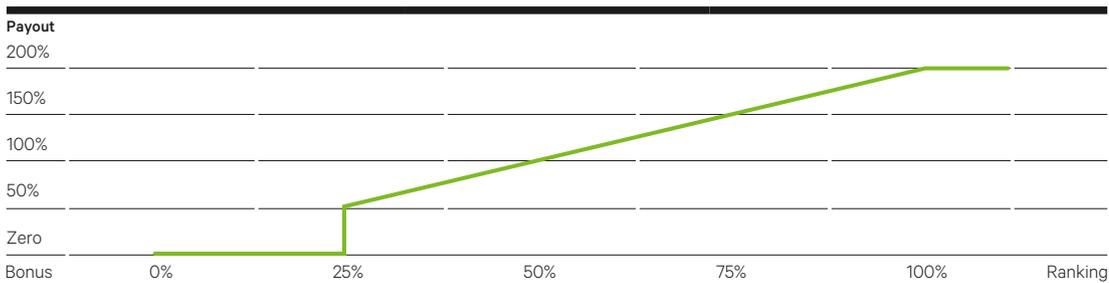
- relative net sales growth, with a 50% weight,
- relative total shareholder return (TSR), with a 50% weight.

In 2018, the LTI grant value amounts to 75% of ABS for the CEO and to between 32% and 41% of ABS for the other GEC members. To determine the number of performance share units granted, the LTI grant value is divided by the average daily closing share price of the VAT shares during the 20 trading days preceding the grant date.

At vesting, relative net sales growth 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 two payout factors (relative sales growth and relative TSR) provides for the overall vesting level of the LTI award.

This LTIP is specifically designed for rewarding the performance of VAT 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.

The peer group is confirmed by the Board prior to the annual grant of performance share units and may be adjusted if required due to corporate events such as merger, acquisition, business combination transaction, delisting or bankruptcy of peer companies. The peer group is illustrated in Table 8.

Table 8: Peer group for the 2018 grant

Advantest	Applied Materials	ASM international	ASML	Belimo
Brooks Automation	Comet	dormakaba	Geberit	Hitachi High-Technologies
Inficon	KLA-Tencor	LAM Research	LEM	MKS
Pfeiffer Vacuum	SMC	Teradyne	Tokyo Electron	Ulvac

In case of termination of employment, the performance share units forfeit without any compensation, except in the situation of retirement or disability, in which case the performance share units 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 LTIP, in which case the performance share units are subject to an immediate pro rata vesting.

5.4. 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's pension plan offered to all employees in Switzerland, in which a base salary and the Variable Cash Compensation are insured up to the maximum amount permitted by law. VAT'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. Employment contracts

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

5.6. Clawback and malus provisions

Clawback and malus provisions apply on STI and LTI awards for GEC members and other executives: if VAT (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 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 so 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 as reported in its financial statements.

6. Compensation awarded to the Board and to GEC in 2018

6.1. Compensation awarded to the Board in 2018

For 2018, the members of the Board received a total compensation of CHF 815,597 (2017: CHF 637,795) in the form of fixed basic fees of CHF 575,000 (2017: CHF 460,417), committee fees and other expenses of CHF 184,000 (2017: CHF 131,708) and social security contributions of CHF 56,597 (2017: CHF 45,670). Out of the total compensation of CHF 815,597 (2017: CHF 637,795), CHF 225,158 (2017: CHF 175,490) are awarded in form of shares. The increase of 28% compared to previous year is due to the following reasons:

- There were six Board members during the entire year 2018, while there were five Board members until the AGM in previous year (six Board members after the 2017 AGM).
- Two additional Board Committees were created after the AGM 2017, which impacted the Committee fees for the entire year 2018 (impact on seven months in previous year).
- Reported compensation in previous year included the compensation for 11 months only. This is because the term of office from the 2016 AGM to the 2017 AGM encompassed 13 months and the reported annual compensation was spread over 12 months (eight months reported in 2016 and four months reported in 2017). The term of office from the 2017 AGM to the 2018 AGM encompassed 12 months, of which seven were reported in year 2017 and five in year 2018. The term of office from the 2018 AGM to the 2019 AGM encompasses 12 months as well, of which seven are reported in year 2018 and five will be reported in year

2019. Therefore, 12 months compensation are reported in year 2018 (and future years), while only 11 months compensation were reported in year 2017 (unique situation due to the change in timeline of the AGM from April [2016] to May [2017 onwards]).

The compensation system has remained unchanged compared to previous year.

Table 9: Compensation of the Board in 2018

(CHF, gross)	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chairman	200,000	50,000	1,500	19,199	270,699	75,010
Heinz Kundert, Vice-Chairman	43,750	5,833	875	3,024	53,483	14,875
Ulrich Eckhardt	31,250	8,333	625	3,131	43,340	11,882
Alfred Gantner	31,250		625	2,482	34,357	9,404
Herman Gerlinger	75,000	30,000	1,500	7,874	114,374	31,527
Urs Leinhäuser	75,000	40,000	1,500	8,895	125,395	34,548
Karl Schlegel	75,000	35,000	1,500	8,191	119,691	33,038
Libo Zhang	43,750	5,833	875	3,799	54,257	14,875
Total	575,000	175,000	9,000	56,597	815,597	225,158

At the AGM on May 17, 2017, shareholders approved a maximum aggregate compensation amount of CHF 900,000 for the Board for the compensation period from the AGM 2017 until the AGM 2018. The remuneration paid to the Board for this term was CHF 818,093 and is therefore within the approved limits.

At the AGM of May 17, 2018, shareholders approved a maximum aggregate compensation amount of CHF 920,000 for the Board for the term from the AGM 2018 until the AGM 2019. The remuneration paid to the Board for this term is anticipated to be approximately CHF 820,000. The final amount will be disclosed in the 2019 Compensation Report.

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

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

Table 10: Compensation of the Board in 2017

(CHF, gross)	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Horst Heidsieck	50,000	8,750	375	4,169	63,294	17,623
Martin Komischke	116,667	29,167	875	11,420	158,128	43,750
Ulrich Eckhardt	62,500	16,667	1,250	6,262	86,679	23,748
Alfred Gantner	62,500	0	1,250	4,965	68,715	18,743
Herman Gerlinger	43,750	17,500	875	4,838	66,963	18,375
Urs Leinhäuser	62,500	29,583	1,250	7,267	100,600	27,633
Karl Schlegel	62,500	22,917	1,250	6,749	93,415	25,620
Total	460,417	124,583	7,125	45,670	637,795	175,490

6.2. Compensation awarded to the GEC in 2018

In 2018, the members of the GEC received a total compensation of CHF 3 million (2017: CHF 2.2 million). This amount comprises annual base salaries of CHF 1.1 million (2017: CHF 1.0 million), Variable Cash Compensation (STI) of CHF 0.5 million (2017: CHF 0.4 million), other expenses of CHF 0.3 million (2017: CHF 27,200), contributions to social security and post-employment benefits of CHF 0.4 million (2017: CHF 0.3 million) and an LTI grant value of CHF 0.7 million (2017: CHF 0.4 million). The variable compensation amounts to 68% (2017: 68%) of the fixed compensation for the CEO and 71% (2017: 58%) on average for the other GEC members.

Table 11: Compensation of the GEC in 2018

(CHF, gross)	ABS	Other payments ¹	Pension & social security (fixed)	Total fixed compensation	STI payout ²	LTI grant ³	Total compensation ⁴
Michael Allison	450,000	205,133	170,649	825,782	222,825	335,691	1,384,298
Other GEC	700,000	52,309	217,488	969,797	326,167	364,833	1,660,797
Total GEC¹	1,150,000	257,442	388,138	1,795,579	548,992	700,524	3,045,095

¹ Includes the value of benefits in kind and the payment of remaining vacation days for GEC members who left the company. For the CEO, includes relocation cost as well as a replacement award of CHF 160,000 (CHF 85,000 in cash and CHF 75,000 in shares restricted for three years) for compensation forfeited at the previous employer as a result of joining VAT Group

² STI for 2018 that will be paid out until June 30, 2019

³ Grant value of the LTI granted in the reporting year. Includes the entire LTI grant value for the former CEO, despite the fact that the majority of the PSUs (11/12) are forfeited due to retirement

⁴ All compensation amounts are disclosed gross

Explanatory comments to the compensation table

The total annual base salary of the GEC increased by 16% overall. This is due to the fact that a new CEO was hired effective January 1, 2018, while the former CEO was still employed until March 31, 2018 (transition period of three months). Annual base salaries of other GEC members remained unchanged compared to previous year.

The STI payout increased by 28% compared to previous year. While the overall performance achievement under the STI was lower than in the previous year, with an overall payout factor of 95% (compared to 100% in the previous year), the STI target value was higher due to the change in GEC composition (new CEO as of January 1, 2018, transition period with the former CEO until March 31, 2018). The overall performance achievement of 95% was driven by an outperformance on the company's objectives of growth (specification wins) and operations (internationalization of operations footprint and value chain, global sourcing), while the EBITDA target has not fully been met and while the assessment of individual performance ranged from 84% to 99% of target for the GEC members.

Table 12: summary of 2018 performance for the STI

	Threshold	Target	Ceiling
EBITDA margin			
Specification wins			
Operations			
Individual performance assessment			

The LTI grant value amounted to CHF 0.7 million (compared to CHF 0.4 million in previous year). The increase is due to the change in GEC composition and to the fact that both the new CEO and the former CEO received an LTI grant in the reporting year. The grant of the former CEO will only vest on a pro rata basis as per plan rules in case of retirement, however the full value at grant has been disclosed. There was no LTI vesting in 2018 considering that the first PSU under the LTI were granted in 2017 and will vest at the end of 2019.

The “other” payments increased by CHF 230,242. This is mainly due to the payment made to the new CEO upon joining, including the cost of his relocation to Switzerland and the payment of a replacement award of CHF 160,000 (of which CHF 85,000 were paid in cash and CHF 75,000 in shares restricted for three years) for compensation forfeited at his previous employer as a result of joining VAT Group.

The social security and pension contributions remained comparable to the previous year.

The total fixed compensation of CHF 1.8 million (including pension and social security contributions) awarded for the financial year 2018 exceeds the maximum aggregate compensation amount of CHF 1.55 million approved by the shareholders. This is due to the appointment of the new CEO after the approval of the compensation amount by the shareholders. Pursuant to the provisions of the Articles of Association (article 29), for each GEC member newly appointed after the shareholders’ approval of the maximum aggregate compensation amount, the company may pay an additional compensation amount of up to 50% of the last compensation amount approved by the shareholders. For 2018, the additional amount as defined in the Articles of Association allows for a potential additional amount of CHF 775,000 for the fixed compensation of each new GEC member. The compensation of the new CEO, Mike Allison, appointed on 1 January 2018, was first allocated in the amount of CHF 580,203 to the approved maximum aggregate compensation amount of CHF 1.55 million and then in the amount of CHF 245,580 against the additional compensation amount.

The aggregate grant value of CHF 700,524 million awarded under the LTIP is within the maximum amount of CHF 1.1 million approved by the shareholders.

The variable cash compensation of CHF 0.5 million will be submitted to shareholders’ vote at the 2019 AGM.

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

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

Table 13: Compensation of the GEC in 2017

(CHF, gross)	ABS	Other payments	Pension & social security (fixed)	Total fixed compensation	STI payout ²	LTI grant ³	Total compensation
Heinz Kundert	400,000	0	138,404	538,404	200,000	158,214	896,618
Other GEC	591,667	27,200	194,114	812,981	230,555	237,322	1,280,858
Total GEC¹	991,667	27,200	332,518	1,351,385	430,555	395,536	2,177,476

¹ All compensation amounts are disclosed gross

² STI for 2017 that will be paid out until June 30, 2018

³ Grant value of the LTI granted in the reporting year

7. Shareholdings as of December 31, 2018

At the end of 2018, members of the Board held a total of 108,599 (2017: 38,772) registered shares of VAT Group AG². GEC members held a total of 102,859 (2017: 139,690) registered shares of VAT Group AG and a total of 7,621 (2017: 3,900) 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 AG on page 135 of the Annual Report.

At the end of 2018, members of the Board and the GEC did not hold any stock options.

² In addition, Heinz Kundert owns 770 performance share units from the LTI plan that were awarded to him in his previous function as CEO.

Report of the Statutory Auditor

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

We have audited the remuneration report dated 7 March 2019 of VAT Group AG for the year ended 31 December 2018.

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 tables 9 and 10 “Compensation of the Board in 2018 and 2017” on page 70 and tables 11 and 13 “Compensation of the GEC in 2018 and 2017” on pages 71 and 73 of section 6 of the compensation report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2018 of VAT Group AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Toni Wattenhofer
Licensed Audit Expert
Auditor in Charge

Jan Bellinger
Licensed Audit Expert

St. Gallen, 7 March 2019