

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 and GEC in the 2020 financial year.

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

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

Dear Shareholders,

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

In 2020, VAT Group reported substantially higher business results and further expanded its leading market share. The global COVID-pandemic posed significant challenges throughout the whole semiconductor industry, but swift and decisive measures to guarantee its employees, suppliers and customers a safe working environment allowed VAT to keep production in all its facilities up except for a very short period in early 2020. Net sales in 2020 increased 21% to a near record CHF 692 million and the EBITDA-margin reached the all-time record level of 31.4%.

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 2019, the NCC conducted a review of the compensation system for the GEC. The NCC concluded that the GEC compensation system is in line with prevalent market practice. Based on this no material change was made in 2020. An adjustment in the weighting of the company performance indicators of the annual cash incentive for the GEC (Variable Cash Compensation, STI) towards a higher focus on Group indicators was implemented. Further, an additional target at the 30% payout level was defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

Furthermore, the decision taken in 2019 to harmonize the committee chair and committee fees was implemented in 2020. Finally, 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 2020 and the say-on-pay vote for the 2021 Annual General Meeting (AGM). You will find further information on the NCC activities and on VAT Group's compensation system and governance on the following pages.

This Compensation Report will be submitted to a non-binding, consultative shareholders' vote at the upcoming AGM. You will also be asked to vote on the maximum aggregate compensation amount of the Board for the term of office from the 2021 until the 2022 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2020, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2022, and on the maximum grant values for the GEC under the long-term incentive plan for financial year 2022.

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 3, 2021

2. Compensation governance

2.1 Articles of Association

The Articles of Association of VAT Group can be found on the corporate website <http://www.vatvalve.com/InvestorRelations/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. At the AGM 2020, Martin Komischke (Chair), Heinz Kundert and Karl Schlegel have been re-elected as members of the NCC.

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

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

Additional information on the responsibilities of the NCC is provided in section 3.9 of the Corporate Governance Report on page 51.

¹ The NCC charter of VAT Group AG is published at http://www.vatvalve.com/docs/default-source/investor-relations/corporate-governance/ncc_charter_of_vat_group_ag.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 2020, 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 52.

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

The NCC may decide to consult external advisors for specific compensation matters. In 2020, Agnès Blust Consulting was mandated to provide consulting services related to executive compensation matters. The company has no other mandate with VAT Group.

3. Compensation for the Board of Directors

3.1 Compensation principles

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

3.2 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. Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of VAT Group.

Table 3: Structure and levels of Board compensation AGM 2020 until AGM 2021

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

	Chair 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	25,000	10,000
VATmotion Committee	25,000	10,000

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 Group 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) was 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. In 2020, the NCC implemented the revised Technology Committee chair fee (increase from CHF 15,000 to CHF 25,000) and the VATmotion Committee membership fees (decrease from CHF 15,000 to CHF 10,000) to harmonize the committee fees for the Board term from the AGM 2020 to the AGM 2021 and to simplify the compensation structure overall.

Further in 2020, the Board reviewed the Board compensation levels for the term from 2021 to 2022, based on the benchmark analysis conducted in 2018 (see above). Given that the Board compensation levels were mostly below median and the company's market capitalization has increased significantly over the past two years, a first adjustment of the overall Board compensation since the IPO of around 9% is deemed appropriate. The maximum aggregate compensation amount of the Board for the period from 2021 to 2022 will be proposed to the AGM 2021 for approval.

4. Compensation for the GEC

4.1 Compensation principles

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

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

4.2 Compensation structure

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

Table 4: Structure of compensation for GEC

	Program	Purpose	Plan period
ABS	Monthly cash	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

To ensure competitiveness with market, the compensation of the GEC is regularly benchmarked. In 2018, a benchmarking of the GEC compensation has been conducted by Willis Towers Watson on the basis of the same peer group of Swiss multinational industrial companies as for the benchmarking of the compensation of the Board: Bachem, Bobst, 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 2020 and 2021.

4.3 Annual base salary (ABS)

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

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

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

4.4 Variable Cash Compensation (STI)

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

The target STI value expressed as a percentage of ABS amounts to 60% for the CEO and from 47% to 49% for the other GEC members for 2020 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.

For all 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. In 2020, the weighting of the company performance indicators were revised slightly with a higher focus on Group indicators to further align the GEC to the overall group achievements. Further, an additional target for 30% payout level was defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

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 2020

Focus in 2020	Performance objectives	Weighting
Profitability	EBITDA margin	16%
	Free cash flow	16%
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	22%
	Non-SEMI growth	16%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see Table 6	30%
Total		100%

Table 6: STI evaluation grid for individual performance of the CEO and other GEC members in 2019

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, at the latest by June 30 of the following year, subject to shareholder approval.

4.5 Long-term share-based compensation (LTI)

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

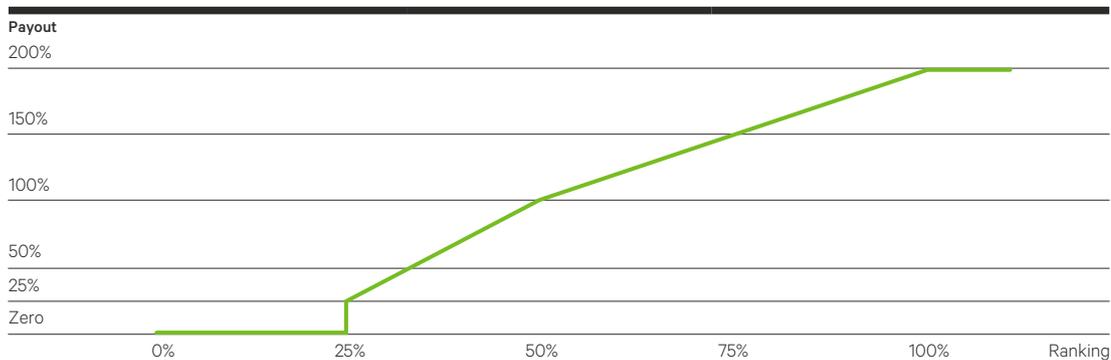
- relative net sales growth, with a 50% weight,
- relative total shareholder return (TSR), with a 50% weight.

In 2020, the LTI nominal value amounts to 80% of ABS for the CEO and to between 47% and 49% of ABS for the other GEC members on a full year basis. To determine the number of PSU granted, the LTI nominal value is divided by the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date.

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

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

Table 8: Peer group for the 2020 grant

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

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

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

In 2020, based on the NCC proposal, the Board approved relative Return on Invested Capital (ROIC) as an additional third performance condition for the LTI grant in 2021. The ROIC target was chosen as an additional performance indicator to express how well the company is generating profit relative to the capital it has invested in its business. All three performance conditions will be equally weighted with one third each. Relative ROIC is a robust and meaningful measure for the company and balances well with the two existing indicators relative net sales growth and relative TSR.

Additionally in 2020, the Board approved a revised peer group for future LTI grants to intensify the performance benchmarking with sector peers. The revised peer group for the 2021 LTI grant will be disclosed in the 2021 Compensation Report.

4.6 Benefits

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

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

4.7 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 sign-on payments, termination payments, change-of-control provisions (except the accelerated vesting under the LTI plan) or non-competition compensation.

4.8 Clawback and malus provisions

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

5. Compensation awarded to the Board and to GEC in 2020

5.1 Compensation awarded to the Board in 2020

For 2020, the members of the Board received a total compensation of CHF 0.9 million (2019: CHF 0.8 million) in the form of fixed basic fees of CHF 0.6 million (2019: CHF 0.6 million), committee fees and other expenses of CHF 0.2 million (2019: CHF 0.2 million) and social security contributions of CHF 0.1 million (2019: CHF 0.1 million). Out of the total compensation of CHF 0.9 million (2019: CHF 0.8 million), CHF 0.2 million (2019: CHF 0.2 million) are awarded in form of restricted shares. The increase of 6% compared to previous-year results from compensation to an additional Board member since the AGM 2020 and increased social security rates. This is partially offset by the harmonization of committee fees as described in section 3.2.

Table 9: Compensation of the Board in 2020 and 2019

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2020	200,000	50,000	1,500	20,645	272,145	75,009
	2019	200,000	50,000	1,500	19,261	270,761	75,022
Heinz Kundert, Vice-Chair	2020	75,000	10,000	1,500	5,126	91,626	25,515
	2019	75,000	10,000	1,500	4,743	91,243	25,519
Herman Gerlinger	2020	75,000	32,917	1,500	6,812	116,229	32,401
	2019	75,000	30,000	1,500	6,104	112,604	31,502
Urs Leinhäuser	2020	75,000	37,083	1,500	9,603	123,186	33,657
	2019	75,000	40,000	1,500	9,210	125,710	34,519
Daniel Lippuner ¹	2020	43,750	–	875	3,773	48,398	13,125
	2019	–	–	–	–	–	–
Karl Schlegel	2020	75,000	32,083	1,500	6,751	115,334	32,187
	2019	75,000	35,000	1,500	6,444	117,944	33,036
Libo Zhang	2020	75,000	10,000	1,500	7,314	93,814	25,515
	2019	75,000	10,000	1,500	6,838	93,338	25,518
Total	2020	618,750	172,083	9,875	60,024	860,732	237,409
	2019	575,000	175,000	9,000	52,600	811,600	225,116

¹ Since AGM of 14 May 2020.

At the AGM on May 16, 2019, shareholders approved a maximum aggregate compensation amount of CHF 920,000 for the Board for the compensation period from the AGM 2019 until the AGM 2020. The remuneration paid to the Board for this term was CHF 809,665 and is therefore within the approved limits.

At the AGM of May 14, 2020, shareholders approved a maximum aggregate compensation amount of CHF 1,006,000 for the Board for the term from the AGM 2020 until the AGM 2021. The remuneration paid to the Board for this term is anticipated to be approximately CHF 895,000. The final amount will be disclosed in the 2021 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.

5.2 Compensation awarded to the GEC in 2020

In 2020, the members of the GEC received a total compensation of CHF 2.63 million (2019: CHF 2.44 million). This amount comprises annual base salaries of CHF 0.95 million (2019: CHF 1.22 million), STI of CHF 0.65 million (2019: CHF 0.44 million), other expenses of CHF 0.16 million (2019: CHF 0.00 million), contributions to social security and post-employment benefits of CHF 0.36 million (2019: CHF 0.35 million) and an LTI grant value of CHF 0.52 million (2019: CHF 0.43 million). The variable compensation amounts to 100% (2019: 65%) of the fixed compensation for the CEO and 62% (2019: 48%) on average for the other GEC members.

Table 10: Compensation of the GEC in 2020 and 2019

(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	2020	500,000	0	191,461	691,461	389,625	301,969	1,383,055
	2019	500,000	2,962	152,297	655,259	198,648	228,451	1,082,358
Other GEC	2020	445,000	156,962	167,530	769,492	260,515	215,096	1,245,103
	2019	715,669	0	198,921	914,590	240,330	199,894	1,354,814
Total GEC¹	2020	945,000	156,962	358,991	1,460,953	650,140	517,065	2,628,158
	2019	1,215,669	2,962	351,218	1,569,849	438,978	428,345	2,437,172

1 Three GEC members were in office on 31 December 2020, including three months in office for the new COO. For the new COO, this includes relocation costs as well as replacement awards in cash (STI) and in PSUs (LTI) and forfeited pension contributions at the previous employer as a result of joining VAT Group. Two GEC members were in office on 31 December 2019; this includes compensation under the employment contract during the notice period to one GEC member who stepped down on 31 July 2019.

2 Includes the value of benefits in kind for 2019.

3 STI for 2020 to be paid out until June 30, 2021; STI for 2019 was paid out until June 30, 2020.

4 Grant value of the LTI awarded in the reporting year based on the Monte Carlo evaluation of the PSU. It includes the entire 2020 and 2019 LTI grant value for the CFO who stepped down in January 2021. It includes also the entire 2019 LTI grant value for the COO who stepped down during 2019, despite the fact, that all outstanding PSUs granted are forfeited due to his leaving.

5 All compensation amounts are disclosed gross.

Explanatory comments to the compensation table

The total aggregate annual base salaries of the GEC decreased by 22% overall (2019: +6%). This is due to the fact that in 2020 the COO role was vacant, covered ad interim by the CEO for 9 months without additional compensation.

The STI payout increased by 48% compared to previous year. The overall performance achievement under the STI was higher than in the previous year. However, the STI value for 2020 was lower due to the change in GEC composition in 2020 (COO vacancy for 9 months). The overall financial and individual performance achievement of the GEC of 123% (2019: 75%) was marked by outperformance of Group financials. Net sales for the year increased by 21.4% to CHF 692 million. Reflecting the strong business performance, VAT posted an all – time record EBITDA margin of 31.4%. While the EBITDA, free cash flow and specification wins targets outperformed, the individual performance ranged from 86% to 126% of target for the GEC members. There was no discretion applied by the Board when determining the final performance achievements for 2020.

Table 11: summary of 2020 performance for the STI

		Threshold	Target	Ceiling
Profitability	EBITDA margin			●
	Free cash flow			●
Growth	Non-SEMI growth		●	
	Specification wins			●
Individual performance assessment	Operational results & ESG			

The LTI grant value amounted to CHF 0.5 million (compared to CHF 0.4 million in previous year). The increase is only due to the fact that in 2020 the grant value of the LTI grant significantly increased based on the Monte Carlo method of evaluation (LTI grant value per PSU 2020: CHF 115.83, 2019: CHF 53.88).

The “other payments” increased significantly due to cash payments made in relation to the new COO joining, e.g. cost for replacement awards and forfeited pension contributions as a result of leaving his previous employer and joining VAT Group.

In line with the overall increase of the total compensation in 2020 for the GEC, the social security and pension contributions increased compared to the previous year.

The total fixed compensation of CHF 1.46 million (including pension and social security contributions) awarded for the financial year 2020 is within the maximum aggregate compensation amount of CHF 1.95 million approved by the shareholders.

The aggregate grant value of CHF 0.52 million awarded under the LTIP is within the maximum amount of CHF 1.70 million approved by the shareholders.

The STI of CHF 0.65 million will be submitted to shareholders’ vote at the 2021 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.

6. Shareholdings and vesting of outstanding LTI award

6.1 Shareholdings as of December 31, 2020

At the end of 2020, members of the Board held a total of 76,618 (2019: 78,034) registered shares of VAT Group². GEC members held a total of 751 (2019: 508) registered shares of VAT Group and a total of 13,865 (2019: 13,573) performance share units.

The details on shareholdings of the members of the Board and the GEC is included in note 4.3 of the statutory financial statements of VAT Group on page 126 of the Annual Report.

At the end of 2020, members of the Board and the GEC did not hold any stock options.

6.2 Vesting of outstanding LTI award

The vesting level for the 2017 LTI award which was due to vest by end of 2019 (LTI performance period 2017–2019), considering the performance of the relative sales growth and the relative TSR against the peer group, was 76%.

The PSU grant under the LTI plan in 2018 is scheduled to vest at the end of 2020. The final vesting level will be available in May 2021, after the annual results of the peers for 2020 have been published and will be reported in the 2021 Compensation Report.

Table 12: Vesting level of PSUs

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

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

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

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

Report of the Statutory Auditor

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

We have audited the accompanying remuneration report of VAT Group AG for the year ended 31 December 2020.

The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in table 9 “Compensation of the Board in 2020 and 2019” on page 68 and table 10 “Compensation of the GEC in 2020 and 2019” on page 69 of section 5 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 2020 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, 3 March 2021