ANNUAL REPORT 2021:

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

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

VAT

PASSION. PRECISION. PURITY.

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

Key figures

In CHF million	2021	2020 restated[1]	Change
Order intake	1,227.9	724.5	69.5%
Order backlog as of December 31	461.2	145.3	217.3%
Net sales	901.2	692.4	30.1%
Gross profit	570.5	430.1	32.6%
Gross profit margin	63.3%	62.1%	–
EBITDA	307.9	210.5	46.3%
EBITDA margin	34.2%	30.4%	–
EBIT	264.9	169.8	56.0%
EBIT margin	29.4%	24.5%	–
Net income	217.4	127.9	70.0%
Net income margin	24.1%	18.5%	–
Basic earnings per share (in CHF)	7.25	4.27	69.9%
Diluted earnings per share (in CHF)	7.24	4.26	69.9%
Cash flow from operating activities	239.8	166.2	44.3%
Capex[2]	44.1	19.2	121.8%
Capex margin	4.9%	2.8%	–
Free cash flow[3]	195.7	147.0	33.1%
Free cash flow margin	21.7%	21.2%	–
Free cash flow conversion rate[4]	63.6%	69.8%	–
Free cash flow to equity[5]	192.0	143.0	34.3%

As of December 31 In CHF million	2021	2020 restated	
Total assets	1,064.9	989.1	7.7%
Total liabilities	430.5	444.5	–3.1%
Equity	634.4	544.6	16.5%
Net debt	79.7	128.5	–37.9%
Net debt/EBITDA	0.3	0.6	–57.6%
Invested capital[6]	463.9	411.1	12.8%
NOPAT[7]	235.5	155.6	51.3%
Return on invested capital (ROIC)	53.8%	40.6%	–
Dividend per share[8] (in CHF)	5.50	4.50	22.2%
Payout ratio[9]	85.9%	94.4%	–
Number of employees[10]	2,540	2,041	24.5%

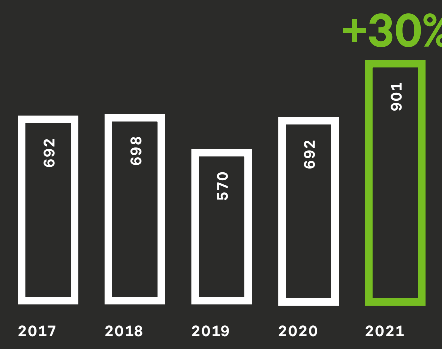
1 Prior-period financial statements have been restated in line with a clarification in 2021 by the IFRS Interpretations Committee that costs for cloud-based services, such as VAT's new ERP system, are to be expensed through the income statement when they occur, rather than capitalized.
2 Capex comprises acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
3 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
4 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
5 Free cash flow to equity is calculated as cash flow from operating activities less cash flow from investing activities less interest paid.
6 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks, deferred income taxes and current income tax liabilities) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities).
7 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization (excluding amortization of acquired technology and customer relationships) plus finance income (excluding net foreign exchange gains/losses from financing activity and excluding other finance income) less taxes at the average Group rate of 16.0% (previous year 16.0%).
8 2021 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2022; CHF 5.25 per share to be paid from accumulated gains, CHF 0.25 to be paid from reserves from capital contributions
9 Percentage of free cash flow to equity proposed to be paid out as dividend
10 Number of employees expressed as full-time equivalents (FTE)

Net sales
in CHF million

901.2

2020: 692.4

Net sales development
in CHF million



EBITDA
in CHF million

307.9

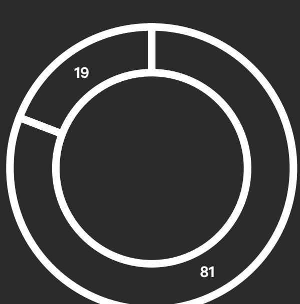
2020: 210.5

EBITDA margin
in %

34.2

2020: 30.4

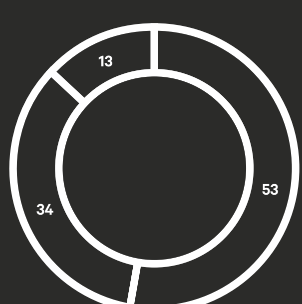
Net sales by segment
in %



81 VALVES
19 GLOBAL SERVICE

2020:
82 VALVES
18 GLOBAL SERVICE

Net sales by region
in %



53 ASIA
34 AMERICAS
13 EMEA

2020:
53 ASIA
33 AMERICAS
14 EMEA

Free cash flow
in CHF million

195.7

2020: 147.0

Dividend per share*
in CHF

5.50

2020: 4.50

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

Dear Stakeholders,

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

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

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

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

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

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

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

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

DR. MARTIN KOMISCHKE
CHAIRMAN OF THE BOARD OF DIRECTORS

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

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

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

Sincerely,

Dr. Martin Komischke

CEO Interview

How would you summarize VAT's results in 2021?
Thanks to a strong market, continued operational improvements, and a strong team of engaged employees, we delivered record orders, net sales, EBITDA, EBITDA margin and free cash flow. And we achieved that despite significant supply constraints and the ongoing COVID-19 pandemic. We're very proud of this performance and our ability to support our customers during such difficult times.

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

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

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

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

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

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

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

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

MICHAEL ALLISON, CEO

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

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

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

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

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

What are your priorities for 2022?
Striking the right balance between capturing growth in a very strong market while keeping a close eye on operational performance and costs will remain a management priority. Further ramping up our capabilities in Malaysia and securing the benefits from our capital investment plans is also key. We’ll keep executing on our strategy to outgrow the market while maintaining an attractive EBITDA margin and cash flows. We’ll continue to invest heavily in our core valves technology but also in new products and adjacencies to broaden our high-value solutions for our customers. Technology and our markets are moving fast, but VAT will move faster.

A history of competitive success

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

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

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

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

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

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

Milestones

1965
Founded in Flawil, Switzerland

1988
Entry into the semiconductor industry

2008
Acquisition of Sysmec, Romania

2012
Established manufacturing center in Malaysia

2016
IPO at SIX Swiss Exchange

2018
Malaysia expansion completed

2019
Market share above 50%

2020
>CHF 100 mn sales from Malaysia plant

2021
Record sales, profitability and cash flow

Our strategy for sustainable profitable growth

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

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

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

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

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

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

VAT serves an attractive, fast-growing market

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

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

* Source: Applied Materials, September 2021

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

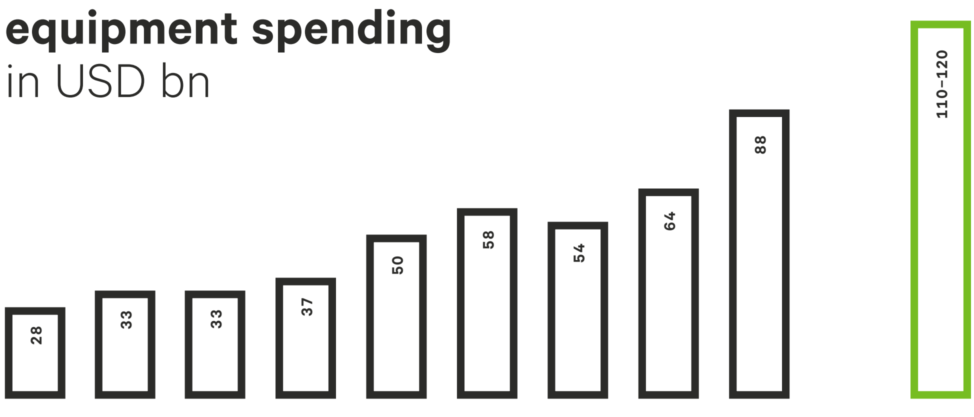
Similar trends are taking place in the displays and solar photovoltaic industries. Growth is being driven by both volume requirements as well as new technologies that significantly improve product performance, whether it's screen resolution in displays or energy-conversion efficiency in solar panels.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

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

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

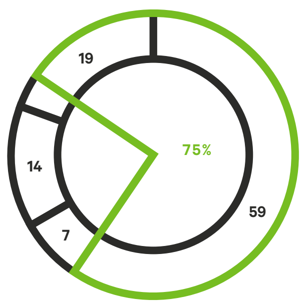
Geographically, many of VAT's largest customers in the semiconductor, display and solar industries have their major production centers in Asia, although Europe and the US remain key locations, especially for chip technologies such as extreme ultraviolet lithography (EUV). Being close to customers, especially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

Wafer fabrication equipment spending
in USD bn



Source: VLSI research December 2021

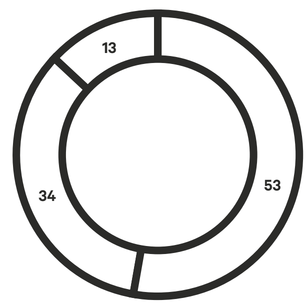
Sales Breakdown by Market Segment 2021
in %



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

75% OF VAT'S GROUP SALES ARE SEMICONDUCTOR RELATED

Regional Sales Breakdown 2021
in %



53 ASIA
34 AMERICAS
13 EMEA

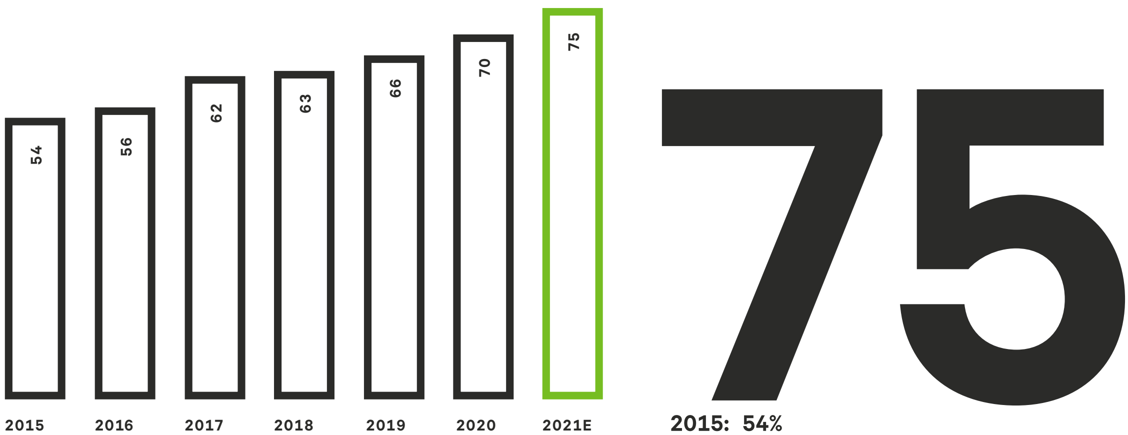
VAT's set-up optimizes its competitive advantages
VAT is clearly and simply organized so that its businesses are positioned to best meet the needs of its customers and to gain the greatest benefit from their competitive advantages.

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

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

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

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



* Semiconductors includes LED displays.

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

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

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

Profitable growth strategy to 2025

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

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

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

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

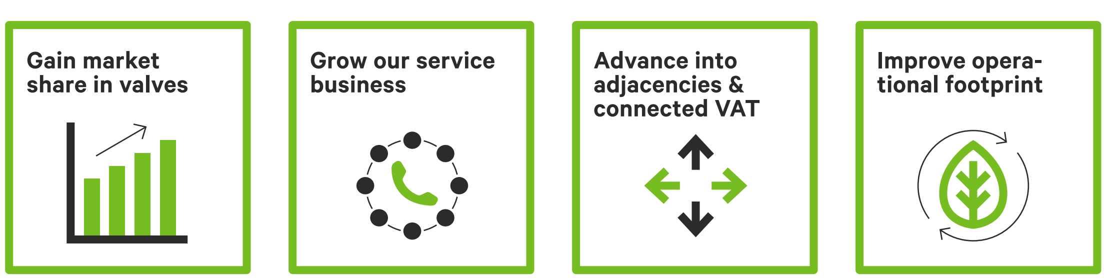
Finally, making valves and related components smarter by integrating sensors, analytics and device-to-device communications and control systems will allow future valve systems to be self-monitoring, self-tuning, self-learning and self-maintaining. This will contribute to lower customer operating costs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

Securing both growth and profitability

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

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

Four strategic priorities



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

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

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

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

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

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

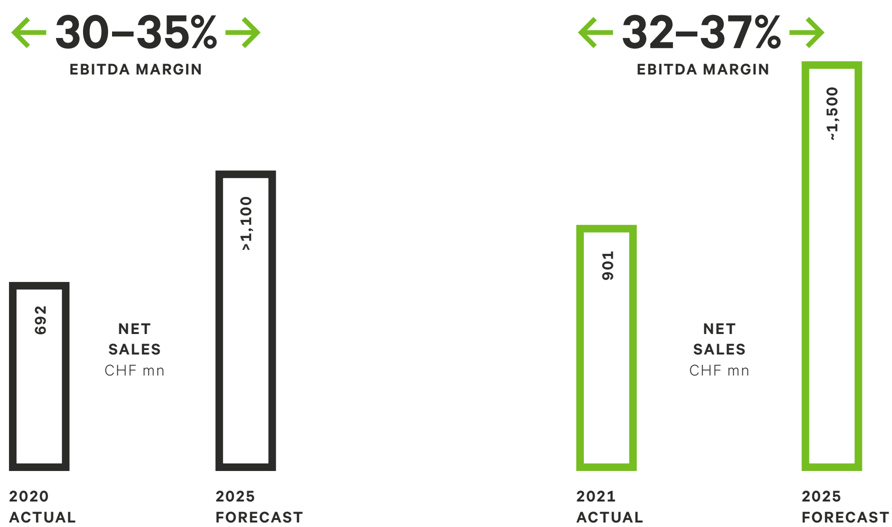
VAT also understands that financial and economic targets are not the only way to measure success and value creation. We have many stakeholders with diverse perspectives on what constitutes value. These include our obligations to the communities in which we operate, a commitment to reduce our impact on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

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

Mid-term targets realigned to more positive market outlook

Targets
at December 2020

Targets
at March 2022



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

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

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

Creating value sustainably

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

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

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

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

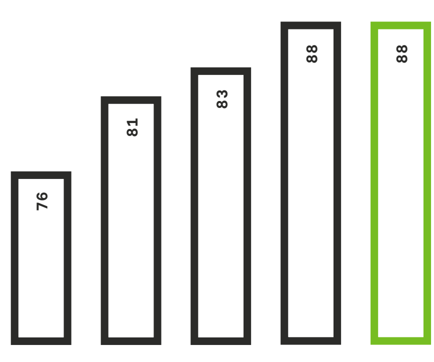
As part of a recent environmental audit, VAT published the results of its recycling efforts in both Switzerland and Malaysia. In 2020, for example, VAT recycled more than 1,800 tons of metal – such as stainless steel, aluminum, and copper – some 550 tons of electronic and hazardous chemical waste, approximately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

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

Employee Engagement Survey Participation
in %

88

2017 (first survey): 76%



VAT's CO_2 reduction in 2021
in tons

~5,000

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

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

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

For example, VAT has installed solar photovoltaic panels on its manufacturing facilities in both Switzerland and Malaysia. The installation in Malaysia generates more than 1,700 megawatt-hours of electricity per year. By feeding some of the power into the local grid, the solar panels contribute to a CO_2 reduction of more than 1,300 tons a year.

In addition, starting in 2021, all of the electricity that VAT draws from the grid in Switzerland is generated using renewable hydro resources. By doing so, the total electricity consumption of about 15 million kilowatt-hours has been converted to CO_2 neutral.

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

In total, VAT's efforts to reduce its carbon footprint led to an absolute CO_2 reduction in 2021 of approximately 5,000 tons in a year where VAT grew its business volume by 30%.

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

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

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

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

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

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

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

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

MAPS:

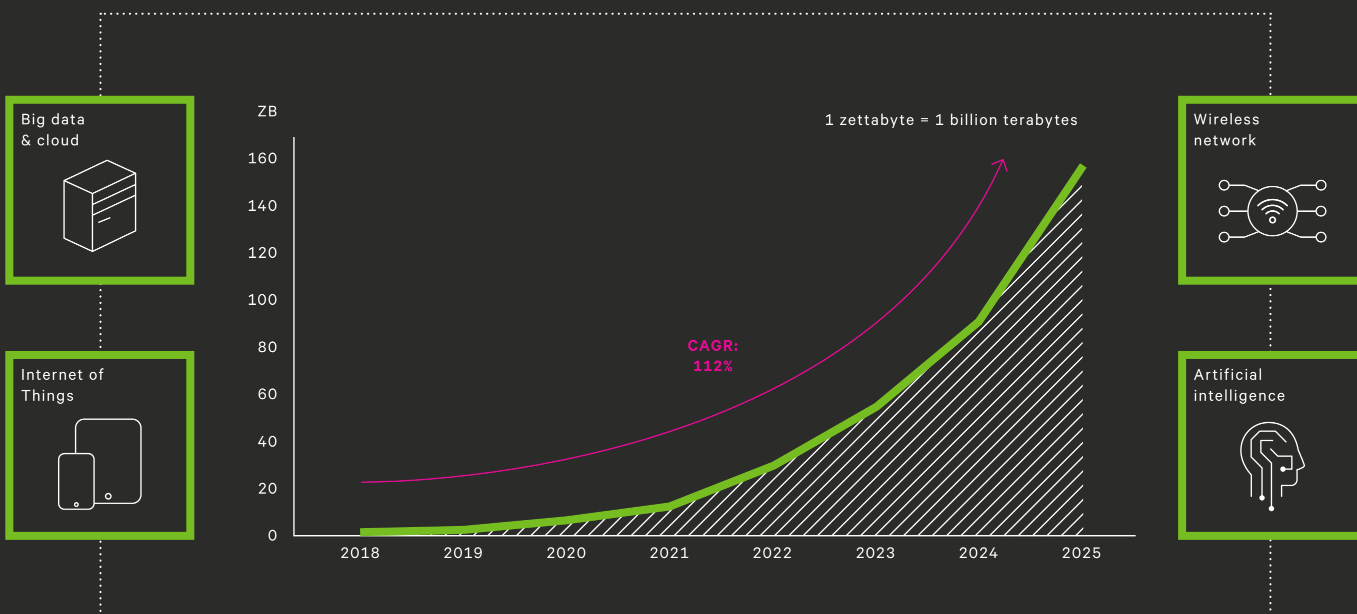
VAT's technology and market lead creates new growth opportunities in the Digital Revolution.

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

MEGATRENDS DRIVE GROWTH

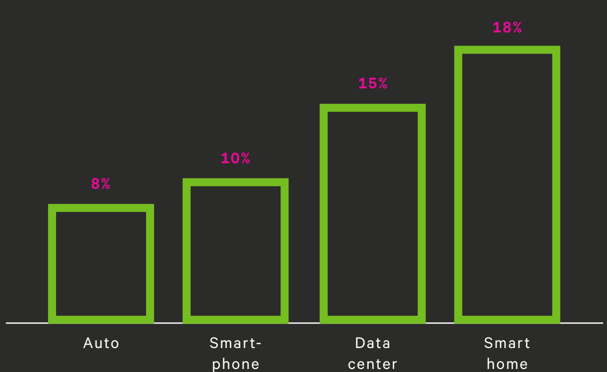
The role of digitalization in our lives continues to grow rapidly. Every second of every day, unimaginable amounts of data are being generated, collected, transmitted, analyzed and stored. It's an impossible task without increasingly sophisticated semiconductors and the VAT vacuum valves needed to fabricate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

The world is on the verge of explosive growth in data generation
Actual and forecast amount of data created worldwide 2010–2025 (in zettabytes) [1]



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

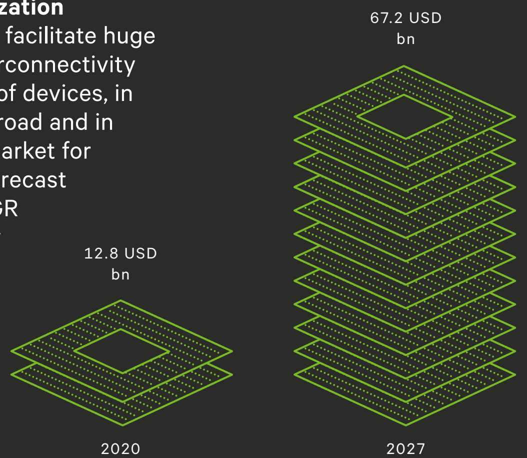
Key megatrends expected to drive sustainable growth
Forecast growth in semiconductor content 2020–2025 [1]



Source: 1 Applied Materials, September 2021; 2 McKinsey & Co., "Automotive semiconductors for the autonomous age" August 3, 2021

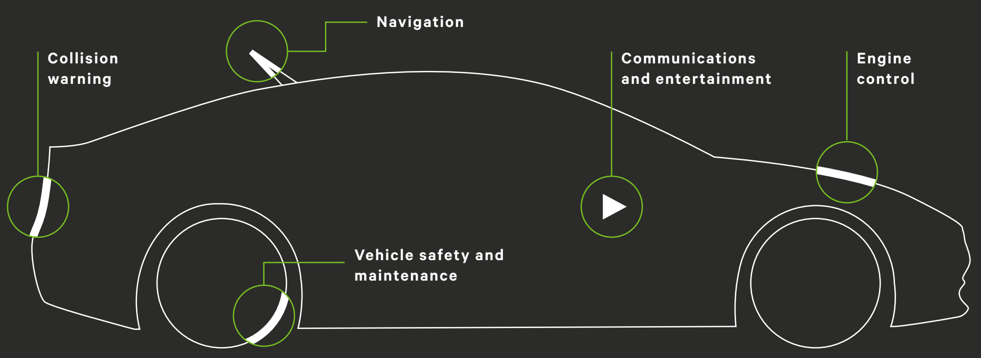
The Digital Revolution is just beginning and will radically transform many industries

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



E-VEHICLES AND AUTONOMOUS DRIVING

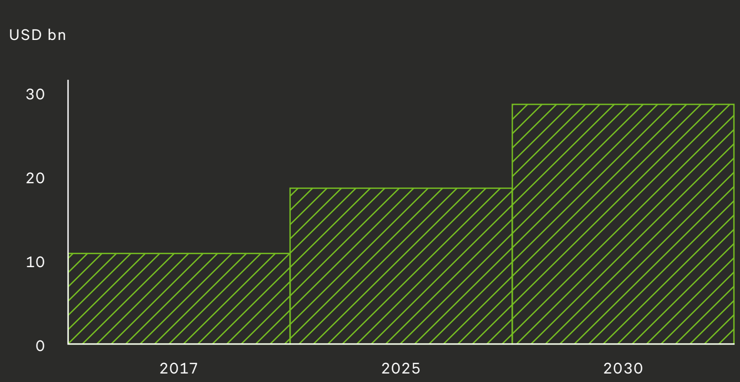
The amount of communications and computing power in both personal and commercial vehicles continues to grow quickly. This will drive semiconductor and vacuum valve demand well into the future.



High-vacuum in e-vehicle production

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

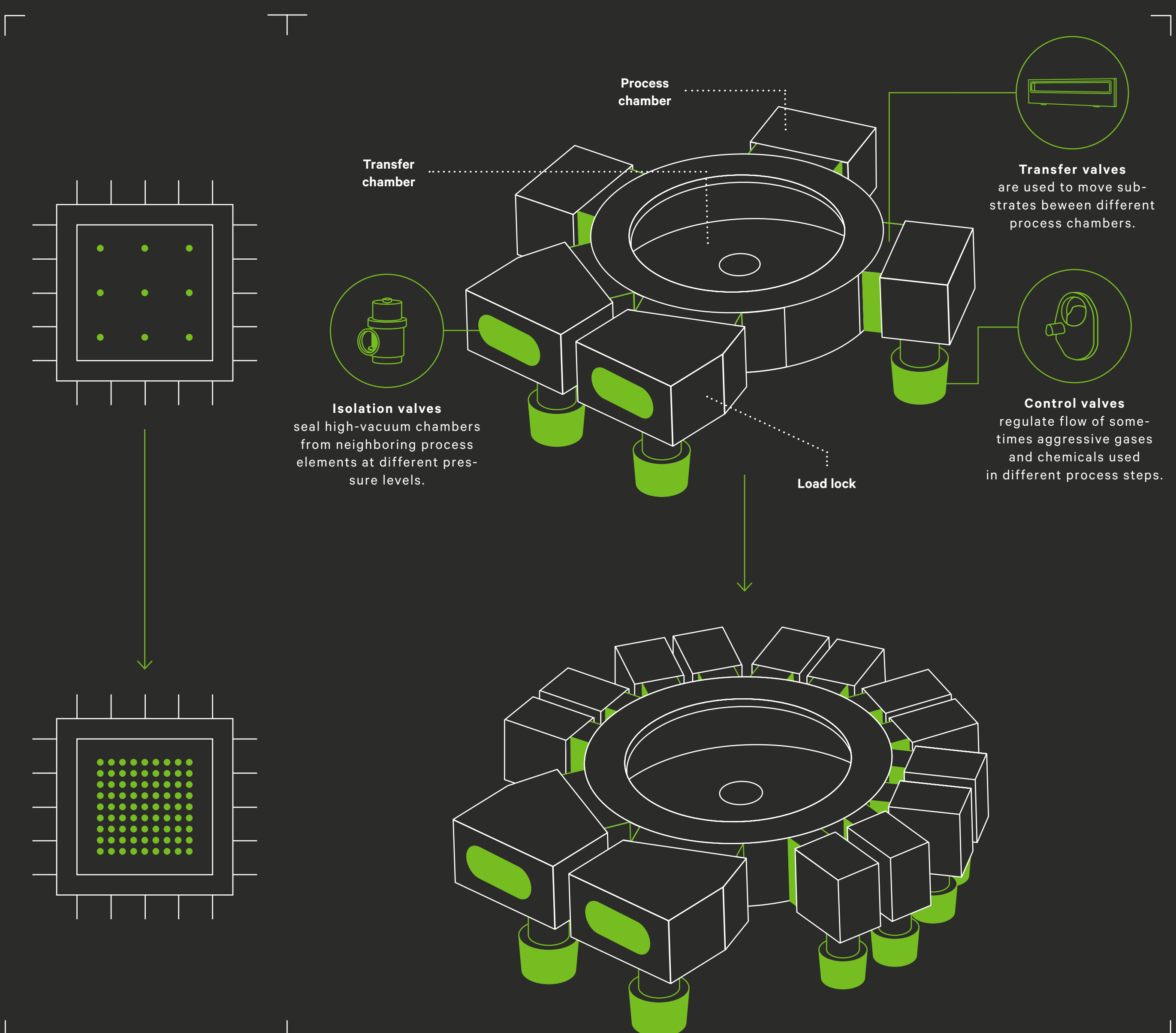
Forecast autonomous vehicle semiconductor sales 2017–2030 [2]



MISSION-CRITICAL TECHNOLOGY

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

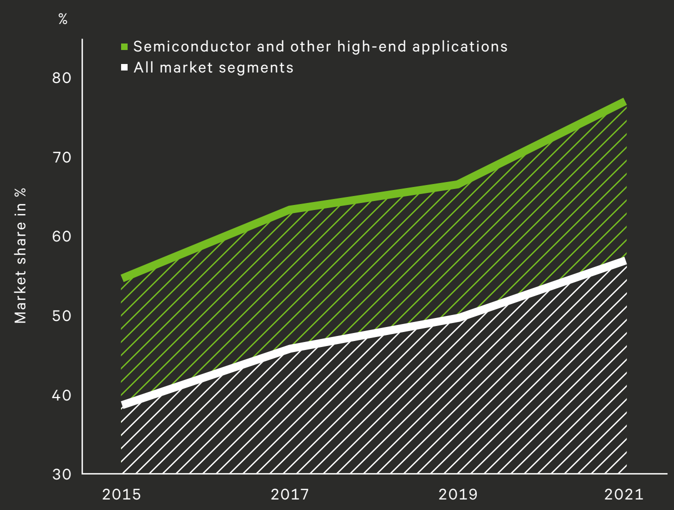
Smaller chip nodes require a longer wafer path
As the density of transistors on a chip increases, so does the number of process steps. This, in turn, requires more, and more advanced, vacuum valves.



Source: 1 VLSI Research July 2020, based on 1Q20 actual plus 2Q20 estimated

High-end market share

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



VAT with a proven track record in R&D

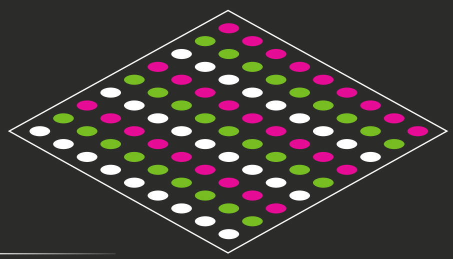
Active patents and applications in 2020 **>400**	New specification wins in 2021 **>110**
Budget focused on disruptive technologies % **>10**	Investment in R&D as share of revenue % **5–6**

Ever-smaller display technologies

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

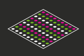
LED

1



Mini-LED

≈1/5

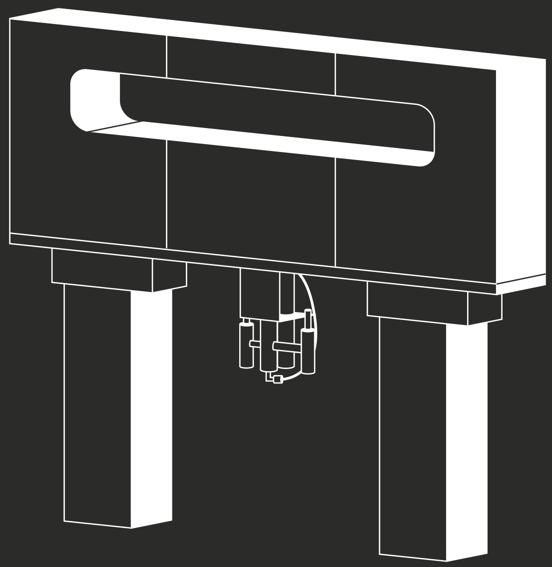


Micro-LED

≈1/100

VAT transfer valve for display manufacturing

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



FLEXIBLE GLOBAL FOOTPRINT

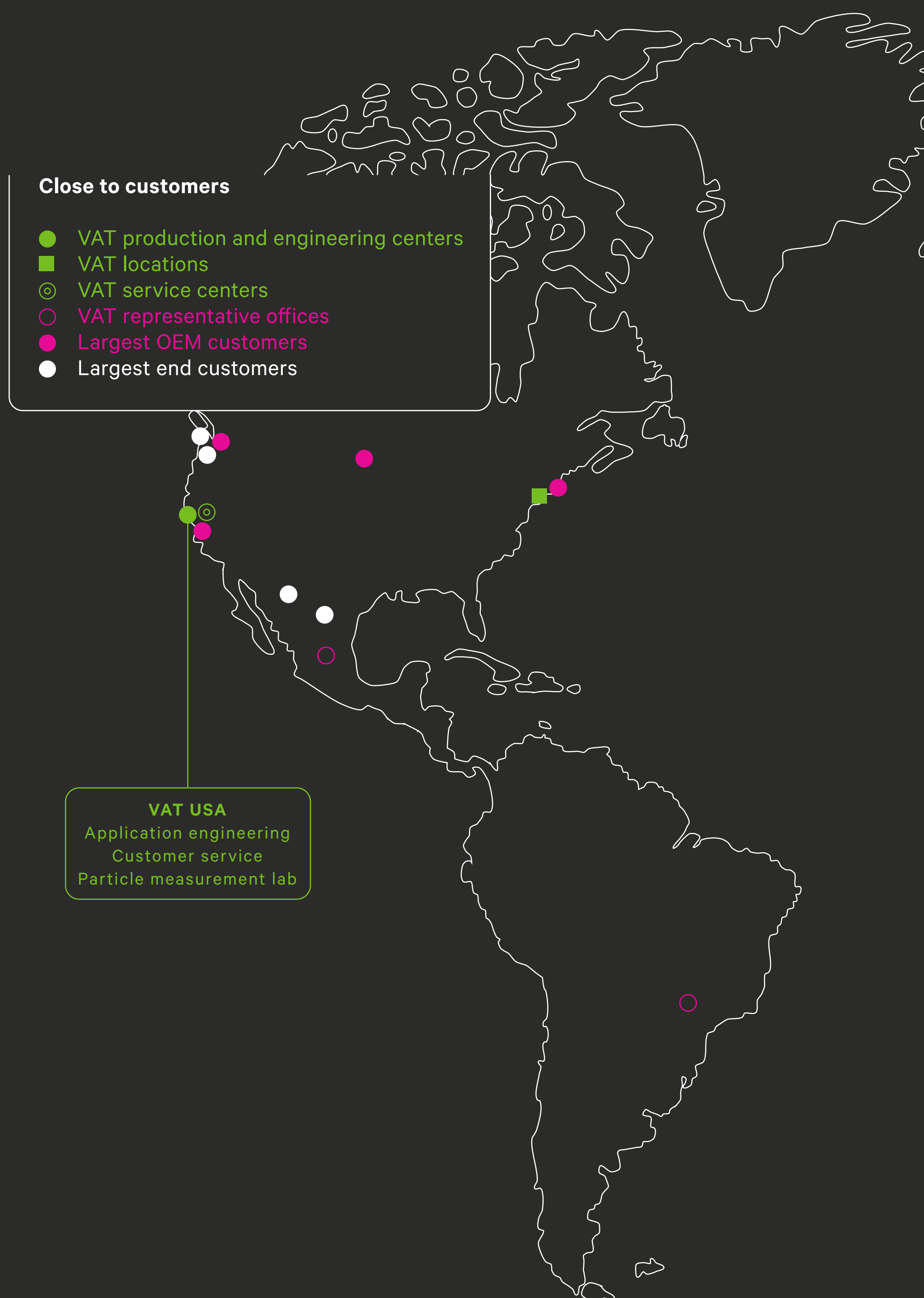
VAT's approximately 2,500 employees worldwide design and produce 250,000 valves a year in three locations, serving customers quickly, efficiently and reliably through the business cycle.

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

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

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

Sustainable value creation 2020–2025:
- Net sales of CHF 1.5 bn by 2025
- 32–37% EBITDA margin band
- 60–70% free cash flow conversion



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

GLOBAL SERVICE
DRIVES GROWTH AND PROFITABILITY

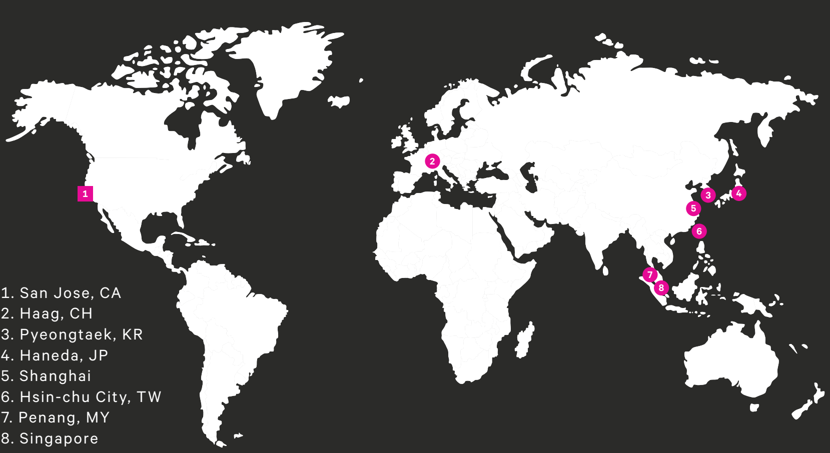
The enormous demand for semiconductors is expected to drive strong growth in VAT's service business as customers look for ways to get more from their existing assets.

Share of VAT Global Service net sales by business

Spare parts & Gates	Repair	Upgrades & Retrofits
Optimize valve performance and cost of ownership, especially during period of strong demand	Minimize customer downtime to maximize productivity from existing manufacturing assets	Extend tool lifetime with continuous launch of new products
~50%	~15%	~35%

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

Fast, highest-quality service through our global service network



1. San Jose, CA
2. Haag, CH
3. Pyeongtaek, KR
4. Haneda, JP
5. Shanghai
6. Hsin-chu City, TW
7. Penang, MY
8. Singapore

VAT Global Services Quick Facts

* CAGR 2000–2020

GROWING 10%* A YEAR

More than **1,000,000** serviceable valves installed worldwide

LARGEST SERVICE NETWORK IN THE INDUSTRY

9% annual sales growth expected 2020–2025

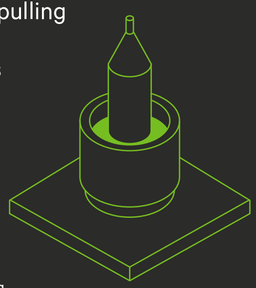
Sustainable EBITDA margin above **40%**

HELPS BALANCE CYCLICALITY IN VALVES BUSINESS

ADVANCED INDUSTRIALS:
WELL-POSITIONED FOR SUSTAINABLE GROWTH IN HIGH-PRECISION INDUSTRIES

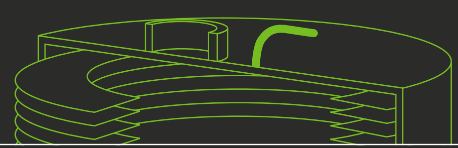
Targeting key industries with VAT's premium vacuum valve technology

1 Industry
- Vacuum furnace
- Crystal pulling
- Electric vehicles

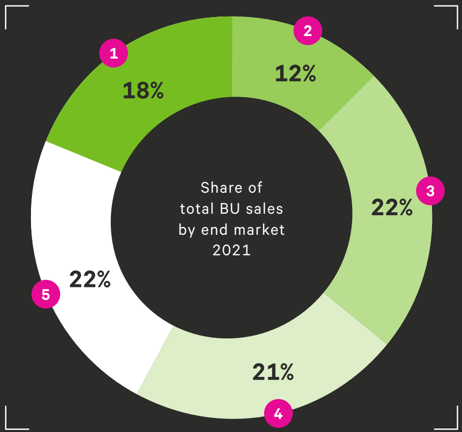


Silicon wafer manufacturing

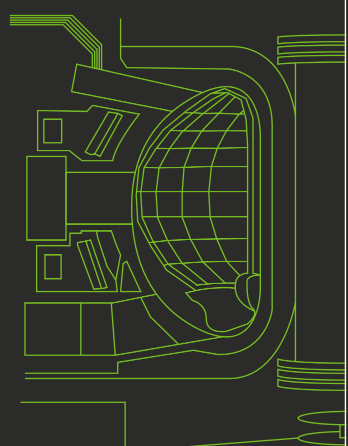
2 Non-vacuum
- Automotive membranes
- Medical titanium bellows



VAT medical titanium bellows

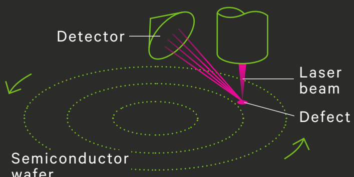


3 Research
- Particle accelerators
- Fusion reactors
- Space simulations



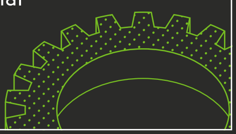
ITER fusion reactor

5 Scientific instruments
- Electron microscopes
- Material and life sciences
- Semiconductor inspection metrology



Laser metrology to detect chip flaws

4 Coatings
- High-end industrial coatings
- Mobile phones
- Optical lenses



Coating on tools

Serving more than 1,600 customers in 50 countries

Share of total VAT sales 2021

ORGANIZATION

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

VAT Group AG

Valves
- Semiconductors
- Display & Solar
- Advanced Industrials

Global Service

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

Chief Executive Officer
M. Allison

Chief Operating Officer
T. Berden

Chief Financial Officer
F. Chiozza

Valves
- **SEMI** U. Gantner
- **Display & Solar** J. Zoller
- **ADV** K. Dahlstroem

Global Service
- **Global Sales & Service** J. Haggerty

Corporate
- **Strategy & Business Development** O. Müller
- **Core Technology** M. Zickar
- **Central Engineering** G. Lutz
- **Human Resources** V. Valentin

Group Functions
- **Legal & Compliance** B. Lichtsteiner
- **Communication & IR** M. Gerber

GEC – Group Executive Committee

GMB – Members of Group Management Board

Organization Chart as of March 3, 2022

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

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

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

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

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

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

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

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

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

Results higher across all key performance indicators

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

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

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

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

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

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

Net sales
in CHF million

901.2

2020: 692.4

Record number of spec wins

>110

2020: 106

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

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

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

Record EBITDA and free cash flow support increased dividend proposal

One of VAT's key performance indicators and the basis for our dividend consideration is free cash flow, which in 2021 again reached a new record of CHF 196 million compared with CHF 147 million the previous year. Higher EBITDA not only offset the increase in trade working capital of about CHF 56 and higher taxes paid but also the increased capital expenditure (capex), which amounted to CHF 43 million in 2021 compared with CHF 19 million in 2020. Capex amounted to 5% of net sales in 2021, within the company's guidance of between 4–5% of sales.

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

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

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

Updated 2025 financial guidance

New VAT mid-term targets – growth expected to continue

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

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

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

2022 expected to be another year of strong growth

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

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

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

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

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

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

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

Sales guidance 2025
in CHF million

~1,500

2021: 901

Valves

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

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

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

Semiconductor demand at record levels

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

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

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

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

Key figures Valves

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

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

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

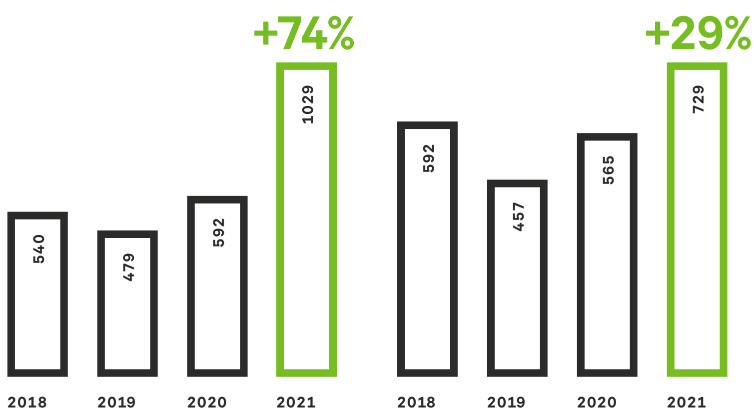
Strong solar demand, displays show signs of recovery

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

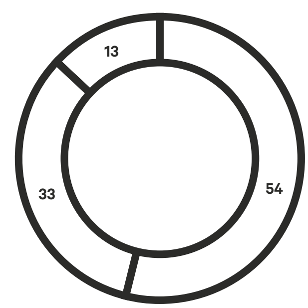
The display market remained in a cyclical low for most of 2021 but started to show signs of recovery in the second half of the year. LCD (liquid crystal display) remains the dominant technology, followed by OLED, which continues to expand its share in premium applications for phones and TVs. VAT also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

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

Order intake & net sales
in CHF million



Net sales
by region %



54 ASIA
33 AMERICAS
13 EMEA

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

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

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

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

Global Service

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

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

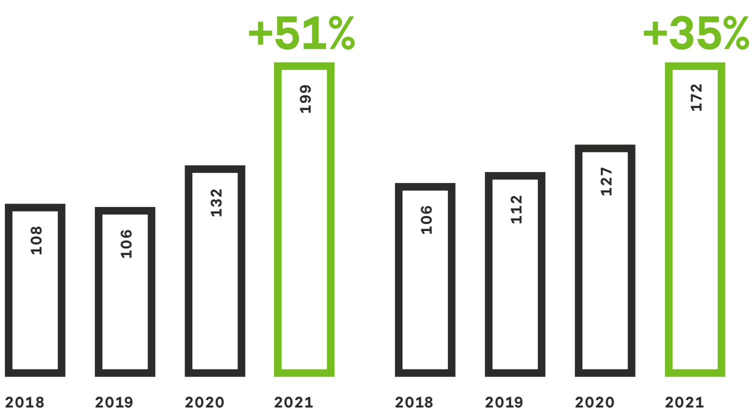
New product development in 2021 centered on the upgrade and retrofit portfolio. In particular, VAT expanded its product offering from the traditional focus on transfer valves to new control valve upgrades that allow for faster and smoother valve reaction times and improved gas flow uniformity. These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

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

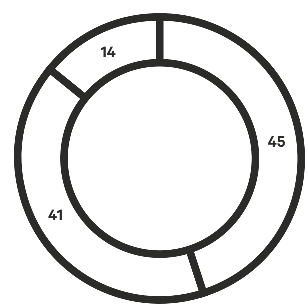
Key figures Global Service

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

Order intake & net sales
in CHF million



Net sales
by region %



45 ASIA
41 AMERICAS
14 EMEA

Performance review 2021
Orders in the Global Service segment increased 50% year-on-year to a record CHF 199 million and sales grew 35% to a record CHF 172 million. Growth was reported in all businesses and was strongest in upgrades and retrofits, capturing the opportunities opened by the new product offering in control valve upgrades. EBITDA grew 48% versus the year before to CHF 79 million. The EBITDA margin increased to 46%, mainly reflecting differences in product introduction costs between the two years.

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance Report

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

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

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

1. Group structure and shareholders

1.1 Group structure

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

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

1.2 Significant shareholders

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

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

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

Name of shareholder

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

1 Position for BlackRock, Inc. as per filing dated April 28, 2021
2 Position for Capital Group Companies, Inc. as per filing dated June 19, 2021
3 Position for Allianz SE as per filing dated June 22, 2021

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

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

1.3 Cross-shareholdings

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

2. Capital structure

2.1 Company's share capital

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

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

2.2 Conditional and authorized capital

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

VAT Group AG does not have any authorized share capital.

2.3 Changes in share capital

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

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

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

2.5 Own shares

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

2.6 Transfer restrictions and nominee registrations

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

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

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

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

2.7 Convertible bonds and options

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

3. Board of Directors

3.1 Members of the Board of Directors

The Articles of Association[2] provide that the Board of Directors shall consist of a minimum of three members, including the Chairman of the Board of Directors who is appointed by the meeting of shareholders. The Board of Directors currently consists of seven non-executive members (including the Chairman).

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

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

Board of Directors

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

3.2 Background, other activities and functions

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

Dr. Martin Komischke, Chairman, was born in 1957 and is a German citizen. Martin Komischke became the Chairman of the Board of Directors of VAT Group AG in May 2017 and was re-elected as Chairman of the Board of Directors at the Annual General Meeting (AGM) in May 2018 and since then annually.
From 2004 to 2016, Martin Komischke served as CEO of HOERBIGER Holding AG, following his function as Head of the Strategic Business Unit Drive Technology and member of the Executive Board from 1996 to 2003. Before that, he held various functions at Kolbenschmidt AG and Mannesmann-Sachs AG.

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

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

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

Heinz Kundert, Vice Chairman, was born in 1952 and is a Swiss citizen. Heinz Kundert became the Vice Chairman of the Board of Directors of VAT Group AG in May 2018 and was since then re-elected annually. From June 2015 to March 13, 2018, he was CEO of VAT Group AG.
Heinz Kundert has extensive experience in the semiconductor industry. Starting 1981, Mr. Kundert served in various management positions for Balzers AG, Balzers & Leybold, Oerlikon-Bührle AG and Unaxis Holding AG. From 1999 to 2004, Heinz Kundert served as COO and then CEO of Unaxis Holding AG (later renamed OC Oerlikon AG). Thereafter, Heinz Kundert worked as a strategy consultant until 2015. Heinz Kundert was CEO of VAT Group AG from June 2015 to March 2018.

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

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

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

Dr. Hermann Gerlinger was born in 1953 and is a German citizen. Hermann Gerlinger became a member of the Board of Directors of VAT in May 2017 and was since then re-elected annually.
Between 2001 and 2016, Hermann Gerlinger was CEO of Carl Zeiss SMT GmbH and from 2006 to 2016 also member of the Executive Board of Carl Zeiss AG. Before that, he held various functions for ZEISS AG. Hermann Gerlinger served as member of the Advisory Board of the German National Metrology Institute (PTB) (2015 until May 2020) and is a member of the Supervisory Board of Siltronic AG since 2011.

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

Urs Leinhäuser was born in 1959 and is a Swiss citizen. Urs Leinhäuser became a member of the Board of Directors of VAT Group AG in March 2016 and was since then re-elected annually.
From 1995 to 1999, Urs Leinhäuser was Head of Corporate Controlling at Georg Fischer AG and later CFO of Georg Fischer's Piping Systems Division. Between 1999 and 2003, he was CFO of Mövenpick Holding AG. From 2003 until 2011, he was CFO and Head Corporate Center at Rieter Holding AG. After the spin-off of Autoneum Holding AG from Rieter Holding AG in 2011, Urs Leinhäuser was CFO and Deputy CEO of Autoneum Holding AG until 2014.

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

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

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

Karl Schlegel was born in 1953 and is a Swiss citizen. He became a member of the Board of Directors of VAT Group AG in March 2016 and was since then re-elected annually.
Karl Schlegel served as CEO of Hamilton Medical AG between 1997 and 2003. Between 2004 and 2013, he was the CEO of VAT Group. From 2014 to 2016, he was a member of the Board of Directors of VAT Holding AG.

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

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

Dr. Libo Zhang was born in 1970 and is a German citizen. She became a member of the Board of Directors of VAT Group AG in May 2018 and was since then re-elected annually.
Libo Zhang is an independent senior consultant of finance, controlling and corporate structuring. She has been the CFO of FFG Europa & Americas, MAG IAS GmbH, a German machine manufacturer, and Borgward Group AG, a German auto manufacturer. From 2010 to 2015, she held various senior financial management positions in Germany and Asia at SGL Group, a leading global manufacturer of carbon-based products, including regional CFO and senior manager of corporate development, mergers and acquisitions. Prior to that, for more than ten years, she held senior positions in finance and commercial operations in the German engineering and aerospace sector.

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

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

Daniel Lippuner was born in 1969 and is a Swiss citizen. He became a member of the Board of Directors of VAT Group AG in May 2020.
From 2017 to 2019, Mr. Lippuner was the Chief Operating Officer at Meyer Burger Group, a global technology leader in the solar photovoltaic industry. Prior to that, he was CEO of Saurer AG, and over the course of more than 25 years has held senior management positions at a number of other international companies, including OC Oerlikon, Hilti Group and Rieter Automotive.

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

3.3 Mandates and other permitted activities

According to art. 23 of the Articles of Association[3], the members of the Board of Directors may have, as a member of the Board of Directors or any other superior management or administrative body, up to six mandates in publicly traded companies, up to ten mandates in private companies and up to 20 mandates in other commercial legal entities. Mandates are activities in the superior management or administrative bodies in legal entities that are obliged to register themselves in a Swiss commercial register or a foreign equivalent and which are not controlled by VAT Group AG, do not control VAT Group AG or do not constitute pension funds insuring employees of the VAT Group. Board members may also exercise up to ten mandates of any function in associations, charity foundations and employee assistance foundations.

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

3.4 Election and term of office

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

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

3.5 Powers and duties

The Board of Directors is entrusted with the ultimate direction of VAT Group AG's business and the supervision of the persons entrusted with VAT Group AG's management. It represents VAT Group AG towards third parties and manages all matters, which have not been delegated to another body of VAT Group AG by law, the Articles of Association[3] or by other regulations.

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

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

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

3.6 Meetings of the Board of Directors

According to the Organizational Regulations[4], the Board of Directors meets at the invitation of the Chairman as often as required to fulfill its duties and responsibilities, but at least quarterly, or whenever a member or the CEO indicating the reasons requests so in writing. If the Chairman of the Board of Directors does not comply with such a request within ten working days, the Vice-Chairman of the Board of Directors will be entitled to convene such meetings.

Resolutions of the Board of Directors are passed with the majority of the votes cast. In the case of a tie, the Chairman has a casting vote. To validly pass a resolution, at least the majority of the members of the Board of Directors must attend the meeting or be present by telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Absent members cannot be represented. A resolution in writing is permitted, provided that no member of the Board of Directors requests oral deliberation. No quorum is required for confirmation resolutions and amendments of the Articles of Association[5] in connection with capital increases or measures related thereto pursuant to Articles 651a, 652e, 652g and 653g of the Swiss Code of Obligations. If a conflict of interest is believed to exist, a member of the Board of Directors shall abstain from voting upon all matters involving the interest at stake.

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

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

3.7 Committees of the Board of Directors

In compliance with the Articles of Association[5], the Board of Directors issued Organizational Regulations[4] that govern tasks and areas of responsibility of the Board of Directors and its Committees as described in this section 3. They are regularly reviewed and updated.

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

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

Board of Directors

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

3.8 Audit Committee (AC)

In accordance with the AC charter[6], the AC consists of at least two members of the Board of Directors. The members of the AC and the AC Chairman are appointed by the Board of Directors. The term of office of the members of the AC is one year. Re-appointment is possible.

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

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

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

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

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

3.9 Nomination and Compensation Committee (NCC)

In accordance with the NCC charter[7], the NCC consists of at least three members of the Board of Directors. The members of the NCC are each elected by the shareholders' meeting. The term of office of the members of the NCC is one year. In this context, a year means the time period between one ordinary shareholders' meeting and the next or, if a member is elected at an extraordinary shareholders' meeting, between such extraordinary shareholders' meeting and the next ordinary shareholders' meeting. Re-election is possible. If there are vacancies on the NCC, the Board of Directors shall appoint substitutes from amongst its members for the remaining term of office.

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

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

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

- the compensation of the executive management,
- the compensation scheme of the VAT Group pursuant to the principles of art. 25 and 26 of the Articles of Association[8],
- the determination of compensation-related targets for the executive management,
- the approval of the individual compensation of the Chairman of the Board of Directors, the other members of the Board of Directors as well as the maximum individual aggregate compensation of the CEO,
- the individual compensation (fixed and variable compensation) of the members of the executive management as well as their further terms of employment and titles,
- amendments to the Articles of Association with respect to the compensation scheme for members of the executive management,
- mandates pursuant to art. 23 of the Articles of Association and further additional occupation of the members of the executive management.

Further duties and responsibilities may be provided in the Articles of Association, the Organizational Regulations[9] such as the NCC charter[7] or law.

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

7 The NCC charter of VAT Group AG is published at https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters.
8 The Articles of Association of VAT Group AG are published at https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters.
9 The Organizational Regulations of VAT Group AG are published at https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters.

3.10 VATmotion Committee and Technology Committee

In accordance with the Organizational Regulations[9], the Board of Directors can appoint committees to prepare and execute its resolutions and to supervise the company. In 2017, the Board of Directors established the VATmotion Committee and the Technology Committee (TC).

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

In accordance with the TC Charter[10], the TC consists of at least two members of the Board of Directors. It provides advice to the full Board of Directors in technological terms. It supports the management team in the development of the technology strategy and the evaluation of the company's research, development and product portfolio. The TC is currently chaired by Hermann Gerlinger who is supported by Karl Schlegel.

3.11 Meetings of the Committees of the Board of Directors

According to the Organizational Regulations[11], the meetings of the Committees are convened by their Chairman, usually ahead of each ordinary Board of Directors meeting, and are held as often as required but in general at least three times a year.

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

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

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

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

3.12 Overview of meetings in 2021

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

Formal meetings and conference calls

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

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

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

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

The Board of Directors is responsible for the ultimate direction of VAT Group AG as well as the supervision of the Group Executive Committee. The Board of Directors attends to all matters which are not delegated to or reserved for another corporate body of VAT Group AG by applicable laws, the Articles of Association[12] or the Organizational Regulations[13]. The Board of Directors is regularly informed about developments of VAT Group AG and the VAT Group and decides upon proposals and reports provided by the Committees or the Group Executive Committee.

The Board of Directors delegated the executive management of VAT Group AG and of the VAT Group to the Group Executive Committee acting under the leadership of the CEO, subject to applicable laws and the Articles of Association[12]. Further, the Board of Directors may delegate the preparation, proposal and execution of its resolutions or the supervision of certain projects and topics to one or several members of the Board of Directors, to a Committee, to the CEO, or to one of the members of the Group Executive Committee.

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

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

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

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

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

Based on the Organizational Regulations[13] of the Board of Directors, the AC has implemented a comprehensive system for monitoring and controlling the risks linked to the company's business activities. This includes risk identification, analysis, control and periodical reporting to the AC. Operationally, the Group Executive Committee is responsible for controlling risk management. In addition, responsible persons are designated in the company for significant individual risks and control activities, such as periodic internal audits of internal control systems (more details can be found in Section 8.1 herein).

4. Group Executive Committee

Subject to those affairs, which lie within the responsibility of the Board of Directors according to Swiss law, the Articles of Association[14] and the Organizational Regulations[15], the Board of Directors has delegated the executive management of VAT Group AG to the Group Executive Committee acting under the leadership of the CEO. The Group Executive Committee is mainly responsible for the financial and operational management and for the efficiency of the corporate structure and organization of the VAT Group AG.

4.1 Members of the Group Executive Committee

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

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

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

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

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

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

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

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

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

Dr. Stephan Bergamin, born in 1966, Swiss citizen, was CFO of VAT Group AG from January 2019 until June 2021.
Stephan Bergamin joined VAT Group AG from Gearbulk Group, a specialized global cargo shipping company, where he was CFO from 2015 to 2018. Prior management positions include CFO roles at Goldbach, Cofely, the Steiner Group and companies within Swissair Group. He also worked in the corporate finance department at Credit Suisse as a finance consultant and project leader.

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

Fabian Chiozza, born in 1981, Swiss citizen, was appointed as CFO of VAT Group AG in April 2021.
Fabian Chiozza joined VAT Group AG from Autoneum Group, the global leader in acoustic and thermal management for the automotive industry, where he was the divisional CFO for the Business Group South America, Middle East and Africa. Before that, Fabian Chiozza held a variety of senior finance positions at Rieter Group, including Group Controller, and established a successful track record in corporate development and mergers and acquisitions.

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

Dr. Thomas Berden, born in 1971, German citizen, was appointed Chief Operating Officer of VAT Group AG in October 2020.
Thomas Berden joined VAT Group AG from the Swedish bearing and seal manufacturer AB SKF, where he headed the international spherical roller bearings business. Previously, Thomas Berden was Head of Global Manufacturing for the building and construction products company Hilti in Kaufering, Germany. He has also held management positions at BSH Bosch Siemens Hausgeräte and Siemens AG, Germany.

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

4.2 Mandates and other permitted activities

According to art. 23 of the Articles of Association[16], with the approval of the NCC, the members of the Group Executive Committee may have, as a member of the Board of Directors or any other superior management or administrative body, up to three mandates in publicly listed companies, up to five mandates in companies pursuant to art. 727 para. 1 number 2 of the Swiss Code of Obligations, and up to five mandates in other legal entities. Mandates are activities in the superior management or administrative bodies in legal entities that are obliged to register themselves in a Swiss commercial register or a foreign equivalent and which are not controlled by VAT Group AG, do not control VAT Group AG or do not constitute pension funds insuring employees of the VAT Group.

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

4.3 Management contracts

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

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

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

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

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

5.1 Compensation, shareholdings and loans

Information on compensation and shareholdings of the members of the Board of Directors and the Group Executive Committee can be found in the Compensation Report starting on page 59. The provisions regarding the principles of performance-related compensation, the allocation of equity securities, participation plans, the additional amount for payments to members of the Group Executive Committee appointed after the vote on remuneration by the shareholders' meeting, as well as regarding loans, credits and pension benefits are set in art. 25 to 29 of the Articles of Association[17]. The rules regarding the approval of the remuneration by the shareholders' meeting are set in art. 12 of the Articles of Association[17].

According to the Articles of Association[17], VAT Group AG may not grant loans, credits, pension benefits other than from occupational pension funds or securities to members of the Board of Directors or the Group Executive Committee; advance payments of fees for lawyers, court fees and similar costs relating to the defense against corporate liability claims up to a maximum of CHF 1,000,000 are not subject to this provision. See also information provided in the Compensation Report on page 62, 63, 64 and 70.

6. Shareholders' participation

6.1 Voting rights restrictions

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

Voting rights may be exercised only after a shareholder has been registered in VAT Group AG's share register as a shareholder with voting rights. In shareholders' meetings, each shareholder has equal rights, including equal voting rights. According to the Articles of Association[17], each share carries one vote. All shares are entitled to dividends. At shareholders' meetings, shareholders may be represented by a proxy appointed in writing, a representative by law or the independent proxy. The proxy need not be a shareholder. Under the Articles of Association[17] and after due consultation with the persons concerned, VAT Group AG is authorized to delete entries in the share register with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information. The person concerned has to be immediately informed about the deletion.

6.2 Independent proxy

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

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

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

6.3 Quorums required

No statutory quorums other than those defined by Swiss corporate law and the Swiss Federal Merger Act apply. Any article of the Articles of Association[18] providing for a greater voting requirement than is prescribed by law or the existing Articles of Association must be adopted by a qualified majority of at least two thirds of the represented share votes and the absolute majority of the represented shares par value. The Articles of Association do not prescribe that a quorum of shareholders is required to be present at a shareholders' meeting.

6.4 Convocation of shareholders' meetings

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

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

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

6.5 Entry in the share register

The Articles of Association[18] do not specify the date by when shareholders have to be entered into the share register to participate in the shareholders' meeting. For organizational reasons, no shareholders will be registered 12 calendar days prior to the shareholders' meeting.

7. Change of control provisions

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

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

Art. 33 of VAT Group AG's Articles of Association[18] provides for a selective "opting-out" for the stated entities of Partners Group[19] and Capvis[20], which are, when acting alone or in concert, exempted from the duties pursuant to the FMIA. This opting-out provision expired December 31, 2020, meaning that if following such date any of the exempted persons (alone or acting in concert) newly exceeds the threshold of 33⅓% of the voting rights (whether exercisable or not), art. 135 FMIA will apply to that person as well.

7.2 Change of control

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

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

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

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

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

8. Audits

8.1 Internal Audit

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

8.2 External Audit

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

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

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

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

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

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

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

9. Blackout Periods

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

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

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

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

10. Information policy

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

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

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

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

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Financial reports: https://ir.vatvalve.com/en/financial-reports
Newsletter subscription: https://ir.vatvalve.com/en/news-service

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

Compensation Report

The Compensation Report describes the compensation principles and programs as well as the governance framework related to the compensation of the Board of Directors (Board) and the members of the Group Executive Committee (GEC) of VAT Group AG (VAT Group). The report also provides details on the compensation awarded to members of the Board in the 2021 financial year.

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

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

Dear Shareholders,

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

VAT Group reported another set of record results in 2021. Strong demand, especially in the semiconductor industry, coupled with further market share gains and operational measures to boost capacity and productivity drove record orders, net sales, EBITDA, EBITDA margin, net income and free cash flow. This was achieved despite persistent challenges posed by the global COVID-19 pandemic and some significant supply constraints. Net sales in 2021 increased 30% to CHF 901 million, with an EBITDA margin of 34.2%.

The Board is convinced that VAT Group's compensation system is key to attracting, motivating and retaining talented people who can strengthen the Company's leading global position in high-end vacuum valve technology. Our aim is to balance fixed and variable compensation and short- and long-term incentives so that management's interests are aligned with those of other stakeholders. In short, we want to create a culture of sustainable value creation.

In 2021, the NCC conducted the review of the equal pay analysis in Switzerland, as required by the newly introduced Swiss Federal Act on Gender Equality. Our compensation principles and commitment to pay fairly is demonstrated by the successful completion of the equal pay analysis and certification in Switzerland.

The NCC performed its regular annual activities throughout the year, such as setting the performance goals and assessing the performance of GEC members, determining the level of compensation of the Board and the GEC, as well as preparing the Compensation Report 2021 and the say-on-pay vote for the 2022 Annual General Meeting (AGM). In particular, the NCC slightly revised the peer group of companies for the compensation benchmarking in order to reflect the size of the Company and conducted a review of the compensation of the Board of Directors. You will find further information on the NCC activities and on VAT Group's compensation system and governance on the following pages.

This Compensation Report will be submitted to a non-binding, consultative shareholders' vote at the upcoming AGM. You will also be asked to vote on the maximum aggregate compensation amount of the Board for the term of office from the 2022 until the 2023 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2021, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2023, and on the maximum aggregate amount of the long-term incentive plan of the GEC for financial year 2023.

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

NCC of VAT Group — Haag, March 3, 2021

2. Compensation at a glance

Summary of current remuneration system Board of Directors

The members of the Board of Directors only receive a fixed compensation in the form of cash and shares, in order to ensure their independence in the performance of their supervisory function; shares are blocked for three years. The compensation system does not contain any performance-related components.

In CHF per year (gross)	Chair of the Board	Member of the Board
Fixed basic fee	230,000	86,250

In CHF per year (gross)	Committee chair	Committee member
Audit Committee	25,000	11,500
Nomination and Compensation Committee	25,000	11,500
Technology Committee	25,000	11,500
VATmotion Committee	25,000	11,500

Changes to Board compensation as of AGM 2022

Shareholders will be asked to approve an overall increase of compensation levels to align closer to market median. For the Board chair, the eligibility to committee fees will be discontinued and reflected in the overall chair retainer. Compensation for the Board vice-chair and Board members will be increased and compensation for additional tasks for all members will be discontinued.

Summary of current compensation system Group Executive Committee

The compensation of the Group Executive Committee consists of fixed and variable elements.

– Base salary and benefits form the fixed compensation.
– Variable compensation drives and rewards best-in-class performance based on ambitious and stretched targets.
– It consists of short-term and long-term elements.

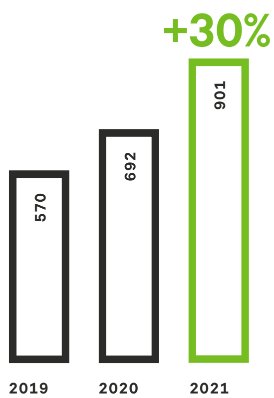
Base salary	Pay for the function	Continuous
Short-Term Incentive (STI)	Reward annual financial and individual performance; attract & retain	1-year cash
Long-Term Incentive (LTI)	Reward long-term performance Align to shareholders' interests	3-year vesting period of PSU, subject to performance conditions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

Remuneration policy and principles applicable to the GEC

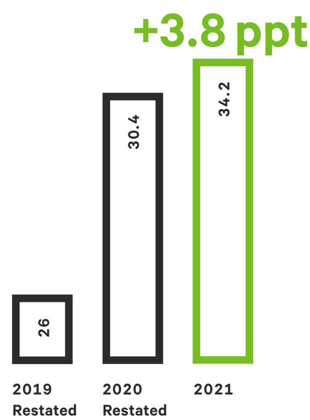
VAT Group's compensation principles support the Company's business strategy and foster the commitment of all employees to the Company's long-term goals. The compensation principles are:

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

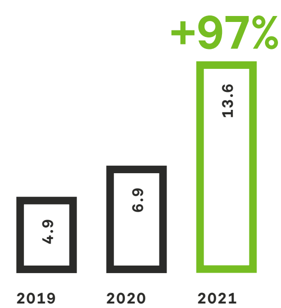
Sales in CHF million



EBITDA margin in %



Market Capitalization in CHF billion



VAT financial performance

Over the past three years, VAT has steadily improved its financial performance, resulting in substantially increased market capitalization.

Compensation awarded for the Board for 2020/2021

The compensation paid to the Board for the term AGM 2020 to AGM 2021 is within the maximum aggregate amount approved by the shareholders.

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2020–AGM 2021	1,006,000	889,183

Short-term performance achievement for 2021

The STI payout increased significantly compared to previous year, predominantly driven by the overall higher performance in 2021 compared to 2020. All financial objectives were overachieved, reflecting a record business performance in 2021.

Fixed compensation awarded for the GEC for 2021

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2021	1,990,000	1,844,973

Compensation governance

- Authority for decisions related to remuneration are governed by the Articles of Association of VAT Group.
- The maximum aggregate amounts of remuneration of the members of the Board of Directors and of the Executive Committee are subject to binding votes at the Annual General Meeting.
- In addition, the Compensation Report for the preceding period is subject to a consultative vote at the Annual General Meeting.
- The Board of Directors is supported by the NCC in preparing all compensation-related decisions regarding the Board of Directors and the Executive Committee.

3 Compensation governance

3.1 Articles of Association

The Articles of Association of VAT Group can be found on the corporate website https://ir.vatvalve.com/en/corporate-governance/articles-regulations-charters and are summarized below in Table 1. The provisions on compensation in the Articles of Association include the principles of compensation applicable to the Board and the GEC, the structure of the shareholders' vote on compensation, the additional compensation amount for GEC members appointed after the approval of the maximum aggregate compensation amount by the shareholders and provisions on credit and loans.

Table 1: Articles of Association

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

3.2 Nomination and Compensation Committee

In accordance with the NCC charter[1], the NCC consists of at least three members of the Board who are elected annually by the shareholders for a term of one year until the next Annual General Meeting. At the AGM 2021, Martin Komischke (Chair), Heinz Kundert and Karl Schlegel have been re-elected as members of the NCC.

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

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

Additional information on the responsibilities of the NCC is provided in section 3.9 of the Corporate Governance Report on page 50.

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

The NCC acts in a preparatory capacity while the Board retains the decision authority on compensation matters, except for the maximum aggregate compensation amounts of the Board and of the GEC, which are subject to shareholders' approval at the AGM. The approval and authority levels of the different bodies on compensation matters are detailed in Table 2.

Table 2: Decision authorities in compensation matters

	CEO	NCC	Board	AGM
Maximum aggregate compensation amount Board		Proposes	Reviews	Approves
Individual compensation of Board members		Proposes	Approves	
Group compensation policy and principles		Proposes	Approves	
Maximum aggregate compensation amount GEC		Proposes	Reviews	Approves
Performance target setting and assessment of CEO		Proposes	Approves	
Performance target setting and assessment of other GEC members	Proposes	Reviews	Approves	
CEO compensation		Proposes	Approves	
Individual compensation of other GEC members	Proposes	Reviews	Approves	
Compensation report		Proposes	Approves	Consultative vote

The NCC meets as often as business requires, but at least three times a year. In 2021, the NCC held three formal meetings. Details on meeting attendance of the individual NCC members are provided in section 3.12 of the Corporate Governance Report on page 52.

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

The NCC may decide to consult external advisors for specific compensation matters. In 2021, Agnès Blust Consulting was mandated to provide consulting services related to executive and Board compensation matters. The company has no other mandate with VAT Group.

4. Compensation for the Board of Directors

4.1 Compensation principles

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

4.2 Compensation structure

The compensation for the members of the Board is fixed and does not contain any performance-related component. The annual compensation for each member of the Board depends on the functions and tasks carried out in the year under review. It consists of an annual fixed basic fee for the chair of the Board, a fixed basic fee for the members of the Board, plus additional fees for assignments to the committees of the Board, either as chair or member.

The compensation period relates to the term of office, which starts with the election at the ordinary AGM and ends at the next ordinary AGM. The amount of the fixed basic fee and the fixed committee fees reflect the responsibility and time requirement inherent to the function, as illustrated in Table 3. For 2021/2022 a first increase of the fixed basic fees for the members and the chair since the IPO was deemed appropriate. The Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of VAT Group.

Table 3: Structure and levels of Board compensation AGM 2021 until AGM 2022

In CHF per year (gross)	Chair of the Board	Member of the Board
Fixed basic fee	230,000	86,250

	Chair of the Committee	Member of the Committee
Audit Committee (AC)	25,000	11,500
Nomination and Compensation Committee (NCC)	25,000	11,500
Technology Committee	25,000	11,500
VATmotion Committee	25,000	11,500

70% of total compensation is awarded in cash and 30% is awarded in restricted shares. The restricted shares are subject to a three-year blocking period during which they cannot be transferred, sold, pledged or otherwise disposed of. The blocking period of the restricted shares can only lapse prior to the predefined date of unblocking (and will do so automatically) in case of deaths or due to a successful takeover bid or the delisting of the Company. Shares remain blocked in any other cases, including if the Board member leaves the office during the blocking period.

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

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

The compensation of the Board is periodically benchmarked against the compensation of non-executive Board members of publicly traded companies in Switzerland that are comparable to VAT Group in terms of size and complexity. In 2021, a thorough review has been conducted in order to determine the competitiveness of the Board compensation in terms of structure and overall level. For this purpose, a peer group of Swiss multinational industrial companies listed on the Swiss Stock Exchange (SIX) was selected and includes Bachem, Bobst Group, Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis + Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. This peer group is balanced in terms of market capitalization, revenue size and headcount. The analysis concluded that while the compensation structure is in line with market practice, the compensation levels are below market median. The NCC proposed to the Board to increase the Board compensation levels closer to market median from AGM 2022 onwards. For the Board chair, it was further decided to discontinue the eligibility to committee fees. His contribution to the committees will be reflected in the overall Board chair retainer. The compensation for the vice-chair will be significantly increased to differentiate between vice-chair and Board members (as they are currently paid the same levels). For all members of the Board, the compensation for additional tasks will be discontinued. Such compensation was not utilized in the past and it is not considered good practice.

The overall changes to the structure and levels will require that the maximum aggregate compensation amount of the Board for the period from 2022 to 2023 will be increased by 23% and proposed to the AGM 2022 for approval. With this increase, it is intended to keep the levels stable over a period of time.

5. Compensation for the GEC

5.1 Compensation principles

VAT Group's compensation principles for the GEC support the Company's business strategy and foster the commitment of all employees to the Company's long-term goals. The compensation principles are:
- internal fairness,
- reward for performance,
- focus on sustainable long-term value creation,
- alignment to shareholders' interest,
- market competitiveness,
- simplicity and transparency.

5.2 Compensation structure

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

Table 4: Structure of compensation for GEC

	Program	Purpose	Plan period
ABS	Monthly cash salary	Attract and retain	Continuous
STI	Annual bonus in cash	Reward annual financial and individual performance	1 year
LTI	Equity-based plan	Reward long-term performance Align to shareholders' interests	3 years
Benefits	Pension and insurances	Protect against risks Attract and retain	Continuous
Non-tangible rewards such as work environment and culture, personal development and career opportunities			

To ensure competitiveness with the market, the compensation of the GEC is regularly benchmarked. In 2021, a benchmarking of the GEC compensation has been conducted by Willis Towers Watson on the basis of the same peer group of Swiss multinational industrial companies as for the benchmarking of the compensation of the Board: Bachem, Bobst Group, Burckhardt Compression, Comet, Dätwyler, Georg Fischer, Inficon, Interroll, Landis+Gyr, LEM, OC Oerlikon, SFS, Siegfried Holding, Sulzer and Tecan. The results of this benchmark analysis served as basis to assess the compensation level competitiveness of the GEC members for 2021 and 2022.

5.3 Annual base salary (ABS)

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

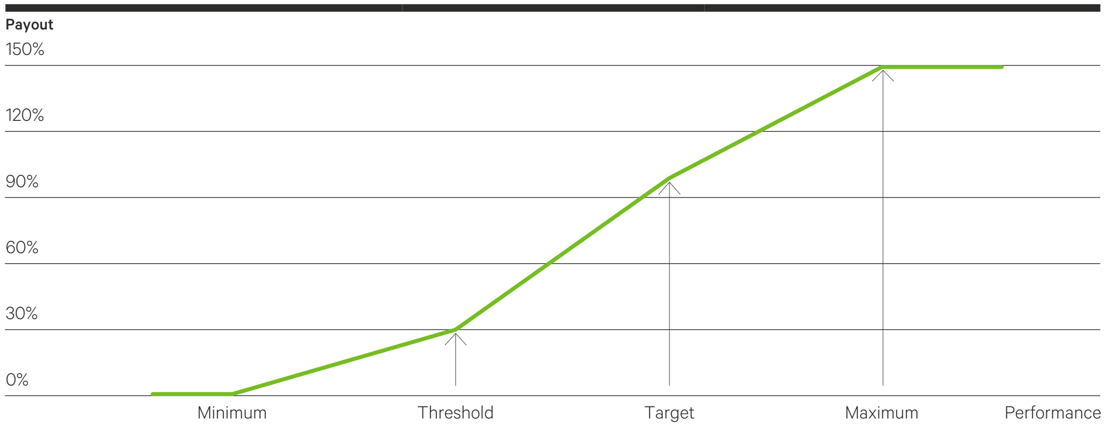
The ABS is reviewed annually on the basis of the following factors:
- external benchmark: market value of the role,
- internal benchmark: internal pay structure and internal peer comparison,
- individual profile and past performance of the employee,
- financial considerations such as budget and affordability.

5.4 Variable Cash Compensation (STI)

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

The individual variable target compensation amounts for the GEC are annually reviewed in the context of total compensation. The target STI nominal value translates to a percentage of ABS of 62% for the CEO and between 46% and 49% for the other GEC members for 2021 on a full-year basis, assuming an average performance achievement of 100%. The plan also includes a minimum performance threshold below which the STI payout is zero, and a maximum level of performance above which the payout factor is capped at 150% of the target STI value. An additional threshold target for 30% payout level is also defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

Table 5: STI payout curve for 2021



For all GEC members, company performance accounts for 70% of the STI, while individual performance accounts for 30%. The Company performance conditions are proposed annually by the NCC and approved by the Board. They are directly derived from the business strategy of profitable growth and are illustrated in Table 6.

After year-end, the NCC assesses the achievement of those performance measures and calculates the corresponding payout factor, which is subject to Board approval. For the individual performance component, the NCC conducts an assessment of the individual contributions of each GEC member at the end of the year based on a predetermined grid of criteria related to operational performance and to environment, social and governance aspects (as illustrated in Table 7) and proposes the corresponding performance achievement percentage to the Board for approval.

Table 6: STI key performance indicators for the CEO and other GEC members in 2021

Focus in 2021	Performance objectives	Weighting
Profitability	EBITDA margin Free cash flow	23.3% 23.3%
Growth	Specification wins: number of auditable significant specification wins, co-development agreements, new business models or sales channels	23.3%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see Table 7	30%
Total		**100%**

Table 7: STI evaluation grid for individual performance of the CEO and other GEC members in 2021

Operational results		
Growth	Entry in new markets, opening of new subsidiaries, development of new projects & products, M&A transactions, key strategic projects to support growth	29%
Profitability	Process efficiencies, cost-saving initiatives, pricing, supply chain management, projects to support profitability	29%
Environment, Social and Governance (ESG)		
Environment	GHG emission, energy efficiency, mobility programs (business travel), waste reduction, water consumption, etc.	14%
Social	Employees: health & safety, accident rate, diversity & non-discrimination, working conditions, training & development, employee satisfaction & engagement, turnover, labor rights Customers: customer satisfaction, data privacy, product safety, product quality Society: human rights, philanthropy, impact on local communities Supply chain monitoring	14%
Governance	Bribery & corruption, risk management, conflicts of interest	14%
Total		**100%**

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

5.5 Long-term share-based compensation (LTI)

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

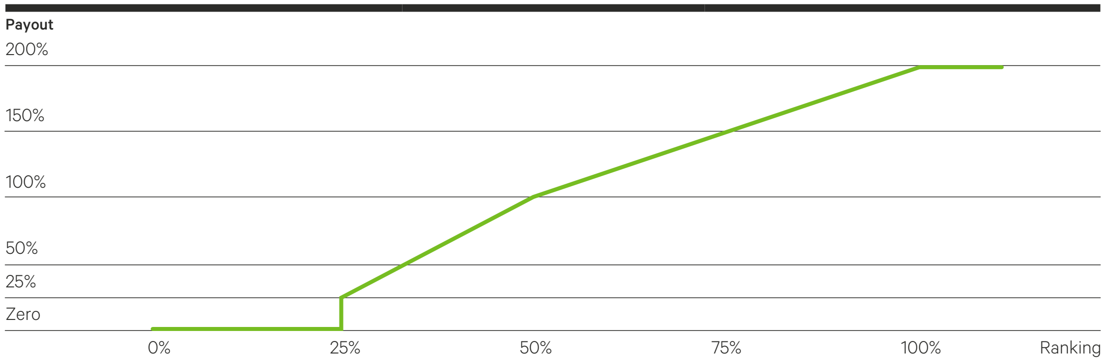
– relative net sales growth, with a 33 1/3% weight,
– relative total shareholder return (TSR), with a 33 1/3% weight,
– relative Return on Invested Capital (ROIC), with a 33 1/3% weight.

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

In 2021, the LTI nominal value amounts represent 77% of ABS for the CEO and between 46% and 47% of ABS for the other GEC members on a full-year basis. To determine the number of PSU granted, the LTI nominal value is divided by the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date.

At vesting, relative net sales growth, relative ROIC and relative TSR performance will be compared to peer companies and expressed as a percentile rank, which determines a payout factor between 0% and 200% as follows:
– ranking below the lower quartile of the peer group (threshold): 0% payout,
– ranking at the lower quartile of the peer group: 25% payout,
– ranking at the median of the peer group: 100% payout,
– ranking at the upper quartile of the peer group: 150% payout,
– ranking as best of the peer group (cap): 200% payout,
– linear interpolation between those points.

Table 8: Vesting schedule of the LTI



The weighted average of the three payout factors (relative sales growth, relative ROIC and relative TSR) provides for the overall vesting level of the LTI award.

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

The peer group is confirmed by the Board prior to the annual grant of PSU and may be adjusted if required due to corporate events such as merger, acquisition, business combination transaction, delisting or bankruptcy of peer companies. In 2021, the Board approved a revised peer group for the future LTI grants to intensify the performance benchmarking with sector peers. Further, the Board accepted the deletion of a peer due to its delisting with no substitution for current outstanding grants. The peer group is illustrated in Table 9.

Table 9: Peer group for the 2021 LTI grant

Advanced Energy Industries	Advantest	Applied Materials	ASM international	ASML
Axelis Technologies	Brooks Automation	Centrotherm International	CKD Corporation	Comet
Ferrotec Holdings	Horiba	Ichor Holdings	Inficon	KLA-Tencor
LAM Research	Manz	MKS	Pfeiffer Vacuum Technology	Pivotal Systems
Sensirion Holding	SMC		Tokyo Electron	Ulvac

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

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

5.6 Benefits

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

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

5.7 Employment contracts

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

5.8 Clawback and malus provisions

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

6. Compensation awarded to the Board and to GEC in 2021

6.1 Compensation awarded to the Board in 2021

For 2021, the members of the Board received a total compensation of CHF 1.0 million (2020: CHF 0.9 million) in the form of fixed basic fees of CHF 0.7 million (2020: CHF 0.6 million), committee fees and other expenses of CHF 0.2 million (2020: CHF 0.2 million) and social security contributions of CHF 0.1 million (2020: CHF 0.1 million). Out of the total compensation of CHF 1.0 million (2020: CHF 0.9 million), CHF 0.3 million (2020: CHF 0.2 million) are awarded in form of restricted shares. The increase of 12% compared to previous year results from the increase of fixed basic fees and committee membership fees since the AGM 2021 and increased social security contributions.

Table 10: Compensation of the Board in 2021 and 2020

(CHF, gross)	Year	Fixed basic fee	Committee fees	Other payments	Social security	Total compensation	Thereof in shares
Martin Komischke, Chair	2021	217,500	50,000	1,500	22,086	291,086	82,236
	2020	200,000	50,000	1,500	20,645	272,145	75,009
Heinz Kundert, Vice-Chair	2021	81,563	10,875	1,500	5,693	99,631	28,491
	2020	75,000	10,000	1,500	5,126	91,626	25,515
Herman Gerlinger	2021	81,563	35,875	1,500	7,538	126,476	36,086
	2020	75,000	32,917	1,500	6,812	116,229	32,401
Urs Leinhäuser	2021	81,563	35,875	1,500	10,086	129,024	36,086
	2020	75,000	37,083	1,500	9,603	123,186	33,657
Daniel Lippuner[1]	2021	81,563	6,709	1,500	7,613	97,385	26,481
	2020	43,750	–	875	3,773	48,398	13,125
Karl Schlegel	2021	81,563	32,625	1,500	7,298	122,986	35,161
	2020	75,000	32,083	1,500	6,751	115,334	32,187
Libo Zhang	2021	81,563	10,875	1,500	7,498	101,436	28,492
	2020	75,000	10,000	1,500	7,314	93,814	25,515
Total	2021	**706,878**	**182,834**	**10,500**	**67,812**	**968,024**	**273,033**
	2020	618,750	172,083	9,875	60,024	860,732	237,409

1 Since AGM of 14 May 2020.

At the AGM on May 14, 2020, shareholders approved a maximum aggregate compensation amount of CHF 1,006,000 for the Board for the compensation period from the AGM 2020 until the AGM 2021. The remuneration paid to the Board for this term was CHF 889,183 and is therefore within the approved limits.

At the AGM of May 18, 2021, shareholders approved a maximum aggregate compensation amount of CHF 1,101,000 for the Board for the term from the AGM 2021 until the AGM 2022. The remuneration paid to the Board for this term is anticipated to be approximately CHF 1,020,000. The final amount will be disclosed in the 2022 Compensation Report.

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

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

6.2 Compensation awarded to the GEC for 2021

In 2021, the members of the GEC received a total compensation of CHF 3.27 million (2020: CHF 2.63 million). This amount comprises annual base salaries of CHF 1.31 million (2020: CHF 0.95 million), STI of CHF 0.93 million (2020: CHF 0.65 million), other expenses of CHF 0.07 million (2020: CHF 0.16 million), contributions to social security and post-employment benefits of CHF 0.47 million (2020: CHF 0.36 million) and an LTI grant value of CHF 0.5 million (2020: CHF 0.52 million). The variable compensation amounts to 103% (2020: 100%) of the fixed compensation for the CEO and 61% (2020: 62%) on average for all the other GEC members.

Table 11: Compensation of the GEC in 2021 and 2020

(CHF, gross)	Year	ABS	Other payments[2]	Pension & social security (fixed)	Total fixed compensation	STI payout[3]	LTI grant[4]	Total compensation[5]
Michael Allison	2021	520,000	0	211,423	731,423	451,765	300,606	1,483,794
	2020	500,000	0	191,461	691,461	389,625	301,969	1,383,055
Other GEC	2021	786,243	69,483	257,823	1,113,549	475,190	201,960	1,790,699
	2020	445,000	156,962	167,530	769,492	260,515	215,096	1,245,103
Total GEC[1]	**2021**	**1,306,243**	**69,483**	**469,246**	**1,844,972**	**926,955**	**502,566**	**3,274,493**
	2020	945,000	156,962	358,991	1,460,953	650,140	517,065	2,628,158

1 Three GEC members were in office on December 31, 2021, including nine months in office for the new CFO. It also includes contractual payments during the notice period for one GEC member who stepped down in January 2021. Three GEC members were in office on December 31, 2020.
2 Includes payments related to the relocation of new GEC members in 2021 and 2020 as well as payments of remaining vacation days for the GEC member who left the Company in 2021.
3 STI for 2021 to be paid out until June 30, 2022; it includes the pro rata STI for the GEC member who left the Company in 2021; STI for 2020 was paid out until June 30, 2021.
4 Grant value of the LTI awarded is based on the Monte Carlo evaluation of the PSU. The total number of PSU granted in 2021 amounted to 1,932 for the CEO and 1,298 for the other GEC members, based on the average daily closing share price of the VAT shares during the 20 trading days preceding the grant date. It includes a replacement award to the new CFO granted under the Long-term Incentive program in PSUs (LTI), which was forfeited by his previous employer as a result of joining VAT Group. For 2020, it includes the 2020 LTI grant value for the former CFO, despite the fact, that all outstanding PSUs granted are forfeited due to his leaving in 2021.
5 All compensation amounts are disclosed gross.

The total aggregate annual base salaries of the GEC increased by 38% overall (2020: -22%). This is due to contractual payments in relation to the notice period for one GEC member who left the Company in 2021 and the lower cost for the GEC in 2020 due to the COO role being vacant and covered ad interim by the CEO for 9 months without additional compensation.

The STI payout increased by 43% compared to previous year. The overall performance achievement under the STI was higher than in the previous year. However, the STI value for 2020 was lower due to the change in GEC composition in 2020. The overall financial and individual performance achievement of the GEC of 133% (2020: 123%) was marked by outperformance of the Group financials. Net sales for the year increased by 30% to CHF 901 million. Reflecting the strong business performance, VAT posted an all – time record EBITDA margin of 34.2%. The EBITDA, free cash flow and specification wins targets outperformed, and the individual performance achievements ranged from 111% to 124% of target for the GEC members in office. There was no discretion applied by the Board when determining the final payout for 2021.

Table 12: summary of 2021 performance for the STI

		Threshold	Target	Ceiling
Profitability	EBITDA margin			
	Free cash flow			
	Specification wins			
Individual performance assessment	Operational results & ESG			

The LTI grant value amounted to CHF 0.5 million (compared to CHF 0.5 million in previous year). Overall a higher fair value of the grant in 2021 (LTI grant value per PSU 2021: CHF 155.593, 2020: CHF 115.83) balanced off the lower number of PSUs granted in 2021. The PSU numbers were determined by dividing the LTI nominal target value by the market value of shares prior to the grant date. This was significantly higher for the 2021 grant than for the prior year.

In line with the overall increase of the total compensation in 2021 for the GEC, the social security and pension contributions increased compared to the previous year.

The total fixed compensation of CHF 1.84 million (including pension and social security contributions) awarded for the financial year 2021 is within the maximum aggregate compensation amount of CHF 1.99 million approved by the shareholders.

The aggregate grant value of CHF 0.5 million awarded under the LTIP at target is within the maximum amount of CHF 1.70 million approved by the shareholders.

The STI of CHF 0.93 million will be submitted to shareholders' vote at the 2022 AGM.

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

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

7. Shareholdings and vesting of outstanding LTI award

7.1 Shareholdings as of December 31, 2021

At the end of 2021, members of the Board held a total of 77,608 (2020: 76,618) registered shares of VAT Group[2]. GEC members held a total of 468 (2020: 751) registered shares of VAT Group and a total of 10,793 (2020: 13,865) performance share units.

The details on shareholdings of the members of the Board and the GEC is included in note 4.3 of the statutory financial statements of VAT Group on page 130 of the Annual Report.

At the end of 2021, members of the Board and the GEC did not hold any stock options.

7.2 Vesting of outstanding LTI award

The vesting level for the 2018 LTI award which was due to vest by end of 2020 (LTI performance period 2018–2020), considering the performance of the relative sales growth and the relative TSR against the peer group, was 79%.

The PSU grant under the LTI plan in 2019 vested at the end of 2021. The final vesting level will be available in May 2022, after the annual results of the peers for 2021 have been published, and will be reported in the 2022 Compensation Report.

Table 13: Vesting level of PSUs

Grant year	Vesting year	Overall vesting %[1]
2017	2019	76%
2018	2020	79%
2019	2021	vested, performance evaluation pending
2020	2022	pending[2]
2021	2023	pending[2]

1 Vesting level of the Performance Share Units. Current GEC members have joined after 2017 grant and are no beneficiaries of the 2017 LTI grant.
2 Performance periods are still ongoing. Numbers will be available after the end of the respective performance period.

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

Report of the Statutory Auditor

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

We have audited the accompanying remuneration report of VAT Group AG for the year ended December 31, 2021.

The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in table 10 “Compensation of the Board in 2021 and 2020” on page 70 and table 11 “Compensation of the GEC in 2021 and 2020” on page 71 of section 6 of the compensation report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remunera-tion report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordi-nance. 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 as-sessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report for the year ended December 31, 2021 of VAT Group AG complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Simon Niklaus Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, March 2, 2022

Financial Statements

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided.

Consolidated financial statements for the financial year from January 1 to December 31, 2021

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2021	2020 Restated[2]
Net sales	**2.1, 2.2**	**901,159**	**692,427**
Raw materials and consumables used		–362,337	–282,486
Changes in inventories of finished goods and work in progress		31,648	20,195
Personnel expenses	4.1	–201,162	–175,732
Other income	2.3	11,486	14,055
Other expenses	2.4	–72,874	–57,951
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**307,920**	**210,509**
Depreciation, amortization and impairment		–43,058	–40,700
Earnings before interest and taxes (EBIT)[1]		**264,862**	**169,809**
Finance income	5.1	239	124
Finance costs	5.1	–7,366	–15,708
Earnings before income taxes		**257,735**	**154,225**
Income tax expenses	6.1	–40,295	–26,283
Net income attributable to owners of the Company		**217,440**	**127,942**
Earnings per share (in CHF)			
Basic earnings per share	5.4	7.25	4.27
Diluted earnings per share	5.4	7.24	4.26

1 Interest includes other items as reported in the financial results
2 Refer to note 1, section Changes in accounting policies

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2021	2020 Restated[1]
Net income attributable to owners of the Company		**217,440**	127,942
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	4.3	12,533	19,814
Related tax	6.1	–1,817	–2,873
Subtotal		**10,716**	**16,941**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		–1,948	1,715
Related tax	6.1	282	–264
Currency translation adjustments		–327	–731
Subtotal		**–1,993**	**720**
Other comprehensive income for the period (net of tax)		**8,723**	**17,661**
Total comprehensive income for the period attributable to owners of the Company		226,163	**145,603**

1 Refer to note 1, section Changes in accounting policies

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82 ff.

Consolidated balance sheet

In CHF thousand	Note	Dec 31, 2021	Dec 31, 2020 Restated[1]	Jan 1, 2020 Restated[1]
Assets				
Cash and cash equivalents		127,152	137,871	109,822
Trade and other receivables	3.1	124,548	94,679	97,409
Other investments, including derivatives	5.5	4,610	6,871	3,184
Prepayments and accrued income		4,047	1,982	4,630
Inventories	3.2	152,763	104,749	84,231
Current tax assets		563	233	747
Current assets		**413,684**	**346,385**	**300,022**
Property, plant and equipment	3.3	158,538	146,468	162,125
Investment properties		1,723	1,773	1,823
Intangible assets and goodwill	3.4	482,746	485,778	492,199
Trade and other receivables	3.1	1,968	1,825	2,631
Other investments		861	846	831
Deferred tax assets	6.1	5,347	5,982	6,893
Non-current assets		**651,183**	**642,672**	**666,501**
Total assets		**1,064,867**	**989,057**	**966,523**

1 Refer to note 1, section Changes in accounting policies

In CHF thousand	Note	Dec 31, 2021	Dec 31, 2020 Restated[1]	Jan 1, 2020 Restated[1]
Liabilities				
Trade and other payables	3.5	79,769	48,981	66,387
Loans and borrowings	5.3	2,105	61,522	50,221
Provisions	3.7	2,520	2,615	2,242
Derivative financial instruments	5.2	932	26	53
Accrued expenses and deferred income	3.6	43,954	32,105	20,158
Current tax liabilities		30,145	22,793	17,747
Current liabilities		**159,425**	**168,042**	**156,809**
Loans and borrowings	5.3	204,837	204,817	203,867
Other non-current liabilities		2,619	265	377
Deferred tax liabilities	6.1	49,821	45,809	45,042
Defined benefit obligations	4.3	13,796	25,552	42,252
Non-current liabilities		**271,072**	**276,443**	**291,538**
Total liabilities		**430,497**	**444,484**	**448,347**
Equity				
Share capital	5.4	3,000	3,000	3,000
Share premium	5.4	6,479	73,969	133,950
Reserves		4,606	6,598	5,878
Treasury shares	5.4	–4,501	–414	–571
Retained earnings[2]		624,786	461,419	375,918
Total equity attributable to owners of the Company		**634,370**	**544,573**	**518,176**
Total liabilities and equity		**1,064,867**	**989,057**	**966,523**

1 Refer to note 1, section Changes in accounting policies
2 Includes remeasurements of DBO and other reserves

The above consolidated balance sheet should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82 ff.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of Jan 1, 2020, as previously reported	**3,000**	**133,950**	**2,663**	**3,215**	**–571**	**381,179**	**523,436**
Impact of change in accounting policy[1]						–5,260	–5,260
Equity restated as of Jan 1, 2020	**3,000**	**133,950**	**2,663**	**3,215**	**–571**	**375,918**	**518,176**
Net income attributable to owners of the Company						127,942	127,942
Total comprehensive income for the period attributable to owners of the Company			1,451	–731		16,941	17,661
Treasury shares acquired					–55		–55
Dividend payment		–59,981				–59,981	–119,961
Share-based payments (net of tax)					211	599	810
Equity restated as of Dec 31, 2020	**3,000**	**73,969**	**4,114**	**2,485**	**–414**	**461,419**	**544,573**

1 Refer to note 1, section Changes in accounting policies

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
VAT Group AG Equity as of Jan 1, 2021	**3,000**	**73,969**	**4,114**	**2,485**	**–414**	**461,419**	**544,573**
Net income attributable to owners of the Company						217,440	217,440
Total comprehensive income for the period attributable to owners of the Company			–1,665	–327		10,716	8,723
Treasury shares acquired					–4,344		–4,344
Dividend payment		–67,491				–67,491	–134,982
Share-based payments (net of tax)					257	2,703	2,960
Equity as of Dec 31, 2021	**3,000**	**6,479**	**2,448**	**2,158**	**–4,501**	**624,786**	**634,370**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82 ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2021	2020 Restated[1]
Net income attributable to owners of the Company		**217,440**	**127,942**
Adjustments for:			
Depreciation, amortization and impairment		43,058	40,700
(Profit)/loss from disposal of property, plant and equipment		–114	12
Change in defined benefit obligations		760	3,091
Net impact from foreign exchange		824	–350
Income tax expenses	6.1	40,295	26,283
Net finance costs	5.1	7,127	15,584
Other non-cash-effective adjustments		1,082	111
Change in trade and other receivables		–31,143	–596
Change in prepayments and accrued income		–2,089	2,479
Change in inventories		–47,779	–23,540
Change in trade and other payables		33,408	–16,339
Change in accrued expenses and deferred income		7,558	12,293
Change in provisions		–93	377
Cash generated from operations		270,336	188,046
Income taxes paid		–30,546	–21,892
Cash flow from operating activities		**239,790**	**166,155**
Purchases of property, plant and equipment	3.3	–32,425	–7,811
Proceeds from sale of property, plant and equipment		327	68
Purchases of intangible assets	3.4	–10,542	–11,478
Acquisition of subsidiary, net of cash acquired	6.5	–1,586	0
Interest received		131	108
Cash flow from investing activities		**–44,095**	**–19,113**
Proceeds from borrowings	5.3	110,000	120,000
Repayments of borrowings	5.3	–170,000	–109,094
Repayments of lease liabilities	5.3	–2,433	–2,636
Purchase of own shares		–4,344	–55
Dividend paid	5.4	–134,982	–119,961
Interest paid		–3,732	–3,998
Other finance expenses paid		–1,217	–1,182
Cash flow from financing activities		**–206,707**	**–116,925**
Net increase/(decrease) in cash and cash equivalents		**–11,012**	**30,117**
Cash and cash equivalents at beginning of period		137,871	109,822
Effect of movements in exchange rates on cash held		292	–2,068
Cash and cash equivalents at end of period		**127,152**	**137,871**

1 Refer to note 1, section Changes in accounting policies

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes, which can be found in the VAT annual report page 82 ff.

Notes to the consolidated financial statements

1. General information and accounting policies

General information

VAT Group AG ("the Company") is a limited liability Company incorporated in accordance with Swiss law. The registered office of the Company is Seelistrasse 1, CH-9469 Haag, Switzerland.

The consolidated financial statements as at and for the year ended December 31, 2021, comprise VAT Group AG and all companies under its control (together referred to as "VAT" or "Group").

These consolidated financial statements were authorized for issue by the Group's Board of Directors on March 2, 2022.

Basis of accounting

The consolidated financial statements of the Group have been prepared in accordance with IFRS. The presentation currency is Swiss Francs, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis, except for items that are required to be accounted for at fair value (e.g. derivative financial instruments) and the defined benefit liability which is measured at the present value of the defined benefit obligation less the fair value of plan assets.

Details to the Group's material accounting policies that are relevant for the understanding of these consolidated financial statements are included in the corresponding notes.

Changes in accounting policies

In 2021, the IFRS Interpretations Committee clarified how IFRS Standards apply to upfront implementation costs incurred for cloud-based software (Software as a Service/ SaaS) arrangements. The Committee concluded that the substance for many SaaS arrangements is that the entity has contracted to receive services rather than for the acquisition (or lease) of software assets. The Committee clarified that upfront implementation costs incurred in connection with such agreements should be expensed, unless the criteria for recognizing a separate (intangible) asset are met.

In response to the Committee's agenda decision, VAT revised its accounting policy according to which upfront configuration and customization costs incurred for certain projects no longer qualify for capitalization and must be recognized as operating expenses when the services are received.

Cloud-based software arrangements are contracts under which VAT pays a fee in exchange for software services hosted by a supplier. Such contracts generally are service contracts under which VAT does not receive a software asset but that provide VAT the right to access the supplier's application software over the contract term. The fees to obtain access to the cloud provider's application software as well as up-front implementation costs incurred to configure or customize the software are recognized as operating expenses when the services are received, unless they relate to the development of additional software code and meet the definition of, and the recognition criteria for, an intangible asset that the Company controls (e.g. costs to create a new interface between the Company's existing on-premise systems and the cloud-based software).

In accordance with IAS 8, this change in accounting policy has been applied retrospectively, as if the revised accounting policy had always been applied. Historical financial information has been restated to reflect the impact of the change. The following tables summarize the impact on the Group's consolidated financial statements:

Restatement effect on consolidated balance sheet as of January 1, 2020

As of January 1, 2020 In CHF thousand	As previously reported	Adjustments	As restated
Prepayments and accrued income	4,417	212	4,630
Others	295,392		295,392
Current assets	**299,809**	**212**	**300,022**
Intangible assets and goodwill	498,564	–6,365	492,199
Others	174,302		174,302
Non-current assets	**672,866**	**–6,365**	**666,501**
Total assets	**972,675**	**–6,152**	**966,523**
Current liabilities	**156,809**		**156,809**
Deferred tax liabilities	45,934	–892	45,042
Others	246,496		246,496
Non-current liabilities	**292,430**	**–892**	**291,538**
Total liabilities	**449,239**	**–892**	**448,347**
Retained earnings	381,179	–5,260	375,918
Others	142,257		142,257
Total equity attributable to owners of the Company	**523,436**	**–5,260**	**518,176**
Total liabilities and equity	**972,675**	**–6,152**	**966,523**

Restatement effect on consolidated balance sheet as of December 31, 2020

As of December 31, 2020 In CHF thousand	As previously reported	Adjustments	As restated
Prepayments and accrued income	1,773	209	1,982
Others	**344,403**		**344,403**
Current assets	**346,176**	**209**	**346,385**
Intangible assets and goodwill	498,600	–12,822	485,778
Deferred tax assets	5,930	52	5,982
Others	150,912		150,912
Non-current assets	**655,442**	**–12,770**	**642,672**
Total assets	**1,001,619**	**–12,561**	**989,057**
Current liabilities	**168,042**		**168,042**
Deferred tax liabilities	47,591	–1,782	45,809
Others	230,634		230,634
Non-current liabilities	**278,225**	**–1,782**	**276,443**
Total liabilities	**446,266**	**–1,782**	**444,484**
Retained earnings	472,199	–10,779	461,419
Others	83,153		83,153
Total equity attributable to owners of the Company	**555,352**	**–10,779**	**544,573**
Total equity	**1,001,619**	**–12,561**	**989,057**

Restatement effect on consolidated income statement 2020

January 1 – December 31, 2020 In CHF thousand	As previously reported	Adjustments	As restated
Others	254,404		254,404
Other income	17,348	–3,293	14,055
Other expenses	–54,586	–3,365	–57,951
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**217,167**	**–6,657**	**210,509**
Depreciation, amortization and impairment	–40,897	197	–40,700
Earnings before interest and taxes (EBIT)	**176,270**	**–6,460**	**169,809**
Others	–15,584		–15,584
Earnings before income taxes	**160,686**	**–6,460**	**154,225**
Income tax expenses	–27,225	942	–26,283
Net income attributable to owners of the Company	**133,461**	**–5,519**	**127,942**
Earnings per share (in CHF)			
Basic earnings per share	4.45	–0.18	4.27
Diluted earnings per share	4.45	–0.19	4.26

Restatement effect on consolidated statement of comprehensive income 2020

January 1 – December 31, 2020 In CHF thousand	As previously reported	Adjustments	As restated
Net income attributable to owners of the Company	**133,461**	**–5,519**	**127,942**
Other comprehensive income for the period (net of tax)	**17,661**		**17,661**
Total comprehensive income for the period attributable to owners of the Company	**151,122**	**–5,519**	**145,603**

Restatement effect on consolidated statement of cash flows 2020

January 1 – December 31, 2020 In CHF thousand	As previously reported	Adjustments	As restated
Net income attributable to owners of the Company	**133,461**	**–5,519**	**127,942**
Adjustments for:			
Depreciation, amortization and impairment	40,897	–197	40,700
Income tax expenses	27,225	–942	26,283
Change in prepayments and accrued income	2,475	4	2,479
Others	–31,249		–31,249
Cash flow from operating activities	**172,809**	**–6,654**	**166,155**
Purchases of intangible assets	–18,132	6,654	–11,478
Others	–7,635		–7,635
Cash flow from investing activities	**–25,767**	**6,654**	**–19,113**
Cash flow from financing activities	**–116,925**		**–116,925**
Net increase/(decrease) in cash and cash equivalents	**30,117**		**30,117**

Other than the issue described above, the accounting policies adopted are consistent with those of the previous financial year. A number of standards have been modified on miscellaneous points with effect from January 1, 2021. None of these amendments had a material effect on the Group's financial statements.

Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates. Estimates and underlying assumptions are reviewed frequently. Revisions to estimates are recognized prospectively. Important estimates and assumptions with the related uncertainties were primarily made in the following areas:

a) intangible assets and goodwill, see note 3.4,
b) property, plant and equipment, see note 3.3,
c) income taxes, see note 6.1,
d) employee benefits, see note 4.3,
e) provisions, see note 3.7,
f) contingent considerations, see note 5.2.

2. Operating Performance

2.1 Segment Information

Background

The segment information is presented as provided to the Board of Directors and the Group Executive Committee in their role as Chief Operating Decision Maker (CODM).

Basis of segmentation

Starting January 1, 2021, VAT integrated the former segment Industry into the Valves segment and in particular into the business unit Advanced Industrials (formerly General Vacuum) as the type of this business organizationally fits better into this business unit. The Group now reports in two segments: Valves and the Global Service segment:

- **Valves:** The Valves segment is a global developer, manufacturer and supplier of vacuum valves for the semiconductor, displays, photovoltaics and vacuum coating industries as well as for the industrial and research sector.
- **Global Service:** Global Service provides local expert support to customers and offers genuine spare parts, repairs and upgrades.

Due to the reorganization the prior-year figures have been restated accordingly, which includes the following realignments from the former segment Industry to the segment Valves: Net sales CHF 14.8 million, segment net assets CHF 33.9 million of which net trade working capital CHF 12.6 million.

Corporate and eliminations

Inter-company transactions, balances, income and expenses between segments are eliminated and reported in the column "Corporate and eliminations." In addition, this column contains figures relating to the cross functions Corporate Research, Corporate Quality, Corporate Finance, HR and IT.

While net sales in the segment Valves only arise from sales of goods, net sales in the segment Global Service of CHF 26.8 million (prior year: CHF 19.8 million) came from sales of services.

The segment information provided to the CODM is measured in a manner consistent with that of the financial statements. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Therefore, a profit measure based on EBITDA is reported by segment. Sales between segments are carried out at arm's length and are eliminated on consolidation. Segment assets are measured in the same way as in the financial statements and allocated based on the operations of the segment and the physical location of the asset.

Information about reportable segments

January 1–December 31, 2021 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	729,183	171,976	901,159	–	901,159
Inter-segment sales	74,956	–	74,956	–74,956	–
Segment net sales	**804,140**	**171,976**	**976,115**	**–74,956**	**901,159**
Segment EBITDA	**269,695**	**77,821**	**347,516**	**–39,596**	**307,920**

January 1–December 31, 2020 In CHF thousand Restated[1]	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	565,125	127,302	692,427	–	692,427
Inter-segment sales	57,039	–	57,039	–57,039	–
Segment net sales	**622,164**	**127,302**	**749,466**	**–57,039**	**692,427**
Segment EBITDA	**198,716**	**53,209**	**251,925**	**–41,415**	**210,509**

As of December 31, 2021 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Segment assets	783,456	126,798	910,254	1,723	911,977
Segment liabilities	45,708	4,526	50,233	74	50,307
Segment net operating assets	**737,749**	**122,272**	**860,021**	**1,650**	**861,670**
Of which net trade working capital	191,044	27,612	218,656	–74	218,582

As of December 31, 2020 In CHF thousand Restated[1]	Valves	Global Service	Total segments	Corporate and eliminations	Total
Segment assets	704,387	122,581	826,968	1,773	828,741
Segment liabilities	29,162	3,166	32,328	97	32,425
Segment net operating assets	**675,226**	**119,415**	**794,641**	**1,676**	**796,316**
Of which net trade working capital	138,735	23,658	162,393	–97	162,296

1 The previously reported segment information has been restated due to a change in accounting policy (refer to note 1, section Changes in accounting policies) and as a result of the integration of the former Industry segment (see Basis of segmentation).

Net operating assets by reportable segment include trade receivables, inventories, property, plant and equipment, investment properties, intangible assets and goodwill as well as trade payables. Intangible assets and goodwill are allocated to the segments based on quotes defined as a result of the purchase price allocation.

Reconciliation of segment results to income statement and balance sheet

Income statement

January 1–December 31 In CHF thousand	2021	2020 Restated[1]
Segment EBITDA	347,516	251,925
Corporate and eliminations	–39,596	–41,415
Depreciation, amortization and impairment	–43,058	–40,700
Finance costs net	–7,127	–15,584
Earnings before income taxes	**257,735**	**154,225**

Assets

As of December 31 In CHF thousand	2021	2020 Restated[1]
Segment assets	910,254	826,968
Corporate and eliminations	1,723	1,773
Cash and cash equivalents	127,152	137,871
Other assets[2]	25,738	22,445
Assets	**1,064,867**	**989,057**

Liabilities

As of December 31 In CHF thousand	2021	2020 Restated[1]
Segment liabilities	50,233	32,328
Corporate and eliminations	74	97
Loans and borrowings	206,942	266,338
Other liabilities[3] and provisions	173,248	145,720
Liabilities	**430,497**	**444,484**

1 Refer to note 1, section Changes in accounting policies
2 The main positions included in other assets are other receivables and deferred tax assets.
3 Only trade payables are allocated to segments.

Geographic information

Net sales

January 1–December 31 In CHF thousand	2021	2020
Switzerland	6,452	5,996
Europe excl. Switzerland	110,780	87,625
USA	303,668	224,321
Japan	108,284	103,912
Korea	86,303	79,824
Singapore	94,859	74,016
China	124,710	73,159
Asia excl. Japan, Korea, Singapore and China	59,238	36,419
Other	6,865	7,156
Total	**901,159**	**692,427**

No other individual country represented more than 10% of net sales in 2021 and 2020.

Non-current assets

As of December 31 In CHF thousand	2021	2020 Restated[1]
Switzerland	582,677	577,724
Europe excl. Switzerland	4,219	5,492
USA	2,645	3,351
Asia	53,466	47,453
Total	**643,007**	**634,019**

1 Refer to note 1, section Changes in accounting policies

Non-current assets by location include property, plant and equipment, investment properties, intangible assets and goodwill. No other individual country represented more than 10% of non-current assets in 2021 and 2020.

Major customers
Revenues from two customers of the Group's Valves and Global Service segments represented approximately 21% and 20% (prior year: two customers represented approximately 19% and 18%) of the Group's total revenues.

2.2 Revenue

In the following table, revenue from contracts with customers is disaggregated by net sales by region and reportable segments. The table also includes a disaggregation of order intake by segments.

Disaggregation of order intake and net sales

January 1 – December 31, 2021 In CHF thousand	Valves	Global Service	Total
Order intake	1,028,798	199,143	1,227,942
Net sales by region			
Asia	396,114	77,468	473,582
Americas	236,187	69,591	305,778
EMEA	96,882	24,916	121,798
Net sales	**729,183**	**171,976**	**901,159**

January 1 – December 31, 2020 In CHF thousand Restated[1]	Valves	Global Service	Total
Order intake	592,353	132,157	724,511
Net sales by region			
Asia	304,354	62,657	367,011
Americas	179,551	48,393	227,944
EMEA	81,221	16,252	97,473
Net sales	565,125	127,302	692,427

1 Refer to note 2.1, section Basis of segmentation

Accounting policies
Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer. Customers obtain control of the goods dependent on standard trade terms (Incoterms) or when services are rendered. The Group uses different Incoterms, generally EXW, FCA and DDP. Contracts include only standard warranty clauses and do not provide for separate purchase of warranty. Payment conditions are short term and therefore do not contain significant financing components.

2.3 Other income

January 1–December 31 In CHF thousand	2021	2020 Restated[1]
Net foreign exchange gains on operating and investing activities	201	2,085
Work performed by the entity and capitalized	9,755	10,555
Rental income from investment properties	76	77
Change in provision for impairment on trade receivables	477	182
Gains from sale of fixed assets	120	10
Other income	856	1,146
Total other income	**11,486**	**14,055**

1 Refer to note 1, section Changes in accounting policies

2.4 Other expenses

January 1–December 31 In CHF thousand	2021	2020 Restated[1]
Marketing and advertising	971	653
Distribution	11,006	7,943
Office rent	328	534
Administrative expenses	17,617	14,309
Travel expenses	1,551	1,707
Repair and maintenance	20,504	15,575
Energy and supplies	13,223	9,847
Insurance, duties and other charges	2,639	2,462
Losses from sale of fixed assets	7	22
Research and development expenses[2]	1,383	1,932
Other operating expenses	3,647	2,966
Total other expenses	**72,874**	**57,951**

1 Refer to note 1, section Changes in accounting policies
2 Includes only third-party expenses

3. Operating assets and liabilities

3.1 Trade and other receivables

As of December 31 In CHF thousand	2021	2020
Trade receivables – gross	116,380	90,706
Less provision for impairment of trade receivables	–260	–735
Trade receivables – net	**116,121**	**89,971**
Recoverable VAT and withholding tax	7,759	2,587
Deposits	1,775	1,779
Receivables from social security	482	1,533
Other	380	633
Total trade and other receivables	**126,516**	**96,503**
Thereof:		
Current trade and other receivables	124,548	94,679
Non-current other receivables	1,968	1,825

Deposits for office rent have no fixed due date and are considered to be non-current.

Accounting policies
Trade and other receivables used in the ordinary course of business are disclosed as current items in the balance sheet. A trade receivable without a significant financing component is initially measured at the transaction price. Trade and other receivables are subsequently measured at amortized cost less impairment losses. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

3.2 Inventories

As of December 31 In CHF thousand	2021	2020
Raw materials and consumables	56,345	29,847
Work in progress	22,699	13,195
Semi-finished goods	36,040	34,115
Finished goods	37,679	27,591
Total inventories	**152,763**	**104,749**

In the financial year 2021, inventories of CHF 2.4 million (previous year: CHF 1.7 million) were scrapped and recognized as expense.

Accounting policies
Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.3 Property, plant and equipment

January 1–December 31, 2021 In CHF thousand	Land	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under construction	Total
Balance at Jan 1, 2021	7,879	95,731	11,821	105,968	10,406	22,150	1,014	7,958	262,928
Acquired through business combination (see note 6.5)				**17**	**3**	**1**			**20**
Additions		19		848	163	1,748		29,647	32,425
Movement non-cash			2,560				302		2,862
Disposals	–2	–10	–636	–219	–31	–2,130	–854	–15	–3,896
Transfer		179		7,770	–2,801	1,210		–6,359	0
Exchange differences	–1	–61	–71	–841	–16	–61	–9	–88	–1,148
Balance at Dec 31, 2021	**7,876**	**95,859**	**13,675**	**113,543**	**7,724**	**22,919**	**452**	**31,144**	**293,191**
Accumulated depreciation and impairment									
Balance at Jan 1, 2021	–207	–24,776	–4,273	–63,889	–6,404	–16,242	–668	0	–116,460
Depreciation charge	–31	–4,200	–2,566	–10,827	–1,174	–2,826	–349		–21,973
Impairment loss				**–32**	**–46**	**–281**			–360
Disposals	2	10	291	31	31	2,119	854		3,339
Transfer				**–1,352**	**1,352**				0
Exchange differences		33	72	654	22	14	6		801
Balance at Dec 31, 2021	**–237**	**–28,933**	**–6,476**	**–75,416**	**–6,218**	**–17,216**	**–157**	**0**	**–134,653**
Net book amount Dec 31, 2021	**7,639**	**66,925**	**7,199**	**38,127**	**1,505**	**5,702**	**296**	**31,144**	**158,538**

January 1–December 31, 2020 In CHF thousand									
Balance at Jan 1, 2020	8,027	96,926	8,802	105,354	9,217	19,870	1,043	9,145	258,383
Additions		9		435	452	1,460		5,455	7,811
Movement non-cash			3,412				–23		3,389
Disposals				–141	–18	–254			–414
Transfer		928		2,866	1,042	1,675		–6,511	0
Exchange differences	–149	–2,132	–392	–2,546	–287	–600	–6	–130	–6,241
Balance at Dec 31, 2020	**7,879**	**95,731**	**11,821**	**105,968**	**10,406**	**22,150**	**1,014**	**7,958**	**262,928**
Accumulated depreciation and impairment									
Balance at Jan 1, 2020	–193	–20,756	–2,380	–54,463	–4,859	–13,254	–352	0	–96,259
Depreciation charge	–32	–4,184	–2,349	–10,632	–1,677	–3,536	–341		–22,751
Impairment loss									0
Movement non-cash			328				25		353
Disposals				111	13	210			334
Exchange differences	18	164	127	1,095	119	339	1		1,863
Balance at Dec 31, 2020	**–207**	**–24,776**	**–4,273**	**–63,889**	**–6,404**	**–16,242**	**–668**	**0**	**–116,460**
Net book amount Dec 31, 2020	**7,671**	**70,955**	**7,548**	**42,079**	**4,002**	**5,908**	**346**	**7,958**	**146,468**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in property, plant and equipment as of December 31, 2021, aggregated CHF 24.4 million (prior year: CHF 12.3 million).

Accounting policies

Property, plant and equipment are measured at historic or manufacturing costs less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate. In case of replacements, the carrying amount of the replaced part is derecognized.

Depreciation of property, plant and equipment is calculated using the straight-line method based on the following useful lives:

Category	Useful life (in years)
Long-leased land	60
Buildings	20–40
Machinery	5–8
Furniture/fixtures	3–8
Other equipment	3–12

Land is not depreciated. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Property, plant and equipment are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists, estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment or closure of facilities, the presence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairments.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

Leases – as a lessee

The Group leases warehouses, factory facilities and offices. Lease payments are determined in corresponding contracts. Most of these leases were entered into many years ago as combined leases of land and buildings. In addition the Group leases vehicles and IT equipment.

The Group recognizes a right-of-use asset at the lease commencement date. Some property leases contain extension options exercisable by the Group. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

During the period ended December 31, 2021, the Group recognized CHF 2.9 million (prior year: CHF 2.7 million) of depreciation charges and CHF 0.1 million (prior year: CHF 0.1 million) of interest costs from these leases.

In 2021, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.3 million (prior year: CHF 0.5 million). Total cash outflows for leases amount to CHF 2.4 million (prior year: CHF 2.8 million).

Accounting policies

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3.4 Intangible assets and goodwill

January 1–December 31, 2021 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at Jan 1, 2021	**183,717**	**10,952**	**263,600**	**120,900**	**5,550**	**18,072**	**602,791**
Acquired through business combination (see note 6.5)	**206**		**6,891**				**7,097**
Additions						10,542	10,542
Disposals		–146			–2,619		–2,765
Transfer		605			7,400	–8,004	0
Exchange differences		–26			–12	7	–30
Balance at Dec 31, 2021	**183,923**	**11,386**	**270,491**	**120,900**	**10,318**	**20,617**	**617,635**
Accumulated amortization and impairment							
Balance at Jan 1, 2021	**0**	**–8,693**	**–105,881**	**0**	**–2,439**	**0**	**–117,013**
Amortization charge		–1,235	–15,480		–1,319		–18,034
Impairment loss		–22			–2,619		–2,641
Disposals		145			2,619		2,764
Exchange differences		25			11		36
Balance at Dec 31, 2021	**0**	**–9,780**	**–121,361**	**0**	**–3,746**	**0**	**–134,888**
Net book value Dec 31, 2021	**183,923**	**1,606**	**149,130**	**120,900**	**6,572**	**20,617**	**482,746**

January 1–December 31, 2020 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Construction in progress	Total
Balance at Jan 1, 2020, as previously reported	183,717	11,992	263,600	120,900	3,334	15,407	598,950
Impact of change in accounting policy (see note 1)		**–1,088**				–6,152	**–7,240**
Restated balance at Jan 1, 2020	**183,717**	**10,904**	**263,600**	**120,900**	**3,334**	**9,255**	**591,710**
Additions						11,478	11,478
Disposals		–5			–364		–369
Transfer		83			2,579	–2,662	0
Exchange differences		–30				1	–28
Restated balance at Dec 31, 2020	**183,717**	**10,952**	**263,600**	**120,900**	**5,550**	**18,072**	**602,791**
Accumulated amortization and impairment							
Balance at Jan 1, 2020, as previously reported	0	–8,324	–90,573	0	–1,489	0	–100,386
Impact of change in accounting policy (see note 1)		**875**					**875**
Restated balance at Jan 1, 2020	**0**	**–7,449**	**–90,573**	**0**	**–1,489**	**0**	**–99,511**
Amortization charge		–1,459	–15,308		–841		–17,609
Impairment loss					–291		–291
Disposals		5			364		369
Transfer		181			–181		0
Exchange differences		30			–1		29
Restated balance at Dec 31, 2020	**0**	**–8,693**	**–105,881**	**0**	**–2,439**	**0**	**–117,013**
Restated net book value Dec 31, 2020	**183,717**	**2,259**	**157,719**	**120,900**	**3,111**	**18,072**	**485,778**

Commitments for future capital expenditures
Firm contractual commitments for future capital investment in intangible assets as of December 31, 2021, aggregated CHF 0.4 million (prior year: CHF 0.7 million).

Research and development costs
In 2021, research and development expenses amounting to CHF 45.1 million (previous year: CHF 41.5 million) were included in the items "Personnel expenses," "Other operating expenses" and "Depreciation and amortization." For 90 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 8.6 million (previous year: CHF 9.7 million) were capitalized.

Impairment testing for goodwill and intangible assets with indefinite useful lives
The intangible assets and goodwill to be tested were allocated to and measured on cash-generating units (CGUs) at the segment levels as follows. Starting January 2021, VAT integrated the former segment Industry into the Valves segment (see also note 2.1). The allocation was adapted accordingly.

As of December 31 In CHF thousand			2021				2020
	Valves	Global Service	Total	Valves	Global Service	Industry	Total
Goodwill	148,181	35,742	183,923	139,886	35,742	8,089	183,717
Brand and trademarks	94,618	26,282	120,900	94,618	26,282	0	120,900
Total carrying amount	**242,799**	**62,024**	**304,823**	**234,504**	**62,024**	8,089	**304,617**

Goodwill and intangible assets with indefinite useful lives have been allocated to the CGUs by using the relative fair value approach based on the financial performance of those CGUs as well as management best estimate. The allocation corresponds with the lowest level at which those assets are monitored by management.

Recoverable amounts used in the impairment testing are based on the value in use and on the latest forecasts approved by management, discounting the future cash flows to be generated from the continuing use. The forecast period used for future cash flows covers the years 2022 to 2024. The discount rates used are based on the weighted average cost of capital (WACC) derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the Capital Asset Pricing Model (CAPM). The annual impairment tests carried out supported the carrying amounts and, therefore, no need for impairment was identified.

The key assumptions used in the estimation of fair value in use were as follows:

As of December 31, 2021	Valves	Global Service
Discount rate (WACC) before tax	10.2%	10.2%
Terminal value growth rate	1.7%	1.7%

As of December 31, 2020	Valves	Global Service	Industry
Discount rate (WACC) before tax	10.8%	10.8%	10.9%
Terminal value growth rate	1.7%	1.7%	1.7%

A reasonably possible change in any of the above key assumption would not cause the recoverable amount to be less than the carrying amount.

Accounting policies

Goodwill and intangible assets
Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortized.

Intangible assets, including technology and customer relationships that are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives, such as brands and trademarks are measured at cost less accumulated impairment losses. The Group considers that the acquired brands and trademark have an indefinite useful life as they are well established in the respective markets and have a history of strong performance.

Acquired computer software licenses are capitalized only if criteria of IAS 38 are met. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred. Amortization is calculated using the straight-line method over the estimated useful lives and is generally recognized in the consolidated income statement.

The estimated useful lives are as follows:

Category	Useful life (in years)
Acquired technology and customer relationships	13.5–20
Brand and trademarks	indefinite
Software	3–5
Other intangible assets	3–5

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The capitalization of internally generated intangible assets is subject to the following development categories: development of own software applications or product-related development activities. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognized as intangible assets when the criteria are met. Directly attributable costs capitalized as part of the developed product include employee costs, third-party material and advisory expenses. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs recognized as assets are amortized over their estimated useful lives.

Impairment of non-financial assets
Goodwill, intangible assets that have an indefinite useful life and intangible assets not ready to use are not subject to amortization and are tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Tangible and intangible assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the value in use of the asset and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statement and will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Research and development costs
The majority of the expenses are incurred in relation to basic research product management and R & D support/overheads, and these are charged directly to the income statement. Expenses directly related to development costs for new products are capitalized and amortized over a period of five years if these concern major development projects. They are reviewed at the end of each reporting period in order to verify if the capitalization criteria of IAS 38.57 are fulfilled.

3.5 Trade and other payables

As of December 31 In CHF thousand	2021	2020
Trade payables	50,307	32,425
Sales tax and other non-income tax payables	6,355	4,847
Employee benefit liabilities	4,444	6,005
Prepayments received from customers	16,185	5,253
Contingent considerations	**2,100**	**0**
Other liabilities	378	452
Total trade and other payables	**79,769**	**48,981**

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

As of December 31 In CHF thousand	2021	2020
Swiss Franc	27,564	20,395
Euro	9,536	8,376
US Dollar	26,116	12,435
Malaysian Ringgit	10,212	3,160
Romanian Leu	1,361	1,289
Chinese Yuan	3,044	978
Other currencies	1,935	2,348
Total trade and other payables	**79,769**	**48,981**

Accounting policies
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are subsequently measured at amortized cost using the effective interest method.

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2021	2020
Accrued expenses – personnel related	25,505	20,923
Accrued expenses – other	18,325	10,546
Deferred income	125	636
Total accrued expenses and deferred income	**43,954**	**32,105**

3.7 Provisions

January 1–December 31, 2021 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at Jan 1, 2021	**2,407**	**293**	**2,700**
Additions	1,263	200	1,463
Used	–1,350		–1,350
Unused amount released		**–206**	**–206**
Exchange differences		2	2
Balance at Dec 31, 2021	**2,320**	**289**	**2,609**
Thereof:			
Current provisions	2,320	200	2,520
Non-current provisions[1]		89	89

1 Non-current provisions are included in other non-current liabilities.

Warranties

Warranty provisions cover the risk of expenses in regard to product liability claims that are expected to occur before the warranty period expires. Warranty provisions are calculated on the basis of effective warranty cases and past experience and are used as payments are made. The warranty provisions are subject to a degree of uncertainty with regard to timing and the amount to be paid.

No other significant provisions were deemed required at the reporting date.

Accounting policies

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. A provision for warranties is recognized when the underlying products or services are sold, based on effective warranty cases on historical warranty data and a weighting of possible outcomes against their associated probabilities.

4. Employees

4.1 Employee FTE and personnel expenses

January 1–December 31 In CHF thousand	2021	2020
Wages and salaries	166,784	144,657
Share-based payment	1,960	569
Social security costs	16,621	14,116
Pension costs – defined contribution plans	1,054	871
Pension costs – defined benefit plans	8,100	10,203
Other personnel expenses	6,643	5,315
Total personnel expenses	**201,162**	**175,732**
Number of employees (FTE)	2,540	2,041

4.2 Share-based payments

At December 31, 2021, the Group had the following share-based payment arrangements.

Board member share compensation (equity-settled share-based payment)
Members of the Board receive 30% of the total compensation 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. VAT Group granted 950 shares (prior period 1,421 shares) with a fair value of CHF 276.00 per share for the period 2020/21. For the period 2021/22, the Group allocated 485 shares (prior period 911 shares).

Long-term incentive plan – LTIP (equity-settled share-based payment)
Long-term incentive plans (LTIP) are in place for the Group's management. So-called Performance Share Units (PSUs) were allocated to the management. One PSU represents a conditional right to receive a certain number of underlying shares free of charge pursuant to the vesting period of three years and performance conditions. The number of shares allocated to each PSU ranges between zero and two shares. The allocation is dependent upon achievement of the performance targets of VAT compared to a predefined peer group on the equal weighted metrics relative sales growth, relative Total Shareholder Return (TSR) and for the LTIP 2021 additionally the performance indicator Return on Invested Capital (ROIC). This LTIP is specifically designed for rewarding the performance of VAT relative to a selected peer group of companies. The inputs used in the measurement of the fair values at grant date were as follows:

	Share price at grant date	TSR fair value at grant date	Sales growth fair value at grant date	ROIC fair value at grant date	Volatility	Risk-free rate	Dividend yield
Long-term incentive plan 2019	CHF 86.30	CHF 53.55	CHF 58.08	n/a	32.1%	0.5%	7.1%
Long-term incentive plan 2020	CHF 163.55	CHF 116.57	CHF 125.62	n/a	32.2%	0.5%	2.8%
Long-term incentive plan 2021	CHF 220.80	CHF 157.91	CHF 169.80	CHF 169.80	34.5%	0.9%	2.5%

VAT Group granted 4,765 shares with a fair value of CHF 252.80 per share in 2021 from the LTIP 2018 (prior period 2,666 shares with a fair value of CHF 160.60 per share from the LTIP 2017). As of December 31, 2021, the number of outstanding Performance Share Units (PSUs) under the plan are 29,026 (prior year: 27,976).

Accounting policies
The grant date fair value of the equity-settled share-based payment arrangement granted to management (LTIP) is recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

4.3 Post-employment benefits

The present value of the defined benefit obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the defined benefit liabilities. The assumptions used in determining the net cost for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligations.

Throughout the world, the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue.

There are three defined benefit plans in place: the members of the Board of Directors of the Japanese subsidiary as well as all French employees are covered by a non-funded defined benefit plan and all Swiss entities have a funded contributory defined benefit pension plan covering their employees with the following amounts recognized in balance sheet and income statement:

Balance sheet

As of December 31 In CHF thousand	2021	2020
Japan	48	18
France	80	74
Switzerland	13,668	25,461
Net defined benefit liability in the balance sheet	**13,796**	**25,552**

Income statement

January 1–December 31 In CHF thousand	2021	2020
Japan	33	47
France	10	10
Switzerland	8,057	10,146
Pension costs – defined benefit plans	**8,100**	**10,203**

Swiss plan

The Swiss pension plan is governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. The assets of the pension plan are held within a separate foundation and cannot revert to the employer. Pension plans are overseen by a regulator as well as by a state supervisory body.

The Swiss Group entities are affiliated to a semi-autonomous foundation. The Board of Trustees, which consists of employee and employer representatives in parity ratio, governs the semi-autonomous foundation. All governing and administration bodies have an obligation to act in the interests of the plan participants. They are also responsible for the investment strategy. When defining the investment strategy, they take into account the foundation's objectives, benefit obligations and risk capacity.

Plan participants, their spouse and children are insured against the financial consequences of old age, disability and death. Their benefits are defined in pension plan rules compliant with the BVG, which is specifying the minimum benefits that are to be provided. Retirement benefits are based on the accumulated retirement capital which can either be drawn as a lifelong annuity or as a lump sum payment. The annuity is calculated by multiplying the retirement capital with the currently applicable conversion rate. The accumulated retirement capital is made up of the yearly contributions towards the old-age risk by both employer and employee and the interest thereon until retirement. Contributions towards the old-age risk are based on the rules defined by the Board of Trustees of the semi-autonomous foundation. Minimum contributions and interest are defined by the BVG and the Swiss Parliament. In 2021, the minimum interest was 1.00% (prior year: 1.00%).

Some demographic risks are safeguarded through a life insurance Company (disability and death). There is a risk that the insurance coverage is only temporary in nature (e.g. cancellation by the life insurance firm), and that the inherent risks of the plan may lead to variable insurance premiums over time.

All other actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries and the return on plan assets) and are regularly assessed by the Board of Trustees. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings. Since 2020, a sharing of the funding gap between employer and employee (risk sharing) is taken into account. The restructuring contributions for the employer must, at a minimum, be equal to the sum of employee contributions. Under the formal regulatory framework of the pension plan, the employer has no legal obligation to pay additional contributions to eliminate more than 60% of a funding deficit or of a structural funding shortfall. In the case of the actuarial valuation, the legal obligation is regarded as the upper limit of the employer's share of the costs of future benefits within the meaning of IAS 19.87(c).

The amounts recognized in the balance sheet are determined as follows:

As of December 31 In CHF thousand	2021	2020
Present value of defined benefit obligation	223,584	214,375
Fair value of plan assets	209,916	188,914
Net defined benefit liability	**13,668**	**25,461**

The movement in the defined benefit obligation and the plan assets over the period is as follows:

January 1–December 31 In CHF thousand	2021	2020
Opening defined benefit obligation	**214,375**	**210,188**
Service costs	7,927	10,040
Plan participants contributions	7,302	6,975
Interest expense	396	524
Remeasurement (gains)/losses	–951	–11,826
Benefits paid through pension assets	–5,465	–1,526
Closing defined benefit obligation	**223,584**	**214,375**

January 1–December 31 In CHF thousand	2021	2020
Opening fair value of plan assets	**188,914**	**168,176**
Interest income	361	436
Return on plan assets (excl. amounts in net interest)	11,582	7,988
Plan participants contributions	7,302	6,975
Employer contributions	7,302	6,975
Benefits received/(paid) through pension assets net	–5,465	–1,526
Administration expense	–80	–110
Closing fair value of plan assets	**209,916**	**188,914**

As of the reporting date, the present value of the defined benefit obligation was comprised of:

As of December 31 In CHF thousand	2021	2020
Defined benefit obligation for active employees	178,501	169,652
Defined benefit obligation for pensioners	45,083	44,723
Total defined benefit obligation	**223,584**	**214,375**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2021	2020
Current service costs	7,927	10,040
Interest expense on defined benefit obligation	396	524
Interest income on plan assets	–361	–436
Administration expense	80	110
Total defined benefit cost/(income) recognized in income statement	**8,042**	**10,238**
Thereof:		
Employee benefit expenses	8,007	10,150
Finance expenses	35	88
Actuarial (gain)/loss arising from financial assumptions	–2,892	–10,908
Actuarial (gain)/loss arising from demographic assumptions	–4,445	–203
Actuarial (gain)/loss arising from experience adjustment	6,386	–715
Return on plan assets (excl. amounts included in net interest)	–11,582	–7,988
Total defined benefit cost/(income) recognized in OCI	–12,533	**–19,814**

The major asset categories are as follows:

As of December 31 In CHF thousand	2021	2020
Equity instruments (quoted market prices)	59,113	50,039
Debt instruments (quoted market prices)	67,993	55,871
Real estate (quoted market prices)	40,940	34,285
Alternative investments (quoted market prices)	24,414	21,671
Cash	15,414	24,268
Others	2,042	2,780
Total	**209,916**	**188,914**

The significant actuarial assumptions were as follows:

As of December 31	2021	2020
Discount rate	0.30%	0.19%
Salary growth rate	1.25%	1.25%
Pension growth rate	0.00%	0.00%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Switzerland. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

As of December 31	2021	2020
Retiring at the end of the reporting period:		
Male	22.57	22.72
Female	24.37	24.76
Retiring 20 years after the end of the reporting period:		
Male	24.86	24.48
Female	26.40	26.51

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Impact on defined benefit obligation 2021		Impact on defined benefit obligation 2020	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–6,917	6,457	–5,798	6,034
Salary growth rate (+/– 0.25%)	992	–592	1,003	–983

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized within the balance sheet.

Expected contributions to defined benefit plans for the year ending December 31, 2022, amount to CHF 7.8 million.

The weighted average duration of the defined benefit obligation is 15.0 years (prior year: 15.9 years).

Accounting policies

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Concerning the Swiss pension plans, the formal regulations include the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein referring to funding and measures to be taken to eliminate pension-fund deficits. Since fiscal year 2020, risk-sharing features are considered in the formal rules when determining financial assumptions, which will limit the employer's share of the cost of future benefits and also include employees in the obligations to pay possible additional contributions in case of an underfunding.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the return on plan assets (excluding interest) are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. In the income statement, the net interest expense is recognized within "Finance costs." Other expenses related to defined benefit plans are recognized within "Employee benefit expenses."

Past-service costs are recognized immediately in the consolidated income statement.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

4.4 Related-party transactions

The following transactions were carried out with related parties:

January 1–December 31 In CHF thousand	2021	2020
Contribution to Swiss pension plan	7,302	6,975

Business transactions with related parties are based on arm's-length conditions.

Key management personnel includes members of the Group Executive Committee of VAT Group AG. The compensation paid or payable to key management personnel for employee services is shown below:

January 1–December 31 In CHF thousand	2021	2020
Short-term employee benefits	2,686	1,962
Post-employment benefits	402	104
Share-based payments	1,299	153
Total	**4,387**	**2,219**

Year-end balances arising from transactions with related parties include:

January 1–December 31 In CHF thousand	2021	2020
Other payables due to Swiss autonomous employee benefit plan	106	177
Accrued expenses and deferred income due to governing bodies	185	182
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	13,668	25,461

Shares held by the Board of Directors and the Group Executive Committee are disclosed in note 4.3 of the statutory financial statements of VAT Group AG.

5. Capital and financial risk management

5.1 Finance income and costs

January 1–December 31 In CHF thousand	2021	2020
Interest income	146	123
Other finance income	93	1
Finance income	**239**	**124**
Interest expenses	–3,517	–4,083
Net foreign exchange losses on financing activities	–1,297	–9,652
Other finance expenses	–2,552	–1,973
Finance costs	**–7,366**	**–15,708**
Total finance result	**–7,127**	**–15,584**

Accounting policies
Interest income or expense is recognized using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
– the gross carrying amount of the financial asset; or
– the amortized cost of the financial liability.

5.2 Fair value estimation

The following table shows the fair values of financial assets and financial liabilities measured at fair value including their levels in the fair value hierarchy.

As of December 31 In CHF thousand	Measurement principle	Contract value		Fair value	
		2021	2020	2021	2020
Derivatives held for hedging (USD)	Level 2[1]	164,431	160,452	1,644	5,830
Derivatives held for hedging (JPY)	Level 2[1]	64,954	47,051	2,712	1,010
Derivatives held for hedging (KRW)	Level 2[1]	35,735	0	222	0
Derivative assets		**265,120**	**207,503**	**4,578**	**6,840**
Equity shares	**Level 1[2]**	**0**	**0**	**33**	**31**
Thereof:					
Current assets		265,120	207,503	4,610	6,871
Derivatives held for hedging (USD)	Level 2[1]	66,279	2,275	–930	–2
Derivatives held for hedging (JPY)	Level 2[1]	0	9,004	0	–24
Derivatives held for hedging (KRW)	Level 2[1]	1,263	0	–1	0
Derivative liabilities		**67,542**	**11,280**	**–932**	**–26**
Contingent considerations[4]	Level 3[3]	**4,488**	**0**	**–4,488**	**0**
Thereof:					
Current liabilities		69,642	11,280	–3,032	–26
Non-current liabilities		2,388	0	–2,388	0

1 The fair values of the derivatives held by VAT Group are based on market/broker quotes. Similar contracts are traded in an active market and quotes reflect the actual transactions in similar instruments. If all significant inputs required for the valuation of an instrument are observable, the instrument is included in Level 2.
2 The fair value of equity shares are based on quoted market prices in active markets.
3 Fair values measured using unobservable inputs are categorized within Level 3 of the fair value hierarchy. This applies particularly to contingent considerations in business combinations.
4 Contingent considerations are disclosed in trade and other payables and other non-current liabilities.

The Group recorded foreign exchange contracts (derivative financial assets/liabilities) at fair value, which are Level 2 financial instruments. There were no transfers in either direction between Level 1 and Level 2 in 2021 and 2020. Contingent considerations are Level 3 financial instruments and linked to the fulfillment of certain parameters related to earn-out clauses. The calculation of the contingent considerations is based on management assessments that the criteria will be achieved at a probability of 100%. For more information refer to note 6.5.

Forward foreign exchange contracts

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months.

Hedge accounting

VAT Group uses cash flow hedges to reduce and manage the economic impact of its main currency risks. As of December 31, 2021, the Group held currency forwards and non-deliverable forwards as hedging instruments (as of December 31, 2020, the Group held currency forwards). The forward contracts were denominated in the same currency as the highly probable future transactions; therefore the hedge ratio on all hedges conducted by VAT Group was 1:1 as of December 31, 2021. The hedging reserves included net unrealized gains of CHF 2.4 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 4.1 million). Net gains of CHF 0.8 million (prior year: net gains of CHF 9.1 million) were reclassified to earnings in 2021. The maturity of derivatives classified as a cash flow hedge was up to 12 months.

Accounting policies

Derivatives are initially recorded at fair value and subsequently adjusted for fair value changes. The measurement of derivatives in the Group's balance sheet is based on internal valuations or on the valuation of the respective financial institution. VAT applies hedge accounting in accordance with IFRS 9 to hedge balance sheet items and future cash flows, thus reducing income statement volatility. Changes in the value of instruments designated as fair value hedges are recorded together with the change in fair value of the underlying item directly in the income statement, net. The effective portion of instruments designated as cash flow hedges is recognized in other comprehensive income. The ineffective portion of such instruments is recorded in financial result, net. Changes in value resulting from cash flow hedges recognized in equity through the consolidated statement of comprehensive income are reclassified in the income statement in the period in which the cash flow from the hedged transaction is recognized in the income statement. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income is transferred to the income statement.

Fair value estimation

Financial instruments carried at fair value are analyzed by valuation method. The different levels have been defined as follows:

– quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
– observable prices for the asset or liability, either directly or indirectly (Level 2),
– inputs for the asset or liability are not based on observable market data (Level 3).

The carrying amounts of financial assets and liabilities not measured at fair value are a reasonable approximate of their fair values. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. The fair values are based on market/broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

5.3 Loans and borrowings

The terms and conditions of outstanding loans are as follows:

As of December 31, 2021 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving Credit Facility (RCF)	CHF	SARON + 0.95%	2023	0
Fixed-rate bond	CHF	1.50%	2023	199,716
Finance lease liability				7,226
Total loans and borrowings				**206,942**
Thereof:				
Current				2,105
Non-current				204,837

As of December 31, 2020 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving Credit Facility (RCF)	CHF	CHF LIBOR + 0.95%	2023	58,847
Fixed-rate bond	CHF	1.50%	2023	199,503
Finance lease liability				7,988
Total loans and borrowings				**266,338**
Thereof:				
Current				61,522
Non-current				204,817

VAT Group AG maintains a syndicated five-year Revolving Credit Facility (RCF) of USD 300.0 million.

The RCF is subject to the financial covenant “net senior debt/EBITDA” ratio, with which the Group complied with for the financial year 2021. Reacting on the IBOR Transition, the reference rate of the RCF was changed from LIBOR to Alternative Reference Rates (ARRs). In the case of CHF, the reference rate was changed from LIBOR to SARON.

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). The bond carries a coupon rate of 1.5% and has a term of five years with a final maturity on May 23, 2023. On December 31, 2021, the market value of the bond was CHF 203.6 million (prior year CHF 203.6 million).

The carrying amounts as of December 31, 2021 include financing costs of CHF 0.3 million (prior year CHF 1.6 million), which will be recognized in profit and loss over the remaining duration of the bond.

Reconciliation of movements of liabilities to cash flows from financing activities

As of December 31 In CHF thousand	2021	Cash-effective adjustment		Non-cash-effective adjustment		2020
		Addition	Repayment	Addition[1]	Foreign exchange	
Loans and borrowings	206,942	110,000	–172,433	3,020	16	266,338
Total liabilities from financing activities	**206,942**	**110,000**	**–172,433**	**3,020**	**16**	**266,338**

1 Includes changes of finance lease liabilities and amortization of finance costs

As of December 31 In CHF thousand	2020	Cash-effective adjustment		Non-cash-effective adjustment		2019
		Addition	Repayment	Addition[1]	Foreign exchange	
Loans and borrowings	266,338	120,000	–111,729	4,346	–367	254,088
Total liabilities from financing activities	**266,338**	**120,000**	**–111,729**	**4,346**	**–367**	**254,088**

1 Includes changes of finance lease liabilities and amortization of finance costs

Accounting policies
Loans and borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

The Group recognizes a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

5.4 Equity

Share capital

As of December 31, 2021, the total authorized and issued number of ordinary shares comprises 30,000,000 shares with a nominal value of CHF 0.10 each. A conditional capital increase of up to 1,500,000 shares, which is included in the articles of association of VAT Group AG, was not drawn as of December 31, 2021.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium

Shares were issued in exchange for investments in VAT Holding S.à r.l. and VAT Management S.à r.l. as well as a shareholder loan from VAT Holding S.à r.l. in the financial year 2016.

Treasury shares

VAT Group AG purchased own shares held as treasury shares at a weighted average purchase price of CHF 312.97 pursuant to the share-based payment plans as shown in note 4.2. As of December 31, 2021, the Group held 14,383 own shares (prior year: 8,327).

Dividends

VAT declared and paid following dividend half from the reserves from capital contributions and half from retained earnings.

In CHF thousand	2021	2020
Dividends paid	**134,982**	**119,961**

The Board of Directors proposed a dividend in the amount of CHF 4.50 per share for the financial year 2020 (prior year: CHF 4.00 per share). The dividend was approved and paid out in May 2021.

Earnings per share

In CHF thousand	2021	2020 Restated[1]
Basic earnings per share (in CHF)	**7.25**	**4.27**
Net profit	217,440	127,942
Weighted average number of shares outstanding (in thousands of units)	29,991	29,990

1 Refer to note 1, section Changes in accounting policies

Diluted earnings per share is calculated by dividing net income attributable to owners of the Company by the weighted average number of shares adjusted for all potentially dilutive shares. Dilutive shares arise from the share-based payments as shown in note 4.2.

In CHF thousand	2021	2020 Restated[1]
Diluted earnings per share (in CHF)	**7.24**	**4.26**
Net profit	217,440	127,942
Weighted average number of shares outstanding (in thousands of units)	30,021	30,006

1 Refer to note 1, section Changes in accounting policies

Accounting policies

Earnings per share

The number of ordinary shares for the calculation of the earnings per share is determined on the basis of the weighted average of the issued ordinary shares less the weighted average number of the treasury shares. For the calculation of diluted earnings per share, an adjusted number of shares is calculated as the sum of the total of the ordinary shares used to calculate the earnings per share and the potentially dilutive shares from share-based payment programs. The dilution from share-based payment programs is determined on the basis of the number of ordinary shares that are expected to be paid out to employees from currently held treasury shares. Earnings per share and diluted earnings per share are defined as the ratio of the attributable net income to the relevant number of ordinary shares.

5.5 Financial instruments

Categories of financial instruments

The following table discloses the carrying amounts of all financial instruments for each category:

As of December 31 In CHF thousand	2021	2020
Financial assets measured at amortized cost		
Cash and cash equivalents	127,152	137,871
Trade and other receivables	118,117	91,827
Accrued income	43	36
Long-term loans	861	846
Total financial assets recorded at amortized cost	**246,173**	**230,580**
Financial assets measured at fair value		
Equity shares	33	31
Forward exchange contracts	4,578	6,840
Total financial assets measured at fair value	**4,610**	**6,871**
Financial liabilities recorded at amortized cost		
Trade and other payables	50,685	32,877
Accrued expenses	18,325	10,546
Other non-current liabilities	142	180
Loans and borrowings	199,716	258,350
Finance lease liability	7,226	7,988
Total financial liabilities recorded at amortized cost	**276,093**	**309,942**
Financial liabilities measured at fair value		
Forward exchange contracts	932	26
Other payables	2,100	0
Other non-current liabilities	2,388	0
Total financial liabilities measured at fair value	**5,420**	**26**

Accounting policies

Classification

The Group classifies non-derivative financial assets in the following categories: financial assets at fair value through profit or loss (FVTPL) and financial assets measured at amortized cost. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

A financial asset measured at amortized cost is a non-derivative financial asset if both of the following conditions are met and if it is not designated as FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The category financial assets measured at amortized cost comprise “Cash and cash equivalents”, “Trade and other receivables”, “Accrued income” and “Long-term loans” on the balance sheet.

Recognition and measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Loss rates are based on actual credit loss experience over the past years and current conditions. Current conditions are reflected in the development of the country risk premium of the Group's sales region. The allowance matrix is reviewed periodically to determine an adequate impairment provision. Losses on trade and other receivables are not material. Individual impairment provisions are recorded for accounts where collection cannot be expected.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Financial assets measured at amortized cost are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. The carrying amounts of financial assets and liabilities not measured at fair value are a reasonable approximate of their fair values.

5.6 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Market risk

Foreign exchange risk The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, EUR, JPY, KRW, CNY and MYR. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. The Group hedges its foreign exchange risk exposure from future cash flows in USD, JPY and KRW. To manage its foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the Group uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The risk is monitored periodically. The foreign exchange exposure of these investments is actually not material for the Group and is not hedged.

The carrying amounts of the main Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

As of December 31, 2021 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	280,078	200,174	79,904
EUR/CHF	32,240	20,934	11,306
JPY/CHF	65,453	27,758	37,695
KRW/CHF	8,534	1,537	6,997
CNY/CHF	14,576	2,411	12,165
MYR/CHF	2,043	12,078	–10,035

As of December 31, 2020 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	236,123	155,706	80,417
EUR/CHF	31,481	21,180	10,300
JPY/CHF	58,744	27,122	31,622
KRW/CHF	13,037	1,378	11,658

The management's assessment for a reasonably possible change in the foreign exchange rates could be a 5% shift in the major currencies against the Swiss Franc with all the other variables held constant. In case of net financial assets/liabilities, as of December 31, 2021, the cumulated impact on net financial assets/liabilities would be as follows:

As of December 31 In CHF thousand	2021	2020
USD/CHF	3,351	3,337
EUR/CHF	474	427
JPY/CHF	1,581	1,312
KRW/CHF	293	484
CNY/CHF	510	274
MYR/CHF	421	41

An increase in major currency rates would have a positive impact for USD, EUR, JPY, KRW and CNY and a negative impact for MYR (prior year: positive impact for USD, EUR, JPY, KRW and CNY / negative impact for MYR). A decrease would have an equal negative / positive (prior year: negative / positive) impact on profit or loss and equity.

Interest rate risk The interest rate risk includes an interest-related cash flow risk and an interest-related risk of a change in market value. The interest-bearing financial assets and liabilities held by the Group mainly relate to cash and cash equivalents and borrowings.

Cash flow sensitivity analysis for variable-rate instruments
As in prior year, a reasonably possible change of 50 basis points in interest rates at the reporting date would not have increased (decreased) profit or loss by a material amount. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group’s receivables from customers. The carrying amounts of financial assets presented in the table in the previous note represent their maximum credit exposure.

Credit risk is managed on Group level, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of its new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, derivative financial assets and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated counterparties with a minimum rating of “A” are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. No collateral is required.

Further information about trade receivables and the provision for impairment of trade receivables is provided in note 3.1.

With respect to trade receivables, the Group has two main customers representing 40% (prior year: 37%) of the Group’s total revenues. This concentration of credit risk is considered low due to the strong market position of these two customers. Country risk is mitigated by the broad geographic spread of the Group’s customer base.

Liquidity risk
Cash flow forecasting is performed by the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs.

Surplus cash held by the operating entities above the balance required for working capital management is transferred to Group treasury. Group treasury utilizes surplus cash for repayment of loans as per the above-mentioned forecasts.

The table below analyses the Group’s non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

At Dec 31, 2021 In CHF thousand	Carrying amount	Contractual cash flows Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	52,785	–52,785	–51,847	–938			
Accrued expenses	18,325	–18,325	–11,416	–6,909			
Other non-current liabilities	2,530	–2,530			–253	–2,277	
Loans and borrowings	199,716	–204,192	–750	–2,250	–201,192		
Lease liabilities	7,226	–8,645	–714	–1,738	–2,759	–1,796	–1,638
Non-derivative financial liabilities	**280,581**	**–286,476**	**–64,727**	**–11,835**	**–204,203**	**–4,073**	**–1,638**
Forward exchange contracts used for hedging: – Outflow	932	–68,474	–30,953	–37,520			
– Inflow		67,542	30,310	37,233			
Derivative financial liabilities	**932**	**–932**	**–644**	**–288**			

At Dec 31, 2020 In CHF thousand	Carrying amount	Contractual cash flows Total	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	32,877	–32,877	–32,857	–20			
Accrued expenses	10,546	–10,546	–2,565	–7,981			
Other non-current liabilities	180	–180			–180		
Loans and borrowings	258,350	–267,268	–60,826	–2,250	–3,000	–201,192	
Lease liabilities	7,988	–8,642	–657	–2,443	–2,318	–982	–2,242
Non-derivative financial liabilities	**309,942**	**–319,513**	**–96,904**	**–12,695**	**–5,498**	**–202,174**	**–2,242**
Forward exchange contracts used for hedging: – Outflow	26	–11,306	–3,319	–7,987			
– Inflow		11,280	3,309	7,971			
Derivative financial liabilities	**26**	**–26**	**–10**	**–16**			

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Capital is measured based on the Group's consolidated financial statements and monitored closely on an ongoing basis. The target of the management for the period under review was to maintain a strong capital basis. This goal was achieved by the positive operating results of the Group.

The equity ratio was as follows:

As of December 31 In CHF thousand	2021	2020 Restated[1]
Total equity	634,370	544,573
Total balance sheet	1,064,867	989,057
Equity ratio	**59.57%**	**55.06%**

1 Refer to note 1, section Changes in accounting policies

6. Other disclosures

6.1 Income Tax

Income tax expenses

This note provides an analysis of the Group's income tax expenses, shows what amounts are recognized directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

January 1–December 31 In CHF thousand	2021	2020 Restated[1]
Current tax:		
Current tax on earnings for the period	38,009	27,327
Adjustments in respect of prior periods	453	–115
Total current tax expense	**38,462**	**27,212**
Change in deferred tax	1,833	–928
Total deferred tax expense	**1,833**	**–928**
Income tax expense	**40,295**	**26,283**

1 Refer to note 1, section Changes in accounting policies

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

January 1–December 31 In CHF thousand	2021	2020 Restated[1]
Earnings before income taxes	257,735	154,225
Tax at the average group tax rate of 16.12% (previous year: 17.11%)[2]	**41,545**	**26,389**
Effect of tax rates in foreign jurisdictions[2]	56	322
Effect in change of tax rate	–3,815	–1,341
Expenses not deductible for tax purposes	4,925	3,950
Income not subject to tax	–4,594	–4,497
Effect of current-year losses for which no deferred tax asset is recognized	20	470
Utilization of tax losses previously not recognized	–355	0
Withholding taxes included in the tax expenses	1,002	811
Other tax effects	1,511	180
Total tax expenses recorded in consolidated income statement	**40,295**	**26,283**
Effective tax rate	**15.6%**	**17.0%**

1 Refer to note 1, section Changes in accounting policies
2 The applicable tax is determined using the average statutory tax rate applicable to the Group, calculated on a weighted average basis ignoring algebraic signs. Therefore, the effect of tax rates in foreign jurisdictions is disclosed.

The tax rate in 2021 is lower than in 2020. This is mainly caused by higher profits from Swiss entities, where statutory tax rates are lower.

The following deferred taxes were (charged)/credited to other comprehensive income during the period:

January 1–December 31 In CHF thousand			2021			2020
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	12,533	–1,817	10,716	19,814	–2,873	16,941
Changes in the fair value of hedging reserves	–1,948	282	–1,665	1,715	–264	1,451

The following income taxes were (charged)/credited to equity during the period:

January 1–December 31 In CHF thousand			2021			2020
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	1,723	980	2,703	356	243	599

Deferred tax balances

The deferred tax assets and liabilities were as follows:

As of December 31 In CHF thousand			2021			2020 Restated[1]
	Deferred tax assets	Deferred tax liabilities	Net closing balance	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	507	–742	–234	52	–235	–183
Inventories	3,335	–4,372	–1,037	2,984	–3,191	–207
Property, plant and equipment	106	–8,132	–8,026	251	–5,969	–5,718
Investment properties		–42	–42		–46	–46
Intangible assets	45	–38,241	–38,196	52	–38,395	–38,343
Other non-current assets			0		–62	–62
Other current liabilities	2,666	–3	2,663	1,656	–252	1,403
Provisions	1	–1,940	–1,938	1	–1,555	–1,553
Other non-current liabilities	249		249	269	–1	268
Defined benefit obligations	2,019		2,019	3,718		3,718
Tax losses carried forward	1,051		1,051	1,904		1,904
Non-refundable withholding taxes on future distributions		–982	–982		–1,007	–1,007
Total deferred tax assets/(liabilities) before set-off	**9,979**	**–54,454**	**–44,474**	**10,887**	**–50,714**	**–39,827**
Set-off of balances within the same tax jurisdiction	–4,633	4,633	0	–4,905	4,905	0
Net deferred tax assets/(liabilities)	**5,347**	**–49,821**	**–44,474**	**5,982**	**–45,809**	**–39,827**

1 Refer to note 1, section Changes in accounting policies

The movement in deferred tax balances is as follows:

In CHF thousand	2021	2020 Restated[1]
Net tax liabilities as of January 1, as previously reported		–39,041
Impact of change in accounting policy		892
Restated tax liabilities as of January 1	**–39,827**	–38,149
Acquired through business combination (see note 6.5)	**–937**	0
Recognized in income statement	–1,833	928
Recognized in OCI	–1,817	–2,873
Exchange differences	–60	267
Net tax liabilities as of December 31	**–44,474**	**–39,827**

1 Refer to note 1, section Changes in accounting policies

For some Group companies, dividend payments are subject to a withholding tax which cannot be fully recovered in Switzerland. Deferred tax liabilities in the amount of the non-recoverable withholding tax credits are recorded in profit and loss. The balance of these deferred tax liabilities was CHF 1.0 million (prior year: CHF 1.0 million).

Tax losses

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The details of the tax losses carried forward for which no deferred tax assets were recognized are as follows:

As of December 31 In CHF thousand	2021	2020
Opening balance	**8,362**	**5,735**
Acquired through business combination (see note 6.5)	770	0
Tax losses for which no deferred tax assets were recognized	79	2,936
Adjustment prior year	625	0
Tax loss carry-forward not recognized used in the current period	–1,782	0
Tax loss carry-forward expired	0	–303
Exchange differences	–407	–7
Closing balance	**7,647**	**8,362**

The total tax losses for which no deferred tax assets were recognized will expire as follows:

As of December 31 In CHF thousand	2021	2020
Expiry in 0–3 years	0	0
Expiry after 3 years	7,647	8,362
Total	**7,647**	**8,362**

Further, there are temporary differences with respect to investments in subsidiaries of CHF 2.8 million (prior year: CHF 2.8 million), for which no deferred tax liabilities were recognized. The Group is able to control the timing of the reversal and it is not intended to reverse the temporary difference in the foreseeable future.

Accounting policies

Current and deferred income tax Income tax expense comprises current and deferred tax. It is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current income tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current income tax also includes any tax arising from dividends.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Current and deferred tax assets and liabilities are netted whenever they relate to the same taxing authority and taxable entity.

6.2 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying hedges.

For consolidation purposes, the results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. Income and expenses for each income statement are translated at yearly average exchange rates which are reasonable approximation of the spot rates. All resulting exchange differences are recognized in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents are presented in the income statement within "Finance income/(expenses)." All other foreign exchange gains and losses are presented in the income statement within "Other income/(expenses)."

The following table summarizes the principal exchange rates used for translation purposes:

	Average exchange rates in CHF		Closing exchange rates in CHF	
	Jan 1 – Dec 31, 2021	Jan 1 – Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
1 Euro	1.08	1.07	1.04	1.08
100 Japanese Yen	0.83	0.88	0.79	0.86
100 Korean Won	0.08	0.08	0.08	0.08
1 Malaysian Ringgit	0.22	0.22	0.22	0.22
1 US Dollar	0.91	0.94	0.91	0.88

6.3 Contingencies and commitments

As at the date of the financial statements, the Group had no contingent assets or liabilities. As of December 31, 2021, assets in the amount of CHF 1.1 million were pledged (prior year: assets in the amount of CHF 0.7 million were pledged).

6.4 List of subsidiaries

The subsidiaries of the Company as of December 31, 2021, are the following:

Country	Company	Function	Currency	Capital in thousands	Share
China	VAT Vacuum Valves Shanghai Company Ltd., Shanghai	D	CNY	1,618	100%
	VAT Vacuum Valves Beijing Company Ltd, Beijing	D	USD	800	100%
France	VAT SARL, Grenoble	D	EUR	50	100%
Germany	VAT Deutschland GmbH, Dresden	D	EUR	26	100%
Japan	VAT Ltd., Tokyo	D	JPY	96,470	100%
Korea	VAT Korea Ltd., Pyeongtaek City	D	KRW	300,000	100%
Luxembourg	VAT Management S.à r.l., Luxembourg	H	CHF	30	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	1,000	100%
Netherlands	VAT Netherlands B.V., Utrecht	D	EUR	0	100%
Romania	VAT Romania S.R.L., Arad	D/P	RON	7,821	100%
Singapore	VAT Singapore Pte. Ltd., Singapore	D	SGD	500	100%
Switzerland	VAT Vakuumventile AG, Sennwald	D/P	CHF	100	100%
	Comvat AG, Sennwald	D/P	CHF	275	100%
	VAT Holding AG, Sennwald	H	CHF	300	100%
Taiwan	VAT Taiwan Co. Ltd., Hsin-Chu City	D	TWD	12,000	100%
United Kingdom	VAT Vacuum Products Ltd, Warwickshire	D	GBP	1	100%
USA	VAT Inc., Delaware	D	USD	1	100%

D: Distribution, H: Holding, P: Production

Accounting policies
Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Transactions eliminated on consolidation The Group eliminates all intra-group transactions as part of the Group's consolidation process. Any unrealized gains and losses arising from intra-group transactions are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

6.5 Acquisition of a subsidiary

On July 1, 2021, the Group acquired a 100% controlling interest of microGauge AG, for CHF 6.1 million, of which CHF 1.6 million was paid in cash and CHF 4.5 million arose from a contingent consideration agreement. This contingent consideration is dependent on the success of the technology acquired. The total liability is limited at CHF 4.5 million. The acquisition included patents and technology in the amount of CHF 6.9 million and a goodwill of 0.2 million. The goodwill is attributable to the workforce and the potential of the acquired business.

microGauge AG, which had its headquarters in Zurich, Switzerland and employed three people is a deep-tech Company that was developing next generation vacuum sensing solutions. The Company was merged with VAT Vakuumventile AG as of July 1, 2021.

6.6 Subsequent events

The Company has evaluated subsequent events through March 2, 2022, which represents the date when the consolidated financial statements were approved.

6.7 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2021, and earlier application is permitted; however, the Group has not early applied the new or amended standards in preparing these consolidated financial statements.

Improvements and other amendments to IFRS

A number of standards have been modified on miscellaneous points. None of these amendments are expected to have a material effect on the Group's consolidated financial statements.

KPMG

Statutory Auditor’s Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Consolidated Financial Statements
Opinion
We have audited the consolidated financial statements of VAT Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2021 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 76 to 119) give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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.

Key Audit Matters

Revenue Recognition
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Key Audit Matter

Revenues are an important metric considered by external and internal stakeholders. Revenues recognized for the year ended December 31, 2021 amounted to CHF 901 m (2020: CHF 692 m) and are primarily related to the sale of vacuum valves and service support.

Revenue is a key performance indicator and therefore in the focus of internal and external stakeholders. VAT Group recognizes revenues related to the sale of goods when risks, rewards and control are transferred to the counterparty. In general, contractual agreements with customers define when risks and rewards are transferred, as specific terms and conditions are mentioned in the contracts or order confirmations. There is a risk that revenues may be recognized in the wrong accounting period.

There is an additional risk that revenues may be deliberately over- or understated as a result of management override resulting from the pressure management may feel to achieve planned results. This could for example occur by manipulating inputs in the Group's accounting system.

Our response

When performing the audit, we had a focus on the appropriate recognition of revenue transactions, in accordance with the Group's accounting policies.

We performed testing of the key controls around revenue recognition, which included performing walkthroughs and testing the operating effectiveness of internal controls.

Furthermore, our procedures included detailed cut-off testing of revenue transactions with reference to shipping documentation to either side of the balance sheet date. Moreover, we obtained trade debtors confirmations and if required performed alternative procedures, such as subsequent cash-receipts or traced our samples taken to invoices and delivery notes.

In addition to the procedures described above, we considered the risk of management override by testing the monthly key control of matching sales subledger to the general ledger. Together with this control we checked whether any other persons than accounting staff have performed journal entries in the revenue accounts and if user access rights in the general ledger are appropriately allocated.

Moreover, we assessed the Group's disclosures relating to revenue recognition.

For further information on revenue recognition refer to the following: Note 2.2 "Summary of significant accounting policies"

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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.

Responsibility of the Board of Directors for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are 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, ISAs and Swiss Auditing Standards 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 these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 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.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Simon Niklaus Licensed Audit Expert Auditor in Charge	Jan Bellinger Licensed Audit Expert

St. Gallen, March 2, 2022

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2021

Income statement

January 1–December 31 In CHF thousand	Note	2021	2020
Dividend income		120,000	160,000
Interest income		1,189	1,915
Other financial income	3.1	1,217	627
Total income		**122,406**	**162,541**
Interest expenses		–3,374	–3,934
Other financial expenses		–2,369	–1,720
Personnel expenses		–958	–902
Other operating expenses	3.2	–1,287	–1,449
Total expenses		**–7,988**	**–8,005**
Direct tax		–262	–127
Gain for the period		**114,156**	**154,409**

Balance sheet

As of December 31 In CHF thousand	Note	2021	2020
Assets			
Cash and cash equivalents		5,520	190
Other receivables due from third parties		40	42
Prepayments and accrued income		277	722
Current assets		**5,837**	**954**
Financial assets	3.4	71	1,018
Loans granted to companies in which the entity holds an investment		71,840	161,306
Investments in subsidiaries	3.3	502,850	502,850
Non-current assets		**574,762**	**665,174**
Total assets		**580,599**	**666,128**
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	0	60,000
Other payables	3.5	27	383
Short-term provisions		237	150
Accrued expenses and deferred income	3.6	2,839	3,187
Current liabilities		**3,103**	**63,720**
Long-term interest-bearing liabilities	3.4	200,000	200,000
Non-current liabilities		**200,000**	**200,000**
Total liabilities		**203,103**	**263,720**
Equity	3.7		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		7,842	75,333
– Other capital reserves		3,682	3,682
Accumulated gains:			
– Profit/loss brought forward		253,317	166,398
– Gain for the period		114,156	154,409
Treasury shares	3.8	–4,501	–414
Total equity attributable to owners of the Company		**377,496**	**402,408**
Total liabilities and equity		**580,599**	**666,128**

Notes to the financial statements VAT Group AG

1. General information

VAT Group AG ("the Company") is the parent Company of the VAT Group. VAT Group AG was incorporated in Switzerland on February 25, 2016. The registered office of the Company is Seelistrasse 1, CH-9469 Haag, Switzerland. VAT Group AG is listed on the SIX Swiss Exchange since April 14, 2016.

2. Basis of preparation

2.1 General

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

2.2 Investments in subsidiaries

Investments are valued and accounted for separately at the respective acquisition costs. If there are concrete indications that an investment is overvalued, an impairment loss is recognized.

3. Information on income statement and balance sheet items

3.1 Other financial income

Other financial income for the year 2021 consists of gains from the disposal of treasury shares and amounts to CHF 1.2 million (prior year: CHF 0.5 million). The remaining amount results from net foreign exchange gains on financing activities.

3.2 Other operating expenses

As of December 31 In CHF thousand	2021	2020
Insurance, duties and other charges	159	118
Rental expenses	5	5
Travel expenses	35	13
Consulting and audit fees	331	539
Administration expenses	757	774
Total other operating expenses	**1,287**	**1,449**

3.3 Significant investments in subsidiaries

VAT Group AG holds the following investment as of December 31:

Country	Company	Currency	Capital in thousands		Share in capital and voting rights	
			2021	2020	2021	2020
Luxembourg	VAT Management S.à r.l.	CHF	30	30	100%	100%

The indirect investments are shown in note 6.4 of the consolidated financial statements of VAT Group.

3.4 Interest-bearing liabilities

As of December 31 In CHF thousand	2021	2020
Short-term interest-bearing liabilities due to third parties	0	60,000
Total short-term interest-bearing liabilities	**0**	**60,000**
Long-term interest-bearing liabilities due to third parties	200,000	200,000
Total long-term interest-bearing liabilities	**200,000**	**200,000**

The terms and conditions of outstanding loans due to third parties are as follows:

As of December 31, 2021 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	SARON 1m + 0.95%	2023	0
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at Dec 31, 2021				**200,000**
Thereof:				
Current				0
Non-current				200,000

As of December 31, 2020 In CHF thousand	Currency	Nominal interest rate	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	CHF LIBOR 1m + 0.95%	2023	60,000
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at Dec 31, 2020				**260,000**
Thereof:				
Current				60,000
Non-current				200,000

Financing expenses capitalized in connection with the Revolving Credit Facility (RCF) in prior years have been recognized in profit and loss in 2021. As at December 31, 2021, CHF 0.0 million (prior year: CHF 0.4 million) are recognized within “Prepayments and accrued income.” CHF 0.0 million (prior year: CHF 0.7 million) are disclosed as “Financial assets.”

On May 23, 2018, VAT Group issued a fixed-rate bond with a nominal value of CHF 200.0 million, which is listed on the SIX Swiss Exchange (ISIN: CH0417086052). In connection with the bond, financing expenses in the amount of CHF 0.2 million (prior year: 0.2 million) are recognized within “Prepayments and accrued income.” CHF 0.1 million (prior year: 0.3 million) are disclosed as “Financial assets.” On December 31, 2021, the market value of the bond was CHF 203.6 million.

3.5 Other payables

As of December 31 In CHF thousand	2021	2020
Other payables due to third parties	27	45
Other payables due to companies in which the entity holds an investment	0	338
Total other payables	**27**	**383**

3.6 Accrued expenses and deferred income

As of December 31 In CHF thousand	2021	2020
Accrued expenses and deferred income due to third parties	2,434	2,803
Accrued expenses and deferred income due to governing bodies	405	384
Total accrued expenses	**2,839**	**3,187**

3.7 Equity

As of December 31, 2021, the share capital amounts to CHF 3.0 million and consists of 30,000,000 registered shares at par value of CHF 0.10 each.

The reserves from capital contributions consist of the premium from contribution in kind less issue stamp duty. From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital.

On March 29, 2016, a conditional capital increase of up to 1,500,000 shares was included in the articles of association of VAT Group AG which was not drawn as of December 31, 2021.

3.8 Treasury shares

	Jan 1 – Dec 31, 2021		Jan 1 – Dec 31, 2020	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**8,327**	**CHF 49.75**	**12,683**	**CHF 45.00**
Purchase of treasury shares	11,771	CHF 369,08	342	CHF 160.60
Share-based payments	–5,715	CHF 256.66	–4,698	CHF 159.09
Treasury shares as at December 31	**14,383**	**CHF 312.97**	**8,327**	**CHF 49.75**

On December 31, 2021, VAT Group held 14,383 treasury shares with an acquisition price of CHF 4.5 million.

4. Other information

4.1 Full-time equivalents

VAT Group AG does not have any employees.

4.2 Significant shareholders

The following shareholders owned more than 5% of voting rights as of December 31:

Shareholder	Voting rights as of December 31, 2021	Voting rights as of December 31, 2020
Rudolf Maag	3,000,570	3,000,570
BlackRock Inc.	1,543,086	1,852,490
Capital Group Companies Inc.	1,505,281	1,540,280

4.3 Shares held by the Board of Directors and the Group Executive Committee

As of December 31, the members of the Board of Directors and the Group Executive Committee held the shares listed in the following table:

As of December 31	2021	2020
Board of Directors		
Martin Komischke, Chairman	1,871	1,582
Hermann Gerlinger	1,242	1,155
Heinz Kundert	30,350	30,161
Urs Leinhäuser	4,592	4,465
Daniel Lippuner	787	700
Karl Schlegel	38,306	38,184
Libo Zhang	532	371
Group Executive Committee		
Michael Allison, CEO	468	508
Fabian Chiozza, CFO (since April 1, 2021)	0	n/a
Stephan Bergamin, CFO (until March 31, 2021)	n/a	243
Thomas Berden, COO	0	0

As of December 31, 2021 and 2020, none of the members of the Board of Directors or the Group Executive Board held conversion rights or options, and no loans or credits were outstanding between the parties and the Company.

4.4 Shares granted to the Board of Directors

Members of the Board of Directors receive 30% of the total compensation in restricted shares. VAT Group granted 950 shares with a fair value of CHF 276 per share for the period 2020/21 (prior period: 1,421 shares, amounting to CHF 0.2 million). As of December 31, 2021, VAT Group AG allocated 485 shares (prior year: 911 shares) amounting to CHF 0.2 million (prior year: CHF 0.2 million) to its Board of Directors, which will be transferred in financial year 2022.

4.5 Significant events after the balance sheet date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

Proposed appropriation of available earnings

Proposal for the appropriation of available earnings by the Board of Directors to the General Meeting:

Appropriation of available earnings as proposed by the Board of Directors

In CHF thousand	2021
Balance brought forward	**253,317**
Gain for the period	114,156
Total accumulated gains	**367,473**

The Board of Directors proposes to the General Meeting the following appropriation of available earnings:

In CHF thousand	2021
Dividend payment	–157,500
Total accumulated gains to be carried forward	**209,973**

Appropriation of reserves from capital contributions

In CHF thousand	2021
Reserves from capital contributions as of Dec 31, 2021	**7,842**
Dividend payment out of reserves from capital contributions	–7,500
Reserves from capital contributions carried forward	**342**

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 165.0 million, CHF 157.5 million from accumulated gains and CHF 7.5 million from the reserves from capital contributions.

The number of shares with dividend rights will change if the number of own shares held by VAT Group AG changes. The Board of Directors may therefore adapt the total amount of the proposed dividend to the number of shares with dividend rights at the General Meeting.

Statutory Auditor's Report

To the General Meeting of VAT Group AG, Sennwald

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VAT Group AG, which comprise the balance sheet as at December 31, 2021, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 124 to 131) for the year ended December 31, 2021 comply with Swiss law and the Company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity 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.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements
The Board of Directors is responsible for the preparation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 Swiss Auditing Standards 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 these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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 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.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Simon Niklaus
Licensed Audit Expert
Auditor in Charge

Jan Bellinger
Licensed Audit Expert

St. Gallen, March 2, 2022

Shareholder Information

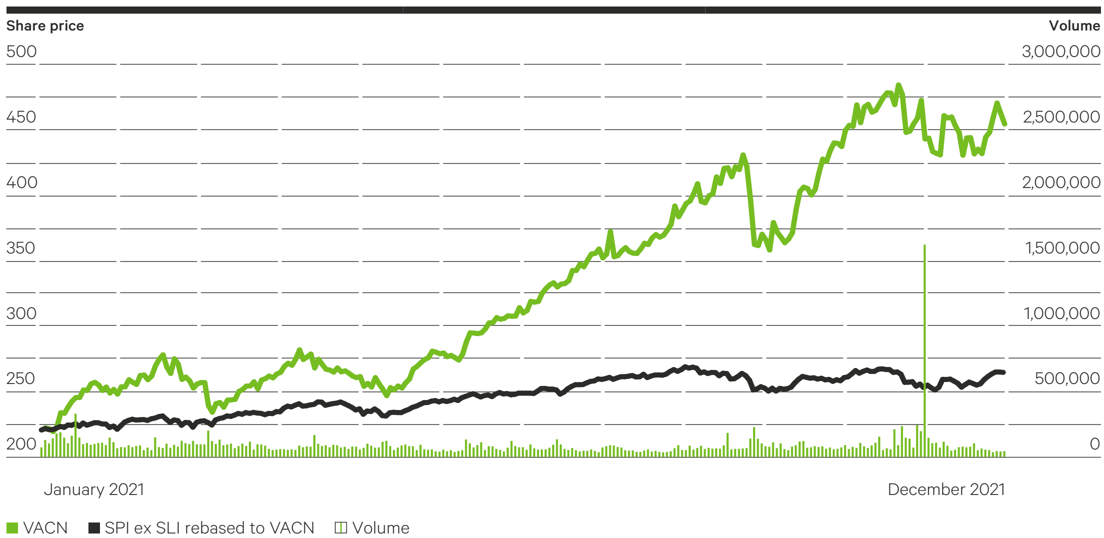
Driven by its strong business performance and a generally positive stock market climate, VAT's share price more than doubled during 2021. The company's primary end market, the semiconductor sector, saw record levels of capital investment to expand capacity in response to short-term chip shortages and continued long-term demand drivers, such as Big Data, device interconnectivity, the Internet of Things and artificial intelligence. The widespread shift to home office and increased e-commerce resulting from the COVID-19 pandemic continued in 2021 and further supported demand for semiconductors.

Record sales and ongoing internal improvement measures allowed VAT to increase its EBITDA margin by 4 percentage points compared with 2020, reaching a record 34.2%. Free cash flow also reached an all-time high, allowing VAT's Board of Directors to propose to shareholders an increase of its regular dividend to CHF 5.50 per share from CHF 4.50 a year earlier.

Stable shareholder base

VAT's core shareholder base remained largely unchanged compared with 2020, with the exception of Ameriprise Financial, who reduced their holdings during 2021 from 4% at the end of 2020 to below the SIX Swiss Exchange's reporting threshold of 3%. As of the publication of this annual report, there are four shareholders who each own more than 3% of VAT's outstanding shares and whose cumulative shareholding amounts to about 24% of VAT's shares. The free float of VAT shares, as defined by the SIX Swiss Exchange, was approximately 90% at the end of 2021. The number of registered shareholders increased from about 10,500 at the end of 2020 to about 13,400 at the end of 2020.

Share price development



In 2021, the price of VAT shares increased by 105% from CHF 220.80 to CHF 454.20. During the same period, the Swiss stock market as measured by the SPI ex SLI TR Index increased by 20%. On May 25, 2021, shareholders received a dividend of CHF 4.50 per share, half of the amount paid from capital contribution reserves, the other half from accumulated gains.

Stock exchange listing

Ticker symbol	VACN (SIX); VACN.S (Reuters); VACN SW (Bloomberg)	**Legal Entity Identifier (LEI)**	529900MVFK7NVALR7Y83
Valor number	31 186 490	**Nominal value**	CHF 0.10 per share
ISIN	CH0311864901	**Free Float**	Approximately 90%
Market capitalization as of December 31, 2019	CHF 13.6 bn	**Number of shares outstanding**	30,000,000
Exchange	SIX Swiss Exchange (International Reporting Standard)	**Segment**	Mid & Small Cap Swiss shares

Distribution of shareholders by domicile and breakdown of registered shareholders by numbers of shares held

Switzerland	36%
Other countries	23%
Shares in transit	41%

The vast majority of registered shares not held in Switzerland are held in the rest of Europe (mainly the UK) and the US.

Number of shares held	
1–100 shares	7,682
101–1,000 shares	4,922
1,001–10,000 shares	676
10,001–100,000 shares	110
100,001–1,000,000	15
More than 1,000,000 shares	3
Total number of shareholders	**13,408**

Market Capitalization
in CHF bn as of December 31, 2021

13.6

Dividend Payout Ratio
in % of Free Cash Flow to Equity

85.9

Disclosure of shareholdings
With effect from January 1, 2016, under Art. 110 of the Federal Act on Financial Market Infrastructure (FinMIA), anyone who acquires or sells equity securities on their own account and thereby attains, falls below or exceeds the threshold of 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔% of the voting rights in a company (whether or not such rights may be exercised), is subject to a reporting obligation. This obligation applies to anyone who directly, indirectly or in concert with third parties acquires or disposes of shares in a company incorporated in Switzerland whose equity securities are listed in whole or in part in Switzerland. It also applies to anyone who can exercise the voting rights attached to such equity securities at their own discretion. Disclosure must be made to the company and stock exchanges on which the equity securities in question are listed.

Significant shareholders
Information on significant shareholders is disclosed on page 43 of this report.

Dividend policy
VAT Group AG is committed to an attractive dividend policy that reflects the company's strong free cash flow generation and solid balance sheet. In line with this policy, VAT Group intends to distribute to its shareholders up to 100% of free cash flow to equity (FCFE) so long as the Group's net debt does not significantly exceed 1x EBITDA.

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

Disclosure policy
VAT Group AG is committed to open and transparent communication with shareholders, financial analysts, customers, suppliers and all other stakeholders. VAT aims to communicate material developments in its businesses in a timely manner and in compliance with the rules of the SIX Swiss Exchange.

Investor Relations

VAT's Investor Relations team manages the company's interaction with the financial community, including attendance at key investor conferences and providing institutional investors and analysts with various opportunities to learn more about VAT Group's strategy, business operations and governance. Investor Relations is based at the Group's headquarters in Haag, Switzerland.

More information is available on the VAT Group website: https://ir.vatvalve.com.

Key data on VAT registered shares

		2021	2020 restated
Share capital	CHF	3,000,000	3,000,000
Number of shares on December 31		30,000,000	30,000,000
Nominal value per share	CHF	0.10	0.10
Shares outstanding		30,000,000	30,000,000
EBITDA per share	CHF	10.26	7.01
Free cash flow per share	CHF	6.52	4.90
Book value per share	CHF	21.15	18.15
Dividend per share[1]	CHF	5.50	4.50
Share price high	CHF	484.20	224.20
Share price low	CHF	219.60	107.65
Closing share price on December 31	CHF	454.40	220.80
Average daily trading volume	Shares	81,002	149,347
Average daily trading value	CHF million	27.0	24.9

1 Proposed by the Board of Directors

Financial Calendar

Date	Event
2022	
Thursday, April 14, 2022	Q1 2022 trading update
Friday, May 6, 2022	Record day
Tuesday, May 17, 2022	Annual General Meeting 2022
Thursday, May 19, 2022	Ex-date
Monday, May 23, 2022	Dividend payment
Thursday, August 4, 2022	Half-year 2022 results
Thursday, October 13, 2022	Q3 2022 trading update

5-year key figures

In CHF million	2021	2020 restated[1]	2019 restated	2018 restated	2017	CAGR 2017–2021
Order intake	1,227.9	724.5	585.0	648.0	736.2	13.6%
Order backlog as of December 31	461.2	145.3	114.5	113.6	165.6	29.2%
Net sales	901.2	692.4	570.4	698.1	692.4	6.8%
Gross profit	570.5	430.1	345.4	419.5	431.9	7.2%
Gross profit margin	63.3%	62.1%	60.6%	60.1%	62.4%	–
EBITDA adjusted[2]	–	–	–	–	215.1	–
EBITDA margin adjusted	–	–	–	–	31.1%	–
EBITDA	307.9	210.5	148.2	214.0	212.2	9.8%
EBITDA margin	34.2%	30.4%	26.0%	30.7%	30.6%	–
EBIT	264.9	169.8	102.5	178.8	178.7	10.3%
EBIT margin	29.4%	24.5%	18.0%	25.6%	25.8%	–
Net income	217.4	127.9	70.3	134.9	115.7	17.1%
Net income margin	24.1%	18.5%	12.3%	19.3%	16.7%	–
Basic earnings per share (in CHF)	7.25	4.27	2.34	4.50	3.86	17.1%
Diluted earnings per share (in CHF)	7.24	4.26	2.34	4.50	3.86	17.1%
Cash flow from operating activities	239.8	166.2	151.9	170.5	155.6	11.4%
Capex[3]	44.1	19.2	12.1	46.6	47.6	–2.7%
Capex margin	4.9%	2.8%	2.1%	6.7%	6.9%	–
Free cash flow[4]	195.7	147.0	139.9	123.9	108.5	15.9%
Free cash flow margin	21.7%	21.2%	24.5%	17.7%	15.7%	–
Free cash flow conversion rate[5]	63.6%	69.8%	94.4%	57.9%	51.1%	–
Free cash flow to equity[6]	192.0	143.0	135.4	119.6	104.4	16.5%

As of December 31 In CHF million	2021	2020 restated	2019 restated	2018 restated	2017	CAGR 2015–2019
Total assets	1,064.9	989.1	966.5	967.3	991.1	1.8%
Total liabilities	430.5	444.5	448.3	403.9	433.1	–0.2%
Equity	634.4	544.6	518.2	563.4	558.0	3.3%
Net debt	79.7	128.5	144.3	147.6	143.7	–13.7%
Net debt/EBITDA	0.3	0.6	0.9	0.7	0.7	–21.4%
Invested capital[7]	463.9	411.1	350.0	357.4	327.0	9.1%
NOPAT[8]	235.5	155.6	99.0	163.4	159.6	10.2%
Return on invested capital (ROIC)	53.8%	40.6%	28.0%	47.7%	55.7%	–
Dividend per share[9] (in CHF)	5.50	4.50	4.00	4.00	4.00	–
Payout ratio[10]	85.9%	94.4%	88.6%	100.4%	115.0%	–
Number of employees[11]	2,540	2,041	1,810	1,712	1,946	6.9%

1 Prior-period financial statements have been restated in line with a clarification in 2021 by the IFRS Interpretations Committee that costs for cloud-based services, such as VAT's new ERP system, are to be expensed through the income statement when they occur, rather than capitalized.
2 Adjusted EBITDA in 2017 excludes one-off items related to the IPO in April 2016.
3 Capex comprises acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
4 Free cash flow is calculated as cash flow from operating activities minus cash flow from investing activities.
5 The free cash flow conversion rate is calculated as free cash flow as a percentage of EBITDA.
6 Free cash flow to equity is calculated as cash flow from operating activities less cash flow from investing activities less interest paid and the current portion of loan and borrowings due at the end of the period.
7 Invested capital is defined as total assets (excluding current income tax receivables, goodwill, acquired technology & customer relationships, brands & trademarks, deferred income taxes and current income tax liabilities) less non-current liabilities (excluding loans & borrowings and deferred income tax liabilities).
8 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization (excluding amortization of acquired technology and customer relationships) plus finance income (excluding net foreign exchange gains/losses from financing activity and excluding other finance income) less taxes at the average Group rate of 16.0% (previous year 16.0%).
9 2021 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 17, 2022; CHF 5.25 per share to be paid from accumulated gains, CHF 0.25 to be paid from reserves from capital contributions.
10 Percentage of free cash flow to equity proposed to be paid out as dividend.
11 Number of employees expressed as full-time equivalents (FTE).

Technical Glossary

5G The fifth generation of cellular networks up to 100× faster than 4G that will enable connected vehicles, smart power grids and industrial automation.

AI (artificial intelligence) The simulation of human intelligence in machines that are programmed to think like humans and mimic their actions.

ALD (atomic layer deposition) An advanced deposition technique that allows for ultra-thin films of a few nanometers to be deposited in a precisely controlled way.

Control Valve A valve that controls pressures or gas flows in different steps of semiconductor manufacturing.

Deposition The transfer of material onto a semiconductor wafer, including physical vapor deposition (PVD), chemical vapor deposition (CVD), and molecular beam epitaxy (MBE).

Etching A process for removing material in a specified area through a chemical reaction or physical bombardment.

EUV (extreme ultraviolet) lithography Uses light with a wavelength of 13.5-nm to manufacture transistors and interconnect wiring of a semiconductor chip.

Fab Common name for a semiconductor fabrication plant, a factory used to manufacture integrated circuits.

Gate Valve A valve that regulates the flow of gases, fluids or materials by opening, closing or obstructing a port or passageway.

Integrated Circuit (IC) A semiconductor product of electrically connected components (such as transistors and capacitors) fabricated on the same substrate.

Internet of Things (IoT) The interconnection via the Internet of computing devices embedded in everyday objects, enabling them to send and receive data.

Isolation Valve Used to seal high-vacuum process chambers from neighboring processes that are at different pressure levels.

Liquid-Crystal Display (LCD) A type of flat-panel display that uses an array of backlit thin-film transistors to control each pixel.

Load Lock A chamber used to transfer a wafer from an environment at atmospheric pressure into and out of the vacuum environment used for processing.

Mechatronics Multidisciplinary branch of engineering that focuses on electrical and mechanical systems, and includes robotics, electronics, telecommunications, control and product engineering.

Nanometer (nm) A unit of length; one billionth of a meter, commonly used in the semiconductor industry to describe device dimensions.

Packaging The protective container or housing for an electronic component or die, with external terminals to provide electrical access to the components inside.

Organic Light-Emitting Diode (OLED) A flat light-emitting technology made by placing a series of organic thin-films between two conductors. OLEDs can be used to make displays and lighting.

Process Chamber An enclosed area in which a single process is performed in the manufacture of an integrated circuit or other device.

Photovoltaic (PV) The generation of electricity from solar radiation.

Semiconductor A material whose electrical conductivity is between that of metals (conductors) and insulators (non-conductors) and can be modified physically or chemically to increase or decrease its conductivity.

Subfab The area underneath a semiconductor fabrication plant that contains support equipment (pumps, etc.) for processing tools.

Substrate The starting material for the semiconductor manufacturing process, typically silicon; also referred to as a wafer.

Thin-Film A layer of material ranging from fractions of a nanometer to several micrometers thick.

Transfer Valve Used to move substrates such as wafers, glass panels and other materials into and out of manufacturing process chambers.

Vacuum A pressure below the ambient atmosphere
- Typical atmospheric pressure at sea level: 1,000 millibars (mbar)
- Pressure at typical cruising altitude for commercial aircraft: 100 mbar
- High vacuum used in coating processes: 10^{-8} mbar (1 one-hundred-millionth of a millibar)
- Ultra-high vacuum used in deposition processes: 10^{-10} mbar (1 ten-billionth of a millibar)

Wafer The thin, circular or nearly square slices of mono- or multicrystalline silicon on which semiconductors and PV cells are built.

Contact

This complete report is only available in English.

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Forward-looking statement
Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should be considered to be forward-looking statements. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the company to be materially different from those expressed or implied by such forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the company's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the performance, security and reliability of the company's information technology systems, political, economic and regulatory changes in the countries in which the company operates or in economic or technological trends or conditions. As a result, investors are cautioned not to place undue reliance on such forward-looking statements.

Except as otherwise required by law, VAT disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this report.

OUTLOOK 2022:

VAT expects the trend of accelerated investments in semiconductor manufacturing equipment to continue in 2022. Demand growth is also expected in displays, solar photovoltaic and several industrial end markets of VAT.

Therefore, VAT expects higher net sales*, EBITDA, EBITDA margin, net income and free cash flow in 2022 compared with 2021.

* At constant foreign exchange rates

PASSION. PRECISION. PURITY.