ANNUAL REPORT 2022:

VAT passes CHF 1 bn in sales for the first time, with record profitability and cash flow, thanks to market-leading technology, a flexible global footprint, and dedicated people.

VAT is the leading supplier of high-vacuum valves and related services used in the manufacture of semiconductors, displays, solar cells and a variety of other high-precision products. The company again reported record results in 2022 in a dynamic business environment marked by both strong demand and increasing macroeconomic uncertainties. Thanks to its leading market position and technology strength, VAT is well positioned to capture the coming growth opportunities and aims to again outgrow the market through a period of cyclically softer demand in 2023.

PASSION. PRECISION. PURITY.

The addition of a touch of gold to our annual report celebrates surpassing CHF 1 billion in sales for the first time in VAT's history. This success is first and foremost the achievement of our dedicated employees. Since 1965, VAT has grown steadily on an organic basis, without company acquisitions. VAT aims to continue to create value and is committed to reaching CHF 2 billion in sales by 2027.*

* At midpoint of its 2027 sales guidance of CHF 1.8 to 2.2 billion

Key figures

In CHF million	2022	2021	Change
Order intake	1,209.9	1,227.9	–1.5%
Order backlog as of December 31	517.7	461.2	12.3%
Net sales	1,145.5	901.2	27.1%
Gross profit	733.7	570.5	28.6%
Gross profit margin	64.1%	63.3%	–
EBITDA	400.4	307.9	30.0%
EBITDA margin	35.0%	34.2%	–
EBIT	359.4	264.9	35.7%
EBIT margin	31.4%	29.4%	–
Net income	306.8	217.4	41.1%
Net income margin	26.8%	24.1%	–
Basic earnings per share (in CHF)	10.23	7.25	41.1%
Diluted earnings per share (in CHF)	10.22	7.24	41.0%
Cash flow from operating activities	294.0	239.8	22.6%
Capex[1]	66.2	44.1	55.4%
Capex margin	5.8%	4.9%	–
Free cash flow[2]	228.2	195.7	16.6%
Free cash flow margin	19.9%	21.7%	–
Free cash flow conversion rate[3]	57.0%	63.6%	–
Free cash flow to equity[4]	224.6	192.0	17.0%

As of December 31 In CHF million	2022	2021	
Total assets	1,274.8	1,064.9	19.7%
Total liabilities	494.5	430.5	14.9%
Equity	780.3	634.4	23.0%
Net debt	36.8	79.7	–53.8%
Net debt/EBITDA	0.1	0.3	–64.5%
Invested capital[5]	642.6	463.9	38.5%
NOPAT[6]	317.0	235.5	34.6%
Return on invested capital (ROIC)	57.3%	53.8%	–
Dividend per share[7] (in CHF)	6.25	5.50	13.6%
Payout ratio[8]	83.5%	85.9%	–
Number of employees[9]	2,991	2,540	+17.7%

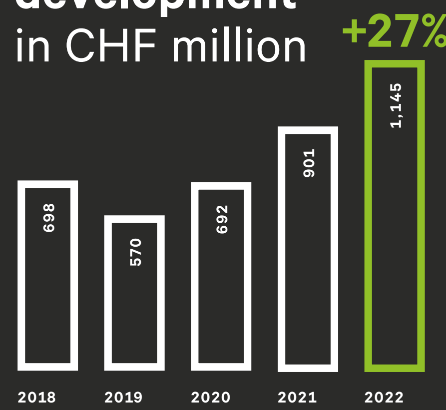
1 Capex: acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
2 Free cash flow: cash flow from operating activities minus cash flow from investing activities.
3 Free cash flow conversion rate: free cash flow as a percentage of EBITDA.
4 Free cash flow to equity: free cash flow less interest paid.
5 Invested capital is defined as total assets less non-current liabilities.
6 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization plus finance income less taxes at the average Group rate of 15.9% (previous year 16.1%).
7 2022 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 16, 2023; CHF 6.25 per share to be paid from accumulated gains.
8 Percentage of free cash flow to equity proposed to be paid out as dividend
9 Number of employees expressed as full-time equivalents (FTE)

Net sales
in CHF million

1,145

2021: 901

Net sales development
in CHF million



EBITDA
in CHF million

400

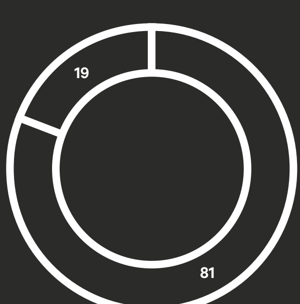
2021: 308

EBITDA margin
in %

35.0

2021: 34.2

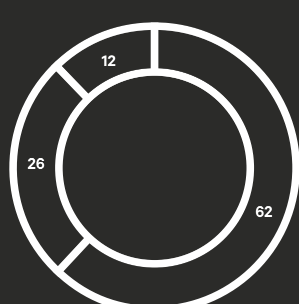
Net sales by segment
in %



81 VALVES
19 GLOBAL SERVICE

2021:
81 VALVES
19 GLOBAL SERVICE

Net sales by region
in %



62 ASIA
26 AMERICAS
12 EMEA

2021:
53 ASIA
34 AMERICAS
13 EMEA

Free cash flow
in CHF million

228

2021: 196

Dividend per share*
in CHF

6.25

2021: 5.50

*2022 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 16, 2023; CHF 6.25 per share to be paid from accumulated gains.

Dear Stakeholders,

In 2022, VAT delivered the best results in its history. We broke the CHF 1-billion mark in net sales for the first time. We further increased profitability with a record EBITDA margin and generated the best-ever free cash flow. At the same time, we consolidated our leading market position and reinforced our technology leadership with a range of new products and service solutions.

This is a remarkable achievement, especially in a dynamic environment with historically high demand combined with a variety of macroeconomic uncertainties. I can point to several reasons for our success. For example, we continue to benefit from our leadership position as the premier supplier of advanced vacuum valve technology to the semiconductor industry. Our products are indispensable for making the increasingly complex chips underlying digitalization. Another is the emergence of new opportunities in areas such as sustainable energy, the expansion of vacuum processes into a broader range of industries, and biomedical research.

In addition, we've been able to keep pace with this fast-changing market by consistently investing in technology innovation and in a robust and flexible global footprint and value chain. Combined with our ongoing efforts to steadily improve our operational performance—becoming faster, more efficient and, above all, keeping our customers at the center of everything we do—we've been able to create superior value reliably through the business cycle.

None of these accomplishments would have been possible without the energy, commitment and creativity of our 3,000 employees around the world. On behalf of the Board of Directors, I would like to express my thanks to this great team and their consistently outstanding performance.

Another highlight in 2022 was our second Capital Markets Day in December where we updated our medium-term business strategy. We showed that we've already surpassed some of the most ambitious targets that we set in 2020 for the period 2020–25 and so we've updated our new 2027 targets to reflect this positive development. I believe our performance in 2022 shows we are on the right track to meet these new targets.

We have also committed to play our part in the transition to a more sustainable society, and in 2022 we published our first Sustainability Review. There we highlighted the actions we've taken to reduce the impact of our business on the environment, to support the development of the communities in which we operate, and to provide our people with opportunities to grow, both professionally and personally. And we acknowledged that there is much more to do. We are strengthening our sustainability management and governance structures and you can expect to see continued improvements both in the scope of our sustainability activities in 2023 as well the way we report our progress.

As we look ahead, we operate in dynamic and fast-changing markets and 2023 will be no different. Short-term demand is currently being affected by factors such as inflation risks, uncertain consumer spending, the war in Ukraine and the ongoing trade tensions between the US and China. Our industry is adapting and many of our customers plan to reduce their capital investments in semiconductor manufacturing equipment this year.

“We have a robust financial foundation and a track record of value-creating capital allocation.”

DR. MARTIN KOMISCHKE
CHAIRMAN OF THE BOARD OF DIRECTORS

However, we believe we’re very well positioned not only to meet these challenges but to achieve even greater success when the cycle turns again. Our steady investment in innovation ensures our technology leadership. We have deep, long-term relationships with all the major players in the market, a competitive edge in an uncertain environment. The global service business provides a profitable buffer in periods of lower capital spending on semiconductor equipment.

Our increasingly efficient global production and supply footprint means we can adjust capacity and cost quickly while continuing to meet our customers’ technology and service requirements. We have a robust financial foundation and a track record of value-creating capital allocation. Finally, our team of dedicated and engaged people around the world has proven they can deliver against our commitments over the long term.

That’s why your Board of Directors looks to the future with optimism and will ask shareholders to approve a dividend of CHF 6.25 per share at our Annual General Meeting on May 16. The Board and I would like to thank you for your ongoing support and we look forward to working with you to make this company even more successful in the years to come.

Sincerely,

M. Komischke

Dr. Martin Komischke

CEO Interview

How would you summarize your 2022 results?
We had a great year, breaking through CHF 1 billion in net sales and with record EBITDA, EBITDA margin and free cash flow. While we enjoyed positive market conditions for most of the year, our success really reflects our competitive advantages in market position, technology, operational strength, and our engaged and talented people.

What were the main positives in your view?
I'm very encouraged by our ability to stay ahead of the curve in our fast-changing market, despite the uncertainties that emerged during the year—inflation risks, economic slowdowns, trade tensions and the war in Ukraine. We were very successful with our specification wins on products our customers will use in future applications. And our service business continues to outperform, with very strong sales growth and an attractive EBITDA margin, which helps buffer cyclical effects.

And the biggest challenges?
It's always a challenge to balance the demands of a fast-growing market – securing capacity, developing technology, optimizing supply chains – while making sure we can quickly adjust the business to deal with the inevitable cyclical ups and downs. But our 2022 results show that we could handle those demands.

Where do you think we are in the semiconductor business cycle today?
There's a consensus in the market that spending on equipment used to manufacture semiconductors in 2023 could decrease by 20–30% from the record levels we've seen in the past few years before returning to growth in 2024. This is mainly due to slower growth from high energy costs, overall inflation, and geopolitical factors. Obviously it's difficult to forecast but we run our business on long-term metrics and those continue to look very promising.

How important is the Malaysia facility to your business?
Our ability to grow the business quickly and maintain very attractive profitability is largely due to our investments in Penang over the past few years. Our facility there gives us flexible production capacity, local engineering expertise, access to regional supply chains, and faster on-the-spot customer support. We employ some 800 to 900 people there and production capacity is up about 60% compared with a year ago. We're approaching the CHF 300-million level and we think we'll go above CHF 1 billion eventually. It's a big advantage for us and we announced last year plans to expand the facility even further in the coming years.

What are you doing to improve operational performance?
Since we aim to double sales to CHF 2 billion over the next five years, it's vital that we become even more efficient through the business cycle. That means harvesting more economies of scale from our global footprint. In 2022, we invested some CHF 20 million in Malaysia to build flexibility and get closer to customers. We increased sourcing from best-cost countries. Our new ERP system is up and running, which will not only speed up our internal processes and give us better visibility on the business, but will also improve the customer experience which will help us capture a greater share of wallet. We're also investing in digital infrastructure around product design and modelling to speed up time-to-market. A sharper focus on sustainability also drives operational excellence. We use our resources more efficiently, which means streamlined manufacturing processes, lower energy consumption and costs, replacing harmful chemicals, smarter packaging and less waste.

How are measures to "reshore" chip production impacting your business?
So far, we haven't seen any significant impacts. Our global footprint means we are locally present to meet our customers' needs, wherever they are, so we're agnostic about where the production takes place. Reshoring could lead to higher capital expenditures by some customers to build new capacity. Geopolitical pressures always create some level of market uncertainty and our job is to be ready for whatever comes.

MICHAEL ALLISON, CEO

“I’m very encouraged by our ability to stay ahead of the curve in our fast-changing market.”

Are you seeing any changes in the long-term demand outlook?
Digitalization remains the biggest growth driver: cloud computing, smart devices and the Internet of Things, e-mobility, 5G wireless networks, artificial intelligence. That’s why we say “We change the world with vacuum solutions.” VAT valves really are mission-critical to the Digital Revolution. That includes the development of ever-smaller and more energy-efficient chips using the most advanced vacuum valve solutions with more vacuum steps involved. This is the fastest-growing part of the market where we are by far the strongest player.

But we’re also seeing new trends emerging. For example, renewable energies can only be integrated into existing power grids using large power semiconductors. Vacuum-based processes are also used to provide specialized coatings for batteries, in new carbon capture technologies and generating electricity from nuclear fusion. So the long-term picture remains very favorable.

What progress have you made in driving a sustainability culture in VAT?
We published our first Sustainability Review in 2022, partly to signal our ambition to be among the best-in-class in environment, social responsibility and governance, or ESG. There we showed some of the measures we have taken to lower our carbon footprint, reduce emissions and waste, and to live up to our ESG responsibilities. At our Capital Markets Day in December, we also showed that ESG is one of our key strategic pillars for the period 2022–2027 and you can expect us to provide a clear ESG roadmap during 2023. We’ll have a big focus on Malaysia to build engagement with the community. We’ve implemented governance changes at the Board and committee structure, and in our articles of association. We’ll also be introducing ESG-based incentives for members of our executive management team.

Would you consider an acquisition as a way to generate more value?
We’re very selective in this regard, mainly because we already have industry-leading profitability. Most acquisition opportunities we see don’t provide the technology differentiation that would match our current profitability. So we remain focused on organic growth, building our capabilities in adjacencies such as motion control, and incubating new technologies we think will be key for future semiconductor designs.

What will be the management team’s main focus in 2023?
We believe our 2022 results show our strategy is the right one and we have the people to execute it successfully. So we’ll remain focused on the key pillars we described at our capital markets day: building our market share in the core valves business; creating additional growth through new offerings in adjacencies, such as motion control and advanced modules; building stronger operational capabilities; and executing our ESG strategy to make sure we create value for all our stakeholders.

From strength to strength

VAT was founded in Flawil, Switzerland, in 1965, producing vacuum valves used in scientific research. The company's products allowed the creation of extremely pure environments, free from even the smallest microscopic particles. The potential for precision manufacturing in high-vacuum environments soon became evident in other industries, such as thin-film industrial coatings and optics, and VAT grew steadily.

In the 1980s, advances in the semiconductor industry resulted in a rapid increase in the number of transistors that could be built into a single silicon chip. This required close to particle-free manufacturing environments, which opened the door for VAT to enter this fast-growing market. The company quickly established a reputation for technology innovation and product quality.

At the same time, vacuum-based manufacturing continued to expand into other industries. VAT grew its technology portfolio to meet these new demands, for example, in flat-panel displays and solar panels. The company also broadened its market scope into the US and Asia, and added to its product portfolio with small acquisitions.

In 2012, VAT launched a major capital investment program to establish a manufacturing hub closer to its large and fast-growing customer base in Asia, building a new manufacturing facility in Penang, Malaysia. The facility was completed in 2018 and annual output in 2022 amounted to more than CHF 250 million. In early 2022, VAT announced a CHF 70-million multi-year expansion of its Malaysia facilities to further increase the flexibility and profitability of its global footprint.

VAT was taken public on the SIX Swiss Exchange in 2016 and has seen its earnings per share increase since then at a compound annual growth rate of more than 15%. In 2017, VAT opened the industry's only particle lab in San José, USA.

Thanks to a period of strong semiconductor demand and significant operational improvements, VAT enjoyed a period of very strong growth starting in 2020. In 2022, VAT surpassed CHF 1 billion in sales for the first time.

Milestones

1965
Founded in Flawil, Switzerland

1988
Entry into semiconductor sector

2012
Established Malaysia plant

2016
IPO on SIX Swiss Exchange

2018
1st phase of Malaysia facility completed

2020
Record profitability and free cash flow despite COVID-19

2022
1st Sustainability Review, first time above CHF 1 bn in sales

A sustainable strategy for competitive success

The Digital Revolution is fundamentally transforming the lives of people everywhere. It brings people together to share information and drive innovation. It spurs economic growth and allows more efficient use of resources. It opens new ways to organize learning and working. It is revolutionizing health care and allows us to address global challenges, like climate change, in ways that would have been unthinkable just a few years ago. Ultimately, it can help improve the quality of life for everyone.

And VAT plays a key role in this transformation. This new digital world is being built on ever-more and increasingly complex and powerful semiconductors. Manufacturing these advanced devices can only be done in the purest vacuum environment. VAT's leading-edge vacuum valve technology makes that happen.

Technology and innovation drive success

The semiconductor is digitalization's technological powerhouse. By "printing" microscopic transistors, or integrated circuits (ICs) onto a silicon wafer, semiconductors can store and process vast amounts of information. The more ICs that can be printed onto a wafer or chip, the faster the chip performs. Today's semiconductors routinely contain ICs in node sizes of 10 nanometers, smaller than the average virus. Nodes of five nanometers are becoming more common and the industry is already talking about nodes of three nanometers and smaller, even down to the size of atoms. That means that a chip the size of a fingernail contains billions of transistors. In fact, a modern smartphone has about 100,000 times more processing power than the computers used to navigate the Apollo space missions to the moon.

Manufacturing at this scale presents a multitude of technological challenges, and there are typically hundreds of steps in their fabrication, such as deposition, etching, lithography and packaging. The entire process can take up to four months. One of the biggest difficulties is to eliminate contaminants from the process chamber during each step. Even the tiniest particle landing on a chip during fabrication can significantly reduce the chip's performance or cause it to fail. As the world becomes more dependent on semiconductors in almost every activity, manufacturing purity and precision become paramount.

VAT provides that kind of precision with specially designed and manufactured valves that ensure an extremely pure vacuum chamber in which semiconductors are made. VAT valves provide a tight seal between process chambers, isolating chambers from one another and the external environment, as well as controlling the volume and pressures of gases moving in and out of the chambers. They ensure that the vacuum remains as particle-free as possible as wafers are moved from one chamber to the next.

VAT serves a long-term growth market

The semiconductor industry is VAT's largest end market, accounting for close to 75% of net sales in 2022. The overall value of semiconductor sales is expected to reach USD 1-1.3 trillion by 2030, up from about USD 630 billion in 2022. This represents an annual growth rate (CAGR) of about 9% over the period 2020 to 2030, almost double the pace of growth during the previous 10 years.

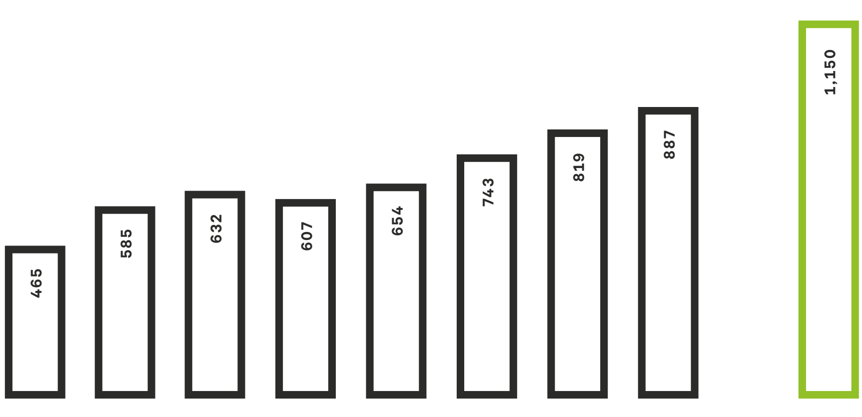
VAT typically sells its valves to OEMs (original equipment manufacturers) who build the valves into a wide variety of tools used in chip fabrication, generally referred to as wafer fabrication equipment (WFE). OEMs then sell these to the ultimate end user, the chip fabricators. In addition, VAT sells a wide variety of service products, ranging from spare parts to customized retrofits that allow customers to adjust production to new demands without having to invest in new equipment.

WFE is therefore a useful measure of demand through the business cycle. In 2022, global WFE spending grew by about 9% versus 2021, reaching a new record of around USD 95 billion*. It was the third year in a row of unprecedented growth, and the long-term demand picture remains positive. WFE spending is expected to reach some USD 135 billion by 2027, with the largest growth in vacuum-based equipment.

VAT valves are used in other vacuum-based manufacturing applications, such as the production of solar photovoltaic cells and high-resolution LED (light-emitting diode) and OLED (organic light-emitting diode) displays used in smart phones and televisions. Other industries are also turning to high-vacuum manufacturing processes where extreme precision is required, such as industrial coatings, medical equipment and 3D printing. VAT valves are also used in scientific applications, such as particle accelerators and electron microscopes, and in nuclear fusion, such as the ITER magnetic fusion reactor being developed in southern France.

* VLSITechInsights Inc., Nov. 2022

Serving a fast-growing market
Actual and projected value of semiconductor sales in USD billions



Source: Gartner 2022

VAT best positioned to benefit from technology trends

VAT benefits from these trends in several ways, largely due to its historically strong and growing market share in the semiconductor industry.

One growth driver for VAT is simply the ever-increasing demand for more devices needing more semiconductors: smart devices in industry, greater interconnectivity in consumer electronics, expanded cloud computing and data storage related to the growth in artificial intelligence (AI). Sales of semiconductors to the automotive segment, for example, are expected to more than double from 2022 to 2030, driven by applications such as autonomous driving and e-mobility*. Wireless communication and the build-out of 5G networks is expected to be another major growth driver, especially as smartphones and wireless communications become more prevalent in emerging markets.

More importantly, technology advances in chip design, such as continued miniaturization of ICs to 3 nanometers and below—so-called leading-edge semiconductors—and the increasing number of layers used in chip architecture to boost performance, require more process steps under vacuum as well as purer vacuum chambers. Vacuum valve performance becomes even more critical to meet these new demands. This leading-edge market segment is expected to grow by more than 10% a year (CAGR) over the period 2022 to 2027*, significantly faster than the overall semiconductor market.

VAT's long track record of growth also gives it by far the largest installed base of vacuum valves in the market, more than 1.5 million in 2022. This provides VAT with a significant long-term service opportunity, especially as chip manufacturers augment capital expenditures into new capacity with investments to prolong the lifetime and improve the performance of their existing vacuum valve assets.

How VAT adapts to industry cyclicality

The semiconductor market remains cyclical, with demand varying in response to changes in GDP, inflation, consumer spending and other factors. However, those variations are becoming less over time. This is partly due to the integration of semiconductors into a broader range of products today—such as personal digital devices, vehicles, 5G telecommunications networks and cloud computing—compared with the traditional market driven by GDP-related demand for consumer products such as cell phones and personal computers.

In addition, the industry—both OEMs and chip fabricators—has consolidated into a smaller number of large players who have the financial strength to fund research and development and to achieve the economies of scale needed for long-term profitability. This has created a market in which barriers to entry are high and most players have more stringent requirements for returns on capital expenditures. This has resulted in a more stable and predictable environment for capital investment in wafer fabrication equipment.

VAT's operating model allows the company to successfully navigate industry cyclicality over the long term. Its global footprint and best-cost supply chain gives it the flexibility to scale production up or down quickly to match changing market conditions. Deep customer relationships based on a track record of successful collaboration also give the company an edge in staying ahead of the curve. As a result, VAT can continue to deliver against its strategic targets over the entire business cycle.

* Gartner Q3 2022 forecast

VAT's installed base of valves 2022
in million

>1.5

2020: 1.2

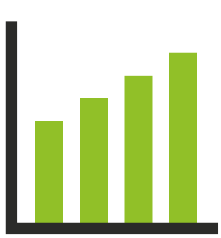
Set up to get the most from its competitive advantages
VAT has organized its business to best meet the needs of its customers and to gain the greatest benefit from its significant competitive advantages.

The company has two segments. The Valves segment is focused on VAT's core vacuum valves technology and in 2022 consisted of three business units aligned with its biggest markets: Semiconductors, Display & Solar, and Advanced Industrials. As of Jan. 1, 2023, the Display & Solar business unit was dissolved, with the display business integrated into the Semiconductor business and the Solar business moved to the Advanced Industrial business unit. The moves are aimed at taking advantage of synergies and scale economies related to technology, business drivers and customer needs.

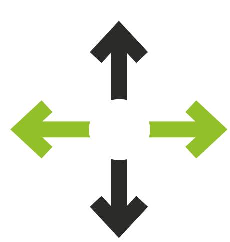
The second segment, Global Service, supplies a growing range of service products and solutions to help customers improve their competitiveness through increased productivity and uptime.

Four strategic priorities

Gain market share in all our core businesses and markets



Expand Share of Wallet with adjacencies



VAT is headquartered in Haag, Switzerland. This is the company's primary production facility and the site of most of its research and development activities, including a new CHF 40-million Innovation Center that is expected to be inaugurated in the second half of 2024. VAT also operates the industry's only particle measurement lab in San José, CA, in the US. VAT expanded its manufacturing and engineering footprint to Penang, Malaysia in 2012 to support its growing customer base in Asia. In 2022, the plant accounted for sales of over CHF 270 million, 60% higher than in 2021. A further CHF 70-million expansion of capacity is under way in Malaysia and the company expects production capacity across its entire product range of more than CHF 1 billion at the facility when completed in 2024.

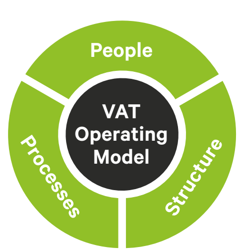
This global footprint has significantly enhanced VAT's already formidable ability to collaborate closely with customers and develop precisely the solutions they need, to deliver them faster, and provide quicker service. It has also increased operational flexibility, allowing VAT to quickly shift production and supply as markets circumstances change, as well as to optimize productivity and cost over the business cycle. A diversified talent pool has the additional advantages of fostering innovation, broadening the base of expertise and experience, and providing people with opportunities to develop both personally and professionally, making VAT a more attractive employer.

Fostering innovation
VAT's position as technology leader in high-end vacuum valves is due in large part to its strong track record of R&D investment, typically about 5–6% of sales every year. The company's team of close to 300 scientists and research engineers have created a portfolio of some 500 patents, a considerable competitive advantage.

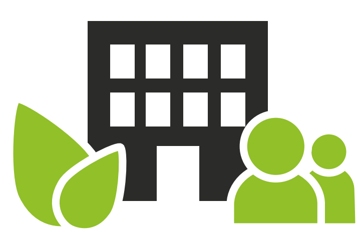
The company assesses the return on this investment partly through the number of specification wins, agreements with customers on new product designs to address specific customer requirements for up-coming generations of new equipment. Spec wins translate into revenues as the customer rolls out new tools and equipment over the subsequent three to seven years, giving the company a clearer view of future sales and market position. VAT achieved close to 100 spec wins in 2022, another strong year, especially in leading-edge technologies.

Close collaboration with customers provides an additional advantage. The considerable costs of qualifying a product with a customer—such as developing the specifications, providing quality assurance and testing, and securing the long-term supply chain—gives a world-leading supplier such as VAT an edge with customers investing in long-term product development.

VAT2B:
Build strong capabilities and further improve operational excellence



Execute VAT's ESG strategy that creates value for all stakeholders



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.

Profitable growth to 2027
In December 2022, VAT updated the profitable growth strategy it first presented to investors and other stakeholders in 2020, and revised its financial targets based on the development of the business and markets over the last two years.

The first element in the strategy remains the same: to gain market share in its core valves business. The company aims to grow its share in the high-end semiconductor market from approximately 75% today to 85% by 2027 by building on its leading-edge valve technology used to fabricate the most advanced chips, the fastest-growing market segment. VAT also intends to increase its market share in service by tapping more opportunities from its fast-growing installed base of valves, coupled with a tighter focus on its biggest customers. Finally, the company will continue to build its offering for Advanced Industrials customers in all regions as the demand for vacuum valves expands into more and more industrial sectors.

The second pillar is to increase customer value by providing complementary technologies in areas that are closely adjacent to the core valves business. These include motion components, such as lifters used to move materials along the wafer pathway, advanced valve modules comprising multiple valves with other components, and new pressure measurement and control technologies. Adjacencies are expected to generate more than CHF 300 million in sales by 2027.

Thirdly, it's vital that VAT has the operational capabilities to meet the coming challenges of a dynamic, demanding and high-growth market. To this end, the company has launched the VAT2B program, whose overall ambition is to achieve flawless execution against the company's strategic priorities. This means, for example, making sure the company can adjust capacity by up to 30% year-on-year, either higher or lower, over the cycle while remaining on course to achieve its financial targets. VAT intends to build its own digital capabilities to not only improve internal business processes but also to make it easier for customers to interact seamlessly with the company. And VAT is committed to providing its people with a rewarding work environment that fosters engagement and personal growth.

Finally, and as an addition to the original strategic plan from 2020, VAT aims to strengthen its environment, social and governance (ESG) capabilities. VAT issued its first-ever Sustainability Review in 2022, re-committing to building a sustainability culture and presenting a first set of metrics, such as CO_2 emissions, recycling, employee engagement and ESG governance on the Board of Directors. For 2023, VAT expects to show improvements in target setting, participation in sustainability ratings and employee diversity, among other measures.

Updated mid-term targets
In December 2020, VAT published a set of financial targets for the period 2020 to 2025. In March 2022, VAT updated these targets to reflect the actual development of its markets as well as new forecasts for market growth and adjustments to the strategy to tap new growth opportunities and improving operational performance.

At its Capital Markets Day in December 2022, VAT published an updated set of targets covering the period 2022 to 2027. It takes into account recent changes in the company's short-term market outlook, such as a potential decline in WFE investments in 2023 compared with the record of approximately USD 95 billion spent in 2022. This forecast adjustment is primarily the result of growing inflation uncertainties, recession risks, increasing geopolitical tensions and volatile energy costs over the past 12 months. However, WFE is expected to return to significant growth in 2024 and beyond.

On this basis, and including new estimates of revenues to be generated from service and adjacent technologies, VAT adjusted several of its targets. Net sales are now forecast to grow at a low double-digit pace in the period 2022 to 2027, compared with the high single-digit rate forecast previously. This would lead to 2027 net sales of between CHF 1.8 billion and CHF 2.2 billion, versus the sales target expected in March 2022 of CHF 1.5 billion by 2025.

The EBITDA margin is forecast to remain in the 32-37% range over the cycle, while Return on Invested Capital (ROIC) is now expected to be above 45% compared with above 40% for the prior target period.

The table below summarizes the new targets and compares them with the previously reported targets:

Financial targets	Dec. 2020	Mar. 2022	Dec. 2022
Net sales growth	High single-digits 2020–25	–	Low double-digits 2022-27
EBITDA margin corridor over the cycle	30–35%	32–37%	32–37%
Return on Invested Capital (ROIC)	>40%	–	>45%
Capital expenditure as % of sales	4–5%	–	4–5%
R&D investment as % of sales	5–6%	–	5–6%
Free cash flow conversion as % of EBITDA	60–65%	–	60–65%
Dividend payout as % of free cash flow to equity	Up to 100%	–	Up to 100%

Staying ahead of the curve
VAT is the market and technology leader in an attractive market with a positive long-term growth outlook. The company has reached its No. 1 position by building competitive advantages over many years: deep relationships with customers, a dedication to innovation, a flexible and cost-efficient global footprint, and an engaged and highly-skilled workforce. These allow VAT to generate consistent long-term growth, profitability and cash flow across the business cycle.

At the same time, markets keep changing and VAT is determined to stay ahead of the curve. New technologies are constantly emerging. The global economy is subject to unforeseen developments. Competitors work hard to outperform and gain market share.

VAT believes it is in a strong position to meet these challenges. The company's consistently strong performance since it was listed on the SIX Swiss Exchange in 2016, through both upswings and downswings in the business environment, demonstrates its resilience and adaptability and the success of its strategy and business model. VAT is committed to creating even more value for all stakeholders in the years ahead and to playing an important role in the creation of a more prosperous and interconnected world.

Planning a sustainable future

VAT's products play an important role in the technological shifts that will lead to a more sustainable society. That's because they are critical components in the equipment used to manufacture semiconductors which, in turn, make possible many of the innovations needed to address issues such as climate change, efficient resource use, and sustainable economic growth. While the company takes great pride in this role, VAT also recognizes its responsibilities to ensure that it operates in a way that minimizes its impacts on the environment, supports its people and the communities in which they work, and manages its business with the highest ethical standards.

Products for a sustainable world
Vacuum valves are used to make a wide variety of products that allow more efficient use of resources. Semiconductors, for example, are at the heart of industrial automation and help manufacturers produce more while reducing their energy and raw material consumption. Power semiconductors are used to integrate intermittent renewable energies such as wind and solar power into conventional electrical grids that were designed to transmit power at constant loads. They are making possible the spread of e-vehicles that improve urban air quality. Perhaps most importantly, semiconductors connect people in real time and on a global scale, driving the innovation needed to address challenges such as climate change. Vacuum technology is also key to manufacturing solar photovoltaic equipment and is central to research into nuclear fusion energy.

Broader value creation
But the semiconductor value chain itself also has direct impacts on the environment and VAT has committed to doing its part to mitigate these effects and, more generally, to develop and implement a best-in-class sustainability strategy that prioritizes value creation for a broad stakeholder base.

In August 2022, VAT published its inaugural Sustainability Review, reiterating its commitment to building a sustainability culture in the company and establishing a base line for setting targets, measuring results, and publicly reporting on its environment, social and governance (ESG) performance.

The Review described a number of initiatives the company has undertaken in the areas of CO_2 reduction and shifting to renewable energy sources, as well as recycling and waste management, at its main facilities in Switzerland and Malaysia. These include replacing electricity generated from fossil fuels with hydro power and with electricity generated from the company's own solar photovoltaic installations. A cooling system using groundwater in a heat exchanger has replaced a conventional air conditioning system at the company's plant in Haag, Switzerland, resulting in both a 75% reduction in energy costs and a healthier work environment.

Redesigned packaging that is almost 100% recyclable and using new and less harmful cleaning agents have led to improvements in resource use. Collaboration with suppliers and logistics partners have also played a role in reducing VAT's environmental impact through the re-use of shipping materials and supporting the use of zero-emission hydrogen-fueled transport.

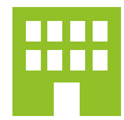
Founding member of the Semiconductor Climate Consortium
While semiconductors play a big role in reducing CO_2 emissions, their production is also a source of greenhouse gases. In the fourth quarter of 2022, VAT joined the newly formed Semiconductor Climate Consortium, an industry association focused on reducing greenhouse gas (GHG) emissions among its 65 member companies and other sectors of the industry value chain. The group has agreed to pool its technology expertise and knowledge of the semiconductor value chain with the aim of continuously reducing greenhouse gas emissions, reporting progress annually according to the guidelines and principles in the GHG Protocol, and setting near-term and long-term targets in accordance with best available science, with the aim to reach net zero GHG emissions no later than 2050.

ESG

Environment

Social

Governance



Environment:
- Define emission targets
- Complete materiality assessment
- Expand and improve reporting on emissions, waste and water use

Social:
- Define and implement diversity targets
- Build community engagement
- Improve employer-of-choice status

Governance:
- Change articles of association to line up with ESG goals
- Link executive pay to ESG performance

Social responsibility
VAT's efforts in the area of social responsibility have focused on investing in the local communities in which it operates. In Penang, Malaysia, for example, the company has invested more than CHF 70 million to build a world-class manufacturing and engineering facility serving its customers in Asia. This includes the establishment of a new apprentice training center at the site to encourage skills development with local vocational institutes by offering both on-the-job training as well as employment. In addition to providing jobs, training and advanced technology, these investments have significant carry-over benefits for the region through the build-up of local supply chains, recruitment of local technical and engineering talent and providing local people with opportunities to take part in and benefit from VAT's global value chain.

At the same time, VAT continues to invest in its main production site in Switzerland, including a CHF 40-million investment in a new R&D campus to bring its Swiss-based innovation teams together under a single roof. The investment includes the addition of about 100 new jobs for scientists and engineers.

The company has also prioritized employee engagement and conducts an annual employee survey to measure how well VAT communicates goals, manages specific issues—such as the COVID-19 pandemic—and provides open feedback channels for people to participate more actively in decision-making.

VAT also recognizes the value of employee diversity as a contributor to innovation and employee satisfaction. This includes making sure that people are recognized and fairly compensated for their contributions to the company, and in 2021, VAT received the Fair-ON-Pay+ certificate, recognizing VAT for its commitment to ensure equal pay for equal work between men and women. Providing a fair, equitable and rewarding work environment is key to attracting the talent VAT needs to remain competitive in a highly demanding business.

Good corporate governance

Since VAT was taken public in 2016 on the Swiss SIX Exchange, considerable investments have been made to ensure the company adheres to the highest principles of good corporate governance. The company aims to ensure transparency, achieve the proper balance between management and control, and safeguard the interests of a broad base of stakeholders. Ultimately, VAT intends to achieve the same level of industry leadership in corporate governance and all other areas of ESG performance as it has built in the development of the world's most advanced vacuum valve technologies.

Among the main pillars of VAT's governance program is its Code of Conduct, based on international standards set out by the United Nations, the International Labor Organization, the Organization for Economic Cooperation and Development, and other global industry organizations. The Code provides employees with a clear understanding of VAT's core values and the standards that govern our business, and lays the groundwork for how we treat our customers, suppliers, investors, employees, the communities where we operate, and each other. The Code is supplemented by whistleblower safeguards and strictly enforced anti-bribery and anti-corruption rules which are also applied to the selection and monitoring of suppliers.

The company's ESG and sustainability strategy is also being developed with a governance structure that allocates management and oversight accountability at the appropriate levels of the organization. In this regard, strategy development is taking place under the supervisory oversight of a Sustainability Council, chaired by two members of the Board of Directors. Additional members include one Group Executive Committee member, the Vice President of Sustainability and other contributors.

Moving forward

In addition to publishing its first-ever Sustainability Review in August 2022, VAT also took a number of concrete steps to build its ESG capabilities. Among these was a systematic materiality assessment to identify and prioritize the ESG issues that are most critical to VAT's business and stakeholders. Such assessments allow the company to address non-financial impacts, allocate resources to the most important issues, and align value creation more clearly with a broader stakeholder base.

In addition, a CO_2 accounting project is under way to measure greenhouse gas emissions, broadening measurement from Scope 1 and Scope 2 emissions (those generated directly by the company's operations as well as emissions generated from purchased electricity, steam, heating and cooling) to Scope 3 emissions, which cover all other indirect emissions that occur in a company's value chain.

The company launched its "VAT cares" program in 2022 to support projects that help people in need around the world. VAT partnered with the UN Refugee Agency, UNHCR, to safeguard the rights and well-being of people who have been forced to flee, with International Committee of the Red Cross (ICRC) to protect the lives and dignity of victims of armed conflict and other situations of violence, and with Médécins sans frontières to help fund their emergency projects around the world. VAT also took additional steps to build community engagement around its facilities in Haag and Malaysia.

For 2023, VAT intends to focus on improving its ESG target setting processes, which will be augmented through participation in key sustainability ratings, such as CDP, EcoVadis or RBA. Emission goals are to be defined and the materiality assessment completed. VAT plans to set diversity targets across key levels of the organization and the company's articles of association will be aligned with best practice in Switzerland.

VAT also intends to publish its second Sustainability Review in May of 2023, reporting on its performance in 2022 across the entire spectrum of ESG measures, such as CO_2 emissions, waste and recycling, community activities and its updated ESG governance structure.

Creating a sustainability culture

Business success can only be sustained by integrating a broad range of values into strategic and operational planning. These values go beyond strictly economic measures and must include other factors, such as providing employees with opportunities to grow and develop, playing a positive role in the communities in which it operates, reducing environmental impacts, and adhering to the highest ethical and governance standards. Ultimately, VAT's ambition is to transform itself into an enterprise that puts sustainable value creation for all its stakeholders at the core of its strategy and business model.

MAPS:

VAT vacuum valves play a key role in the global digital transformation.

The world is being profoundly changed by the rapid development of digital technologies. The Internet of Things, cloud computing, wireless communications everywhere, and rapid progress in artificial intelligence promise to improve the quality of life for people all over the world. The following pages show how VAT's advanced vacuum valves contribute to this unprecedented development.

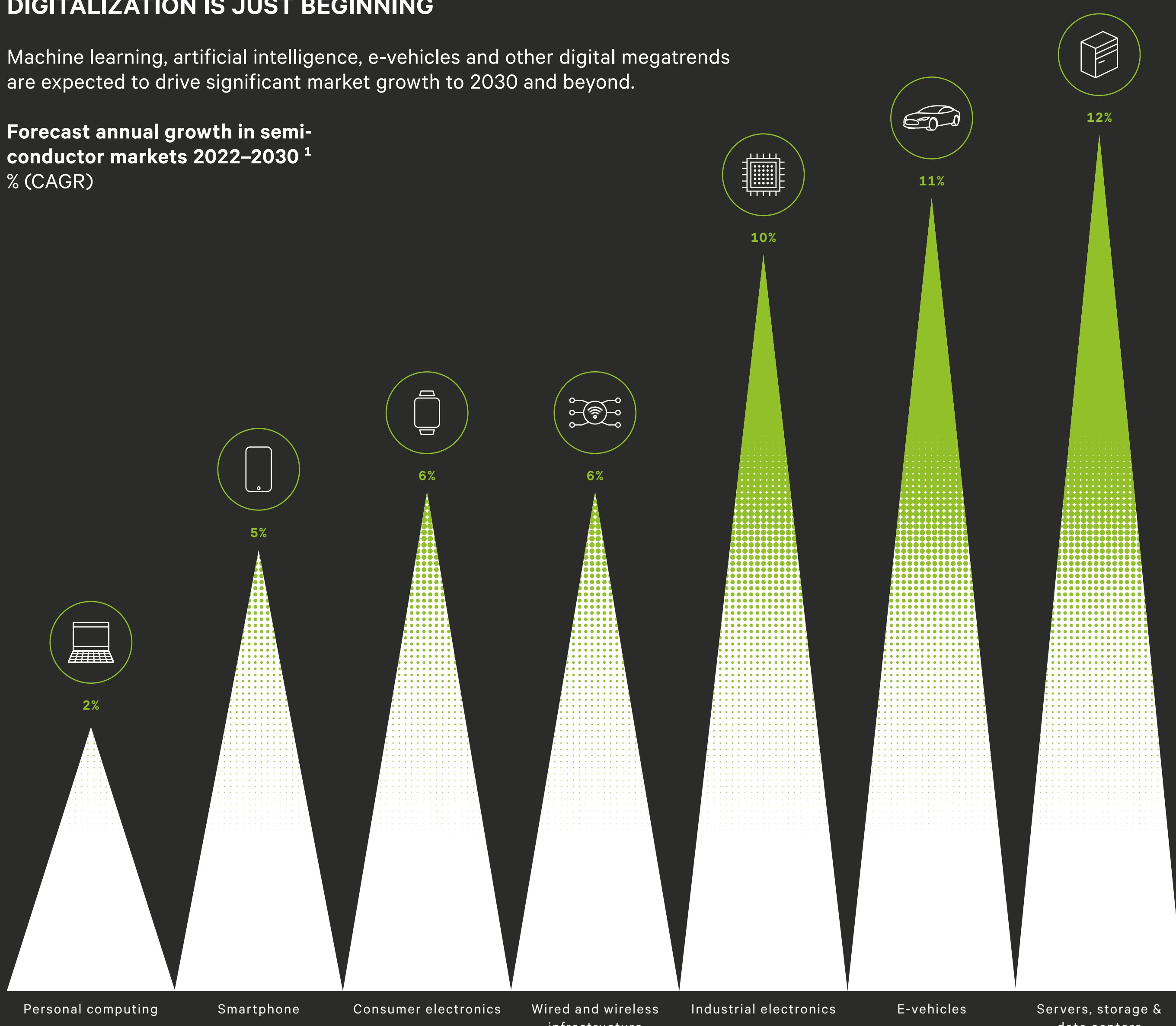
AT THE EPICENTER OF LONG-TERM GROWTH

Megatrends such as digitalization, renewable energy and life sciences will drive demand for semiconductors and other vacuum-based manufacturing for years to come.

DIGITALIZATION IS JUST BEGINNING

Machine learning, artificial intelligence, e-vehicles and other digital megatrends are expected to drive significant market growth to 2030 and beyond.

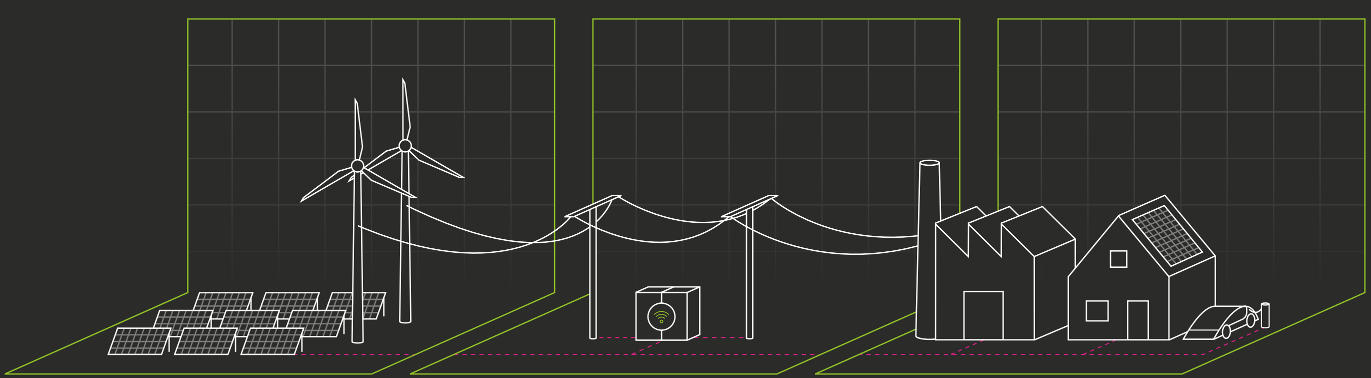
Forecast annual growth in semi-conductor markets 2022–2030 [1]
% (CAGR)



Source: 1 Gartner Q3 2022 forecast, years 2027–2030 extrapolated by VAT using historic average CAGR;
2 Allied Market Research Renewable Energy Market, Sept. 2021; 3 Market Research Future Life Science and Analytical Instruments Sept. 2022

Generating, transmitting and using renewable power requires advanced semiconductors — and the vacuum valves needed to manufacture them.

VACUUM-BASED PROCESSES ARE FOUND ACROSS THE ENTIRE RENEWABLE ENERGY VALUE CHAIN

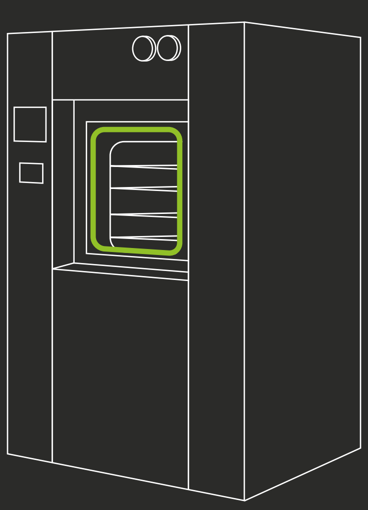


RENEWABLE POWER **SMART GRID** **ENERGY CONSUMPTION**

Forecast annual semiconductor market growth from renewable energy 2021–2027
% (CAGR)[2]

+8%

Biotech moving to nano-scale technologies
High-vacuum technology is key to analytical, medical and other precision equipment. This market is expected to grow more than 7% per year (CAGR) from 2021–2027.[3]



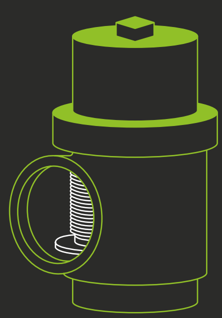
Medical sterilizers with vacuum-based electron-beam chambers

VAT VALVES ARE ESSENTIAL TO THE SEMICONDUCTOR INDUSTRY

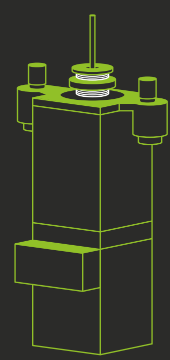
VAT is the world's leading supplier of vacuum valves to the semiconductor industry, creating the high-purity vacuum chambers needed to manufacture integrated circuits at a molecular scale. As semiconductors become more powerful and more complex, the need for VAT's high-performance valves increases, driving growth and profitability.

Our product lines

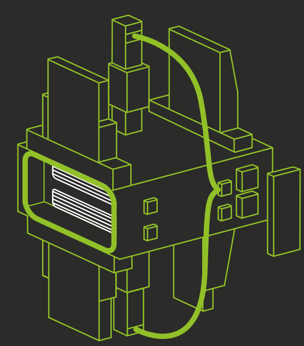
VALVES

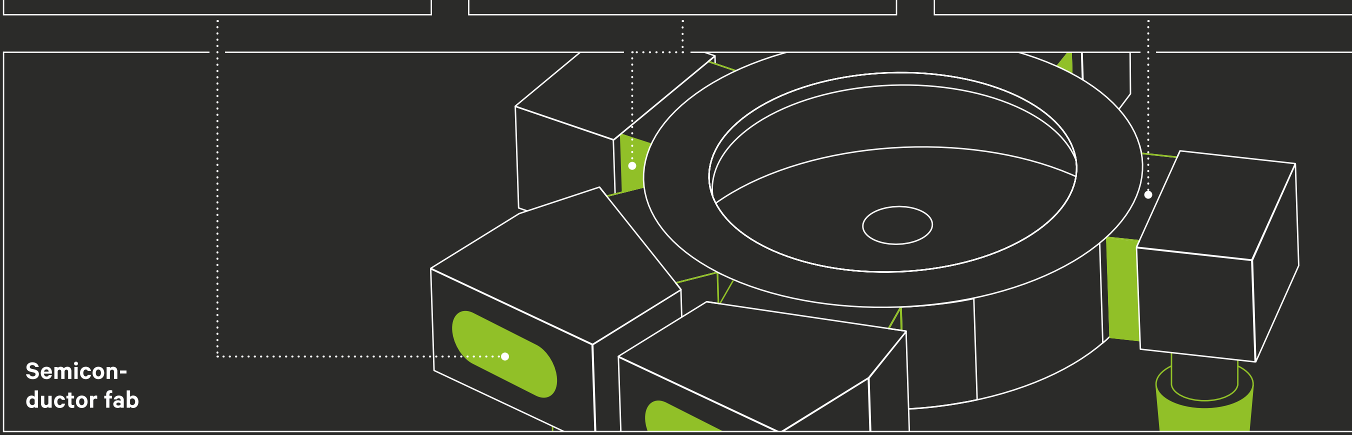


MOTION COMPONENTS

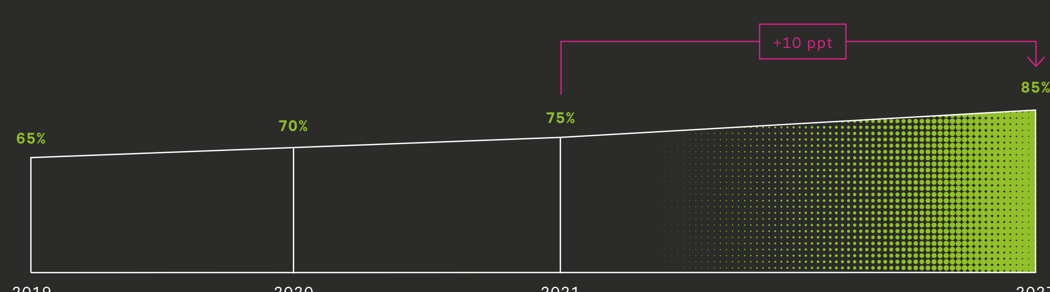


ADVANCED MODULES





Market share growth
Greater semiconductor complexity will drive demand for high-end valve solutions and boost VAT's market share.



Moving into adjacent markets will drive significant new growth beyond our core valves market.

EXAMPLE:
MOTION COMPONENTS

- Focus on dry etch and deposition processes
- Outgrow market by ≈ 2x
- VAT as one-stop-shop for high-precision plug-and-play motion components

Forecast annual motion components sales growth 2022-2027 (CAGR)

+27%

EXAMPLE:
ADVANCED MODULES

- Targeting leading edge semiconductor platforms
- Option to add further adjacent components
- Smallest footprint for greater performance in smaller area

Forecast annual advanced modules sales growth 2022-2027 (CAGR)

+13%

GLOBAL SERVICE TO BUILD MARKET STRENGTH

VAT's Global Service network builds trust, strengthens customer relationships, increases market share and lifts profitability. And as VAT's installed base of valves continues to grow – in 2022 at about 1.5 million – the service business provides a steady flow of revenues through the business cycle.

Approximate share of segment sales by service type

Spare parts & gates
Optimize valve performance and cost of ownership

50%

Repair
Minimize customer downtime through 8 global repair centers

15%

Upgrade & retrofit
Prepare tools for new chip designs, and prolong tool lifetime

35%

Over 20 years, services can generate sales of up to 5x the original valve sales price

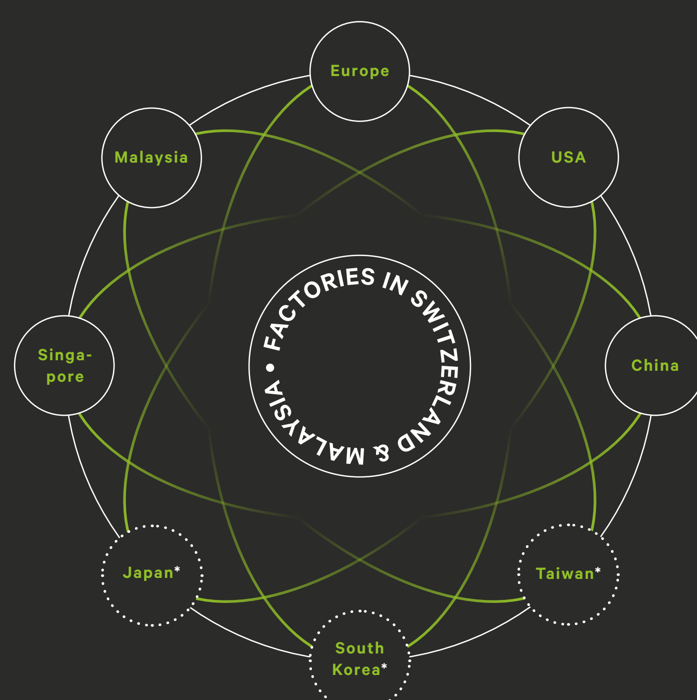
x5

Global Service net sales growth target
(CAGR) 2023–2027

+13%

- VAT already has the **largest repair network** in the industry with **8 service centers**
- **3 upgraded service centers** opening in 2022 in Japan, Korea, and Taiwan
- **2x to 3x** capacity increase and higher-grade cleanrooms in each of these 3 facilities

VAT Service Center Network
* 3 upgraded service centers

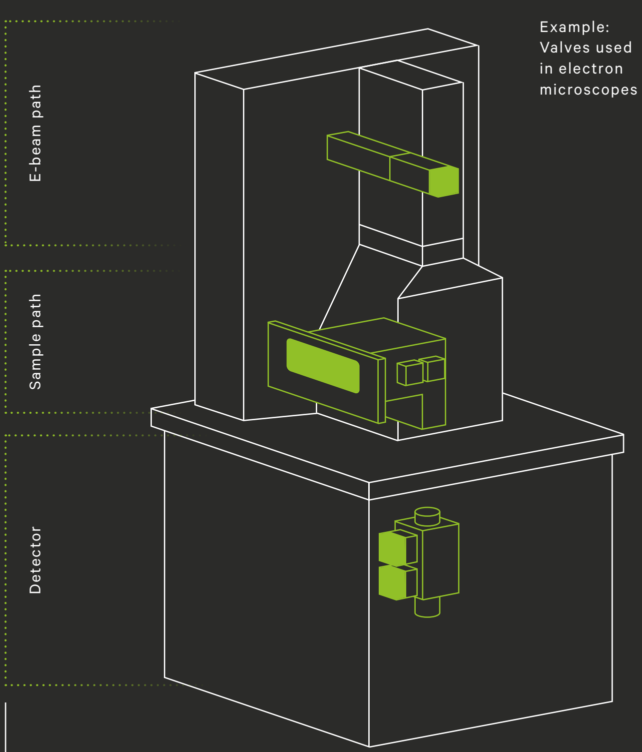


Source: 1 VLSIresearch/TechInsights Mar. 2022

ADVANCED INDUSTRIALS TAP NEW OPPORTUNITIES

Our Advanced Industrials business opens doors to new markets where vacuum-based manufacturing is becoming more important.

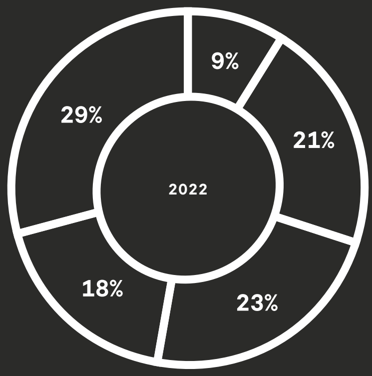
E-beam opportunities
Electron-beam technology requires high-purity vacuum valves and adjacent products



Industrial applications for e-beam technologies are expanding rapidly, and include:

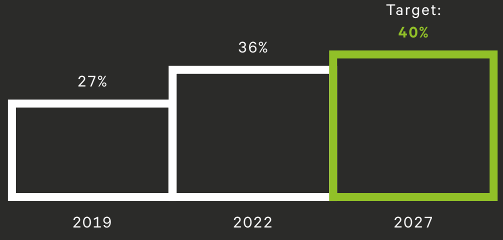
- 3D printing
- Precision welding
- Nano-scale lithography
- Medical device sterilizing
- Food processing
- Water treatment

Advanced Industrials market segments
Share of 2022 sales



9 Solar
21 Research
23 Scientific Instrum.
18 Coating
29 Other

Market share development [1]
2019–2027



Advanced Industrials net sales growth target
(CAGR) 2023–2027

+11%

VAT'S TECHNOLOGY ADVANTAGE

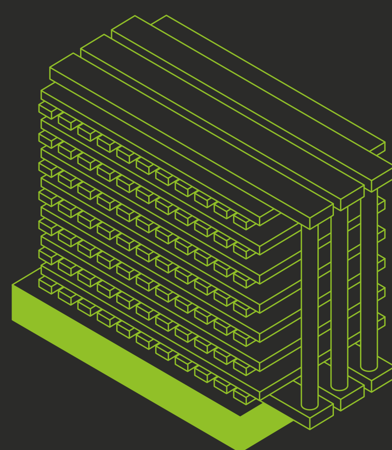
VAT's ability to innovate quickly, in collaborative partnerships with customers, allows the company to stay ahead of the technology curve, build market leadership and generate sustainable profitable growth over the long-term.

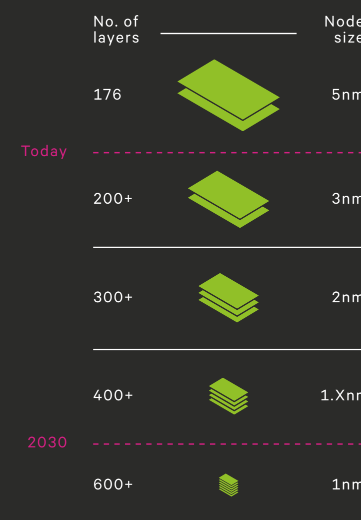
TECHNOLOGY DRIVERS

- More transistors per chip
- More layers per chip
- More process steps
- More steps under vacuum
- Purer vacuum
- New materials
- Lower power consumption

- More flexible tools
- Plug & Play
- Faster time-to-market
- More precise process control
- More customization
- Wireless connectivity
- Predictive maintenance

Expected trend in logic node sizes
Technology progression is a key growth driver as 90% of specification wins are at the leading-edge [1]

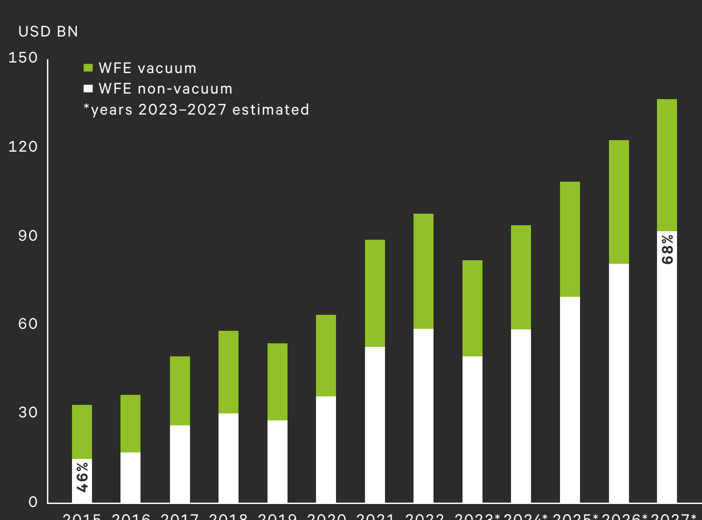




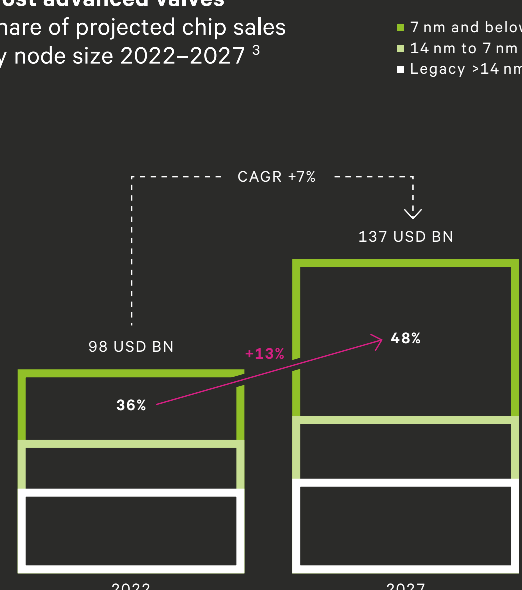
Node sizes on logic chips are falling towards 1 nm while the number of stacked layers in 3D chips continues to grow.

NEW CHIP DESIGNS NEED MORE VACUUM STEPS

WFE spend on vacuum vs. non-vacuum equipment, USD bn [2]



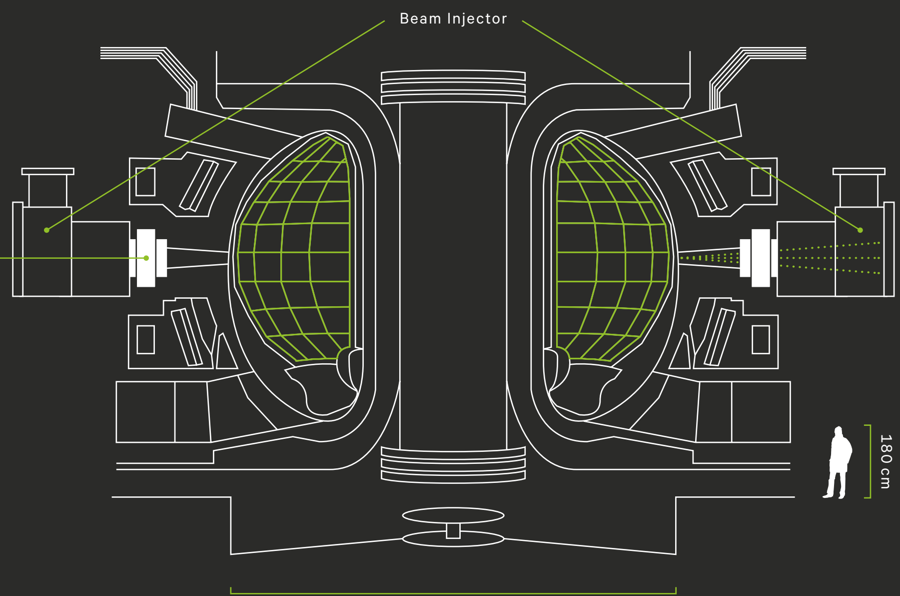
Smaller nodes require most advanced valves
Share of projected chip sales by node size 2022–2027 [3]

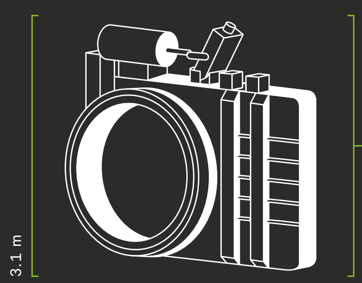


Source: 1 WFE growth forecast, Techinsights Inc. Nov. 2022; 2 VLSITechInsights Nov. 2022; 3 VLSITechInsights Nov. 2022

VAT'S ROLE IN FUSION ENERGY

At the ITER experimental fusion reactor in France, a beam of high-energy particles is shot into a plasma to create the conditions for nuclear fusion. Both the plasma and the particle beam are contained in extreme vacuum conditions.





VAT has developed one of the world's largest all-metal gate valves to separate the chambers so they can be vented independently. The 7,000 kg valve can withstand up to 27 tons of pressure.

Developing products for extreme applications provides VAT with technology insights that can be applied in the design of valves for wider commercial applications.

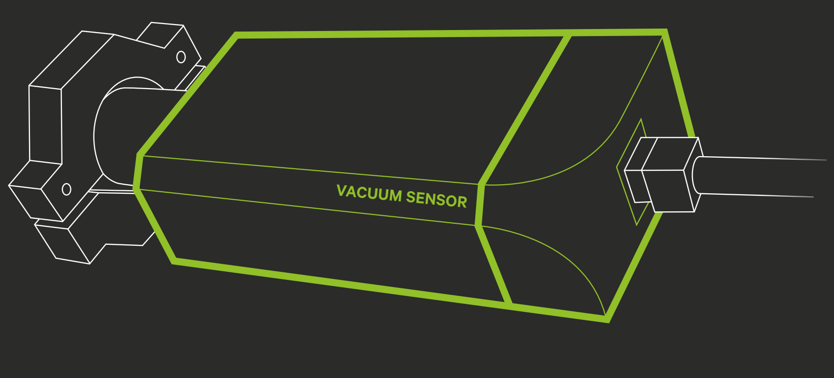
ALLOCATING CAPITAL TO INNOVATION SECURES GROWTH

Total R&D investment 2016–2022

>200m

INNOVATING FOR TOMORROW'S INDUSTRY CHALLENGE

Example: Microelectromechanical Systems (MEMS)



Current vacuum pressure sensor technology will soon reach its technical limits. MEMS technology allows new types of pressure measurement for coming chip generations.

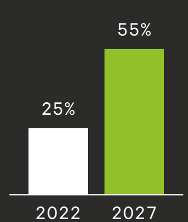
Real-time pressure measurements during chip manufacture to:
- Improve precision and control of wafer polishing
- Reduce number of wafer defects
- Identify component wear and tear

THE VALUE OF A GLOBAL FOOTPRINT

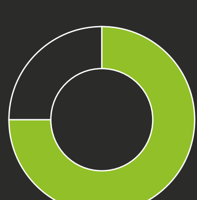
With manufacturing, technology, application and supply hubs close to all its major customers, VAT can move quickly and cost-effectively to meet their rapidly changing needs.

BUILDING AN INCREASINGLY FAST AND FLEXIBLE GLOBAL VALUE CHAIN

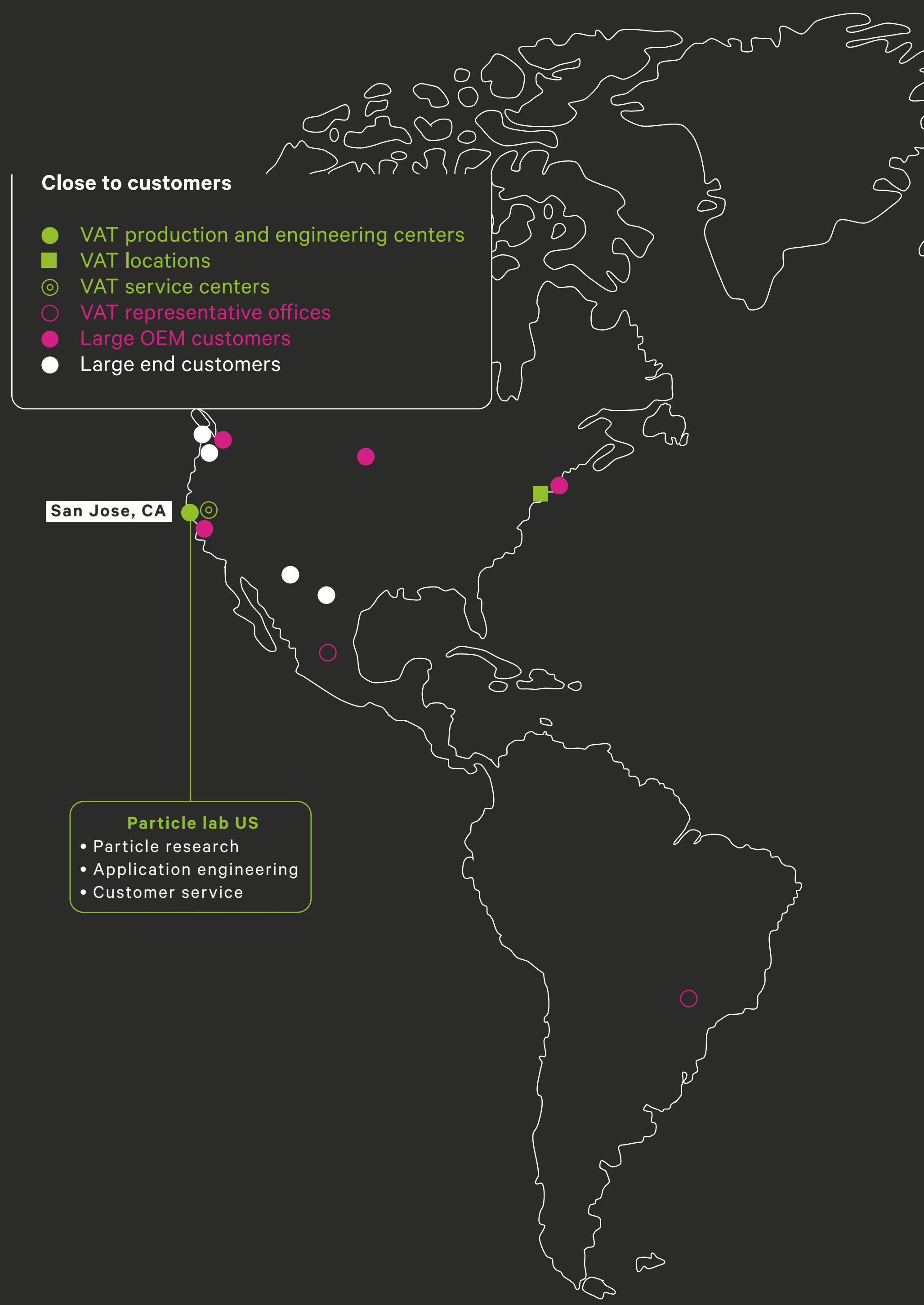
25% flexible factory workforce group-wide



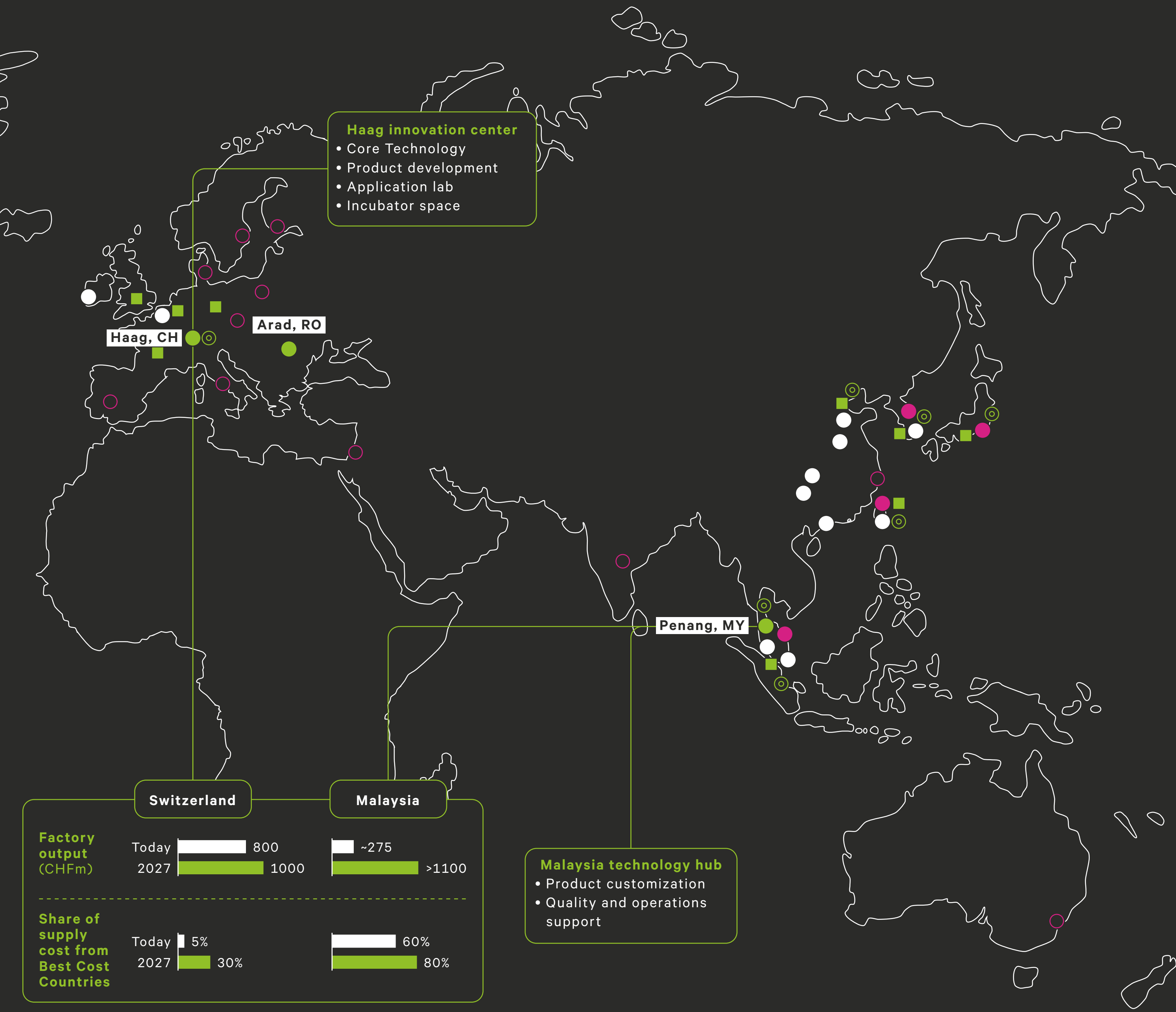
Best cost country sourcing is expected to more than double by 2027



75% of our components are outsourced and around 2/3 of our costs are variable



Our global footprint gives us cost and supply flexibility so we can stay ahead of the curve as markets change.

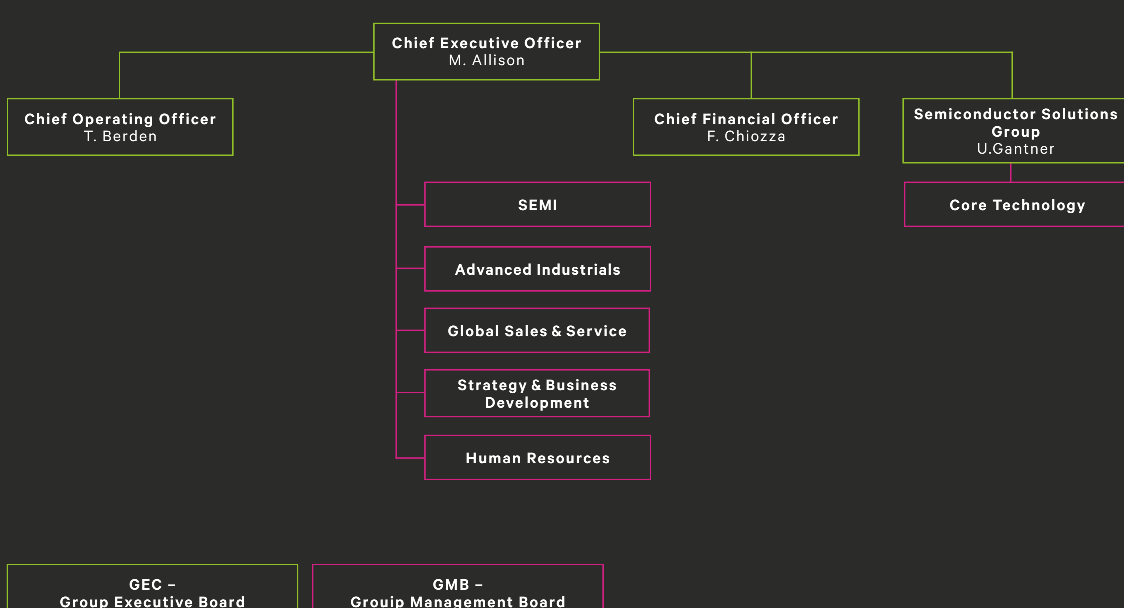


ORGANIZATION

VAT Group is organized and managed in two segments: Valves and Global Service.
The Valves segment comprises the two business units Semiconductors, and General Vacuum.

As of Jan. 1, 2023, the Display & Solar business unit was dissolved, with the display business integrated into the Semiconductor business and the Solar business moved to the Advanced Industrials business unit. The moves are intended to take advantage of synergies and scale economies related to technology, business drivers and customer needs.

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



Organization Chart as of March 2, 2023

VAT again delivers record results in 2022 on strong demand, market leadership and operational flexibility

In 2022, the global semiconductor industry – VAT's largest market – continued the strong growth that began in 2020. Driven by long-term demand drivers, such as the Internet of Things, cloud computing, wireless communications and artificial intelligence, capital investments reached record levels.

For most of the year, chip manufacturers also continued to address the global chip shortage that began during the COVID-19 pandemic by expanding capacity in both the leading-edge chip technologies for node sizes of 7 nanometers and below, as well as legacy platforms. They also continued to invest in additional services – such as product upgrades and retrofits – to increase the productivity of their existing assets.

Customer investments in new equipment began to moderate in the fourth quarter, however, as short-term demand drivers, such as consumer spending, weakened in response to increasing inflation risks, slower economic growth in key markets and geopolitical uncertainties.

Record semiconductor spend, industrial and solar stronger

Global wafer fab equipment (WFE) spending grew by around 9% in 2022 versus the previous record in 2021, reaching approximately USD 95 billion*. Growth was seen in both memory chips used in data storage as well as logic applications needed for data processing.

Demand was driven by higher unit demand and technology advances in semiconductor design as node sizes continue to shrink to 7 nanometers and smaller. These new production platforms require purer vacuum conditions in combination with more process steps performed under vacuum, leading to greater demand for VAT's high-end valve solutions. Very high capacity utilization in the semiconductor industry also drove record sales in the Global Service segment.

* Source: TechInsights/VLSI, January 2023

Net sales
in CHF million

1,145

2021: 901

Industrial markets were stronger in several sectors, especially scientific instruments that require high vacuum conditions for electron beam applications. Demand in industrial coatings was flat, in part reflecting market softness in consumer electronics spending as the result of higher inflation and other macroeconomic uncertainties.

Solar photovoltaic markets continued to show strong demand, especially from China, while demand in the display market remained soft.

Continued focus on technology and operational excellence

VAT continued to make significant investments in technology innovation, which is a major driver of both growth and profitability. In 2022, R&D investments amounted to CHF 50 million, or 5% of net sales.

Specification wins, in which VAT successfully collaborates with customers to develop new tools for coming generations of semiconductor equipment, remained at high levels in 2022. These help consolidate VAT's market lead and provide a clearer view of future sales.

VAT also continued to reap the benefits of its flexible global footprint by expanding production in Malaysia by about 60% to over CHF 270 million. In addition, the company continued to make operational improvement, especially in the area of procurement, as supply chain challenges persisted in 2022. Cost reduction measures, coupled with certain price increases, helped offset rising input costs from higher raw materials, energy, and logistics expenses.

Third consecutive year of record results

Against this background of strong demand, continued market and technology leadership and improving operational performance, VAT reported record net sales, EBITDA, EBITDA margin, free cash flow and net income in 2022.

Total orders amounted to CHF 1,210 million, down 2% from 2021, primarily the result of the comparison with very strong orders in the fourth quarter of last year when many customers placed orders early in order to manage expected supply bottlenecks. The order backlog at the end of 2022 stood at CHF 518 million, 12% higher than at the end of the previous year. This increase partly reflects delays in executing orders because of supply constraints.

Group net sales in 2022 reached a new record of CHF 1,145 million, up 27% versus the previous year. Net sales achieved record levels in both the Valves and Global Service segments, growing 28% in Valves to CHF 933 million and 24% higher to CHF 213 million in Global Service. Foreign exchange movements, especially in the US dollar against the Swiss franc, had no material impact on 2022 Group net sales.

EBITDA margin
EBITDA as % of net sales

35.0

2021: 34.2

Net income
in CHF million

306

2021: 217

Gross profit* increased 29% compared with 2021 to CHF 734 million. The gross profit margin improved to 64% compared with 63% a year earlier, despite ongoing price pressure in certain raw materials and components.

Confirming VATs operational leverage and productivity improvements, personnel costs as a percentage of net sales decreased to 20% in 2022 from 22% a year earlier. Personnel costs increased 14% in absolute terms as the result of an 18 % increase in the number of employees (measured as full-time equivalents, FTEs) to 2,991 from 2,540 a year earlier.

EBITDA for the year increased by 30% to CHF 400 million, reflecting strong sales growth and execution of operational improvements. As a result, the full-year EBITDA margin improved from 34.2% in 2021 to a record 35.0%. Foreign exchange movements, primarily in the US dollar against the Swiss franc, had a positive impact of 0.1 percentage points on the reported 2022 EBITDA margin.

VAT's EBIT amounted to CHF 359 million, an increase of CHF 95 million, or 36%, compared with the year before. Compared with 2021, the EBIT margin increased by about 2 percentage points to 31%.

Below the EBIT line, VAT incurred substantially lower financing costs of CHF 3 million, less than half of the CHF 7 million reported a year earlier. This is mainly the consequence of higher finance income due to an adjustment of contingent considerations in connection with the change in timing expectations of revenues. At the same time, interest expense declined due to lower net foreign exchange losses on financing activities and lower other finance expenses.

Earnings before taxes (EBT) increased to CHF 356 million from CHF 258 million, up 38%. The effective tax rate for 2022 was 14%, down from 16% in 2021, driven by higher profits from Swiss entities, where statutory tax rates are lower.

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 307 million, an improvement of 41% compared with 2021.

On December 31, 2022, VAT's net debt amounted to CHF 37 million, representing a leverage ratio expressed as net debt-to-EBITDA of around 0.1 times. The year-end leverage improved by 0.2x compared with a year earlier. Average leverage over the course of 2022 was around 0.3 times net debt-to-EBITDA, as steady free cash flow generation continuously re-

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

duced net debt after the seasonal peak at the end of May when VAT paid its dividend. The equity ratio at year-end amounted to 61% compared with 60% a year earlier.

Record EBITDA and free cash flow support increased dividend proposal
One of VAT's key performance indicators and the basis for its dividend consideration is free cash flow, which in 2022 reached a record CHF 228 million compared with CHF 196 million the previous year. Higher EBITDA not only offset the increase in trade working capital of about CHF 80 million and higher taxes paid but also higher capital expenditure (capex), which amounted to CHF 66 million in 2022 compared with CHF 44 million in 2021.

Capex amounted to approximately 6% of net sales in 2022, slightly above the company's guidance of 4–5% of sales. This is mainly due to investments in production capacity in Malaysia, where VAT is in the process of establishing a second factory scheduled to be opened in 2024, and investments in a new technology center in Haag, Switzerland.

At year-end 2022, net trade working capital amounted to CHF 297 million, approximately 36% higher than at the same time in 2021. Net trade working capital represented 26% of sales, a 2-percentage-point increase versus 2021, mainly due to the build-up of a buffer to meet supply chain constraints related to the high order backlog.

As a result, free cash flow as a percentage of net sales was 20% and the free cash flow conversion rate was at 57% of EBITDA. Free cash flow to equity amounted to CHF 225 million compared with CHF 192 million in 2021.

At its Annual General Meeting on May 16, 2023, VAT's Board of Directors will propose a dividend for the fiscal year ending December 31, 2022, of CHF 6.25 per registered share, an increase of CHF 0.75, or 14%. The whole amount of CHF 6.25 will be paid from the company's accumulated gains. The proposal amounts to a total dividend amount of CHF 187.5 million, or 83.5% of VAT's free cash flow to equity.

Display and solar businesses realigned within Valves segment for 2023
As of Jan. 1, 2023, the Display & Solar business unit was dissolved, with the display business integrated into the Semiconductor business and the Solar business moved to the Advanced Industrial business unit. The moves are aimed at taking advantage of synergies and scale economies related to technology, business drivers and customer needs.

Sales guidance 2027
in CHF million

~2,000

2022 actual: 1,145

Lower demand expected in 2023 before return to growth in 2024

VAT expects investments in semiconductor manufacturing equipment to decline in 2023 in response to short-term market factors such as higher inflation, economic slowdowns in several key markets and ongoing geopolitical tensions and related macroeconomic risks.

For example, softer demand for smartphones and personal computing devices in 2022 resulting from lower consumer confidence in many markets, has led some chip manufacturers to temporarily reduce capacity in both semiconductors and displays. The impact of this trend was visible in the lower orders VAT recorded in the fourth quarter of 2022.

Slower-than-expected economic growth in China as a result of lockdowns related to the ongoing COVID-19 pandemic, and steps taken by some western governments to encourage reshoring of semiconductor manufacturing, have also led some market players to re-assess their short-term investment plans. As a result, market research indicates that WFE spending could fall 20–30% in 2023 before returning to growth in 2024 and beyond.

At the same time, chip manufacturers are expected to continue to invest in valve service and retrofit solutions in order to improve the productivity of their currently installed asset base. The increasing use of semiconductors in markets such as automotive is expected to partly mitigate lower chip demand forecast in other areas. The expansion of vacuum-based manufacturing into industries such as industrial coatings and e-beam applications may also partly offset lower demand in semiconductors, while solar photovoltaic demand is expected to remain strong as the transition to renewable energies continues in most parts of the world.

On this basis, VAT expects full-year sales and EBITDA in 2023 to be below the records set in 2022. However, the company expects to remain within its EBITDA margin target range of 32–37% by building its market position in leading-edge valve technologies, further strengthening its global footprint, and improving operational performance. VAT's Global Service business also provides a profitable buffer against cyclical swings in customer capital investments and the company will continue to improve its network of global service centers and its portfolio of valve upgrades and retrofits.

VAT intends to continue ramping up production and engineering services at its facility in Malaysia, increasing sourcing from best-cost countries, and gaining greater economies of scale in global supply chains. Significant investments in R&D will also continue, including its new technology innovation center in Switzerland.

Net income is also expected to be lower than in 2022, with capex forecast at CHF 80 – 85 million and free cash flow below the 2022 record but still at a high level.

Valves

VAT's Valves segment designs and delivers the industry's broadest range of high-precision vacuum valves. In 2022, the segment comprised 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 2022 continued to grow strongly over most of the year, driven by the third year in a row of higher customer investments in wafer fabrication equipment (WFE), close to USD 95 billion. This was largely driven by long-term megatrends, such as the spread of personal digital devices, cloud computing, the Internet of Things and the rapid development of artificial intelligence. The use of semiconductors in cars and trucks also grew rapidly. Additionally, semiconductor manufacturers continued to develop new chips with smaller node sizes and more wafer layers for coming generations of digital devices, which drove investment in new production platforms. These included, for example, new fabrication technologies such as Extreme Ultraviolet (EUV) lithography, which is used in only the most advance chip manufacturing processes.

The segment's other markets also developed positively in 2022. The use of vacuum-based manufacturing continued to expand into various industries, such as precision coatings and electron beam equipment used in medical applications, 3D printing and scientific research. Demand in the solar photovoltaic sector also grew again on the back of increasing demand for renewable energy and more efficient solar cell technologies. The displays market remained soft as investments to manufacture organic light-emitting diode (OLED) displays were delayed, in part by more cautious consumer spending.

Demand softened in the second half of 2022 as chip manufacturers began to reduce capital investments in response to short-term macroeconomic factors, such as increasing interest rates and risks of economic slowdowns in many large markets, along with announced trade restrictions towards China.

Another strong year of growth in Semiconductors

The semiconductor market accounts for approximately 75% of VAT's total sales and is thus the key driver of growth. Net sales grew 34% to CHF 714 million, driven by higher spending earlier in the year in logic and memory chips, both legacy platforms as well as high-end applications for the latest generation of semiconductors. Sales also benefited from the company's ability to deliver despite supply constraints in the semiconductor value chain, thanks to its broad global footprint and ongoing supply chain improvement measures. Softer demand in the second half of 2022 resulted in a 5% full-year order decline in the Semiconductor business unit, to CHF 730 million from CHF 772 million in the prior year.

The number of specification wins, in which VAT collaborates with customers to develop vacuum technologies for coming generations of wafer fabrication equipment, remained at high levels in 2022, mainly in vacuum components and sub-systems for critical front end processes such as etching and deposition. The segment also increased sales of adjacent products, such as motion components and advanced modules.

VAT continued to bring new valves to market along with technologies that enhance the performance of its core products. These included high-precision pressure control products, and ultra-pure components and coatings that improve the durability, vacuum performance and yield of chip fabrication equipment. The company also qualified new valve modules and advanced assemblies for equipment being designed for sub-5-nanometer applications.

* As of Jan. 1, 2023, the Display & Solar business unit was dissolved, with the display business integrated into the Semiconductor business and the Solar business moved to the Advanced Industrials business unit. The moves are intended to take advantage of synergies and scale economies related to technology, business drivers and customer needs.

Key figures Valves

In CHF million	2022	2021	Change
Order intake	970.9	1028.8	–5.6%
– Semiconductor	730.4	772.2	–5.4%
– Display & Solar	64.9	93.3	–30.4%
– Advanced Industrials	175.6	163.3	7.5%
Net sales	932.7	729.2	27.9%
– Semiconductor	716.5	534.7	34.0%
– Display & Solar	71.1	65.6	8.4%
– Advanced Industrials	145.1	128.9	12.6%
Inter-segment sales	89.2	75.0	18.9%
Segment net sales	1,021.9	804.2	27.1%
Segment EBITDA	354.5	269.7	31.9%
Segment EBITDA margin	34.7%	33.4%	
Segment net operating assets	840.4	737.7	13.9%
of which net trade working capital	260.9	191.0	36.6%

The Semiconductor business unit also continued to qualify additional products for manufacture at VAT's plant in Penang, Malaysia. This secures dual sourcing capability for key products in both Europe and Asia. It also further develops the local supply chain, part of VAT's strategy to better support its strong customer base in the region and improve the overall flexibility and efficiency of its global footprint.

Advanced Industrials continues to grow

The Advanced Industrials business unit serves a wide variety of customers with vacuum-based technologies in areas such as scientific instruments, crystal pulling for silicon production, thin-film coatings and scientific research. The business achieved another record order intake in 2022 of CHF 176 million, up 7% compared with the previous year, while net sales increased 13% to CHF 145 million.

Demand was strong across several markets, especially electron beam-related scientific instruments. The super-thin coatings market, which includes optical lenses, smartphone components and batteries, was flat in 2022 as the result of lower demand for consumer electronics related to the macroeconomic uncertainties that developed over the year.

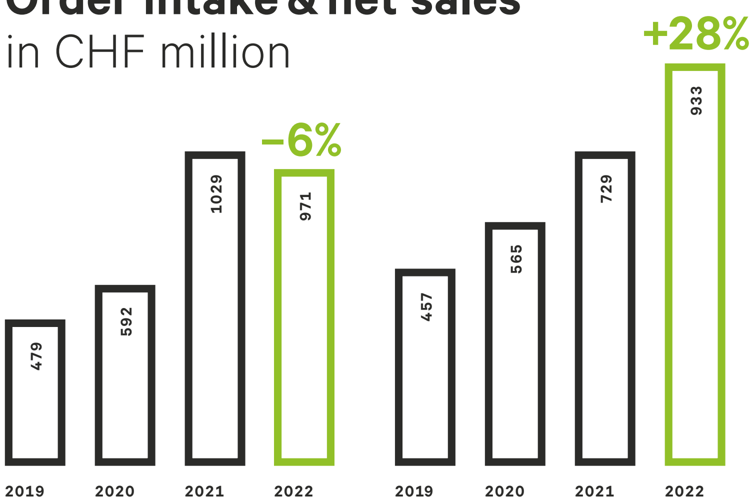
The business unit gained market share in Europe and China, largely by leveraging VAT's ability to deliver integrated valve solutions tailored to customers' specific technology requirements, especially in control valves.

Demand strong in Solar, soft in Displays

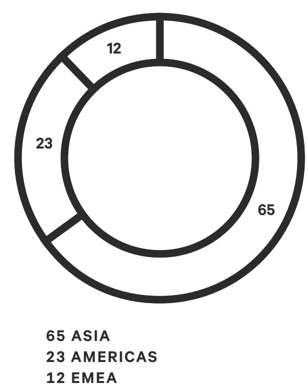
VAT's Solar & Display business unit, its smallest, serves the solar photovoltaic and displays markets with vacuum valve solutions similar to those used in the manufacture of semiconductors, which uses related manufacturing processes under very high vacuum conditions.

Orders in 2022 declined by 30% to CHF 65 million, mainly the result of ongoing delays in capital investments for the fabrication of OLED display which could not be offset by stronger spending on solar panel manufacturing, especially in China. Net sales increased by 8% to CHF 71 million.

Order intake & net sales
in CHF million



Net sales
by region %



Performance review 2022

Total orders in the Valves segment in 2022 amounted to CHF 971 million, down 5% from the previous year. Net sales reached CHF 933 million, an increase of 28% compared with CHF 729 million in 2021. Geographically, the share of total segment sales increased in Asia, while remaining the same in Europe and declining in the US.

The segment reported EBITDA of CHF 354.5 million, up 32% from the year before, and an EBITDA margin of 34.7% versus 33.4% in 2021. The improved profitability was due to volume effects, increasing demand for higher-end vacuum solutions needed to manufacture the latest semiconductor designs, and ongoing operational improvements, including increasing component and raw material supplies from best-cost countries.

Market Outlook 2023

The 2023 market outlook for the Valves segment presents a mixed picture. Lower capital spending in semiconductor manufacturing, reflecting ongoing macroeconomic uncertainties, is expected to continue. Restrictions on trade with China for semiconductor-related products and technologies are also expected to reduce overall near-term demand for wafer fabrication equipment. New investments in OLED displays are also forecast to remain muted in 2023. At the same time, growth is expected to continue for vacuum valve solutions in industrial markets and solar photovoltaic, and VAT intends to further drive targeted growth measures to gain share in product adjacencies such as motion and pressure controls, as well as expanding its industrial exposure in new technologies, such as electron beam applications.

Global Service

The Global Service segment had a record year in 2022, with significant growth in all major areas of the business: spare parts and gates, valve repair, and complete valves, including upgrades to existing VAT valves, retrofitting of competitor valves, and spare and subfab valves. The segment serves wafer fabrication equipment OEMs, as well as integrated device manufacturers (IDMs) who design and manufacture semiconductors in-house primarily for their own use, and foundries who manufacture chips on behalf of companies that design the semiconductors but who outsource their fabrication.

Growth is driven primarily by VAT's installed base of valves, currently some 1.5 million worldwide. The company's constantly increasing portfolio of valve upgrades and retrofits also supports growth, allowing VAT to increase market share with the OEMs. At the same time, VAT is implementing more targeted programs to support the IDMs and foundries with comprehensive service solutions.

Semiconductor manufacturers continued to invest heavily in new capacity through most of 2022, which drove record sales of subfab valves used to isolate the extremely clean process environments in the semiconductor "fab" from the pumps and chemical disposal systems typically located below the fab.

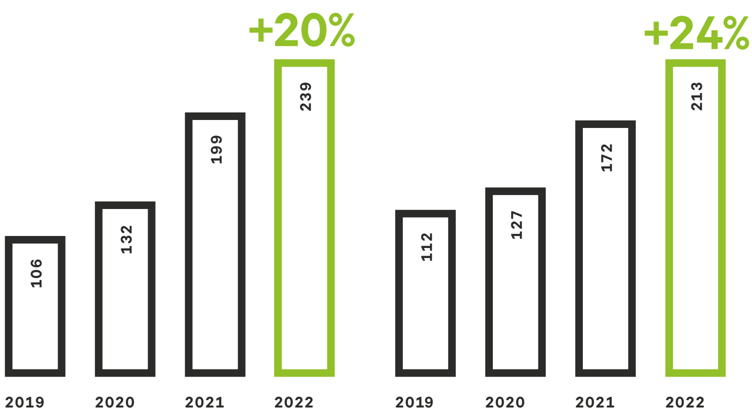
At the same time, utilization rates in the industry remained extremely high as fabs strove to achieve maximum productivity and throughput from their existing equipment. As a result, demand was also strong for consumables and spare parts.

The Global Service segment also moved and upgraded three of its eight global service centers in late 2021 and in 2022—in Japan, South Korea and Taiwan—to provide key customers in the region with even cleaner facilities for valve repair and maintenance.

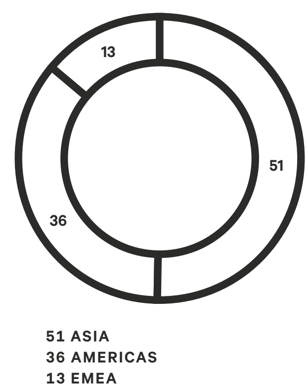
Key figures Global Service

In CHF million	2022	2021	Change
Order intake	239.0	199.1	20.0%
Net sales	212.7	172.0	23.7%
Inter-segment sales	–	–	–
Segment net sales	212.7	172.0	23.7%
Segment EBITDA	96.6	78.8	22.6%
Segment EBITDA margin	45.4%	45.8%	
Segment net operating assets	131.8	122.3	7.8%
of which net trade working capital	36.4	27.6	31.9%

Order intake & net sales
in CHF million



Net sales
by region %



Performance review 2022
Orders in the Global Service segment increased 20% year-on-year to a new record of CHF 239 million. Net sales grew 24% to CHF 213 million, also a record. Growth was reported in all businesses and was strongest in upgrades and retrofits, partly reflecting the launch of new control valve upgrades. EBITDA grew 23% versus 2021, to CHF 97 million. The EBITDA margin was 45% and slightly below the level of 2021.

Market Outlook 2023
With the semiconductor industry cycling into lower levels of fab utilization in 2023, VAT expects decreasing demand for consumables and spare parts. The company expects this to be largely mitigated, however, by growing demand for upgrades and retrofits as manufacturers look to improve yield and productivity. VAT's expanding portfolio of new valves and motion components is also expected to start opening new service opportunities, along with the launch of new service products specifically tailored to the different needs of legacy fabs wanting to maintain high utilization rates, as well as leading-edge fabs that need transition to smaller node sizes.

Michael Allison,
CEO
has served as VAT Group's Chief Executive Officer since March 2018.

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

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

Urs Gantner,
EVP SSG
has served as VAT Group's Executive Vice President, Semiconductor Solutions Group since August 2022.

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

Urs Leinhäuser,
Vice-Chairman of the Board of Directors
was elected to the Board in March 2016.

Libo Zhang,
Member of the Board of Directors
was elected to the Board in May 2018.

Maria Heriz,
Member of the Board of Directors
was elected to the Board in May 2022.

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 Code of Best Practice for Corporate Governance, and the corporate governance provision of the Swiss Code of Obligations. 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/fileadmin/user_upload/corporate_governance/en/articles-of-association---vat-group-ag.pdf, Committee Charters published at https://ir.vatvalve.com/en/corporate-governance and the Organizational Regulations of VAT Group AG published at https://ir.vatvalve.com/fileadmin/user_upload/corporate_governance/en/VAT_Organizational_Regulations_2022.pdf.

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 2022 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 2022 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 85–87.

1.2 Significant shareholders

As of December 31, 2022, 20,516 shareholders were registered in VAT Group AG's share register, holding 18,423,165 shares (as defined below under 2.1).

Disclosure notifications of significant shareholdings in VAT Group AG that were filed in 2022 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, 2022 (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[1]	10.00%
BlackRock, Inc.[2]	5.72%
Capital Group Companies, Inc.[3]	5.95%

1 Position of Rudolf Maag as per VAT share register dated December 31, 2022
2 Position for BlackRock, Inc. as per filing dated April 28, 2021
3 Position for Capital Group Companies, Inc. as per filing dated February 13, 2023

VAT was informed by Allianz SE on February 9, 2022, 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, 2022, was CHF 7.58 billion with a free float as defined by SIX Swiss Exchange of approximately 90%. During 2022, 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, 2022, 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, 2022, VAT Group AG held 18,082 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 2022.

2.7 Convertible bonds and options

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

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

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).
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, 2022.

Board of Directors[1]

Name	Age[2]	Position	Year of 1st election
Martin Komischke	65	Chairman	2017
Urs Leinhäuser	63	Vice Chairman	2016
Hermann Gerlinger	69	Member	2017
Karl Schlegel	69	Member	2016
Libo Zhang	52	Member	2018
Daniel Lippuner	53	Member	2020
Maria Heriz	45	Member	2022

1 Heinz Kundert served as Vice Chairman until the AGM held on May 17, 2022, but did not stand for re-election
2 as of December 31, 2022

3.2 Background, other activities and functions

As of December 31, 2022, 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 2022, 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.

Urs Leinhäuser, Vice Chairman, 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. He became Vice Chairman in May 2022.
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.

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 Carl 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 and guest member of the Technology Committee of the ASML Board of Directors since 2018.

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

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 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, until 2022, Cargopack Tägi AG. Daniel Lippuner holds a degree in economics and business administration from the University of Applied Sciences, St. Gallen, Switzerland.

Maria Heriz was born in 1977 and has dual Spanish-French citizenship. She became a member of the Board of Directors of VAT Group AG in May 2022.
Mrs. Heriz is currently Vice President EMEA & India Global Sales Operations at Tektronix Inc., an American company best known for manufacturing test and measurement devices. From 2015 - 2018, she held senior management positions at NXP Semiconductors, a Dutch semiconductor designer and manufacturer. Prior to that, Maria Heriz worked at Texas Instruments for nearly 14 years, where she managed key accounts and held senior management positions in global sales.

Maria Heriz holds degrees from the Polytechnic University of Madrid, Spain, and the École nationale supérieure des telecommunications ENST Paris, France.

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 and the report on non-financial matters pursuant to art. 964c Swiss Code of Obligation,
- submitting a petition for a debt-restructuring moratorium and informing the court in the event of over-indebtedness,
- 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 changes in share capital, preparing the corresponding report and the amendments to the Articles of Association entailed accordingly,
- 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 652e, 652g, 653g, 653t and 653u 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 members of the Group Executive Committee attend the 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 Board of Directors decided to dissolve the VATmotion Committee, as the additional advice from the Board of Directors was no longer necessary. This is due to the current management and professionalism of the Operational Excellence processes. The VATmotion Committee therefore ceased its activities following a final meeting in February 2022.

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, 2022.

Board of Directors

	Audit Committee (AC)	Nomination and Compensation Committee (NCC)	Technology Committee
Martin Komischke	–	Member	–
Libo Zhang	Member	Chairperson	–
Hermann Gerlinger	–	Member	Chairperson
Urs Leinhäuser	Chairperson	Member	–
Karl Schlegel	–	–	Member
Daniel Lippuner	Member	–	Member
Maria Heriz	–	–	–

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 Chairperson 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 and Daniel Lippuner.

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.

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

- Assessing the Internal Control System (ICS).
- Assessing the Enterprise Risk Management System and Report (ERM).
- 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 Libo Zhang who is supported by Martin Komischke, Urs Leinhäuser and Hermann Gerlinger.

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 64 to 65.

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 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 and Daniel Lippuner.

The Board of Directors decided to dissolve the VATmotion Committee, as the additional advice from the Board of Directors was no longer necessary. This is due to the current management and professionalism of the Operational Excellence processes. The VATmotion Committee therefore ceased its activities following a final meeting in February 2022.

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 Chairperson, 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 2022

During 2022, 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 2022	6/7	5/6	4/0	1/0	5/0
Usual average duration, approx. (in hours)	4/1	2/1	2/0	2/0	2/0
Martin Komischke	6/7	–	4/0	1/0	–
Heinz Kundert	2/3	–	1/0	–	–
Libo Zhang	6/7	5/6	2/0	–	–
Hermann Gerlinger	6/6	–	2/0	1/0	5/0
Urs Leinhäuser	6/6	5/6	2/0	1/0	–
Karl Schlegel	6/6	–	2/0	1/0	5/0
Daniel Lippuner	6/7	3/3	–	1/0	3/0
Maria Heriz	4/4	–	–		–
Internal Audit, PwC	–	3/0	–	–	–
External Audit, KPMG	–	5/5	–	–	–
External Advisors	4/0	–	4/0	–	–

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 of Legal and Compliance attended all but one meeting of the Board of Directors, all of the AC and the NCC meetings and acted 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.

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.

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, CFO and the EVP SSG. 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 consolidated 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 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

As of December 31, 2022, 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.

Fabian Chiozza, born in 1981, Swiss citizen, was appointed Chief Financial Officer 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.

Urs Gantner, born in 1970, Swiss citizen, was appointed Executive Vice President Semiconductor Solutions Group (EVP SSG) in August 2022
Urs Gantner joined VAT in 2004 as a product manager for customized transfer valve solutions. He was named head of the Semiconductor business unit in 2015, helping to grow the business while improving its operational structure and performance by taking advantage of the company's growing global footprint. Mr. Gantner also played a central role in the development and growth of VAT's manufacturing facility in Malaysia, including the localization of engineering and product management, and has led the expansion of VAT's valves business into adjacent product markets.

Urs Gantner, who holds a Master of Science degree in mechanical engineering from the Federal Institute of Technology (ETH).

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 with an economic purpose 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 61. 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 out 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 64, 65, 66 and 72.

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

Art. 689c para. 4 Swiss Code of Obligation provide that the Board of Directors must ensure that the shareholders are able to 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 17, 2022, 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.

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.

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

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 60 days if requested by one or more shareholders representing in aggregate at least 5% of VAT Group AG's nominal share capital or votes.

Registered shareholders with voting rights individually or jointly representing at least 0.5% of the nominal share capital or votes of VAT Group AG may demand that items be put on the agenda or that a motion relating to an agenda item be included in the notice convening the General Meeting. Such demands have to be submitted to the Chairman of the Board of Directors at least 45 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 postal or e-mail addresses of the shareholders are known, notice shall be sent simultaneously by post or e-mail. The notice shall state the date, beginning, mode and venue of the Meeting, the agenda items, the proposals of the Board of Directors together with a brief statement of the reasons, if applicable, the proposals of the shareholders together with a brief statement of the reasons and the name and address of the independent proxy.

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 72.

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

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 2022.

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 2022, aggregate audit fees for KPMG's audit of VAT Group AG and the VAT Group amounted to about CHF 383,000.

KPMG rendered in 2022 additional services, in respect to compliance, tax returns and tax advice amounting to aggregate fees of about CHF 90,000.

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 ten 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.

Contact information:
VAT Group AG
Investor Relations & Sustainability
Mr. Michel R. Gerber
Seelistrasse 1
CH-9469 Haag
T +41 81 772 42 55
E-mail: investors@vat.ch
VAT Group AG's website: www.vatvalve.com

Ad hoc messages: https://ir.vatvalve.com/en/news
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 2022 financial year.

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

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

Dear Shareholders,

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

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

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

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

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

The NCC performed its regular annual activities throughout the year, such as setting the performance goals and assessing the performance of GEC members, determining the level of compensation of the Board and the GEC, as well as preparing the Compensation Report 2022 and the say-on-pay vote for the 2023 AGM. You will find further information on the NCC activities and on VAT Group's compensation system and governance on the following pages.

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

This Compensation Report will be submitted to a non-binding, consultative shareholders' vote at the upcoming AGM. You will also be asked to vote on the maximum aggregate compensation amount of the Board for the term of office from the 2023 until the 2024 AGM, on the short-term variable compensation amount to be paid out to GEC members for the financial year 2022, on the maximum aggregate amount of fixed compensation of the GEC for financial year 2024, and on the maximum aggregate amount of the long-term incentive plan of the GEC for financial year 2024.

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

NCC of VAT Group

Haag, March 1, 2023

2. Compensation at a glance

Summary of current remuneration system Board of Directors

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

Structure and levels of Board compensation AGM 2022 until AGM 2023

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

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

Summary of current compensation system Group Executive Committee

The compensation of the GEC consists of fixed and variable elements.

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

Structure of compensation for the GEC

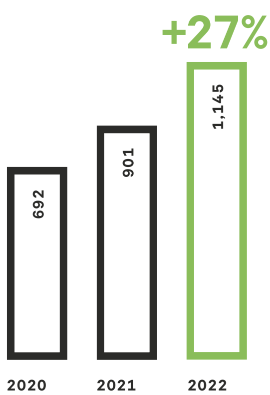
Element	Purpose	Vehicle
Base salary	Pay for the function	Monthly cash
Short-Term Incentive (STI)	Reward annual financial and individual performance; attract & retain	1-year cash
Long-Term Incentive (LTI)	Reward long-term performance Align to shareholders' interests	3-year vesting period of PSU, subject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

Remuneration policy and principles applicable to the GEC

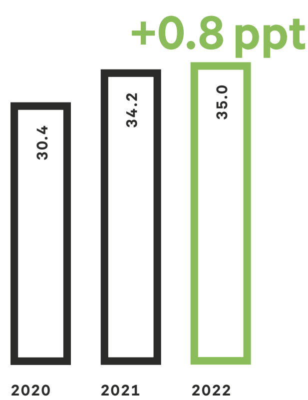
VAT Group's compensation principles support the company's business strategy and foster the commitment of all employees to the company's long-term goals. The compensation principles are:

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

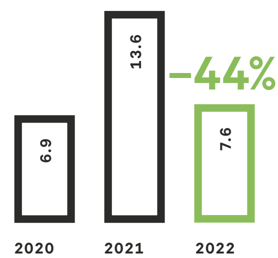
Sales in CHF million



EBITDA Margin in %



Market Capitalization in CHF billion



VAT financial performance

Over the past three years, VAT has steadily improved its financial performance and reached record levels in sales and the EBITDA margin. Market share gains and operational improvements allowed it to outperform the overall market development.

Compensation awarded for the Board for 2021/2022

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

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

Short-term performance achievement for 2022

While the individual performance results for the GEC were significantly higher for 2022 than for 2021, the level of overall achievement was lower compared to prior year, resulting in a decreased STI payout for 2022 (–6%), given the ambitious financial and spec win performance targets established.
The average STI 2022 payout for the GEC was 111% of target (133% in 2021).

Fixed compensation awarded for the GEC for 2022

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

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

Compensation governance

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

3 Compensation governance

3.1 Articles of Association

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

Table 1: Articles of Association

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 AGM. At the AGM 2022, Libo Zhang (NCC chair), Hermann Gerlinger, Martin Komischke and Urs Leinhäuser have been elected as members of the NCC.

It is the responsibility of the NCC to:

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

Additional information on the responsibilities of the NCC is provided in section 3.9 of the Corporate Governance Report on page 52.

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

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

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

4. Compensation for the Board of Directors

4.1 Compensation principles

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

4.2 Compensation structure

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

The compensation period relates to the term of office, which starts with the election at the ordinary AGM and ends at the next ordinary AGM. The amount of the fixed basic fee and the fixed committee fees reflect the responsibility and time requirement inherent to the function, as illustrated in Table 3. The Board members do not receive any performance-based remuneration and do not participate in the occupational pension plans of VAT Group.

Table 3: Structure and levels of Board compensation AGM 2022 until AGM 2023

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

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

Board members receive a lump sum expense reimbursement of CHF 1,500 (gross) per annum in cash to cover all expenses that occur in relation to meetings of the Board or its committees, as well as shareholder meetings.

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

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

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

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

5. Compensation for the GEC

5.1 Compensation principles

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

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

5.2 Compensation structure

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

Table 4: Structure of compensation for GEC

	Program	Purpose	Plan period	Threshold and maximum opportunity
ABS	Monthly cash salary	Attract and retain	Continuous	Fixed
STI	Annual bonus in cash	Reward annual financial and individual performance	1 year	0–150% of target
LTI	Equity-based plan	Reward long-term performance Align to shareholders' interests	3 years	0–200% of Performance Share Units (PSUs) granted, settled in shares following vesting
Benefits	Pension and insurances	Protect against risks Attract and retain	Continuous	Fixed
Non-tangible rewards such as work environment and culture, personal development and career opportunities				

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

5.3 Annual base salary (ABS)

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

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

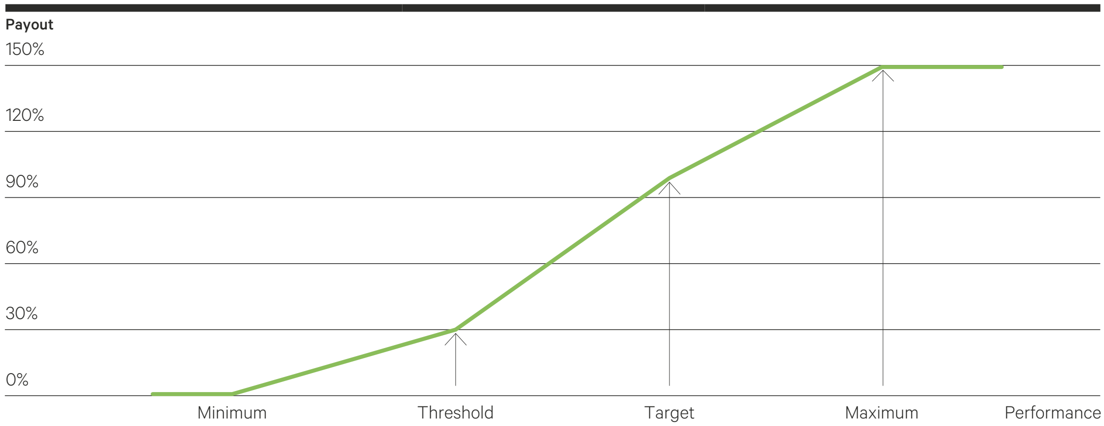
- external benchmark: market value of the role,
- internal benchmark: internal pay structure and internal peer comparison,
- individual profile and past performance of the employee,
- financial considerations such as budget and affordability.

5.4 Variable Cash Compensation (STI)

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

The individual variable target compensation amounts for the GEC are annually reviewed in the context of total compensation. The target STI nominal value translates to a percentage of ABS of 62% for the CEO and between 46% and 49% for the other GEC members for 2022 on a full-year basis, assuming an average performance achievement of 100%. The plan also includes a minimum performance threshold below which the STI payout is zero, and a maximum level of performance above which the payout factor is capped at 150% of the target STI value. An additional threshold target for 30% payout level is also defined to allow setting ambitious targets and to ensure performance during substantial market shifts.

Table 5: STI payout curve for 2022



For all GEC members, company performance accounts for 70% of the STI, while individual performance accounts for 30%. The company performance conditions are proposed annually by the NCC and approved by the Board. They are directly derived from the business strategy of profitable growth such as specifications wins which translates into revenues as the customer rolls out its new equipment for semiconductor, display and solar markets. Further, individual performance takes into account the commitment to sustainability, operational excellences and key strategic projects to support growth and profitability. Table 6 illustrates the performance measures including the weightings in detail.

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

Table 6: STI key performance measures for the CEO and other GEC members in 2022

Focus in 2022	Performance objectives	Weighting
Profitability	EBITDA margin 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	23.4%
Individual performance	Operational results & Environment, Social and Governance (ESG) – see Table 7	30.0%
Total		**100.0%**

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

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

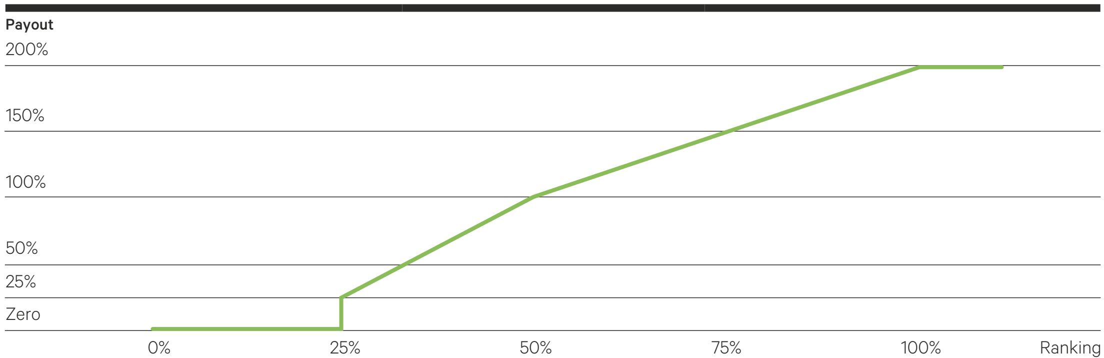
GEC members are also eligible to participate in an LTI plan, designed to motivate executives to create value for the company and its shareholders in a sustainable manner. The LTI is awarded in the form of performance share units (PSUs), subject to a three-year cliff vesting period depending on the achievement of the following performance conditions:
– relative net sales growth, with a 33 1/3% weight,
– relative total shareholder return (TSR), with a 33 1/3% weight,
– relative Return on Invested Capital (ROIC), with a 33 1/3% weight.

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

In 2022, the LTI nominal value amounts represent 73% of the ABS for the CEO and between 46% and 49% of the ABS for the other GEC members on a full-year basis. To determine the number of PSU granted, the LTI nominal value is divided by the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date.

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

Table 8: Vesting schedule of the LTI



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

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

The peer group is confirmed by the Board prior to the annual grant of PSU and may be adjusted if required due to corporate events such as merger, acquisition, business combination transaction, delisting or bankruptcy of peer companies. For 2022 grants, the peer group remained mainly stable compared to 2021 consisting of selected 23 industrial companies with a similar market cycle and thus are comparable in terms of products, technology, customers, suppliers. Unlike a general equity sector index composed of a number of companies primarily involved in the production and sale of semiconductor products, such as for example the PHLX Semiconductor Sector Index (SOX), the selected peers represent high-performing companies in our industry and intensify the performance benchmarking. The Board accepted the deletion of a peer (Brooks Automation) due to its splitting of the company and the semiconductor business going private with no substitution for current outstanding grants. The peer group is illustrated in Table 9.

Table 9: Peer group for the 2022 LTI grant

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

Given that the LTI plan is part of total compensation and designed to create sustainable value, a sound and fair vesting formula was determined at the time of introduction. The LTI plan is based on relative performance measures, i.e., performance compared to peer companies that are subject to similar market cycles as VAT Group. The intention is to neutralize market effects and to assess the "raw" performance of the company. The vesting formula under the plan limits both the upside potential as well as the downside risk in order to create the right culture and a balanced pay-for-performance alignment. There is no vesting below the threshold performance (25th percentile) and the vesting level is capped at 200% for the best performance in the peer universe. In exceptional circumstances (e.g., negative profit), the Board has discretion to determine appropriate measures such as reducing the performance factor of vesting PSUs. Specifically, when determining the final performance factor for the LTI 2019, vesting in 2021, there was no discretion applied.

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

5.6 Benefits

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

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

5.7 Employment contracts

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

5.8 Clawback and malus provisions

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

6. Compensation awarded to the Board and to GEC in 2022

6.1 Compensation awarded to the Board in 2022

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

Table 10: Compensation of the Board in 2022 and 2021

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

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

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

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

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

In accordance with the Articles of Association, loans to members of the Board are not permitted. Hence, no member, former member, or closely related parties of the Board were granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

6.2 Compensation awarded to the GEC for 2022

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

Table 11: Compensation of the GEC for 2022 and 2021

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

1 Four GEC members were in office on December 31, 2022, including 5 months in office for the Executive Vice-President Semiconductor Solutions Group. Three GEC members were in office on December 31, 2021, including nine months in office for the new CFO. It also includes contractual payments during the notice period for one GEC member who stepped down in January 2021.
2 Includes payments related to the relocation of new GEC members in 2021 as well as payments of remaining vacation days for the GEC member who left the company in 2021.
3 STI for 2022 to be paid out until June 30, 2023; STI for 2021 was paid out until June 30, 2022; it included the pro rata STI for the GEC member who left the company in 2021.
4 Grant value of the LTI awarded is based on the Monte Carlo evaluation of the PSU. The total number of PSUs granted in 2022 amounted to 896 (2021: 1,932) for the CEO and 870 (2021: 1,298) for the other GEC members, based on the average daily closing share price of the VAT Group shares during the 20 trading days preceding the grant date. For 2021, it includes a replacement award to the new CFO granted under the Long-term Incentive program in PSUs (LTI), which was forfeited by his previous employer as a result of joining VAT Group.
5 All compensation amounts are disclosed gross.

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

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

Table 12: summary of 2022 performance for the STI

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

1 Weighted KPI, disclosed as achievement rate.

The LTI grant value amounted to CHF 0.6 million (2021: CHF 0.5 million). Overall, a higher fair value of the grant in 2022 (LTI grant value per PSU 2022: CHF 317.70, 2021: CHF 155.60) balanced off the lower number of PSUs granted in 2022. The PSU numbers were determined by dividing the LTI nominal target value by the market value of shares prior to the grant date. This was marginally higher for the 2022 grant than for the prior year.

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

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

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

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

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

In accordance with the Articles of Association, loans to members of the GEC are not permitted. Hence, no member or former member of the GEC was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

7. Shareholdings and vesting of outstanding LTI award

7.1 Shareholdings as of December 31, 2022

At the end of 2022, members of the Board held a total of 48,181 (2021: 77,608) registered shares of VAT Group. GEC members held a total of 10,379 (2021: 468) registered shares of VAT Group and a total of 8,319 (2021: 10,793) performance share units.

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

At the end of 2022, members of the Board and the GEC did not hold any stock options.

7.2 Vesting of outstanding LTI award

The vesting level for the 2019 LTI award which was due to vest by end of 2021 (LTI performance period 2019–2021), considers the performance of the relative sales growth and the relative TSR against the peer group. The performance condition relative sales growth ranked 56.2% against the peer group while the relative TSR ranked 60.1% against the peer group. Therefore, the combined performance led to an overall vesting level of the two equally weighted performance conditions of 118% and the 4,240 units granted to the current members of the GEC have vested into 5,004 shares (4,240 PSUs granted multiplied by the vesting level of 118%) with a vesting value of CHF 1,391,112.

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

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

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

1 Vesting level of the Performance Share Units. Current GEC members have joined after 2017 grant and are not beneficiaries of the 2017 LTI grant.
2 Performance periods are still ongoing. Numbers will be available after the end of the respective performance period.

Report of the Statutory Auditor

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

Report on the Audit of the Remuneration Report

Opinion
We have audited the accompanying remuneration report 2022 of VAT Group AG for the year ended 31. December 2022. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the table 10 “Compensation of the Board in 2022 and 2021“ and table 11 “Compensation of the GEC in 2022 and 2021“ on pages 72 to 73 of the compensation report.

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG AG

Simon Niklaus Licensed Audit Expert Auditor in Charge	Simon Hörler Licensed Audit Expert

St. Gallen, March 1, 2023

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, 2022

Consolidated income statement

January 1–December 31 In CHF thousand	Note	2022	2021
Net sales	**2.1, 2.2**	**1,145,479**	**901,159**
Raw materials and consumables used		–443,884	–362,337
Changes in inventories of finished goods and work in progress		32,101	31,648
Personnel expenses	4.1	–230,261	–201,162
Other income	2.3	8,962	11,486
Other expenses	2.4	–111,984	–72,874
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]		**400,414**	**307,920**
Depreciation, amortization and impairment		–40,969	–43,058
Earnings before interest and taxes (EBIT)[1]		**359,446**	**264,862**
Finance income	5.1	2,233	239
Finance costs	5.1	–5,229	–7,366
Earnings before income taxes		**356,450**	**257,735**
Income tax expenses	6.1	–49,671	–40,295
Net income attributable to owners of the Company		**306,779**	**217,440**
Earnings per share (in CHF)			
Basic earnings per share	5.4	10.23	7.25
Diluted earnings per share	5.4	10.22	7.24

1 Interest includes other items as reported in the financial results

Consolidated statement of comprehensive income

January 1–December 31 In CHF thousand	Note	2022	2021
Net income attributable to owners of the Company		**306,779**	**217,440**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit obligations	4.3	11,735	12,533
Related tax	6.1	–1,702	–1,817
Subtotal		**10,033**	**10,716**
Items that are or may be subsequently reclassified to profit or loss:			
Changes in the fair value of hedging reserves		2,583	–1,948
Related tax	6.1	–375	282
Currency translation adjustments		–5,591	–327
Subtotal		**–3,383**	**–1,993**
Other comprehensive income for the period (net of tax)		**6,650**	**8,723**
Total comprehensive income for the period attributable to owners of the Company		**313,429**	**226,163**

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 84 ff.

Consolidated balance sheet

In CHF thousand	Note	Dec 31, 2022	Dec 31, 2021
Assets			
Cash and cash equivalents		174,365	127,152
Trade and other receivables	3.1	163,204	124,548
Other investments, including derivatives	5.5	10,801	4,610
Prepayments and accrued income		9,621	4,047
Inventories	3.2	229,247	152,763
Current tax assets		2,602	563
Current assets		**589,839**	**413,684**
Property, plant and equipment	3.3	204,320	158,538
Investment properties		1,673	1,723
Intangible assets and goodwill	3.4	470,560	482,746
Other receivables	3.1	1,157	1,968
Other investments		876	861
Deferred tax assets	6.1	6,360	5,347
Non-current assets		**684,947**	**651,183**
Total assets		**1,274,786**	**1,064,867**

In CHF thousand	Note	Dec 31, 2022	Dec 31, 2021
Liabilities			
Trade and other payables	3.5	133,408	79,769
Loans and borrowings	5.3	202,998	2,105
Provisions	3.7	2,246	2,520
Derivative financial instruments	5.2	3,265	932
Accrued expenses and deferred income	3.6	42,360	43,954
Current tax liabilities		47,700	30,145
Current liabilities		**431,977**	**159,425**
Loans and borrowings	5.3	8,184	204,837
Other non-current liabilities		2,211	2,619
Deferred tax liabilities	6.1	49,358	49,821
Defined benefit obligations	4.3	2,737	13,796
Non-current liabilities		**62,490**	**271,072**
Total liabilities		**494,466**	**430,497**
Equity			
Share capital	5.4	3,000	3,000
Share premium		344	6,479
Reserves		1,223	4,606
Treasury shares	5.4	–5,317	–4,501
Retained earnings[1]		781,069	624,786
Total equity attributable to owners of the Company		**780,320**	**634,370**
Total liabilities and equity		**1,274,786**	**1,064,867**

1 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 84 ff.

Consolidated statement of changes in equity

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
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**

In CHF thousand	Share capital	Share premium	Hedging reserves	Translation reserves	Treasury shares	Retained earnings	Total equity
Equity as of Jan 1, 2022	**3,000**	**6,479**	**2,448**	**2,158**	**–4,501**	**624,786**	**634,370**
Net income attributable to owners of the Company						306,779	306,779
Total comprehensive income for the period attributable to owners of the Company			2,208	–5,591		10,033	6,650
Treasury shares acquired					–4,459		–4,459
Dividend payment		–7,498				–157,459	–164,957
Reclassification[1]		1,363				–1,363	0
Share-based payments (net of tax)					3,644	–1,708	1,936
Equity as of Dec 31, 2022	**3,000**	**344**	**4,657**	**–3,433**	**–5,317**	**781,069**	**780,320**

[1] Transaction costs from the IPO in 2016 were treated differently in the consolidated financial statements than in the statutory financial statements of VAT Group AG. This reclassification aligns the share premium in the consolidated financial statements with the share premium of the statutory financial statements of VAT Group AG.

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 84 ff.

Consolidated statement of cash flows

January 1–December 31 In CHF thousand	Note	2022	2021
Net income attributable to owners of the Company		**306,779**	**217,440**
Adjustments for:			
Depreciation, amortization and impairment		40,969	43,058
(Profit)/loss from disposal of property, plant and equipment		–17	–114
Change in defined benefit obligations		752	760
Net impact from foreign exchange		5,737	824
Income tax expenses	6.1	49,671	40,295
Net finance costs	5.1	2,996	7,127
Other non-cash-effective adjustments		2,063	1,082
Change in trade and other receivables		–43,831	–31,143
Change in prepayments and accrued income		–5,743	–2,089
Change in inventories		–81,035	–47,779
Change in trade and other payables		54,587	33,408
Change in accrued expenses and deferred income		–1,092	7,558
Change in provisions		–352	–93
Cash generated from operations		331,485	270,336
Income taxes paid		–37,517	–30,546
Cash flow from operating activities		**293,968**	**239,790**
Purchases of property, plant and equipment		–58,974	–32,425
Proceeds from sale of property, plant and equipment		17	327
Purchases of intangible assets and development expenditure		–7,265	–10,542
Acquisition of subsidiary, net of cash acquired		0	–1,586
Interest received		426	131
Cash flow from investing activities		**–65,797**	**–44,095**
Proceeds from borrowings	5.3	80,000	110,000
Repayments of borrowings	5.3	–80,000	–170,000
Repayments of lease liabilities	5.3	–3,164	–2,433
Purchase of own shares		–4,459	–4,344
Dividend paid	5.4	–164,957	–134,982
Interest paid		–3,575	–3,732
Other finance expenses paid		–1,082	–1,217
Cash flow from financing activities		**–177,238**	**–206,707**
Net increase/(decrease) in cash and cash equivalents		**50,933**	**–11,012**
Cash and cash equivalents at beginning of period		127,152	137,871
Effect of movements in exchange rates on cash held		–3,720	292
Cash and cash equivalents at end of period		**174,365**	**127,152**

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 84 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, 2022, 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 1, 2023.

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

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, 2022. 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) post-employment 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

The Group 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.

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 came from sales of services and sales of goods.

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, 2022 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Net sales	932,731	212,748	1,145,479	–	1,145,479
Inter-segment sales	89,208	–	89,208	–89,208	–
Segment net sales	**1,021,939**	**212,748**	**1,234,687**	**–89,208**	**1,145,479**
Segment EBITDA	**354,504**	**96,645**	**451,149**	**–50,735**	**400,414**

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**

As of December 31, 2022 In CHF thousand	Valves	Global Service	Total segments	Corporate and eliminations	Total
Segment assets	916,333	139,462	1,055,796	1,673	1,057,469
Segment liabilities	75,907	7,708	83,615	377	83,992
Segment net operating assets	**840,427**	**131,754**	**972,181**	**1,296**	**973,478**
Of which net trade working capital	260,905	36,396	297,301	–377	296,924

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

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	2022	2021
Segment EBITDA	451,149	347,516
Corporate and eliminations	–50,735	–39,596
Depreciation, amortization and impairment	–40,969	–43,058
Finance costs net	–2,996	–7,127
Earnings before income taxes	**356,450**	**257,735**

Assets

As of December 31 In CHF thousand	2022	2021
Segment assets	1,055,796	910,254
Corporate and eliminations	1,673	1,723
Cash and cash equivalents	174,365	127,152
Other assets[1]	42,952	25,738
Assets	**1,274,786**	**1,064,867**

1 The main positions included in other assets are other receivables, other investments, deferred tax assets and prepayments and accrued income.

Liabilities

As of December 31 In CHF thousand	2022	2021
Segment liabilities	83,615	50,233
Corporate and eliminations	377	74
Loans and borrowings	211,182	206,942
Other liabilities[1] and provisions	199,292	173,248
Liabilities	**494,466**	**430,497**

1 Only trade payables are allocated to segments.

Geographic information

Net sales

January 1–December 31 In CHF thousand	2022	2021
Switzerland	7,488	6,452
Europe excl. Switzerland	124,405	110,780
USA	290,350	303,668
Japan	127,637	108,284
Korea	103,496	86,303
Singapore	172,700	94,859
China	217,851	124,710
Asia excl. Japan, Korea, Singapore and China	91,533	59,238
Other	10,019	6,865
Total	**1,145,479**	**901,159**

No other individual country represented more than 10% of net sales in 2022 and 2021.

Non-current assets

As of December 31 In CHF thousand	2022	2021
Switzerland	595,309	582,677
Europe excl. Switzerland	6,593	4,219
USA	1,723	2,645
Asia	72,928	53,466
Total	**676,554**	**643,007**

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 2022 and 2021.

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

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, 2022 In CHF thousand	Valves	Global Service	Total
Order intake	970,871	239,024	1,209,895
Net sales by region			
Asia	606,334	106,882	713,216
Americas	215,420	77,529	292,950
EMEA	110,976	28,337	139,313
Net sales	**932,731**	**212,748**	**1,145,479**

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**

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	2022	2021
Net foreign exchange gains on operating and investing activities	0	201
Work performed by the entity and capitalized	7,184	9,755
Rental income from investment properties	74	76
Change in provision for impairment on trade receivables	8	477
Gains from sale of fixed assets	17	120
Other income	1,679	856
Total other income	**8,962**	**11,486**

2.4 Other expenses

January 1–December 31 In CHF thousand	2022	2021
Marketing and advertising	1,297	971
Distribution	19,520	11,006
Office rent	304	328
Administrative expenses	24,816	17,617
Travel expenses	4,294	1,551
Repair and maintenance	25,522	20,504
Energy and supplies	20,061	13,223
Insurance, duties and other charges	3,120	2,639
Losses from sale of fixed assets	0	7
Net foreign exchange losses on operating and investing activities	9,365	0
Research and development expenses[1]	1,034	1,383
Other operating expenses	2,651	3,647
Total other expenses	**111,984**	**72,874**

1 Includes only third-party expenses

3. Operating assets and liabilities

3.1 Trade and other receivables

As of December 31 In CHF thousand	2022	2021
Trade receivables – gross	151,916	116,380
Less provision for impairment of trade receivables	–248	–260
Trade receivables – net	**151,668**	**116,121**
Recoverable VAT and withholding tax	7,865	7,759
Deposits	1,475	1,775
Receivables from social security	3,016	482
Other	337	380
Total trade and other receivables	**164,360**	**126,516**
Thereof:		
Current trade and other receivables	163,204	124,548
Non-current other receivables	1,157	1,968

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	2022	2021
Raw materials and consumables	105,548	56,345
Work in progress	17,186	22,699
Semi-finished goods	59,076	36,040
Finished goods	47,438	37,679
Total inventories	**229,247**	**152,763**

In the financial year 2022, inventories of CHF 0.8 million (previous year: CHF 2.4 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 and standard 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, 2022 In CHF thousand	Land	Buildings	Buildings right-of-use assets	Machinery	Furniture/ fixtures	Other equipment	Other equipment right-of-use asset	Assets under con-struction	Total
Balance at Jan 1, 2022	**7,876**	**95,859**	**13,675**	**113,543**	**7,724**	**22,919**	**452**	**31,144**	**293,191**
Additions	7,322			5,011	53	922		49,198	62,506
Movement non-cash			8,167				114		8,281
Disposals			−2,251	−40	−3	−1,140	−65		−3,499
Transfer		2,055		2,401	679	1,561		−7,180	−484
Exchange differences	−334	−1,155	−482	−2,156	−58	−476	−9	−803	−5,473
Balance at Dec 31, 2022	**14,864**	**96,759**	**19,110**	**118,759**	**8,395**	**23,786**	**492**	**72,359**	**354,523**
Accumulated depreciation and impairment									
Balance at Jan 1, 2022	**−237**	**−28,933**	**−6,476**	**−75,416**	**−6,218**	**−17,216**	**−157**		**−134,653**
Depreciation charge	−148	−4,229	−3,054	−10,235	−607	−2,547	−125		−20,944
Impairment loss				−20		−351			−370
Disposals			2,120	40	3	1,140	58		3,361
Transfer						345			345
Exchange differences	16	172	211	1,351	42	262	7		2,059
Balance at Dec 31, 2022	**−369**	**−32,990**	**−7,199**	**−84,281**	**−6,781**	**−18,367**	**−216**		**−150,203**
Net book amount Dec 31, 2022	**14,495**	**63,769**	**11,910**	**34,478**	**1,614**	**5,419**	**276**	**72,359**	**204,320**

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 con-struction	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**

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in property, plant and equipment as of December 31, 2022, aggregate to CHF 72.8 million (prior year: CHF 24.4 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

Leases mainly consist of warehouses, factory facilities and offices. In addition, the Group leases vehicles and IT equipment. Lease payments are determined in corresponding contracts.

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, 2022, the Group recognized CHF 3.2 million (prior year: CHF 2.9 million) of depreciation charges and CHF 0.2 million (prior year: CHF 0.1 million) of interest costs from these leases.

In 2022, expenses related to short-term leases as well as leases of low-value assets amount to CHF 0.3 million (prior year: CHF 0.3 million). Total cash outflows for leases amount to CHF 3.2 million (prior year: CHF 2.4 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, 2022 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Development costs in progress	Total
Balance at Jan 1, 2022	183,923	11,386	270,491	120,900	10,318	20,617	617,635
Additions		105				7,184	7,289
Disposals					–1,559		–1,559
Transfer		4,454			3,749	–7,720	484
Exchange differences		–82			–10	–3	–95
Balance at Dec 31, 2022	183,923	15,863	270,491	120,900	12,498	20,078	623,754
Accumulated amortization and impairment							
Balance at Jan 1, 2022	0	–9,780	–121,361	0	–3,746	0	–134,888
Amortization charge		–1,455	–15,652		–2,118		–19,224
Impairment loss					–380		–380
Disposals					1,559		1,559
Transfer		–345					–345
Exchange differences		78			8		85
Balance at Dec 31, 2022	0	–11,502	–137,013	0	–4,677	0	–153,193
Net book value Dec 31, 2022	183,923	4,361	133,478	120,900	7,821	20,078	470,560

January 1–December 31, 2021 In CHF thousand	Goodwill	Software	Acquired technology and customer relationships	Brands and trademarks	Other intangible assets	Development costs 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	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

Commitments for future capital expenditures

Firm contractual commitments for future capital investment in intangible assets as of December 31, 2022, aggregate to CHF 2.5 million (prior year: CHF 0.4 million).

Research and development costs

In 2022, research and development expenses amounting to CHF 50.7 million (previous year: CHF 45.1 million) were included in the items “Raw materials and consumables used”, “Personnel expenses”, “Other expenses” and “Depreciation, amortization and impairment”. For 91 development projects, the capitalization criteria according to IAS 38.57 were met and expenses of CHF 7.1 million (previous year: CHF 8.6 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.

As of December 31 In CHF thousand			2022			2021
	Valves	Global Service	Total	Valves	Global Service	Total
Goodwill	148,181	35,742	183,923	148,181	35,742	183,923
Brand and trademarks	94,618	26,282	120,900	94,618	26,282	120,900
Total carrying amount	**242,799**	**62,024**	**304,823**	**242,799**	**62,024**	**304,823**

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 2023 to 2025. 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, 2022	Valves	Global Service
Discount rate (WACC) before tax	12.9%	13.0%
Terminal value growth rate	1.5%	1.5%

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%

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 it is appropriate that the acquired brands and trademark have an indefinite useful life as VAT-branded products are globally known and have a strong market position. They have a history of strong revenue and cash flow performance, and VAT has the intent and ability to support the brand with spending to maintain its value for the foreseeable future.

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.

Cloud computing arrangements

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).

3.5 Trade and other payables

As of December 31 In CHF thousand	2022	2021
Trade payables	83,992	50,307
VAT and other tax payables	3,762	6,355
Employee benefit liabilities	8,664	4,444
Prepayments received from customers	33,124	16,185
Contingent considerations	1,500	2,100
Other liabilities	2,367	378
Total trade and other payables	**133,408**	**79,769**

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

As of December 31 In CHF thousand	2022	2021
Swiss Franc	55,614	27,564
Euro	15,432	9,536
US Dollar	21,313	26,116
Malaysian Ringgit	13,122	10,212
Romanian Leu	1,679	1,361
Chinese Yuan	22,314	3,044
Other currencies	3,934	1,935
Total trade and other payables	**133,408**	**79,769**

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	2022	2021
Accrued expenses – personnel related	16,921	25,505
Accrued expenses – other	25,424	18,325
Deferred income	14	125
Total accrued expenses and deferred income	**42,360**	**43,954**

3.7 Provisions

January 1–December 31, 2022 In CHF thousand	Warranties	Other provisions	Total provisions
Balance at Jan 1, 2022	**2,320**	**289**	**2,609**
Additions	753	914	1,667
Used	–828	–107	–935
Unused amount released		–170	–170
Exchange differences		–9	–9
Balance at Dec 31, 2022	**2,246**	**916**	**3,162**
Thereof:			
Current provisions	2,246		2,246
Non-current provisions[1]		916	916

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.

Other provisions

Other provisions mainly consist of a restoration liability for a rented warehouse. The restoration liability is subject to a degree of uncertainty with regard to timing and the amount to be paid.

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	2022	2021
Wages and salaries	189,743	166,784
Share-based payment	2,177	1,960
Social security costs	17,708	16,621
Pension costs – defined contribution plans	1,318	1,054
Pension costs – defined benefit plans	9,052	8,100
Other personnel expenses	10,263	6,643
Total personnel expenses	**230,261**	**201,162**
Number of employees (FTE)	2,991	2,540

4.2 Share-based payments

At December 31, 2022, 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 958 shares (prior period: 950 shares) with a fair value of CHF 268 per share for the period 2021/22. For the period 2022/23, the Group allocated 1,068 shares (prior period: 485 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 starting with the LTIP 2021 additionally the performance indicator relative 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 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%
Long-term incentive plan 2022	CHF 454.40	CHF 322.79	CHF 346.34	CHF 346.34	35.2%	0.0%	1.7%

VAT Group granted 11,529 shares with a fair value of CHF 278.00 per share in 2022 from the LTIP 2019 (prior period: 4,765 shares with a fair value of CHF 252.80 per share from the LTIP 2018). As of December 31, 2022, the number of outstanding Performance Share Units (PSUs) under the plan are 22,600 (prior year: 29,026).

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 two defined benefit plans in place: 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	2022	2021
Japan[1]	0	48
France	76	80
Switzerland	2,661	13,668
Net defined benefit liability in the balance sheet	**2,737**	**13,796**

1 The defined benefit plan in Japan was dissolved in 2022.

Income statement

January 1–December 31 In CHF thousand	2022	2021
Japan[1]	0	33
France	–4	10
Switzerland	9,056	8,057
Pension costs – defined benefit plans	**9,052**	**8,100**

1 The defined benefit plan in Japan was dissolved in 2022.

Swiss pension 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 2022, 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	2022	2021
Present value of defined benefit obligation	203,719	223,584
Fair value of plan assets	201,058	209,916
Net defined benefit liability	**2,661**	**13,668**

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

January 1–December 31 In CHF thousand	2022	2021
Opening defined benefit obligation	**223,584**	**214,375**
Service costs	8,979	7,927
Plan participants contributions	8,347	7,302
Interest expense	662	396
Remeasurement (gains)/losses	–32,136	–951
Benefits paid through pension assets	–5,717	–5,465
Closing defined benefit obligation	**203,719**	**223,584**

January 1–December 31 In CHF thousand	2022	2021
Opening fair value of plan assets	**209,916**	**188,914**
Interest income	646	361
Return on plan assets (excl. amounts in net interest)	–20,401	11,582
Plan participants contributions	8,347	7,302
Employer contributions	8,347	7,302
Benefits received/(paid) through pension assets net	–5,717	–5,465
Administration expense	–80	–80
Closing fair value of plan assets	**201,058**	**209,916**

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

As of December 31 In CHF thousand	2022	2021
Defined benefit obligation for active employees	166,329	178,501
Defined benefit obligation for pensioners	37,390	45,083
Total defined benefit obligation	**203,719**	**223,584**

The defined benefit cost for the period is as follows:

January 1–December 31 In CHF thousand	2022	2021
Current service costs	8,979	7,927
Interest expense on defined benefit obligation	662	396
Interest income on plan assets	–646	–361
Administration expense	80	80
Total defined benefit cost/(income) recognized in income statement	**9,075**	**8,042**
Thereof:		
Employee benefit expenses	9,059	8,007
Finance expenses	16	35
Actuarial (gain)/loss arising from financial assumptions	–37,186	–2,892
Actuarial (gain)/loss arising from demographic assumptions	0	–4,445
Actuarial (gain)/loss arising from experience adjustment	5,050	6,386
Return on plan assets (excl. amounts included in net interest)	20,401	–11,582
Total defined benefit cost/(income) recognized in OCI	**–11,735**	**–12,533**

The major asset categories are as follows:

As of December 31 In CHF thousand	2022	2021
Equity instruments (quoted market prices)	58,430	59,113
Debt instruments (quoted market prices)	53,987	67,993
Real estate (quoted market prices)	56,768	40,940
Alternative investments (quoted market prices) and others	20,700	26,456
Cash	11,173	15,414
Total	**201,058**	**209,916**

The significant actuarial assumptions were as follows:

As of December 31	2022	2021
Discount rate	2.25%	0.30%
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	2022	2021
Retiring at the end of the reporting period:		
Male	22.70	22.57
Female	24.48	24.37
Retiring 20 years after the end of the reporting period:		
Male	24.97	24.86
Female	26.49	26.40

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 2022		Impact on defined benefit obligation 2021	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (+/– 0.25%)	–6,281	6,636	–6,917	6,457
Salary growth rate (+/– 0.25%)	802	–785	992	–592
Life expectancy at age 65 (+/– 1 year)	2,408	–2,454	2,936	–3,130

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, 2023, amount to CHF 9.0 million.

The weighted average duration of the defined benefit obligation is 12.3 years (prior year: 15.0 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	2022	2021
Contribution to Swiss pension plan	8,347	7,302

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

Key management personnel includes members of the Group Executive Committee (GEC) of VAT Group AG. The GEC was enhanced by one member effective August 4, 2022. The compensation paid or payable to key management personnel for employee services is shown below:

January 1–December 31 In CHF thousand	2022	2021
Short-term employee benefits	2,439	2,686
Post-employment benefits	404	402
Share-based payments	1,614	1,299
Total	**4,457**	**4,387**

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

January 1–December 31 In CHF thousand	2022	2021
Other payables due to Swiss autonomous employee benefit plan	1,427	106
Accrued expenses and deferred income due to governing bodies	212	185
Post-employment benefit obligation (Swiss autonomous employee benefit plan)	2,661	13,668

Shares held by the Board of Directors and the Group Executive Committee are disclosed in note 4.4 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	2022	2021
Interest income	441	146
Other finance income	1,793	93
Finance income	**2,233**	**239**
Interest expenses	–3,576	–3,517
Net foreign exchange losses on financing activities	–365	–1,297
Other finance expenses	–1,288	–2,552
Finance costs	**–5,229**	**–7,366**
Total finance result	**–2,996**	**–7,127**

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	
		2022	2021	2022	2021
Derivatives held for hedging (USD)	Level 2[1]	226,492	164,431	8,617	1,644
Derivatives held for hedging (JPY)	Level 2[1]	30,424	64,954	1,786	2,712
Derivatives held for hedging (KRW)	Level 2[1]	10,264	35,735	362	222
Derivative assets		**267,179**	**265,120**	**10,765**	**4,578**
Equity shares	**Level 1[2]**	**0**	**0**	**36**	**33**
Thereof:					
Current assets		267,179	265,120	10,801	4,610
Derivatives held for hedging (USD)	Level 2[1]	50,521	66,279	–591	–930
Derivatives held for hedging (JPY)	Level 2[1]	34,261	0	–1,047	0
Derivatives held for hedging (KRW)	Level 2[1]	25,393	1,263	–1,626	–1
Derivative liabilities		**110,175**	**67,542**	**–3,265**	**–932**
Contingent considerations[4]	Level 3[3]	**2,700**	**4,488**	**–2,700**	**–4,488**
Thereof:					
Current liabilities		111,675	69,642	–4,765	–3,032
Non-current liabilities		1,200	2,388	–1,200	–2,388

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 2022 and 2021. 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 current achievements and the assumption that the target revenue will be reached. The contingent considerations were reduced by CHF 1.8 million via finance income in 2022. This reduction was caused by a change of expectation in the timing of the respective revenue.

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, 2022 and December 31, 2021, the Group held currency forwards and non-deliverable forwards as hedging instruments. 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, 2022. The hedging reserves included net unrealized gains of CHF 4.7 million, net of tax, on derivatives designated as cash flow hedges (prior year: unrealized gains of CHF 2.4 million). Net losses of CHF 0.5 million (prior year: net gains of CHF 0.8 million) were reclassified to earnings in 2022. 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, 2022 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.65%	2027	0
Term loan facility	CHF	SARON + 0.75%	2025	0
Fixed-rate bond	CHF	1.50%	2023	199,929
Lease liability				11,252
Total loans and borrowings				**211,181**
Thereof:				
Current				202,998
Non-current				8,184

1 Margin applicable at year end.

As of December 31, 2021 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	SARON + 0.95%	2023	0
Fixed-rate bond	CHF	1.50%	2023	199,716
Lease liability				7,226
Total loans and borrowings				**206,942**
Thereof:				
Current				2,105
Non-current				204,837

1 Margin applicable at year end.

In 2022 VAT Group AG has entered a term and multicurrency revolving credit facilities agreement of CHF 450.0 million. The agreement contains a multicurrency revolving loan facility and a term loan facility. The agreement is subject to the financial covenant "total net debt/EBITDA" ratio, with which the Group complied with for the financial year 2022.

The revolving loan facility of CHF 250.0 million has a term of five years and includes an uncommitted extension option of two times one year. The facility replaces the previously maintained revolving credit facility which was voluntarily cancelled in 2022 before its maturity.

The term loan facility of CHF 200.0 million has a term of two and a half years and includes an uncommitted extension option of one time one year. The term loan facility's purpose is to refinance the outstanding bond which matures in 2023.

The nominal interest rate of the revolving loan facility and term loan facility consists of the interest reference rate (SARON for CHF loans) and the lenders margin which is semi-annually determined based on the achieved leverage ratio of VAT Group.

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, 2022, the market value of the bond was CHF 199.4 million (prior year: CHF 203.6 million).

The carrying amount as of December 31, 2022 includes financing costs of CHF 0.1 million (prior year: CHF 0.3 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	2022	Cash-effective adjustment		Non-cash-effective adjustment		2021
		Addition	Repayment	Addition[1]	Foreign exchange	
Loans and borrowings	211,181	80,000	–83,164	7,658	–254	206,942
Total liabilities from financing activities	**211,181**	**80,000**	**–83,164**	**7,658**	**–254**	**206,942**

1 Includes changes of lease liabilities and amortization of finance costs

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 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, 2022 and 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, 2022 and 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.

Treasury shares

VAT Group AG purchased own shares held as treasury shares at a weighted average purchase price of CHF 294.02 pursuant to the share-based payment plans as shown in note 4.2. As of December 31, 2022, the Group held 18,082 own shares (prior year: 14,383).

Dividends

The Board of Directors proposed the following dividend for the financial year 2021, CHF 0.25 per share from the reserves from capital contributions and CHF 5.25 per share from retained earnings (for the financial year 2020: CHF 2.25 from the reserves from capital contributions and CHF 2.25 from retained earnings). The dividends for the financial years 2021 and 2020 were approved and paid out in May 2022 and May 2021 respectively.

In CHF thousand	2022	2021
Dividends paid	**164,957**	**134,982**

Earnings per share

In CHF thousand	2022	2021
Basic earnings per share (in CHF)	**10.23**	**7.25**
Net profit	306,779	217,440
Weighted average number of shares outstanding (in thousands of units)	29,986	29,991

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	2022	2021
Diluted earnings per share (in CHF)	**10.22**	**7.24**
Net profit	306,779	217,440
Weighted average number of shares outstanding (in thousands of units)	30,010	30,021

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	2022	2021
Financial assets measured at amortized cost		
Cash and cash equivalents	174,365	127,152
Trade and other receivables	153,089	118,117
Accrued income	43	43
Long-term loans	876	861
Total financial assets recorded at amortized cost	**328,373**	**246,173**
Financial assets measured at fair value		
Equity shares	36	33
Forward exchange contracts	10,765	4,578
Total financial assets measured at fair value	**10,801**	**4,610**
Financial liabilities recorded at amortized cost		
Trade and other payables	86,358	50,685
Accrued expenses	25,424	18,325
Other non-current liabilities	94	142
Loans and borrowings	199,929	199,716
Lease liability	11,252	7,226
Total financial liabilities recorded at amortized cost	**323,058**	**276,093**
Financial liabilities measured at fair value		
Forward exchange contracts	3,265	932
Other payables	1,500	2,100
Other non-current liabilities	1,200	2,388
Total financial liabilities measured at fair value	**5,965**	**5,420**

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 comprises “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 and future conditions. Current and future 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 Group's main foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

As of December 31, 2022 In CHF thousand	Assets	Liabilities	Net exposure
USD/CHF	444,010	291,103	152,907
EUR/CHF	37,214	28,573	8,642
JPY/CHF	72,957	36,499	36,458
KRW/CHF	12,430	5,364	7,066
CNY/CHF	20,758	2,852	17,905
MYR/CHF	9,074	17,026	–7,952

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

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, 2022, the cumulated impact on net financial assets/liabilities would be as follows:

As of December 31 In CHF thousand	2022	2021
USD/CHF	6,433	3,351
EUR/CHF	364	474
JPY/CHF	1,534	1,581
KRW/CHF	297	293
CNY/CHF	753	510
MYR/CHF	335	421

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 37% (prior year: 40%) 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, 2022 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	87,859	–87,859	–85,829	–2,030			
Accrued expenses	25,424	–25,424	–21,459	–3,966			
Other non-current liabilities	1,294	–1,294			–94	–1,200	
Loans and borrowings	199,929	–203,000		–203,000			
Lease liabilities	11,252	–11,713	–691	–2,457	–2,036	–2,878	–3,651
Non-derivative financial liabilities	**325,759**	**–329,290**	**–107,979**	**–211,452**	**–2,131**	**–4,078**	**–3,651**
Forward exchange contracts used for hedging: – Outflow	3,265	–113,440	–55,581	–57,859			
– Inflow		110,175	54,553	55,622			
Derivative financial liabilities	**3,265**	**–3,265**	**–1,028**	**–2,237**			

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**			

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	2022	2021
Total equity	780,320	634,370
Total balance sheet	1,274,786	1,064,867
Equity ratio	**61.21%**	**59.57%**

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	2022	2021
Current tax:		
Current tax on earnings for the period	52,883	38,009
Adjustments in respect of prior periods	65	453
Total current tax expense	**52,949**	**38,462**
Change in deferred tax	–3,278	1,833
Total deferred tax expense	**–3,278**	**1,833**
Income tax expense	**49,671**	**40,295**

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	2022	2021
Earnings before income taxes	356,450	257,735
Tax at the average group tax rate of 15.85% (previous year: 16.12%)[1]	**56,502**	**41,545**
Effect of tax rates in foreign jurisdictions[1]	–43	56
Effect in change of tax rate	–4,868	–3,815
Expenses not deductible for tax purposes	4,242	4,925
Income not subject to tax	–3,763	–4,594
Effect of current-year losses for which no deferred tax asset is recognized	0	20
Utilization of tax losses previously not recognized	0	–355
Withholding taxes included in the tax expenses	1,003	1,002
Other tax effects	–3,401	1,511
Total tax expenses recorded in consolidated income statement	**49,671**	**40,295**
Effective tax rate	**13.9%**	**15.6%**

1 The applicable tax rate 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 Group's effective tax rate decreased to 13.9% in 2022 (2021: 15.6%). This is mainly caused by higher profits from Swiss entities, where statutory tax rates are lower.

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

January 1–December 31 In CHF thousand			2022			2021
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Remeasurements of defined benefit obligations	11,735	–1,702	10,033	12,533	–1,817	10,716
Changes in the fair value of hedging reserves	2,583	–375	2,208	–1,948	282	–1,665

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

January 1–December 31 In CHF thousand			2022			2021
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Share-based payments	1,873	64	1,936	1,723	980	2,703

Deferred tax balances

The deferred tax assets and liabilities were as follows:

As of December 31 In CHF thousand			2022			2021
	Deferred tax assets	Deferred tax liabilities	Net closing balance	Deferred tax assets	Deferred tax liabilities	Net closing balance
Other current assets	341	–619	–278	507	–742	–234
Inventories	4,744	–5,329	–584	3,335	–4,372	–1,037
Property, plant and equipment	15	–5,872	–5,857	106	–8,132	–8,026
Investment properties		–38	–38		–42	–42
Intangible assets	32	–36,217	–36,185	45	–38,241	–38,196
Other current liabilities	2,674	–221	2,453	2,666	–3	2,663
Provisions		–2,612	–2,612	1	–1,940	–1,938
Other non-current liabilities	263		263	249		249
Defined benefit obligations	406		406	2,019		2,019
Tax losses carried forward			0	1,051		1,051
Non-refundable withholding taxes on future distributions		–567	–567		–982	–982
Total deferred tax assets/(liabilities) before set-off	**8,475**	**–51,474**	**–42,998**	**9,979**	**–54,454**	**–44,474**
Set-off of balances within the same tax jurisdiction	–2,115	2,115	0	–4,633	4,633	0
Net deferred tax assets/(liabilities)	**6,360**	**–49,358**	**–42,998**	**5,347**	**–49,821**	**–44,474**

The movement in deferred tax balances is as follows:

In CHF thousand	2022	2021
Net tax liabilities as of January 1	–44,474	–39,827
Acquired through business combination	0	–937
Recognized in income statement	3,278	–1,833
Recognized in OCI	–1,702	–1,817
Exchange differences	–100	–60
Net tax liabilities as of December 31	**–42,998**	**–44,474**

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 0.6 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	2022	2021
Opening balance	**7,647**	**8,362**
Acquired through business combination	0	770
Lost due to cross-border merger	–1,182	0
Tax losses for which no deferred tax assets were recognized	0	79
Adjustment prior year	0	625
Adjustment due to tax audit	–6,299	0
Tax loss carry-forward not recognized used in the current period	0	–1,782
Exchange differences	–165	–407
Closing balance	**0**	**7,647**

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

As of December 31 In CHF thousand	2022	2021
Expiry in 0–3 years	0	0
Expiry after 3 years	0	7,647
Total	**0**	**7,647**

Further, there are temporary differences with respect to investments in subsidiaries of CHF 4.6 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.

Global minimum tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement to introduce a global minimum tax rate of 15%. The Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework, followed by detailed guidance, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. Once changes to the tax laws in any jurisdiction in which VAT operates are enacted or substantively enacted, VAT may be subject to the top-up tax. At the date when the financial statements were authorized for issue, none of the jurisdictions in which VAT operates had enacted or substantively enacted the tax legislation related to the top-up tax. Management is closely monitoring the progress of the legislative process in each jurisdiction VAT operates in. At December 31, 2022, VAT did not have sufficient information to determine the potential quantitative impact.

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, 2022	Jan 1 – Dec 31, 2021	Dec 31, 2022	Dec 31, 2021
1 Euro	1.01	1.08	0.99	1.04
100 Japanese Yen	0.73	0.83	0.71	0.79
100 Korean Won	0.07	0.08	0.07	0.08
1 Malaysian Ringgit	0.22	0.22	0.21	0.22
1 US Dollar	0.95	0.91	0.92	0.91

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, 2022, assets in the amount of CHF 0.3 million were pledged (prior year: assets in the amount of CHF 1.1 million were pledged).

6.4 List of subsidiaries

The subsidiaries of the Company as of December 31, 2022, are the following:

Country	Company	Function	Currency	Capital in thousands	Share 2022	Share 2021
China	VAT Vacuum Valves Shanghai Company Ltd., Shanghai	D	CNY	1,618	100%	100%
	VAT Vacuum Valves Beijing Company Ltd, Beijing	D	USD	800	100%	100%
France	VAT SARL, Grenoble	D	EUR	50	100%	100%
Germany	VAT Deutschland GmbH, Dresden	D	EUR	26	100%	100%
Japan	VAT Ltd., Tokyo	D	JPY	96,470	100%	100%
Korea	VAT Korea Ltd., Pyeongtaek City	D	KRW	300,000	100%	100%
Luxembourg[1]	VAT Management S.à.r.l., Luxembourg	H	CHF	30	0%	100%
Malaysia	VAT Manufacturing Malaysia Sdn. Bhd., Penang	P	MYR	1,000	100%	100%
Netherlands	VAT Netherlands B.V., Utrecht	D	EUR	0	100%	100%
Romania	VAT Romania S.R.L., Arad	P	RON	7,821	100%	100%
Singapore	VAT Singapore Pte. Ltd., Singapore	D	SGD	500	100%	100%
Switzerland	VAT Vakuumventile AG, Sennwald	D/P	CHF	100	100%	100%
	Comvat AG, Sennwald	D/P	CHF	275	100%	100%
	VAT Holding AG, Sennwald	H	CHF	300	100%	100%
Taiwan	VAT Taiwan Co. Ltd., Hsin-Chu City	D	TWD	12,000	100%	100%
United Kingdom	VAT Vacuum Products Ltd, Warwickshire	D	GBP	1	100%	100%
USA	VAT Inc., Delaware	D	USD	1	100%	100%

[1]As part of the simplification of the legal structure, the subsidiary VAT Management S.à.r.l was merged into VAT Group AG, effective January 1, 2022.
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 Subsequent events

The Company has evaluated subsequent events through March 1, 2023, which represents the date when the consolidated financial statements were approved.

6.6 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2022, 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, 2022 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 77–119) give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, 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 Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the provisions of Swiss law, together with 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 31 December 2022 amounted to CHF 1,145m (2021: CHF 901m) 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 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

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the standalone 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 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 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.

Board of Directors' Responsibilities 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 SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and SA-CH, 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 PS-CH 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	Simon Hörler Licensed Audit Expert

St. Gallen, March 1, 2023

Statutory financial statements VAT Group AG for the financial year from January 1 to December 31, 2022

Income statement

January 1–December 31 In CHF thousand	Note	2022	2021
Dividend income		170,000	120,000
Interest income		1,001	1,189
Other financial income	3.1	7	1,217
Total income		**171,008**	**122,406**
Interest expenses		–3,302	–3,374
Other financial expenses		–1,317	–2,369
Personnel expenses		–1,209	–958
Other operating expenses	3.2	–2,216	–1,287
Total expenses		**–8,045**	**–7,988**
Direct tax		–62	–262
Gain for the period		**162,901**	**114,156**

Balance sheet

As of December 31 In CHF thousand	Note	2022	2021
Assets			
Cash and cash equivalents		1,432	5,520
Other receivables due from third parties		73	40
Prepayments and accrued income		533	277
Current assets		**2,038**	**5,837**
Financial assets	3.4	1,004	71
Loans granted to companies in which the entity holds an investment		73,330	71,840
Investments in subsidiaries	3.3	868,724	502,850
Non-current assets		**943,058**	**574,762**
Total assets		**945,095**	**580,599**
Liabilities			
Short-term interest-bearing liabilities due to third parties	3.4	200,000	0
Other payables		1,609	27
Short-term provisions		67	237
Accrued expenses and deferred income	3.5	2,942	2,839
Current liabilities		**204,618**	**3,103**
Long-term interest-bearing liabilities due to third parties	3.4	0	200,000
Non-current liabilities		**0**	**200,000**
Total liabilities		**204,618**	**203,103**
Equity	3.6		
Share capital		3,000	3,000
Legal capital reserves:			
– Reserves from capital contributions		344	7,842
– Other capital reserves		3,682	3,682
Accumulated gains:			
– Profit/loss brought forward	3.7	575,867	253,317
– Gain for the period		162,901	114,156
Treasury shares	3.8	–5,317	–4,501
Total equity attributable to owners of the Company		**740,478**	**377,496**
Total liabilities and equity		**945,095**	**580,599**

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 2022 results from net foreign exchange gains (prior year: other financial income consists mostly of gains from the disposal of treasury shares).

3.2 Other operating expenses

As of December 31 In CHF thousand	2022	2021
Insurance, duties and other charges	195	159
Rental expenses	5	5
Travel expenses	88	35
Consulting and audit fees	920	331
Administration expenses	1,009	757
Total other operating expenses	**2,216**	**1,287**

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	
			2022	2021	2022	2021
Switzerland	VAT Holding AG	CHF	300		100%	
Luxembourg	VAT Management S.à.r.l.	CHF		30		100%

As part of the simplification of the legal structure, the subsidiary VAT Management S.à.r.l was merged into VAT Group AG, effective January 1, 2022.

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	2022	2021
Short-term interest-bearing liabilities due to third parties	200,000	0
Total short-term interest-bearing liabilities	**200,000**	**0**
Long-term interest-bearing liabilities due to third parties	0	200,000
Total long-term interest-bearing liabilities	**0**	**200,000**

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

As of December 31, 2022 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving loan facility	CHF	SARON + 0.65%	2027	0
Term loan facility	CHF	SARON + 0.75%	2025	0
Fixed-rate bond	CHF	1.50%	2023	200,000
Total loans and borrowings at Dec 31, 2022				**200,000**
Thereof:				
Current				200,000
Non-current				0

1 Margin applicable at year end

As of December 31, 2021 In CHF thousand	Currency	Nominal interest rate[1]	Year of maturity	Carrying amount
Revolving credit facility (RCF)	CHF	SARON + 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

1 Margin applicable at year end

Financing expenses in connection with the revolving loan facility and the term loan have been capitalized. As at December 31, 2022, CHF 0.4 million (prior year: CHF 0.0 million) are recognized within "Prepayments and accrued income." CHF 1.0 million are disclosed as financial assets. Financing expenses capitalized in connection with the revolving credit facility in prior years have been recognized in profit and loss in 2021.

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 0.1 million (prior year: 0.2 million) are recognized within "Prepayments and accrued income." CHF 0.0 million (prior year: 0.1 million) are disclosed as "Financial assets." On December 31, 2022, the market value of the bond was CHF 199.4 million.

3.5 Accrued expenses and deferred income

As of December 31 In CHF thousand	2022	2021
Accrued expenses and deferred income due to third parties	2,461	2,434
Accrued expenses and deferred income due to governing bodies	482	405
Total accrued expenses	**2,942**	**2,839**

3.6 Equity

As of December 31, 2022, 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, 2022.

3.7 Accumulated gains - Gain on merger

VAT Group AG has taken over VAT Management S.à.r.l., Luxembourg, in the sense of Art. 163a PILA. As a result of this absorption merger, VAT Management S.à.r.l., Luxembourg was dissolved and all assets and liabilities were transferred to VAT Group AG via universal succession.

The acquisition of the assets and liabilities of VAT Management S.à.r.l. took place according to the merger agreement dated March 17, 2022 and the balance sheet as of December 31, 2021. Assets of CHF 868.8 million and liabilities of CHF 0.1 million, i.e. a surplus of assets of CHF 868.7 million, are transferred to the acquiring company. Since the absorbing company holds all shares of the absorbed company, neither a capital increase nor an allocation of shares took place.

As of December 31 In CHF thousand	2022	2021
Profit/loss brought forward	210,014	253,317
Gain on merger:		
Assets of the absorbed company	868,756	0
Liabilities of the absorbed company	–55	0
Carrying amount of the investment in the absorbed company	–502,849	0
Total profit/loss brought forward	**575,867**	**253,317**

3.8 Treasury shares

	Jan 1 – Dec 31, 2022		Jan 1 – Dec 31, 2021	
	Number of shares	Average price	Number of shares	Average price
Treasury shares as at January 1	**14,383**	**CHF 312.97**	**8,327**	**CHF 49.75**
Purchase of treasury shares	16,186	CHF 275.49	11,771	CHF 369.08
Share-based payments	–12,487	CHF 291.82	–5,715	CHF 256.66
Treasury shares as at December 31	**18,082**	**CHF 294.02**	**14,383**	**CHF 312.97**

On December 31, 2022, VAT Group AG held 18,082 treasury shares with an acquisition price of CHF 5.3 million.

4. Other information

4.1 Full-time equivalents

VAT Group AG does not have any employees.

4.2 Collateral for third-party liabilities

Collateral provided for liabilities of third parties amounts to CHF 1.0 million (previous year: CHF 1.1 million). These are guarantees issued on behalf of subsidiaries.

4.3 Significant shareholders

The following shareholders owned more than 5% of voting rights as of December 31:

Shareholder	Voting rights as of December 31, 2022	Voting rights as of December 31, 2021
Rudolf Maag	3,000,570	3,000,570
BlackRock Inc.	1,715,219	1,543,086
Capital Group Companies Inc.	1,505,281	1,505,281

4.4 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	2022	2021
Board of Directors		
Martin Komischke, Chairman	2,156	1,871
Hermann Gerlinger	1,422	1,242
Heinz Kundert (until May 17, 2022)	n/a	30,350
Urs Leinhäuser	4,717	4,592
Daniel Lippuner	887	787
Karl Schlegel	38,429	38,306
Libo Zhang	570	532
Maria Heriz (since May 17, 2022)	0	n/a
Group Executive Committee		
Michael Allison, CEO	5,181	468
Fabian Chiozza, CFO	0	0
Thomas Berden, COO	0	0
Urs Gantner, EVP Semiconductor Solutions Group (since August 4, 2022)	5,198	n/a

As of December 31, 2022 and 2021, none of the members of the Board of Directors or the Group Executive Committee held conversion rights or options, and no loans or credits were outstanding between the parties and the Company.

4.5 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 958 shares with a fair value of CHF 268 per share for the period 2021/22 (prior period: 950 shares, amounting to CHF 0.3 million). As of December 31, 2022, VAT Group AG allocated 1,068 shares (prior year: 485 shares) amounting to CHF 0.3 million (prior year: CHF 0.2 million) to its Board of Directors, which will be transferred in financial year 2023.

4.6 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	2022
Balance brought forward	**575,867**
Gain for the period	162,901
Total accumulated gains	**738,768**

The Board of Directors proposes to the General Meeting the following appropriation of available earnings:

In CHF thousand	2022
Dividend payment	–187,500
Total accumulated gains to be carried forward	**551,268**

The Board of Directors proposes to the General Meeting to pay a dividend of CHF 187.5 million from accumulated gains.

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 (the Company), which comprise the balance sheet as at December 31, 2022, 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 124–131) 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 Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the provisions of Swiss law, together with 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.

Key Audit Matters

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.

Other Information

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

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

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

Board of Directors' Responsibilities 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 Company'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 Company 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 SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and SA-CH, 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 the Company'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 Company'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 Company 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 PS-CH 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	Simon Hörler Licensed Audit Expert

St. Gallen, March 1, 2023

Shareholder Information

VAT's share price declined during 2022 along with those of most other equities, primarily reflecting global macroeconomic uncertainties centered on rapidly rising inflation, coupled with moves from many central banks to significantly increase interest rates and the ongoing war in Ukraine. These short-term macro concerns led to a broad sell-off in equities in 2022—including those of VAT—despite continued strong demand in VAT's largest market, semiconductors. Along with continued improvement in operational performance and successful execution of the company's profitable growth strategy, the favorable market helped drive record results in 2022, including net sales above CHF 1 billion for the first time, as well as record EBITDA, EBITDA margin and free cash flow.

Shareholder base

There have been no substantial changes among VAT's top shareholders since the beginning of 2022. As of the publication of this annual report, there are three shareholders who each own more than 3% of VAT's outstanding shares and whose cumulative shareholding amounts to about 21% of VAT's shares. The free float of VAT shares, as defined by the SIX Swiss Exchange, amounted to approximately 90% at the end of 2022 and the number of registered shareholders amounted to 20,516.

Information on significant shareholders is disclosed on pages 44–45 of this report.

Share price development

VAT's share price on December 31, 2022, amounted to CHF 252.80, compared with CHF 454.40 on December 31, 2021. VAT's market capitalization at the end of December amounted to CHF 7.6 billion, about 44% less than at the beginning of the year. The Swiss Leader Index decreased by about 20% during that period. Trading liquidity in VAT shares remained at the same level as a year ago at approximately 84,000 shares per day.

VAT added to Swiss Leader Index

On March 31, 2022, VAT was included into the Swiss Leader Index (SLI), replacing Vifor Pharma AG that was delisted as the result of a takeover. The SLI measures the development of the 30 largest and most liquid instruments of the Swiss equity market SPI and thus increases the weight of smaller components versus the SMI.

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, 2022	CHF 7.58 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	40%
Other countries	21%
Shares in transit	39%

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	13,435
101–1,000 shares	6,188
1,001–10,000 shares	757
10,001–100,000 shares	119
100,001–1,000,000	14
More than 1,000,000 shares	3
Total number of shareholders	**20,516**

Market Capitalization
in CHF bn as of December 31, 2022

7.58

Dividend Payout Ratio
in % of Free Cash Flow to Equity

83.5

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

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).

Supported by the company's continued strong free cash flow generation in 2022 and its positive medium-term growth outlook, VAT's Board of Directors will propose at its Annual General Meeting on May 16, 2023, a dividend for the fiscal year ending December 31, 2022, of CHF 6.25 per registered share, an increase of CHF 0.75 or 14%. The whole amount will be paid from the company's accumulated gains.

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

		2022	2021
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	13.35	10.26
Free cash flow per share	CHF	7.61	6.52
Book value per share	CHF	26.01	21.15
Dividend per share[1]	CHF	6.25	5.50
Share price high	CHF	469.60	484.20
Share price low	CHF	198.70	219.60
Closing share price on December 31	CHF	252.80	454.40
Average daily trading volume	Shares	84,127	81,002
Average daily trading value	CHF million	23.8	27.0

1 Proposed by the Board of Directors

Financial Calendar

Date	Event
2023	
Thursday, April 13, 2023	Q1 2023 trading update
Friday, May 5, 2023	Record date, closing of share register, 5.00 pm CEST
Tuesday, May 16, 2023	Annual General Meeting, St Gallen, Switzerland
Friday, May 19, 2023	Ex-date
Wednesday, May 24, 2023	Dividend payment
Thursday, July 27, 2023	Half-year 2023 results
Thursday, October 12, 2023	Q3 2023 trading update
2024	
Thursday, March 7, 2024	Q4 and Full-Year 2023 results

5-year key figures

In CHF million	2022	2021	2020	2019	2018	CAGR 2018–2022
Order intake	1,209.9	1,227.9	724.5	585.0	648.0	16.9%
Order backlog as of December 31	517.7	461.2	145.3	114.5	113.6	46.1%
Net sales	1,145.5	901.2	692.4	570.4	698.1	13.2%
Gross profit	733.7	570.5	430.1	345.4	419.5	15.0%
Gross profit margin	64.1%	63.3%	62.1%	60.6%	60.1%	–
EBITDA	400.4	307.9	210.5	148.2	214.0	17.0%
EBITDA margin	35.0%	34.2%	30.4%	26.0%	30.7%	–
EBIT	359.4	264.9	169.8	102.5	178.8	19.1%
EBIT margin	31.4%	29.4%	24.5%	18.0%	25.6%	–
Net income	306.8	217.4	127.9	70.3	134.9	22.8%
Net income margin	26.8%	24.1%	18.5%	12.3%	19.3%	–
Basic earnings per share (in CHF)	10.23	7.25	4.27	2.34	4.50	22.8%
Diluted earnings per share (in CHF)	10.22	7.24	4.26	2.34	4.50	22.8%
Cash flow from operating activities	294.0	239.8	166.2	151.9	170.5	14.6%
Capex[1]	66.2	44.1	19.2	12.1	46.6	9.2%
Capex margin	5.8%	4.9%	2.8%	2.1%	6.7%	–
Free cash flow[2]	228.2	195.7	147.0	139.9	123.9	16.5%
Free cash flow margin	19.9%	21.7%	21.2%	24.5%	17.7%	–
Free cash flow conversion rate[3]	57.0%	63.6%	69.8%	94.4%	57.9%	–
Free cash flow to equity[4]	224.6	192.0	143.0	135.4	119.6	17.1%

As of December 31 In CHF million	2022	2021	2020	2019	2018	CAGR 2018–2022
Total assets	1,274.8	1,064.9	989.1	966.5	967.3	7.1%
Total liabilities	494.5	430.5	444.5	448.3	403.9	5.2%
Equity	780.3	634.4	544.6	518.2	563.4	8.5%
Net debt	36.8	79.7	128.5	144.3	147.6	–29.3%
Net debt/EBITDA	0.1	0.3	0.6	0.9	0.7	–39.5%
Invested capital[5]	642.6	463.9	411.1	350.0	357.4	15.8%
NOPAT[6]	317.0	235.5	155.6	99.0	163.4	18.0%
Return on invested capital (ROIC)	57.3%	53.8%	40.6%	28.0%	47.7%	–
Dividend per share[7]	6.25	5.50	4.50	4.00	4.00	–
Payout ratio[8]	83.5%	85.9%	94.4%	88.6%	100.4%	–
Number of employees[9]	2,991	2,540	2,041	1,810	1,712	15.0%

1 Capex: acquisitions of subsidiaries net of cash, purchases of property, plant and equipment, and intangible assets and proceeds from sale of property, plant and equipment.
2 Free cash flow: cash flow from operating activities minus cash flow from investing activities.
3 Free cash flow conversion rate: free cash flow as a percentage of EBITDA.
4 Free cash flow to equity: free cash flow less interest paid.
5 Invested capital is defined as total assets less non-current liabilities.
6 Net operating profit less adjusted taxes (NOPAT) is calculated as EBITDA minus depreciation and amortization plus finance income less taxes at the average Group rate of 15.9% (previous year 16.1%).
7 2022 dividend proposal of the VAT Board of Directors to its shareholders at the AGM on May 16, 2023; CHF 6.25 per share to be paid from accumulated gains.
8 Percentage of free cash flow to equity proposed to be paid out as dividend.
9 Number of employees expressed as full-time equivalents (FTE).

Technical Glossary

5G The fifth generation of wireless cellular networks used to connect digital devices for e-mobility, smart power grids, industrial automation and other applications.

AI (artificial intelligence) The simulation of human intelligence processes by machines, especially computer systems, and used in applications such as natural language processing, speech recognition and machine vision.

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).

e-beam technologies The use of a focused beam of electrons within a vacuum to perform processes such as ultra-thin coating and precision welding, as well as in medical and scientific research.

Etching A process for removing material in a specified area through a chemical reaction or physical bombardment.

EUV (extreme ultraviolet) lithography A photolithography process using light with a wavelength near 13.5 nm to make extremely small integrated circuits on the most advanced semiconductors.

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.

MEMS (micro-electromechanical systems) A process technology used to create microscopic integrated devices or systems that combine mechanical and electrical components.

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.

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)

Contact

This complete report is only available in English.

For further information please contact:
VAT Group AG
Seelistrasse 1
9469 Haag
T +41 81 771 61 61
www.vatvalve.com

Corporate Communications & Investor Relations
Michel R. Gerber
T +41 81 553 70 13
investors@vat.ch

Concept/Design/Production
Linkgroup AG, Zurich
www.linkgroup.ch

Print
Printlink AG, Zurich
www.printlink.ch

Publishing platform: PublishingSuite®
Linkgroup AG, Zurich

This annual report is printed
on FSC-certified paper.

MIX
Paper | Supporting responsible forestry
FSC® C007616
www.fsc.org

Climate neutral
Print product
ClimatePartner.com/11665-1703-1002

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 2023:

VAT expects semiconductor equipment investments to decline in 2023 on increased inflation risks and other short-term macro-economic factors, before recovering in 2024.

VAT expects 2023 full-year sales* and EBITDA to be below the records set in 2022, and EBITDA margin in the target range of 32–37%. Net income and free cash flow are also expected to be lower.

* At constant foreign exchange rates

PASSION. PRECISION. PURITY.