

# CORPORATE GOVERNANCE

The corporate governance report describes the main principles and regulations regarding the management and control of the Mikron Group and how these principles and regulations were established in detail by the company's senior management. The report is in compliance with the SIX Swiss Exchange guidelines last revised as of January 1, 2007 regarding information on corporate governance. Aspects of the SIX guidelines not covered in this report are either not applicable or irrelevant to the Mikron Group.

# CORPORATE STRUCTURE & SHAREHOLDERS

## Corporate structure

Based in Biel, Mikron Holding AG is organized as a holding company under Swiss law and directly or indirectly holds all Mikron companies worldwide. Mikron Holding AG is listed on SIX Swiss Exchange in Zurich (Security Symbol MIKN/SIN CH0003390066) and on December 31, 2008 had a market capitalization of CHF 96.9 million. At operating level, the Mikron Group is made up of two divisions organized into one business segment, Corporate Services and other companies controlled by Mikron Holding AG.

The divisions are structured according to product and service type and encompass all the functions required by an independent company, such as sales, development, production, logistics and administration. The centralized special departments, such as Accounting and Controlling, Treasury, Corporate Communications and Corporate IT Services, are part of the Corporate Service, which supports the individual companies as well as the Board of Directors and Group Management in their management and control functions.

The Mikron Group consists of 13 companies worldwide. The corporate structure and the companies are listed on page 91. The Mikron Group's management structure is independent of its legal structure.

## Significant shareholders

The following table illustrates the shareholder structure of Mikron Holding AG. It also lists and names those shareholders who, as at December 31, 2008, hold 5% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2008		31.12.2007	
	Number of shares of CHF 0.10 par value each		Number of shares of CHF 0.10 par value each	
Group of investors <sup>1</sup>	11'742'941	70.3%	11'742'941	70.3%
Public shareholders	4'873'143	29.1%	4'890'643	29.2%
Board of Directors and Group Management	96'660	0.6%	79'160	0.5%
<b>Total</b>	<b>16'712'744</b>	<b>100.0%</b>	<b>16'712'744</b>	<b>100.0%</b>

<sup>1</sup> This group of investors comprises Ammann Group Holding AG, Corporate Investment Management Affentranger Holding AG, Personalfürsorgestiftung Rieter AG, Tegula AG and Mr Rudolf Maag, who until June 2011 are bound together by a shareholder pooling agreement with a fixed term of 3 years. There were no changes in this shareholding during the year under review.

## Cross-shareholdings

There are no cross-shareholdings consisting of either capital or voting rights.

# CAPITAL STRUCTURE

## The Mikron Group's capital as at December 31, 2008

	Registered shares	Par value in CHF	Total in CHF
Ordinary capital	16'712'744	0.10	1'671'274.40
Authorized capital	0		0.00
Conditional capital	620'799	0.10	62'079.90

The company's share capital may increase by a maximum amount of CHF 62'079.90 through the issuance of no more than 620'799 fully paid-up registered shares with a par value of CHF 0.10 each through

- ▶ the exercise of options or conversion rights granted to their holders in connection with the company's bonds or similar debentures
- ▶ and/or the exercise of option rights allotted to the shareholders and/or the company's Board of Directors and management.

The number of registered shares securing management option rights is limited to a maximum of 550'000 registered shares.

As at the cut-off date, the company had not entered into any commitments that would result in these registered shares being created.

## Changes in capital over the last 3 years

	in CHF	Number of shares	Par value	Ordinary capital
2006	As at January 1	16'565'044	0.10	1'656'504.40
	Exercise of creditors' options	147'700	0.10	14'770.00
	As at December 31	16'712'744	0.10	1'671'274.40
2007	As at January 1	16'712'744	0.10	1'671'274.40
	Change	0	0.10	0.00
	As at December 31	16'712'744	0.10	1'671'274.40
2008	As at January 1	16'712'744	0.10	1'671'274.40
	Change	0	0.10	0.00
	As at December 31	16'712'744	0.10	1'671'274.40

## Shares

The issued registered shares are fully paid in. Each registered share carries one vote at Mikron Holding AG's Annual General Meetings. Voting rights may be exercised only after the shareholder has been entered as a shareholder with voting rights in Mikron Holding AG's share register.

## Participation and dividend right certificates

Mikron Holding AG has issued neither participation certificates nor dividend right certificates.

## Limits on transferability and nominee registrations

There are no limits on transferability or nominee registrations.

## Convertible bonds and options

There are no convertible bonds or options outstanding.

# BOARD OF DIRECTORS



(l. to r.): Johann N. Schneider-Ammann (Chairman), Anton Affentranger (Vice-Chairman), Peter Forstmoser, Heinrich Spoerry, Andreas Steiner

## Members of the Board of Directors

The company's Board of Directors consists of five members. None of them maintains a significant business relationship with the Group.

The following table provides information on each of the members of the Board of Directors as at December 31, 2008:

### Johann N. Schneider-Ammann

Dipl. Ing. ETH

Swiss, born in 1952

Chairman, non-executive

First elected 1991, elected until 2011

Johann N. Schneider-Ammann became CEO of the Ammann Group in 1988 and has been Chairman of the Board of Directors and Managing Director of Ammann Group Holding AG in Langenthal since 1990. Alongside his professional activities, he is also a member of the Swiss National Council and President of Swissmem (Association of Swiss Mechanical and Electrical Engineering Industries). In addition, he sits on the Board of Directors of the Swatch Group in Neuchâtel and of Belenos Clean Power Ltd. in Biel and of a number of SMEs.

### Anton Affentranger

lic. oec.

Swiss, born in 1956

Vice-Chairman, non-executive

First elected 2003, elected until 2009

After holding a variety of positions within the international financial industry, Anton Affentranger became Executive Vice President and Member of the Enlarged Group Executive Board of UBS in 1996 – 1998. From 1998 – 2000, he was Managing Partner and CEO of Lombard, Odier & Cie, Geneva. In 2001, he became Chief Financial Officer and Member of the Executive Committee of F. Hoffmann-La Roche Group, Basel. Subsequently, he has been active as an entrepreneur in various capacities: He is currently founder, Chairman and CEO of Affentranger Associates AG, Chairman of Corporate Investment Management Affentranger Holding AG, Chairman and CEO of Dartfish SA, Chairman of Implenia AG and a member of the Board of Ammann Holding AG. He is also Chairman of Transmission Technology Holding AG and of the CASIN foundation.



#### **Peter Forstmoser**

Prof. Dr. iur., LL.M.

Swiss, born in 1943

Member, non-executive

First elected 1976, elected until 2011

Peter Forstmoser was professor of civil, commercial and capital market law at the University of Zurich from 1974 to 2008 and has been a partner at the Zurich law firm Niederer Kraft & Frey since 1975. In 2000, he took up office as Chairman of the Board of Directors at the global reinsurer Swiss Re. He also chairs the Board of Directors at Hesta AG and Hesta Tex AG, Zug. Mr Forstmoser is a member of the Board of Directors of Familie Ernst Basler AG, of Remer Holding AG and of the Müller Möhl Group and Vice President of the Board of Trustees of the Gerbert Rüt Stiftung, a scientific foundation.

#### **Heinrich Spoerry**

lic. oec., MBA

Swiss, born in 1951

Member, non-executive

First elected 2001, elected until 2010

From 1987 – 1995, Heinrich Spoerry was a member of the Executive Board of Staefa Control Systems AG in his capacity as Head of Finance, Controlling and Information Technology. He held a seat on the Executive Board at Cerberus AG, a fire detection and security systems manufacturer in Männedorf, from 1996 – 1998. Mr Spoerry then became Chairman of the Board of Directors and CEO of the SFS Gruppe in Heerbrugg, a position he has occupied since 1998. He is a member of the Board of Directors of Tegula AG in Zurich and of Bucher Industries AG.

#### **Andreas Steiner**

Dipl. Ing. ETH, Dr. sc. techn. ETH

Swiss, born in 1945

Member, non-executive

First elected 2003, elected until 2009

Andreas Steiner was a member of the Management Committee of ABB Switzerland from 1993 to 1999. From 1999 to 2007 he has been CEO and Chairman of the Board of Directors at Belimo Holding AG, Hinwil. Mr Steiner is a member of the University of Zurich's University Council, a member of the Foundation Council of the Swiss National Science Foundation, Chairman of the Economiesuisse research commission, and a member of the Board of Trustees at the Hasler Foundation in Berne.

### Elections and terms of office

Pursuant to the Articles of Association, the company's Board of Directors consists of at least five and at most nine members, who are elected by the Annual General Meeting for a three-year term and who may be re-elected to successive terms. Mr Schneider-Ammann and Mr Forstmoser were re-elected in 2008.

Irrespective of the term of office being served or the amount of time until the next election, members of the Board of Directors are subject to an age limit of 70 years of age.

### Duties

The duties of Mikron Holding AG's Board of Directors are defined in the Swiss Code of Obligations, the Articles of Association and the Organizational Regulations. The Organizational Regulations are reviewed annually.

The Board of Directors is the company's most senior body with responsibility for management supervision. It issues guidelines on corporate policy and keeps itself informed about the course of business.

The primary duties of the Board of Directors are:

- ▶ Strategic direction and management of the Mikron Group,
- ▶ Determining the organization, appointing and dismissing members of Group Management and other key executives,
- ▶ Shaping accounting as well as financial planning, policy and controls,
- ▶ Preparing the annual report and the Annual General Meeting and executing resolutions passed by the latter,
- ▶ Determining the risk management principles

The Board of Directors delegates all management duties to the CEO and Group Management to the extent permitted by law and by the Articles of Association. The Organizational Regulations contain detailed rules for the delegation of competencies. The remit of the Board of Directors covers decisions on the acquisition and sale of shareholdings, strategic partnerships, and buying and selling of land and investments, once these reach a certain magnitude and significance.

### Procedures

The Board of Directors convenes as often as business requires but at least four times a year. During the 2008 business year, the Board held seven meetings including teleconferences. Meetings at which members are physically present last between four and eight hours. Average attendance by Board members was 91% during that period.

Prior to the meetings, the members of the Board of Directors receive documentation allowing them to be properly prepared to discuss the items on the agenda.

A quorum of the Board of Directors is reached when at least half of the members are present. The Board passes its resolutions by a majority of the votes cast. In the event of a tied vote, the Chairman has the deciding vote.

## **Committees**

Two committees were set up to support the Board of Directors: the Audit Committee and the Remuneration Committee. The committees meet regularly and are required to prepare minutes of their meetings and recommendations for perusal at the regular meetings of the Board of Directors. The committees notify the full Board of Directors of important matters immediately.

### **Audit Committee**

The Audit Committee's primary task is to maintain a comprehensive and efficient auditing system for Mikron Holding AG and the Mikron Group. The committee also rates the external and internal auditors, approves the focal points of the audits, and reviews the audit results, accounting principles and financial control mechanisms. The Audit Committee's decisions are subject to approval by the full Board of Directors.

The members of the Audit Committee are the Board members Peter Forstmoser (Chairman) and Heinrich Spoerry. Five meetings were held in the 2008 business year, each lasting for two to three hours. The CFO and, in the majority of cases, the CEO attended these meetings on behalf of Group Management. Representatives of the internal audit function and of the external auditors were invited to the meetings as required. The lead external auditor attended three meetings; the head of the internal audit function attended two.

### **Remuneration Committee**

The Remuneration Committee submits to the full Board of Directors proposals concerning the compensation (including employee participation scheme) of the members of the Board of Directors and Group Management. Details of the Mikron Group's remuneration policy can be found on page 40.

The members of the Remuneration Committee are the Board members Heinrich Spoerry (Chairman) and Peter Forstmoser. One meeting was held in the 2008 business year. The CEO attended this meeting on behalf of Group Management whenever the items on the agenda so required.

**Information and control  
instruments vis-à-vis  
Group Management**

The following measures ensure that the Board of Directors has sufficient information for an adequate decision-making process:

- ▶ Financial statements (balance sheet, income statement) are prepared for each of the subsidiaries on a monthly basis. These figures are consolidated at division, segment and Group level and compared against the prior-year figures, the monthly budget and the forecast, which is revised on a quarterly basis. In addition, a medium-term plan spanning three years is prepared for each division and segment. The consolidated figures and reports are sent to the Board of Directors.
- ▶ Each month, the division heads (Chief Operating Officers) submit a written report to the holding company detailing the extent to which their targets have been met. At the Board of Directors' meetings, these reports are discussed with the CEO, the CFO and, if necessary, with the COOs.
- ▶ By request, other executives will attend Board meetings to report on their areas of responsibility.
- ▶ Group Management informs the Board of Directors about current business by regularly distributing important information and, if necessary, in teleconferences.
- ▶ The Audit Committee meets regularly with executives and external consultants. It coordinates the work of external and internal auditors and receives their reports. Ernst & Young has been given a mandate to perform the internal audit function.
- ▶ The strategic and operational risks are recorded quarterly and assessed at divisional level. On the basis of this process, the Group Management provides the Board of Directors with a report on the Group's risk profile once a year.
- ▶ The CEO and CFO generally take part in meetings of the Board of Directors.

Once a year, the Board of Directors assesses the performance of its own members, the Chairman and the CEO and approves the targets for the next year.

# GROUP MANAGEMENT

## Management philosophy

The Mikron Group delegates entrepreneurial responsibility to the lowest possible level. The management structure is based on decentralized responsibility and rapid decision-making channels close to each of the local markets.

## Management structure

The Board of Directors delegates the task of operational management to the CEO of the Mikron Group. The COOs and the CFO report to the CEO. The Group's Organizational Regulations set out the rights and duties of the Board of Directors, the CEO, the divisions and the Corporate Service and describe how these cooperate.

## Chief Executive Officer

The CEO is responsible for the management of the Group insofar as this task has not been assigned by law, the Articles of Association or the Organizational Regulations to any other corporate body.

He prepares the strategy, the long-term and medium-term targets and the management guidelines for the Mikron Group before submitting them to the Board of Directors for approval.

On the recommendation of the CEO, the Board of Directors takes its decisions on the annual budget (consolidated and for the holding company), individual key projects, financial statements (separate and consolidated) and personnel issues. The CEO submits to the Remuneration Committee proposals concerning the compensation of the members of Group Management.

The CEO regularly reports to the Board of Directors on current business developments, anticipated opportunities and risks, and changes at lower management levels. The members of the Board of Directors may request additional information. The CEO must notify the Chairman of the Board of Directors immediately when significant unanticipated developments occur.

The CEO reviews compliance with the Articles of Association, the Organizational Regulations and the authorization to sign and proposes amendments should they become necessary.

## Chief Operating Officers

The Chief Operating Officers manage their respective divisions in accordance with the internal Organizational Regulations and are responsible for their division's earnings.

## Management contracts

There are no management contracts.



(l. to r.): Eduard Rikli, Andreas Moser, Markus Schnyder, Rolf Rihs

The following table provides information on each of the members of Group Management as at December 31, 2008:

#### **Eduard Rikli**

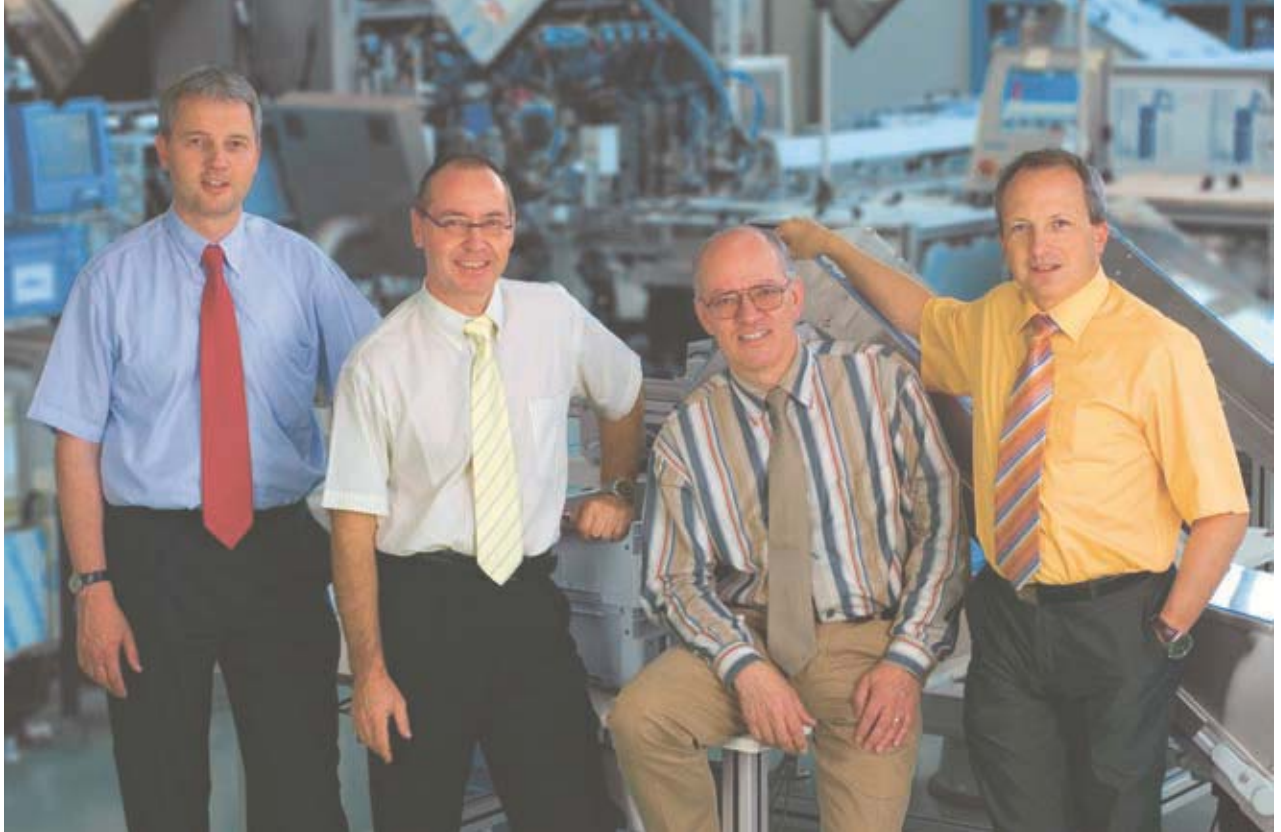
Dipl. Ing. ETH, Dr. sc. techn. ETH

Swiss, born in 1951

Chief Executive Officer

Since 2004

After many years in various managerial positions at the Sulzer Group, Eduard Rikli took up the position of CEO at Mikron on January 1, 2004. Mr Rikli is also a governor of the Zurich College of Technology, Economics and Administration and sits on the Board of Trustees of the Zurich College of Technology. Eduard Rikli is a member of the Board of Directors of Brüttsch/Rüegger AG.



#### **Andreas Moser**

Betriebsökonom HWV

Swiss, born in 1962

Chief Financial Officer

Since 1998

Andreas Moser worked in various functions at the Ascom Group before joining Mikron in 1998 as Division Controller Machining Technology. From 2001 onwards, he headed up the Group's Business Controlling unit. He became interim finance director in June 2003 and CFO of the Mikron Group in January 2004.

#### **Markus Schnyder**

Swiss, born in 1958

Chief Operating Officer

Mikron Machining Technology

Since 1981

Markus Schnyder has been employed in various functions at the Mikron Group for over 25 years. In 1998, he took over as head of what was then a newly founded subsidiary, Mikron Tool SA Agno specializing in cutting tools. From the end of 2003, he managed the division together with Franz Wyss; since June 2008 he has managed it alone.

#### **Rolf Rihs**

Dipl. Ing. ETH

Swiss, born in 1963

Chief Operating Officer

Mikron Assembly Technology

Since 2002

Rolf Rihs took over as COO of the Assembly Technology division in mid-2002, prior to which he worked for the Sulzer Group for eight years in various regions and functions. He was previously a consultant at Helbling Management Consulting working on numerous projects for well-known Swiss companies. Mr Rihs has been Vice President of EFAC (European Factory Automation Committee) since November 2007.

# COMPENSATIONS, SHARE-HOLDINGS AND LOANS

## **Content and method of determining the compensation and the shareholding programs**

The basic principles of the remuneration policy are drawn up by the Remuneration Committee and approved annually by the full Board of Directors. The Board of Directors determines the fixed and variable salary components and fringe benefits for the Board of Directors and Group Management on the basis of the Remuneration Committee's proposals.

Members of the Board of Directors receive a basic compensation element, attendance fees and a bonus in the form of free shares with a lock-up period of four years during which they may not be sold. A lump sum is paid to members of the Board of Directors for expenses.

Members of Group Management receive performance-related compensation. The variable component – 15% to 50% of the overall salary – depends on the individual achieving the annual performance targets set in advance and on the financial results (EBIT) generated by the operating unit in question. The bonus can be paid in the form of cash or shares, whereby shares are subject to a three-year lock-up period.

Members of senior management are provided with company vehicles which may also be used for private travel.

In 2008 the employee stock option plan introduced in 2006 was renewed, enabling a group of 43 management members to acquire Mikron Holding AG registered shares at favourable conditions. The discount on the market price amounted to 35%. The shares are subject to a three-year lock-up period. In the year under review, management members acquired a total of 21'650 registered shares for CHF 6.70 each through the plan. The Board of Directors will decide each year on whether to continue the employee stock option plan, those eligible to participate and the conditions attached.

No additional fees or remunerations were paid in the year under review.

No loans were granted to members of governing bodies.

Further information on the compensation paid to members of the Board of Directors and senior management can be found in the Notes to the 2008 Annual Financial Statements of Mikron Holding AG on pages 86 and 87.

# SHAREHOLDERS' PARTICIPATION RIGHTS

## **Shareholder legitimacy**

Those persons entered in Mikron Holding AG's share register may exercise the voting rights attached to their registered shares.

The Board of Directors keeps a record of the entries in a share register containing the names and addresses of the shareholders and beneficiaries.

The Board of Directors is entitled to refuse entry in the share register if the applicant supplies false information regarding his person or his entitlement to the shares or if he supplies no information or false information regarding the person of the trustor, when acting in a fiduciary capacity.

## **Shareholders' rights**

Each registered share carries one vote at the Annual General Meeting. There are no shares affording preferential voting rights.

## **Voting-right restrictions and representation**

Mikron does not impose any voting-right restrictions. Shareholders who are unable to attend the Annual General Meeting in person may appoint someone as their proxy by giving him/her written authorization to represent them.

## **Convocation of the Annual General Meeting and agenda**

The invitation to the Annual General Meeting goes out at least twenty days prior to the event and takes the form of a single notice published in the Schweizerisches Handelsamtsblatt and a letter sent to the address of shareholders entered in the share register.

The convening notice should cite the agenda items and proposals of the Board of Directors and the shareholders who have requested that a General Meeting be held or an item placed on the agenda.

## **Entries in the share register**

For three days before and three days after the Annual General Meeting, no entries will be made in the share register.

## **Quorums at the Annual General Meeting**

The Annual General Meeting passes its resolutions and carries out its elections with an absolute majority of the share votes represented unless the law or the Articles of Association specify otherwise.

# CHANGES OF CONTROL AND DEFENCE MEASURES

## **Duty to make an offer**

The legal provisions according to Art. 32 (1) of the Swiss Stock Exchange and Securities Trading Act (SESTA) apply. Therefore, any party whose voting rights exceed the 33.33% limit, directly, indirectly or as a result of an agreement with third parties, is obliged to make a public purchase offer.

## **Clauses on changes of control**

There are no clauses on changes of control in favour of the members of the Board of Directors, Group Management or other employees.

# AUDITORS

The auditors perform their work in accordance with the statutory provisions and apply both the Swiss auditing standards and the International Standards on Auditing.

The Annual General Meeting elects the auditors for one year at a time.

Since 2004, PricewaterhouseCoopers AG, Berne has held the auditing mandate at Mikron Holding AG, its companies and the Mikron Group. Since the 2008 business year Oliver Kuntze, as lead auditor, is responsible for the mandate.

## **Auditing fees and additional fees**

In the 2008 business year, PricewaterhouseCoopers AG, Berne charged the Mikron Group CHF 308'000 for services rendered in connection with auditing the 2008 annual financial statements of Mikron Holding AG and its subsidiaries and the consolidated financial statements of the Mikron Group.

PricewaterhouseCoopers performed additional services for the Mikron Group in 2008 amounting to CHF 131'400.

## **Supervisory and control instruments pertaining to the audit**

The Audit Committee of the Board of Directors takes note of the audit strategy and approves the audit focus for the current year. The results of the interim audits are submitted to the Audit Committee for information purposes. The external auditors inform the Audit Committee and the Board of Directors verbally and in writing of the results of the audit of the annual financial statements.

Group management informs the Audit Committee on a yearly basis of planned "non-audit" services to be provided by the external auditors. In 2008, the tax advisory services of PricewaterhouseCoopers were called upon.

For further information regarding auditing, please see the chapter entitled "Audit Committee" on page 35.

# INFORMATION POLICY

Mikron Holding AG pursues an up-to-date and transparent information policy for the public and the financial markets, with all interest groups being treated equally.

## Key dates

End of the business year	December 31
Guidance on the business year just ended	End of January
Announcement of the annual results / Publication of the Annual Report	Mid-March
Annual General Meeting	End of April
End of the first six months of the business year	June 30
Announcement of the semi-annual results	End of July

Detailed information is published on the Mikron Group's website at [www.mikron.com](http://www.mikron.com). Visitors to the website can also view the current share price, the annual report and all press releases, and subscribe to receive news updates and the press releases free of charge.

As well as the in-depth annual and semi-annual reports, the company also publishes quarterly order and sales figures.

In addition to publishing its financial results, the Mikron Group also keeps the public abreast of current changes and developments. Mikron Holding AG publishes information on events relevant to the share price in accordance with SIX Swiss Exchange regulations regarding ad hoc publicity.

At the Annual General Meeting, the Board of Directors and Group Management report on the financial statements and the business trend and answer shareholders' questions.

