

Compensation Report

Compensation Report

The Compensation Report contains information on the compensation policy, compensation programs and processes for determining the compensation paid to the Board of Directors and Group Management of the Mikron Group. It also provides detailed information on compensation paid in 2019. The Compensation Report satisfies the transparency requirements set out in the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO).

Compensation Policy

Overall responsibility for defining the basic principles of compensation lies with the General Meeting. The Board of Directors determines compensation within the boundaries defined by the General Meeting. It approves the compensation paid to members of the Board of Directors, the Board Chairman and the entire Group Management.

The compensation policy applied to members of the Board of Directors is described in detail on pages 54 and 55 of the Corporate Governance Report. The table below sets out the principles of this compensation policy. There are no changes in the principles compared to the prior year.

Fair and transparent

The compensation models are simple, clearly structured and transparent. They guarantee fair remuneration that reflects responsibilities and competencies.

Results- and performance-based

Part of the remuneration paid is linked directly to the Mikron Group's results and to individual performance.

Long-term incentive

Part of the compensation can be paid in the form of shares subject to a lock-up period. This gives recipients a share in the company's long-term performance and ensures alignment with shareholder interests, including retention of key personnel.

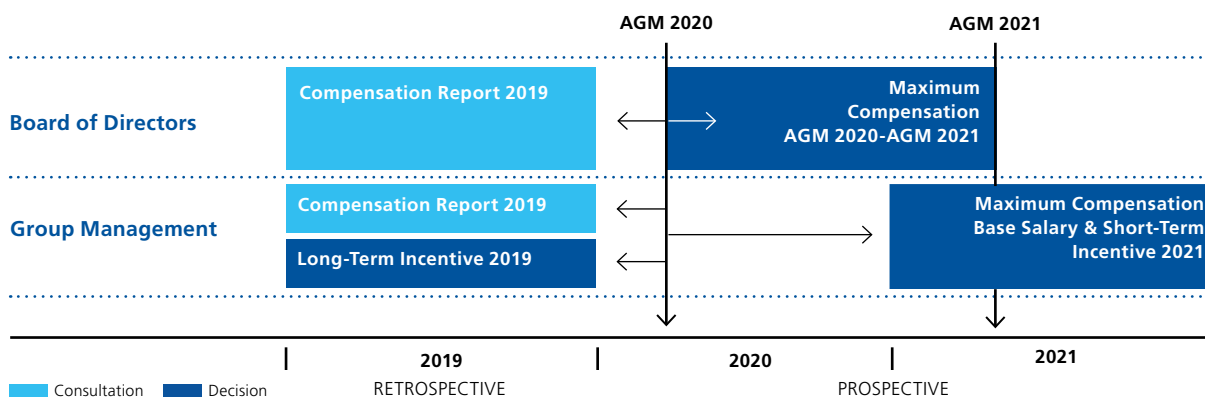
Geared to the labor market

Compensation is geared to the market environment so as to attract and retain talent managers and employees.

The Articles of Association define the following structure for Group Management:

	Instrument	Purpose	Influencing factors	Performance targets
Fixed annual basic salary (fixed compensation)	Monthly cash compensation	Remuneration for function	Scope and responsibility, individual qualifications and experience	–
Short-term incentive bonus in cash (short-term incentive)	Annual cash compensation	Remuneration for performance	Company results, individual performance	Order intake, EBIT, free cash flow, quantitative and qualitative targets
Long-term incentive plan (long-term incentive)	Locked-up shares (min. 3-year lock-up period)	Share in long-term performance, geared to shareholder interests and retention of key personnel	Contribution to the Group's strategic development	Order intake and EBIT
Pension and benefits	Pension and social security Other benefits	Protection against risks Expenses covered	Standard market practice and position	–

The compensation of the Board of Directors and Group Management decided on by the General Meeting refers to the following periods in time:



Governance

The General Meeting elects individually at least two but not more than four members of the Board of Directors as members of the Remuneration Committee. The term of office of the members of the Remuneration Committee is one year and ends at the next ordinary General Meeting. Re-election is possible.

The members of the Remuneration Committee in the year under review were the Board members Patrick Kilchmann (Chairman) and Andreas Casutt.

Subject to and within the scope of the approved overall compensation by the General Meeting, the Remuneration Committee proposes to the Board of Directors the remuneration of its members and proposes or determines the remuneration of the members of Group Management.

Compensation for the year 2019

Compensation to members of the Board of Directors

In scope of audit opinion

CHF 1,000	Base compensation		Compensation in shares		Social security and other expenses			Total
	2019	2018	2019	2018	2019	2018	2019	2018
H. Spoerry, Chairman	62	71	40	0	19	20	121	91
E. Rikli, Vice-Chairman	51	62	32	0	11	11	94	73
P. Kilchmann, Member*	42	55	32	0	4	5	78	60
A. Casutt, Member	46	59	32	0	9	10	87	69
H-M. Hauser, Member	46	67	32	0	9	11	87	78
P. Zumbühl, Member	46	59	32	0	9	10	87	69
Total	293	373	200	0	61	67	554	440

* P. Kilchmann's compensation is settled through Ammann Group.

Members of the Board of Directors receive a fixed compensation in cash and a fixed number of shares blocked for at least 3 years. Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. In April 2019, the General Meeting approved a total remuneration payable to the Board of Directors for the period up to the next meeting of a maximum of CHF 540,000. The remuneration disclosed in the table above covers the respective fiscal year and is not equal to the period between the Annual General Meetings. In the period between the Annual General Meetings the total of CHF 540,000 was not exceeded.

Compensation to Group Management

In scope of audit opinion

CHF 1,000	B. Cathomen, CEO Total compensation of Group Management			
	2019	2018	2019	2018
Fixed compensation	399	399	993	949
Short-term incentive	95	115	210	240
Share-based compensation *		27		59
Pension and benefits	150	146	362	381
Total fixed compensation and short-term incentive	644	687	1,565	1,629
Total approved by previous General Meetings			1,800	2,100
Long-term incentive		65		139
Pension and benefits		4		10
Total approved long-term incentive**		69		149
Long-term incentive to be approved by General Meeting	86		182	
Pension and benefits	6		14	
Total to be approved by General Meeting	92		196	
Total compensation	736	756	1,761	1,778

* Replaced by the long-term incentive

** The disclosed compensation for 2018 is identical with the prior-year annual report. The value of the LTI compensation for the Group Management valuated as per the share transfer date is CHF 175,000 (CHF 82,000 for the CEO) instead of the disclosed CHF 149,000 (CHF 69,000 for the CEO).

Group Management is composed of the CEO, CFO and the Head of the Mikron Automation business segment. These persons are employed either at Mikron Management AG, Langenthal, Mikron SA Boudry, Boudry or Mikron SA Agno, Agno. The compensation is booked applying the Accrual principle.

Members of Group Management receive a fixed compensation paid in 13 instalments and a short-term incentive. The short-term incentive is set by the Board of Directors within the boundaries approved by the General Meeting. The target incentive is significantly below the maximum allowed by the Articles of Association. The table below shows the short-term incentive as a percentage of the fixed compensation for 2019:

	Effective	Maximum set by Board of Directors	Maximum allowed as per Articles of Association
B. Cathomen, CEO			
Short-term incentive	25%	44%	
Total	25%	44%	100%
Other members			
Short-term incentive	23%	28%	
Total	23%	28%	75%

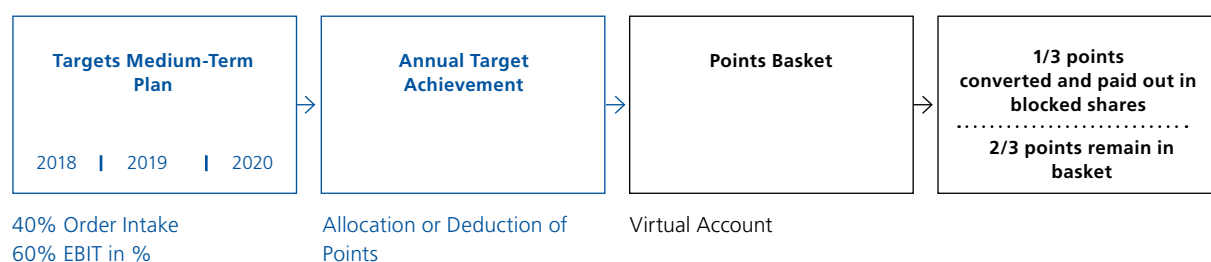
Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. Expenses that are not covered by the lump sum compensation for expenses pursuant to the expense regulations of the Company are reimbursed against presentation of the relevant receipts. This additional compensation for expenses actually incurred does not need to be approved by the General Meeting. Payments are made in cash. Furthermore, members of Group Management are provided with company vehicles which may also be used for private travel. Expenditure for pension and social security includes employer contributions to social insurance and to the pension fund and senior management pension fund.

In April 2018, the General Meeting approved a total fixed compensation and short-term incentive which may be paid to Group Management during the 2019 financial year of maximum CHF 1,800,000, excluding the long-term incentive plan with separate approval. In April 2019, the amount of CHF 1,850,000, excluding the long-term incentive plan with separate approval, was approved and may be paid out during the 2020 financial year.

The individual targets of the short-term incentive plan for Group Management reflect the importance of the targets depending on the role of the individual. The achievement is measured against qualitative and quantitative targets. The targets are defined by the Board of Directors at the beginning of the performance period on an annual basis. In extraordinary circumstances, the targets may be modified within the period at the discretion of the Board of Directors or the Remuneration Committee. The targets for the year 2019 were as follows:

	B. Cathomen	J. Perez Freije	R. Rihs
Order intake (Group and/or segment)	10%	–	10%
Sales (Group and/or segment)	10%	10%	15%
EBIT (Group and/or segment)	30%	30%	25%
Strategic programs and internal initiatives	50%	25%	30%
Other group financial targets	–	20%	–
Individual targets	–	15%	20%
Total	100%	100%	100%

An additional long-term incentive in the form of shares in the company may be provided to the members of Group Management. A total of 20,610 shares were distributed during the year 2019 as approved by the 2019 General Meeting. For the target achievement of the long-term incentive plan, the order intake and operating profit (EBIT excluding the investment property) as a percentage of the sales of the year are compared with the expectations as per the medium-term plan. Corresponding to the achieved results, points are allocated or deducted from the totals carried forward from the prior year. At the end of each year, after the allocation or deduction of the yearly points, one third of the total is converted into a corresponding number of shares. The shares are transferred to the members after approval by the General Meeting and are blocked for a period of at least three years. The Board of Directors will propose to the next General Meeting to approve an allocation of 26,935 shares to the members of Group Management as long-term-incentive compensation for 2019. The share price for the valuation at year-end was CHF 6.76. The remaining two thirds of the total are carried forward to the next year.



Shares held by members of the Board of Directors and by Group Management

	31.12.2019		31.12.2018	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry, Chairman	18,675	0.11%	13,675	0.08%
E. Rikli, Vice-Chairman	25,500	0.15%	21,500	0.13%
P. Zumbühl, Member	47,290	0.28%	43,290	0.26%
A. Casutt, Member	4,000	0.02%	0	0%
H.-M. Hauser, Member	4,000	0.02%	0	0%
Group Management				
B. Cathomen, CEO	50,241	0.30%	40,580	0.24%
R. Rihs, COO	36,441	0.22%	30,000	0.18%
J. Perez Freije, CFO	10,008	0.06%	5,500	0.03%

These figures include shares held by parties related to these persons.

Report of the Statutory Auditor

Report of the statutory auditor to the General Meeting of Mikron Holding AG

Biel

We have audited the compensation report of Mikron Holding AG for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'in scope of audit opinion' on pages 62 and 64 of the compensation report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report of Mikron Holding AG for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Norbert Kühnis
Audit expert
Auditor in charge



René Jenni
Audit expert

Bern, 13 March 2020

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